

Bank of Ceylon and its subsidiaries - 2020

1. Financial Statements

1.1 Opinion

The audit of the Financial Statements of the Bank of Ceylon (the “Bank”) and the Consolidated Financial Statements of the Bank and its subsidiaries (the “Group”) for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the Financial Statements, including 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. The Bank has been exempted from the provisions of Part II of the Finance Act, No. 38 of 1971 by an Order of then Minister of Finance published in the Government Gazette No. 715 of 14 May 1992 by virtue of powers vested in him by Sections 5(1) of the said Finance Act. My comments and observations which I consider should be report to Parliament appears in this report.

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 2020, and of their financial performance and their cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

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

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

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

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

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

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

1.4 Audit Scope

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 Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Group and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Group has complied with applicable written law, or other general or special directions issued by the governing body of the Group;

- Whether the Group has performed according to its powers, functions and duties; and
- Whether the resources of the Group had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control over the preparation of Financial Statements.

Audit Issue	Management Comment	Recommendation
(i) Even though the bank had purchased software to compute the collective impairment, the Exposure at Default (EAD) and Expected Credit Loss (ECL) adjustments are still performing manually.	We do computations manually and through the system too, as a parallel run since system implementation is in initial live run. When we comfortable with the system computations, the manual computations will be terminated.	It is recommended to perform the EAD and ECL calculations through the system without any manual intervention.
(ii) Even though Modification of terms resulting in concession, including extension, deferment of payment, wave off convention (rescheduled and restructured) need to be identified under “Stage 3” loans and advances, there is no any mechanism for the Bank to capture restructured facilities in the core banking system. Hence there is no way to consider such restructured facilities when calculating impairment provision of the Bank in accordance with Guideline to Licensed Bank on the Adoption of Sri Lanka Accounting Standard – SLFRS 09 issued by Central Bank of Sri Lanka on 31 December 2018.	Mechanism to identify restructured facilities has been developed and introduced.	Recommended to speed up the implementation of restructured loans capturing system within the Bank.
(iii) The Bank has considered 45 per cent loss rate for Credit Card and Over Draft, instead of using actual Loss Given Default ratios (LGDs).	The Bank uses CBSL directed 45% LGD for Credit Card and OD due to non-availability of the data to compute the actual LGD. This concern has been raised and working to develop suitable model by considering the available data.	The Bank has considered 45 per cent loss rate for Credit Card and Over Draft, instead of using actual Loss Given Default ratios (LGDs).
(iv) Management should implement a process for back testing the cash flow forecasts provided by relationship	Comment noted. At the end of each quarter, the relationship officers/credit	Management should implement a process for back testing the cash

officers on frequent basis at least on monthly/quarterly/by annually basis. Back testing is the comparison of forecasts to realized outcomes. Back testing is used to refer to any validation of a model that is based on the comparison of forecasts against realized values. In relation to the same, management may compare the cash flows provided in prior periods with the actual cash flows flown to the Bank. If there are deviations, adjustments should be made for 'error rate' in the cash flow forecasts provided by relationship officers for the current year's impairment calculation purposes.

officers are entrusted to carry out an assessment over reliability of predicted expected cash flows and make necessary adjustment the same for any changes to the original estimations.

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(v) The bank only recognizes interest income up to 3 months for IFRS adjustment and it was observed that the bank computed this adjustment manually without using the Kalypto system.

As per the Bank's approved accounting policy, Bank is recognizing interest up to 3 months and same has been incorporated to impairment computations. However, currently this process is handled by manually and the matters will be discussed system vendor to explore the possibility to automate the process.

It is recommended to automate the process of interest income recognition back to the income statement as per IFRS adjustment.

1.5.2 Unreconciled Control Accounts or Records

Audit Issue	Management Comment	Recommendation
(i) 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	These long outstanding items have been reported since 2006. The Bank is in the process of reconciling these items and	It is recommended to reconcile the balances between the general ledger and the

some system failures.

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.

subsystems on frequent basis.

(ii) A difference of Rs.4,163,088 was observed between the AMT Rec Payment General Ledger balance and ECL Summary Sheet balance.

Comment Noted. Steps will be taken to identify the reason for differences and necessary rectification will be made if there is any difference.

It is recommended to rectify the difference between AMT Rec Payment General Ledger balance and the ECL summary sheet balance.

(iii) A difference of Rs.236,941,644 was observed between the ECL summary report and impairment calculation sheet in relation to the Male Branch.

Comment Noted. We will do the necessary reconciliation with Male branch to identify reason for differences if any and rectifications will be done if there is any difference.

It is recommended to rectify the differences between ECL summary report balance and impairment calculation sheet balance in relation to the Male Branch.

1.5.3 Suspense Accounts

Audit Issue

Management Comment

Recommendation

(i) The long outstanding suspense account debtor balances of Rs.10,698,567, Rs.96,519, Rs.5,533,144, Rs.1,731,086 and Rs.2,354,000 were observed in Thalawa, Corporate, Wellawaya, Metropolitan and Mathugama branches respectively as at 31 December 2020. Those balances were lying in the same accounts since more than 03 years period and actions have not been taken to clear long outstanding balance by the respective branches.

Thalawa Branch

Rs. 10,698,567 of Thalawa Branch- insurance claims received and having requested for legal comments the branch is taking actions accordingly. Once legal comment is finalized, the branch will proceed with necessary actions to clear the outstanding.

Corporate

The outstanding item is due to a slip payment duplication which was remitted to other bank, Akuressa branch twice on 08.04.2016 favoring Mr. R H C Prasanga by debiting China National Aero Technology Engineering Corporation account. (A/C 71069025). The branch has made arrangements to visit the customer in this regard

It is recommended to take necessary actions to clear long outstanding suspense account debtor balances.

and will rectify the error.

