

## **Sri Lanka Savings Bank Limited -2023**

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### **1. Financial Statements**

#### **1.1 Opinion**

The audit of the financial statements of the Sri Lanka Savings Bank Limited (“Bank”) for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a material accounting policy information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2023, and of its financial performance and its 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.

#### **Emphasis of Matter**

I draw attention to Note: 2.7.ii to the financial statements, which discusses the proposed change in business activities of the Bank. My opinion is not modified in respect of this matter.

#### **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 Bank’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 Bank 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 Bank.

#### **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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

## 1.5 Audit Observations on the preparation of Financial Statements

### 1.5.1 Going Concern of the Organization

| Audit Issue  | Management Comment   | Recommendation  |
|--|--|---|
| Though the Director of Bank Supervision of CBSL by her letter dated 11 January 2024, informed the bank to complete the merger process by 31 March 2024, it was not completed even up to the date of audit on 27 June 2024. | <p>Following steps has been taken with regard to merger process :</p> <ul style="list-style-type: none"> <li>- As per the direction of CBSL action has been taken to sell the Lease &amp; Hire Purchase portfolios of the Bank. The Agreement with the buyer will be signed next week and the selling process is in the final stage.</li> <li>- Staff mapping process has been carried out by the independent party ie. CIPM and they have submitted their report.</li> <li>- Transferring of assets &amp; liabilities of SLSB will implement in October 2024.</li> <li>- The absorption of assets, liabilities and staff is scheduled to be completed before 31.12.2024.</li> </ul> | The process of absorption should be speeded up so as to not to idle the existing resources. |

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

| Audit Issue  | Management Comment  | Recommendation   |                       |           |                                 |         |  |  |
|--|---|--|-----------------------|-----------|---------------------------------|---------|--|--|
| <p>(i) The following balances were outstanding since several years without being recovered.</p> <table border="1"> <thead> <tr> <th>Item</th> <th>Amount (Rs.)</th> </tr> </thead> <tbody> <tr> <td>Stamp duty receivable</td> <td>1,999,000</td> </tr> <tr> <td>Post-date cheque discounted A/C</td> <td>349,200</td> </tr> </tbody> </table> | Item  | Amount (Rs.)   | Stamp duty receivable | 1,999,000 | Post-date cheque discounted A/C | 349,200 | <p><b>Stamp duty receivable</b> amount is a payment made when acquiring of a mortgaged property to the Bank on defaulted loan customer. This amount could be recovered only when the property is disposed.</p> <p><b>Post-date cheque discounted A/C:</b> legal action taken to recover the balance.</p> | Prompt actions should be taken to recover the long outstanding balances. |
| Item   | Amount (Rs.)  |  |                       |           |                                 |         |  |  |
| Stamp duty receivable  | 1,999,000   |  |                       |           |                                 |         |  |  |
| Post-date cheque discounted A/C  | 349,200   |  |                       |           |                                 |         |  |  |
| <p>(ii) No evidences were found to verify the following assets vested from Pramuka Savings and Development Bank (PSDB)</p>   | <p>1. Discount paid in advance has been transferred at the vesting of PSDB. Hence, there is no evidence available for</p> | Evidences and break-ups should be maintained for every |                       |           |                                 |         |  |  |

| Item                                    | Amount<br>(Rs.) | verification.   | balances in the   |
|---|-----------------|---|---|
| Discount paid in advance                | 13,356,809      | 2. There are two appeal cases pending before the Supreme Court regarding an issue on Gratuity payments of PSDB employees of which total case value is Rs. 7,098,200. The case are<br>•SC/HC/LA/01/2017<br>•SC/HC/LA/02/2017 | financial statements to ensure the completeness and accuracy of those balances. |
| Deposit fund on behalf of PSDB L/T case | 7,098,200       |   |   |

### 1.6.2 Payables

| Audit Issue  | Management Comment  | Recommendation  |
|--|---|---|
| (i) A PSDB Borrowing amount of Rs.31,707,499 which was disclosed under “due to other borrowers” was prevailed in the same account since more than three years.                   | Pramuka Savings and Development Bank (PSDB) Borrowing- These are unclaimed by the PSDB customers. Hence, these balances are in the PSDB Borrowing account. Every six months, we report the balances of PSDB liabilities to the CBSL   | Outstanding balances should be reconciled and cleared within reasonable time period.                              |
| (ii) The other liabilities balance in the Financial Statements included an unidentified suspense account balance of Rs.5,360,365 which consists from unidentified bank deposits. | Most of the unidentified balances in the Bank reconciliation have been cleared. These deposits were made directly by the customers without remarks to identify the customer. Hence, those have been transferred to suspense account. The bank has made every effort to identify them and time to time following up to identify them. Further, there had not been any amount accumulated to this in the year 2023 and up to August 2024. | The Bank should be reconciled and cleared unidentified suspense account balances within a reasonable time period. |

## 1.7 Cash Management

| <b>Audit Issue</b>   | <b>Management Comment</b>   | <b>Recommendation</b>  |
|--|---|--|
| As per the bank reconciliations prepared as at 31 December 2023, the following balances had remained outstanding for a period over six months without being cleared. | Un-posted bank credits were accounted in January 2024. Will be rectified Error Posting in Yr 2024 | Internal controls should be strengthened to avoid this kind of errors. |

| Item                  | Amount<br>(Rs.) |
|-----------------------|-----------------|
| Unposted bank credits | 158,500         |
| Error posting         | 13,400          |

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.758,720,218 and the corresponding profit in the preceding year amounted to Rs.460,588,117. Therefore, an improvement amounting to Rs.298,132,101 of the financial result was observed. The reasons for the improvement are the increase in interest income from financial instruments and decrease in interest expense due to decrease in deposits.

### 2.2 Ratio Analysis

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

| <b>Description</b>                            | <b>Sector</b> |             | <b>SLSBL</b> |             |
|---|---------------|-------------|--------------|-------------|
|   | <b>2023</b>   | <b>2022</b> | <b>2023</b>  | <b>2022</b> |
| Return on Equity (%)                          | 8.4           | 2.32        | 9.91         | 6.40        |
| Return on Asset (%)                           | 0.5           | 0.13        | 8.45         | 5.19        |
| Net Interest Margin                           | 2.70          | 2.80        | 18.88        | 14.98       |
| Liquid Asset Ratio                            | 51.5          | 38.27       | 1289         | 954         |
| Risk Weighted Capital Adequacy Ratio – Tier 1 | 15.00         | 14.20       | 163          | 165         |

(Minimum Requirement - 5%)

### 3. Operational Review

#### 3.1 Management Inefficiencies

| Audit Issue  | Management Comment   | Recommendation   |
|--|--|--|
| <p>There were several instances where the Bank had acted irresponsibly, though its main priority was to implement the activities related to the merger as directed by Director of Bank Supervision