Wellawaya branch

Rs. 5,553,144 of wellawaya branch is pending since there is an ongoing court case No H/C 142/2019.

Metroplitan

Approval of the Board of Directors was obtained to write off Rs.1,731,085 and account has been cleared on 12.11.2021.

Mathugama Branch-O/S

A police complaint is filed to obtain evidence that the particular customer has lived abroad during time of the incident to enabling Mathugama Branch to proceed with the necessary action. Actions are held up until then.

- (ii) The Suspense Account debtors - Admin service account at head office carries a balance of Rs.11,139,311 which is a long outstanding balance since 1 to 3 years period. Actions have not been taken to clear long outstanding balances by the respective authorities. Most of the balances to be reversed before 31 December 2021 after obtaining relevant documents. It is recommended to take necessary actions to clear the suspense account debtors – admin service account balance at Head Office.

1.6 Accounts Receivable and Payable

1.6.1 Payables

Audit Issue -----	Management Comment -----	Recommendation -----
(i) The following accounts categorized under other liabilities are having long outstanding balances since considerable period of time. Satisfactory actions have not been taken by the respective authorities to clear the long outstanding balances. The details of such balances are given below.	<u>Cheques Sent for Collection FX (Wattala Branch)</u> Wattala Branch is in the process of write off the said balance after completing necessary	It is recommended to take necessary actions to clear long outstanding balances of other liability accounts.

GL A/C Name	Cost Center	Amount	Remarks	formalities.
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		(Rs.)		
Cheques Sent for Collection FX	505 (Wattala Branch)	157,870	This balance is a one customer debit balance coming since 15 August 2013 under this A/C.	<u>Unclaimed Balances A/C ((Off Shore Banking)</u> Balance transferred to unclaimed balance account with the relevant approval as account could not be operated further due to Iranian sanctions.
Unclaimed Balances A/C	726 (Off Shore Banking Division)	(617,924,477)	This balance is coming under this A/C since 8 years period of time.	<u>Participation Off-Set Account Male Branch</u> Deposit of MVR 10.0 Million has been placed in the National Students Loan Scheme (NSLS) fund account (A/C No. 6320128697) on 20.01.2011 maintained at BOC Male' Branch by Government of Maldives as a security for the loans granted under the said scheme to the respective students.
Participation Off-Set	632 (Male Branch)	56,061,368	Documentary evidences have not been given to verify this balance.	

A separate GL Account has been created to disburse the said funds being "Participation Offset Account". The account act as same way as the Term Loan MVR/USD (General Ledger Account).

Balance as at 31.12.2020 of Participation Off-Set A/C (10875091) MVR 4,649,500.02 is tally with the total outstanding balance of Student loans as at 31.12.2020- Amount Payable Male' Student Loan (22310542).

(ii) Rs.1,186,978,749 worth of unmatched transactions were observed when reconciling the Electron Account balance of ICBS and Prime system. It was observed that the unmatched transactions consist of balances which are coming since long period of time without any clearance. Details are given below.

The account has the balance due to following reasons. Funds not yet claimed by other Banks.

It is recommended to clear the long outstanding balances relating to the credit and debit card transactions.

Funds retained until credit instructions received from relevant parties.

With the introduction of debit e-com transaction in 2020, transaction values have been increased significantly. It has impact on unmatched transaction also.

Necessary actions will be taken until instructions/claims received from other bank or relevant parties.

Year -----	Amount ----- (Rs.)
2016	143,859,408
2017	20,647,869
2018	8,661,890
2019	7,021,874
2020	1,006,787,708
Total	1,186,978,749

1.6.2 Advances

Audit Issue	Management Comment	Recommendation	
<p>(i) The total outstanding amount of top 20 Non-Performing customers was Rs.24,828.35 million as at 31 December 2020 and it represent 25 percent of total non-performing gross loans and advances of the Bank as at that date. Details are given blow.</p>			
No.	Name of the Customer	Total Amount Outstanding (Rs.'Mn)	
1	Jayawickrama Rice (Pvt) Ltd	2,903.99	<p>Approval of Board of Directors has been implemented the revival package for Jayawickrama Rice, K D Ebert, Ruhunu Development, R N Constructions, RDMD Textiles and the Senaro Motor Company and Isuru Engineering which are under evaluation process.</p> <p>Therefore, the Bank is of the view that at facilities granted to Jayawickrama Rice and RDMD Textiles could be reclassified into performing section at the year-end 2021.</p> <p>Also expects to reclassify other companies at the year-end 2022.</p> <p><u>Sintesi Pvt Ltd</u> O/S as at 31.12.2021 is Rs.1,190.08Mn.</p> <p>As per the CBSL Circular No. 08 of 2021, legal and parate actions were suspended up to 31.03.2022.</p> <p><u>W M Mendis & Company Limited</u></p> <p>The proposed cash flow not routed to the</p>
2	K D Ebert & Sons Holdings Pvt Ltd	2,697.93	
3	Sintesi Pvt Ltd	2,001.26	
4	W M Mendis & Company Limited	1,485.19	
5	Ruhunu Development Contarctors	1,296.77	
6	Nb Foods (Private)Ltd	1,253.47	
7	Anudan Holding Pvt Ltd	1,248.27	
8	Link Engineering Pvt Ltd	1,223.11	
9	Kaduwela Holdings	1,105.90	
10	R N Constructions (Pvt) Ltd	1,041.59	
11	R D M D Textile (Pvt)Ltd	1,033.79	
12	Dhoores Retreat Pvt Ltd	961.96	
13	Dholiyadhoo Investment (Pvt) Ltd	932.041	
14	Castaway Maldives Pvt Ltd	917.86	
15	Nawaloka Steel Industries (Pvt) Ltd	890.73	
16	Cml-Mtd Construction Limited	864.48	
17	Senaro Motor Company	803.54	
18	Shanbe Jeans Corporation (Pvt) Ltd.	760.22	
19	N And A Engineering Services (Pvt)Ltd	717.85	
20	Isuru Engineering Pvt Ltd	688.4	
Total		24,828.35	

Bank due to the fact that blending license and ethanol manufacturing license has not been granted by the excise duty department. The company has requested to the court for not recover any payment until grant the respective license.

NB Foods (Private) Ltd

O/S as at 31.12.2021 is Rs. 1,253.47Mn. Legal actions are going on.

Anudan Holding Pvt Ltd

O/S as at 31.12.2021 is Rs.1,223.54Mn.

Initial recovery actions (Parate execution) were suspended. Negotiations are going on towards rechedulement and meanwhile working capital facilities of Rs. 3.2Mn and Rs.20Mn have been granted under “Saubhagya COVID 19” facility. Working capital facilities have been serviced accordingly.

Link Engineering Pvt Ltd

O/S as at 31.12.2021 is Rs.1,171.70Mn.

The requested repayment plan for existing NPA portfolio has still not submitted.

However, the bank finances ADB funded project and accordingly they agreed to deposit Rs.32Mn out of the profit of the said project.

Kaduwela Holdings

Cases have already been filed for facilities (Hypothecation/Medium short-term loan/LC bills/Overdraft) and judgments are to be received.

Dhoores Retreat (Pvt) Ltd

The Civil Court has given the selling rights on 01.02.21 under the enforcement case No. 4003/Cv-C/2019 to sell the lease hold rights of the mortgaged property Aavee Nature Paradise resort which is mortgaged to the mentioned two facilities and inform to court within 6 months. Accordingly, we have published and finalized the highest bidder and awarded the bid at USD 8.5 M on 07.03.2021. Since they have failed to pay on deadline, We have awarded the second party at USD 7.176 Mn, Hari & Co

International (Pvt.) Ltd on 07.04.2021. The Last date of payment was 09.05.2021. Second party also have failed to pay on deadline. The second bidder, Hari & co. Int. (Pvt.) Ltd has filed a case requesting additional period and stop sales process. Judgment received on 25.10.2021, there is no any legal validation to give additional period. Meantime bank has sent a letter to court to carry out the enforcement case to get the selling rights again. Next hearing date yet to be informed. Expecting the selling right again from the court.

Dholiyadhoo

Investment Pvt. Ltd

State Bank of India (SBI) has published to sell the property and they are negotiating with an investor. As per their expectation which discussed at the meeting on 01.09.2020 at the SBI office the process would be finalized within six months. On 02.11.2020, a team including Senior Credit Manager has visited the property together with

representatives of State Bank of India, Bank of Maldives, Valuation Officer from KPMG and two representatives from the Brokerage company. BOC Male' had a meeting on January 2021 to finalize the valuation in Bank of Maldives (BML). Waiting for the feedback from the other two banks. Further, at the latest conversation on 15th July 2021, with the Credit Manager of SBI, he informed that they have requested the government to waive-off Statutory dues since the company has not paid the same from 2012.

Castaway Maldives (Pvt) Ltd

Rescheduled facilities will be granted once agreed conditions in the Letter of Offer dated 30th August 2020 has been complied and the documentation is completed. As per the Letter of Offer the company has to deposit USD 250,000/- within 60 days from the date of the Letter of Offer, next USD 250,000 within 150 days from the date of the Letter of Offer and

another USD 100,000/- within 300 days from the date of the Letter of Offer. As per the said condition, 1st USD 250,000/- and 2nd USD 250,000/- has been deposited before the agreed due date. Last payment of USD 100,000/- is paid on 24.06.2021 as per the Letter of Offer. It is under process of granting the reschedulement. As agreed, the company has not deposited the funds and therefore, not in a position to confirm a date of recovery.

Nawaloka Steel Industries (Pvt) Ltd

Total NPA package has been rescheduled on 26.07.2021. A part of the reschedule has been securitized against property and the balance part against Directors Guarantee. Loans will be able to convert to Performing section followed by a regular repayment of 13 consecutive months that is on August 2022. A fresh import line facility of Rs.500.0 Mn has also been granted to the company for the business revival purpose.

Shanbe Jeans Corporation (pvt) Ltd

O/S as at 31.12.2020 is Rs. 756.11Mn.

The two mortgaged properties were auctioned and devolved to the bank on 08.12.2018.

Liquidation case is going on.

N And A Engineering Services (Pvt)Ltd

The outstanding balances of the three Rescheduled Term Loans totalling

Rs.632.0Mn were rescheduled as per the OIC 340/2020

considering the cash flow of the company.

The existing rescheduled term loans totalling

Rs.1,077.19 Mn is serviced irregularly and the company has allocated Rs.35.8 Mn for the recovery of the same for the past 06 months.

- (ii) 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.

K D Ebert and Ruhunu Development

These are construction companies and downward trend of the industry has affected to repayment of facilities obtained. Specially delay in payments from RDA and other entities.

It is recommended to ensure that satisfactory customer evaluations have been performed by the bank before granting loans to a particular customer.

No	Name of the Customer	No. of Loans	Total Amount Disbursed	Total Amount Outstanding as at 31.12.2020	Senaro Motor company
	-----	-----	-----	-----	
			(Rs. Mn)	(Rs. Mn)	
1	K D Ebert & Sons Hol Pvt Ltd	12	241.45	185.27	The Company has faced declining trend of vehicle business due to increase in vehicle prices of the country.
2	Senaro Motor Company (Pvt) Ltd	11	64.58	64.58	<u>Nawaloka Steel Industries (Pvt) Ltd</u> Money market loans of Rs.30.0 Mn has been categorized as NPA as per the CBSL guide lines according to 70.30 rule. However, this loan has been rescheduled on 26.07.2021.
3	Ruhunu Deve. Contractors & Eng. Pvt Ltd	8	95.00	32.50	
4	Nawaloka Steel Industries (Pvt) Ltd	3	30.00	30.00	<u>Trend Setters Pvt Ltd</u> The Facility has been taken out from NPA on 04.03.2021 and it is now in regular section.
5	Trend Setters Pvt Ltd	1	25.00	25.00	
6	Bela International (Pvt)Ltd	1	18.52	18.52	<u>Bela International (Pvt)Ltd</u> Company has not received dues from projects as expected. Legal action is to be initiated.
7	Mr D M P Chularatne	3	15.40	15.40	
8	Mr W M A Abeyrathne	1	15.00	14.97	
9	S V K Imports	2	13.85	12.19	<u>Mr. D M P Chularatne</u> Due to the Covid-19 pandemic situation business was dropped. However in April 2021 the facility was settled in full.
10	Sirimadura Hotels Ltd	1	12.00	12.00	
11	Mohksha Ltd	1	11.96	11.96	
12	Kiddies And Toys Internation	2	10.50	10.50	<u>Mr W M A Abeyrathne</u>

	al(Pvt)Ltd				Granted for a Rice
13	Mr S S J P Fernando	4	9.10	8.87	Mill. Customer is not
14	Mr K U Sumanasen a	2	8.68	8.68	in a position to repay the loan instalments as the rice mill is not functioning properly.
15	Herathon Hospitality (Pvt) Ltd	2	6.64	6.64	Legal actions initiated.
					<u>S V K Imports</u>
16	Kalapuwa Nature Resort	5	6.23	6.23	Proprietor of the SVK Imports is not in a position to settle the
17	Mr K A S Somapala	1	5.90	5.90	Trust Receipts (TR) facilities in a single
18	Mr W G P N L Weerasoor iya	1	5.55	5.55	payment because the borrower was confronted some losses in his business.
19	Freedent Ulu Kamhala	4	5.29	5.26	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 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.

Sirimadura Hotels Ltd

Respective loan granted under Sawbagya loan scheme to manage the working capital requirement of the company under hotel sector. Same loan has regularized on next day.

Mohksha Ltd

Company agreed to settle overdue amount within two months period.

Kiddies And Toys International (Pvt) Ltd

No comment.

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.

Mr K U Sumanasena

The facility will be settled by cancelling the FD which is kept as security.

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.

Kalapuwa 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 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.

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.

Mr W G P N L Weerasooriya

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.

Freedent UIU Kamhala

These four loans are 2nd 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.

- (iii) 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.

Sri Lankan Airlines Ltd (SLAL)

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) Facilities granted to SLAL are covered by valid Letter of Comfort issued by Government Treasury (GT). GT is monitoring the situation and renewed Letter of Comfort until the Balance Sheet

It is recommended to consider the significant credit risk of customers when categorizing into relevant stages as per SLFRS 09.

Name of the SOE	Loan No.	No. of times Restructured	Security	Remarks
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Sri Lankan Airline	76913761	10 times	Letter of Comfort	As per the CBSL guideline on the adaption of Sri Lanka Accounting Standard – SLFRS 9, these
	78038701	8 times	Letter of Comfort	
	78038873	8 times	Letter of Comfort	
	85759786	1 times	Treasury Guarantee	
	79233764	8 times	Letter of Comfort	

	79930506	10 times	Letter of Comfort	credit facilities should be classified under Stage 3 since almost all facilities restructure	improved and re-structuring 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.
	80825777	7 times	Letter of Comfort	d more than two times.	Airport closure due to COVID 19 has severely affected its cash flows. Even though the airport opened, passengers are still in limited status.
Road Development Authority	73039168	2 times	Treasury Guarantee	As per the CBSL guideline on the adaption of Sri Lanka Accountin g Standard – SLFRS 9, these credit facilities should be classified under Stage 2 since almost all facilities restructure	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 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.
	73044929	2 times	Treasury Guarantee		<u>Road Development Authority</u>
	73378065	2 times	Treasury Guarantee	d more than twice.	
	73936442	2 times	Treasury Guarantee		
	74018817	2 times	Treasury Guarantee		
	74086164	2 times	Treasury Guarantee		
	74129360	2 times	Treasury Guarantee		
	75098630	2 times	Treasury Guarantee		
	75119195	2 times	Treasury Guarantee		
	75801082	2 times	Treasury Guarantee		
	76079442	2 times	Treasury Guarantee		
	762150	2 times	Treasury		

	38		Guarantee		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.
	76663267	2 times	Treasury Guarantee		
	76874198	2 times	Treasury Guarantee		
	83009099	2 times	Treasury Guarantee		
	84157620	2 times	Treasury Guarantee		Facility wise loans have been restructured only one time.
	82975661	2 times	Treasury Guarantee		However entity wise RDA loans have been restricted for two times.
	75494462	2 times	Treasury Guarantee		
	83584764	2 times	Treasury Guarantee		<u>Lanka Sathosa Limited</u>
	85138455	2 times	Treasury Guarantee		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.
	85918910	2 times	Treasury Guarantee		
	85991542	2 times	Treasury Guarantee		
Lanka Sathosa Limited	TF-L488961	1 time	Letter of Undertaking	Two term loans of Rs.8,626,982,993.38 and Rs.1,612,745,537 has been granted to recover capital and	The Bank has recovered loan installments up to 30 th September 2021 totaling Rs.3,829,027,254.20 under both loans. <u>Government of Sri Lanka</u> USD 497, 000/-, USD 14.0 Mn, USD 25.0 Mn, USD 28.0 Mn and

			<p>accrued interest up to 31.12.2019 and waive off further accrued interest up to the completion of two term loans. Therefore it seems that the Bank prevent Lanka Sathosa Limited from being classified as NPL.</p>
			<p>USD 17.251Mn 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 down grading country rating on 30.09.2021). Rs.4,080.0 Mn (Subsequent to downgrading the country rating on 30.09.2021).</p>
Government of Sri Lanka	4 times	Loan Agreement	<p>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</p>

restructured more than twice. But all facilities are classified under Stage 1 since granted to government of Sri Lanka.

- (iv) Significant delays have been observed in the extension of Treasury Indemnities/Treasury Guarantees/Letter of Comfort issued by the General Treasury to Bank on behalf of certain facilities granted to State Owned Enterprises. Details are given below.

Name of the SOE	Security Type (Treasury Guarantee/Indemnity/Comfort Letter)	Reference No.	Facility Amount	Expired date of Security	Renewal Date of Security	Validity up to
Mihin Lanka (Pvt) Ltd	Letter of Comfort	TO/R	Rs.1,650 Mn	31.03 .2019	18.1 6.20	31.1 2.20
		C/49			20	20
	TO/R	EV/L	USD 2.5Mn	31.12 .2018	18.0 6.20	31.1 2.20
		C/46			20	20
	TO/R	EV/L	USD 2.5Mn	31.12 .2018	22.0 6.20	31.1 2.20
		C/48			20	20
	TO/R	EV/L	Rs.1,650 Mn	31.12 .2020	02.0 5.20	31.1 2.20
		C/49			21	21
TO/R	EV/L	USD 2.5Mn	31.12 .2020	02.0 5.20	31.1 2.20	
	C/46			21	21	

Mihin Lanka Limited
The bank has lodged claims on Treasury Guarantees before expiry dates. Subsequently, extension was received for further period up to 31.12.2021 or until liquidation is finalized whichever is earlier. Repayment period of the loan was extended accordingly.

It is recommended to take necessary steps to avoid unnecessary delays when extending the periods of Treasury Indemnities/Treasury Guarantees/Letter of Comfort by the General Treasury on behalf of certain facilities granted to State Owned Enterprises

Srilankan Airlines
Existing facilities are secured against Letter of Comfort/Treasury guarantees and covered the validity period.

Ceylon Petroleum Corporation
As per the several requests made by the bank, Additional Director to the

		TO/R	USD	31.12	02.0	31.1	Department of Public Enterprises by his letter dated 31.12.2019, has requested the Secretary to the Ministry of Power & Energy to submit a Cabinet Memorandum to reinstate the value of the Treasury Indemnity given to BOC up to USD200.0Mn with effective from 31.07.2019, as instructed by the Secretary to the Treasury.
		EV/L	2.5Mn	.2020	5.20	2.20	
		C/46			21	21	
		0/10					
Sri Lanka Airlines	Letter of Comfort	TO/R	Rs.5.0Bn				
		EV/L	Rs.4.0Bn	30.06	07.0	30.0	
		C/49	Rs.3.9Bn	.2020	7.20	6.20	
		4/6			20	21	
		TO/R	USD	21.02	18.0	21.0	
		EV/L	25.0Mn	.2019	5.20	2.20	
		C/49			20	21	
		9/5					
		TO/R	USD	21.02	29.0	21.0	
		EV/L	25.0Mn	.2019	3.20	2.20	
		C/49			19	20	
		9/3					
		TO/R	USD	31.12	18.0	31.1	
		EV/L	32.5 Mn	.2020	2.20	2.20	
		C/46			21	21	
		0/17					
		TO/R	USD	31.12	28.0	31.1	
		EV/L	32.5 Mn	.2019	2.20	2.20	
		C/40			20	20	
		0/11					
		TO/R	USD	31.12	04.0	31.1	
		EV/L	32.5 Mn	.2018	4.20	2.20	
		C/46			19	19	
		0/9					
		TO/R	USD	07.10	07.1	07.1	
		EV/L	42.5 Mn	.2019	0.20	0.20	
		C/48			19	20	
		2/7					
		TO/R	USD	07.10	19.1	07.1	
		EV/L	42.5 Mn	.2020	1.20	0.20	
		C/48			20	21	
		2/10					
		TO/R	USD	07.10	26.1	07.1	<u>Ceylon Fisheries Corporation</u> The initial expiry date of TG TO/REV/TG/536 is 08.10.2020 and the same was extended up to 08.01.2021 as per the letter dated 23.10.2020 issued by the Ministry of Finance.
		EV/L	42.5 Mn	.2018	0.20	0.20	
		C/48			18	19	
		2/5					
Ceylon Petroleum Corporation	Treasury Indemnity	TO/R	USD 200 Mn	30.07	19.0	30.0	
		EV/T		.2019	5.20	7.20	
		G/36			20	20	
		1/3					
Ceylon Fisheries Corporation	Treasury Guarantee	TO/R	Rs.100 Mn	09.10	23.1	08.0	
		EV/T		.2020	0.20	1.20	
		G/53			20	21	
		6/2					

- (v) 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 Mihin Lanka The Bank hasn't classified the customer It is recommended to classify the customers into

recoverability in accordance with agreed term is in doubt due to circumstances affecting 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.

Customer Name	Outstanding Balance as at 31 December 2020	Remarks	State Engineering Corporation
-----	-----	-----	
	(Rs.' Mn)		
Mihin Lanka	2,763	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.	Loans are secured by Treasury Guarantees covering total liabilities including the interest.
State Engineering Corporation	2,652	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 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.	However, the bank has impaired the interest portion of the existing facilities in complying with SLFRS 9.

correct category as per the instructions given under Banking Act Direction No. 03 of 2008.

- (vi) 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.
- 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 is in order.
- It is recommended to charge lending rate plus subsidy rate from non performing customers of Enterprise Sri Lanka Loan Scheme as originally agreed.

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

Reference to Laws, Rules Regulations etc.	Non Compliance	Management Comment	Recommendation
(i) Bank of Ceylon Ordinance No.53 of 1938	<p>The Bank has not complied with the minimum of 6 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>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. As at present, the Board consists of 6 Directors.</p>	<p>It is recommended to comply with the requirements of Bank of Ceylon Ordinance No. 53 of 1938.</p>
(ii) Banking Act Direction No.11 of 2007 Section 3 (2) (iv)	<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>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. As at present the Board consists of 3 independent Directors.</p>	<p>It is recommended to comply with the requirements of Banking Act Direction No.11 of 2007 Section 3 (2) (iv)</p>

1.8 Non -Compliance with Tax Regulations

Audit Issue

Management Comment

Recommendation

- | | | | |
|-----|---|-----------------|--|
| (i) | 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 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. | Comments noted. | It is recommended to comply with the instructions given under Public Enterprise Circular No PED 03/2016. |
|-----|---|-----------------|--|

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.17.8 Billion and the corresponding profit in the preceding year amounted to Rs.23 Billion. Therefore a deterioration amounting to Rs.5.2 Billion of the financial result was observed. The main reason for the deterioration is the increase of impairment charges for loan and other losses by Rs.12.6 billion or 68 per cent in the year under review when compare with the corresponding year.

2.2 Trend Analysis of major Income and Expenditure items

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

Description	Variance Amount Increase/ (Decrease)	Variance	Reason for the Variance
-----	-----	-----	-----
	(Rs' Bn)	%	
Interest Income	5.8	3	Interest income has been increased mainly due to increase of gross loans and advances in the year under review when compare with the preceding year. Gross loans and Advances for the year under review have been increased by Rs.466.4 billion or 28 per cent when compare with the preceding year.

Out of the total gross loan increase of Rs.466.4 billion, Rs.276.8 billion represents lending to direct government and SOEs and the balance increase of Rs.189.6 billion represents lending to the private sector.

Interest expense	6.2	4	Interest expense has been increased due to increase of deposit base and the borrowings of the bank. The deposit base of the bank has increased by Rs.469.6 billion or 23 per cent in the year under review when compare with the preceding year. The borrowings also increased by Rs.76.1 billion or 33 per cent in the year under review when compare with the preceding year. The borrowing increase consists of repo borrowing increase of Rs.22.9 billion, refinance borrowing increase of Rs.20 billion, local money market borrowing increase of Rs.15 billion, foreign currency borrowing increase of Rs.7.7 billion and new borrowing of Rs.15 billion of AT 1 capital instrument.
Impairment Charges for loan and other losses	12.6	68	Impairment charge has increased mainly due to increase of stage II and III loan exposure, additional impairment made on USD denominated GOSL and SOE exposure, increase of impairment provision on risk elevated industries such as tourism and construction and increase of stage I impairment provision due to increase of loan portfolio of the Bank.
Income Tax	(0.8)	(12)	Income tax expense has decreased due to abolishment of NBT and DRL with effect from December 2019 and January 2020 respectively.

2.3 Ratio Analysis

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

Description -----	Sector Ratio * -----	Bank -----	
		2020 -----	2019 -----
Performance Ratios			
Return on Equity (ROE)	10.9	11.9	16.8
Return on Assets (ROA)	1.0	0.9	1.3
Interest Margin	3.1	2.8	3.3
Assets Quality Ratio			
Gross Nonperforming Advances (NPL)	4.7	4.8	4.8

Capital Adequacy Ratios

Tier 1 Capital (Minimum 9%)	13.1	11.2	11.2
Total Capital (Minimum 13%)	16.7	14.9	15.6

Statutory Ratio

Liquid Assets Ratio (Domestic) (Minimum Requirement 20%)	33.8	26.6	24.6
--	------	------	------

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

3. Operational Review**3.1 Identified Losses****Audit Issue****Management Comment****Recommendation**

The investigation reports issued by the investigation unit of the Internal Audit Department during the year 2020 revealed following main fraud and loss events occurred in the Bank.

- | | | | |
|-----|---|---|--|
| (i) | 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. | Investigation has been completed. Inquiry is in progress
Likelihood of occurrence of this type of incidents is minimized as 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 verification of the Internal Control Officer (ICO) of the branch. Further IS Audit unit of Internal Audit Department daily monitors the attempts of | It is recommended to initiate adequate steps to overcome such type of fraudulent activities in the future. |
|-----|---|---|--|

- bucket clearance and issue a report on daily basis to the Branch Manager, Area manager and the Assistant General manager as applicable.
- (ii) 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 money withdrawal slips on her mother's name and use that money for the private purposes.
- Investigation has been completed. Likelihood of occurrence of this type of incidents is minimized as Loan origination process has now been automated with the implementation of 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 verification of the Internal Control Officer (ICO) of the branch. 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.
- It is recommended to initiate adequate steps to overcome such type of fraudulent activities in the future.
- (iii) 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
- Investigation & inquiry have been Completed. Bank has strengthened the internal controls over loans granted to the employees where under the 08th amendments to the OIC 319/2018 credit
- It is recommended to initiate adequate steps to overcome such type of fraudulent activities in the future.

in this regard.

- (iv) 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 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.
- (v) The Nugegoda Branch has granted a loan amounting to Rs.328.648 million to Tiyana 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 Tiyana Multi (Pvt) Ltd and Gajaba City Centre as at 31 December 2020 was Rs.476.446 million and Rs.834.407 million respectively.
- (vi) 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 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.
- (vii) 22 number of erroneous CEFT transactions amounting to Rs.283.1 million has been taken
- officer should obtain re-confirmation of the form 375 by respective employer.
- Investigation has been completed. Likelihood of occurrence of this type of incidents is minimized as Loan origination process has now been automated with the implementation Document Management System (DMS). Further, all the accounts opened on a day should be checked by A class officer by following day.
- Investigation is in progress Further to the controls mentioned above an ICO has been deployed in every super grade branch and proper-delegated authority is in place.
- Investigation has been completed. A well-established process is in place for the month end G/L account balancing in every branch and the same is monitored by Operation Manager of the province. In every instance A and B class officers should sign the G/L debit voucher before posting.
- Investigation has been completed. Bank has
- It is recommended to initiate adequate steps to overcome such type of fraudulent activities in the future.
- It is recommended to initiate adequate steps to overcome such type of fraudulent activities in the future.
- It is recommended to initiate adequate steps to overcome such type of fraudulent activities in the future.
- It is recommender to develop a more

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.

established CEFT reconciliation unit and introduced Reconciliation Process to be carried out on daily basis.

accurate, user friendly reconciliation system to avoid such type of erroneous transactions in the future.

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 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.

3.2.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
<p>(i) Instructions have been given by the Bank Supervision Department of CBSL through their letter dated 18 January 2018, to expedite the implementation of the proposed amendment of the BOC Ordinance by inclusion of the followings.</p> <ul style="list-style-type: none"> Adequately increase the number of directors, in line with the Banking Act Direction No. 11 of 2007 on Corporate Governance, with a view of facilitates the growth and complexity of the Bank, Take necessary action to include banking 	<p>The Director, Bank Supervision of Central Bank of Sri Lanka (CBSL) by his letter dated 18.02.2018 instructed the General Manager of BOC to expedite the implementation of proposed amendment to be in line with Banking Act Direction No.</p>	<p>It is recommended to comply with the instructions given by CBSL towards the amendments make to the BOC Ordinance.</p>

sector specialists and experts from other relevant disciplines with diverse skills, and

- Allocate adequate number of directors to board subcommittees with a view to ensure effective functioning of the same.

It was observed that, even though the proposed amendment to Section 6(1) of the BOC Ordinance increased number of directors from six to eight, it does not direct to appoint banking sector specialists and experts from other relevant disciplines with diverse skills.

Instead of that directs to have eight directors with a mix of appropriate skills and experiences as may be deemed appropriate and desirable for the requirements of the Banking Act. The proposed amendments to the Section 6 (1) of the BOC Ordinance are still pending.

11/2007.

Accordingly, after several meetings and obtaining approval from the Board of Directors (BOD) of the Bank, the then BOC Chairman has referred the proposed amendments to BOC Ordinance by his letter dated 19.10.2019 to the Secretary of the Treasury with a copy to the Director – Bank Supervision of CBSL.

Subsequently, in a meeting held with the Director (Legal) of the Ministry of Finance, Economy and Policy Development on 02.06.2020, the Director (Legal) has requested the Bank to confirm whether the present BOD of the Bank is agreeable to the proposed amendments.

Accordingly, the Legal Department has submitted a memorandum dated 10.06.2020 to the Board of Directors and in the meeting held on 13.08.2020, the Board has requested the submission of fresh proposal of amendment containing;

- 1) Only amendment sought by the CBSL, Sri Lanka in terms of Banking Act Direction No.11/2007 and

- 2) Other necessary

amendments in
view of the
Ordinance being
an old enactment

without amending
sections which will cause
material changes to the
meaning of the existing
clause.

Accordingly, the Legal
Department has re
submitted the proposed
amendment to Corporate
Management Committee
(CMC) of the Bank and
the present BOD and
obtained approval on
21.10.2020 from the
CMC and 05.11.2020
from the BOD
respectively.

The Chairman BOC, has
re submitted the amended
proposal to the Secretary
to the Treasury by his
letter dated 09.12.2020.

Thereafter, the Director
General of Department of
Public Enterprises has
sent a letter dated
02.03.2021 addressed to
the General Manager
Bank of Ceylon,
requesting certain
clarifications in respect of
the amendments sent by
the Chairman BOC,
which includes the
number of Directors to be
increased in the proposed
amendment in order,
comply with the CBSL
Direction No. 11/2007.

Thereafter, the Legal

Department has obtained the approval of BOD in respect of clarification to be submitted to the Director General of Department of Public Enterprises including the number of Directors to be increased.

Accordingly, the number of Directors has been amended to be read as follows;

“The number of Directors of the Board shall not be less than then 7 and not more than 13”

In replying to the last paragraph on page 2 of the Action Plan, the Bank has suggested to include the below mentioned professional to be appointed as the Directors in the BOC Board.

“ One of the directors shall be a representative of the Ministry of the Minister to whom the subject of Finance is assigned (hereinafter referred to as the “ex officio director”) and another one shall be an independent non-executive director who possesses qualifications and experience in Accountancy and/or Audit.”

Hence, the aforesaid amendment will cater the

requirements stipulated in the provisions of the Banking Act.

Moreover, the Chairman BOC has forwarded the reply to the Secretary to the Treasury including the aforesaid suggestions on 28.05.2021.

Further, in response to an inquiry made by the Legal Department, BOC on 10.11.2021, the Director (Legal) of the Ministry of Finance, Economy and Policy Development said that he is in the process of preparing a cabinet memorandum including all proposed amendment to BOC Ordinance to be forwarded the Cabinet of Ministers for their approval.

3.3 Operational Inefficiencies

Audit Issue							Management Comment	Recommendation
(i) The Non performing ratio calculated on loans granted for various sectors of the Bank during the past three years period is depicted in the following table. It was observed that the non performing ratios of the Manufacturing, Construction, Health Care, Social Services & Support Services and Consumption has gradually increased during the past three years period.							Starting from early 2020 country's economy as a whole is in a bad shape due to the COVID 19 pandemic and related restrictions, the negative impacts caused to deteriorate the credit quality of many sectors, which is directly related to the NPA increase in Manufacturing,	It is recommended to take every possible steps to reduce the sector NPA ratios and the overall NPA ratio of the Bank.
Sector	2018		2019		2020			
-----	-----	-----	-----	-----	-----	-----		
-----	Rs.' Mn	%	Rs.' Mn	%	Rs.' Mn	%		
Agriculture , Forestry	10,87	20.	18,48	23.	17,87	12.		
	9.17	24	6.70	97	7.50	96		

& Fishing							Construction, Health
Manufacturing	10,03	18.	13,22	17.	27,76	20.	care, Social services
	4.85	67	2.64	14	7.11	13	& Support Service
Tourism	2,330.	4.	3,902.	5.	5,418.	3.	sectors. The
	36	34	11	06	22	93	increased
Transportation & Storage	668.4	1.	802.7	1.	1,446.	1.	unemployment,
	7	24	5	04	82	05	reduced earnings have
Construction	4,615.	8.	10,20	13.	18,48	13.	fueled the NPA
	41	59	1.13	23	8.91	40	increase in the
Infrastructure	1,921.	3.	2,418.	3.	4,137.	3.	consumption
	91	58	21	14	09	00	category.
Development							When considered the
Wholesale & Retail Trade	11,30	21.	14,69	19.	28,86	20.	overall performance
	9.35	04	8.53	06	5.15	93	the Bank's NPA ratio
Information Technology And Communication Services	995.4	1.	1,034.	1.	1,391.	1.0	in 2020 has been
	8	85	95	34	59	1	improved to 4.76%
Financial Services	189.4	0.	654.2	0.	995.7	0.7	from the 4.79% in
	6	35	3	85	9	2	2019. With the
Professional, Scientific & Technical Activities	107.9	0.	125.4	0.	216.4	0.1	resumption of the
	6	20	1	16	9	6	economic activities
Arts, Entertainment & Recreation	597.2	1.	65.78	0.	151.0	0.1	starting from the 3 rd
	8	11		09	9	1	quarter of 2021, the
Education	86.78	0.	82.37	0.	422.1	0.3	ratios of the specific
		16		11	5	1	sectors too are
Health Care, Social Services & Support Services	693.8	1.	2,373.	3.	9,314.	6.7	expected to fail back
	5	29	57	08	01	5	in to pre pandemic
Consumption	4,573.	8.	4,303.	5.	14,35	10.	levels.
							The following
							measures are being
							taken to reduce NPA
							of the Bank.
							• Meetings of NPA
							Review committee
							having weekly
							headed by CFO. It
							covers NPA
							facilities of the
							corporate and
							provinces segments.
							• BPRU has been
							established at
							Recovery Provinces
							division.
							Individual

on Lending To Ministry Of Finance Lending To Overseas Entities	30 - 4,750. 46	51 - 8. 84	57 - 4,761. 06	58 - 6. 17	0.80 - 7,094. 51	40 - 5.1 4
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discussions are ongoing with each relationship officer regarding potential NPA/ watch list customers with the DGM Recovery (corporate).

(ii) The following table depicts the stage III impaired loan ratio and the gross non-performing loan ratio of the Bank during the past three year's period. It is evidence that the stage III impaired loans accounted for higher NPA ratio, which is much higher than the regulatory NPL ratio of the Bank.

Comment Noted Regulatory NPAs are recognized based on the days past dues of the outstanding of advances. Whereas impaired loans are recognized not only the days past due of the outstanding of advances but also considering so many other related factors which will impact to the impairment of the advances.

It is recommended to take satisfactory actions to reduce stage III impaired loan ratios of the Bank.

Description -----	As at 31 December -----		
	2020 -----	2019 -----	2018 -----
Gross Loan and Advances	2,115,204,744	1,648,760,589	1,510,534,078
Stage III Loan and Advances	207,523,942	166,687,234	137,215,336
(%) of Stage III Loans to the Gross Loans and Advances	9.81	10.11	9.08
Non- Performing Advance	98,564,000	77,133,000	53,754,000
Gross Non- Performing Advance Ratio (%)	4.8	4.8	3.6

3.4 Human Resources Management

Audit Issue -----

Management Comment -----

Recommendation -----

(i) The approved cadre of the Bank for the year 2020 was 10,356 employees and the actual cadre as at that date was 9,927 which consists 8,477 permanent staff and 1,450 contract basis employees. Therefore 429 posts are vacant as at 31December 2020.

The bank fills vacant positions periodically with the approval of the BOD. We consider future recruitment projections, availability of enough eligible candidates & etc when calling for promotions and recruitments other than the

It is recommended to take necessary steps to recruit the employees for the vacant positions to

number of vacant positions. ensure smooth
The bank filled mentioned 2 functioning of
vacancies from corporate Bank's
level and 3 vacancies from activities.
executive level in 2021 and
already called applications
for recruitment of
Management Trainees and
Trainee Staff Assistants to fill
the operational level
vacancies.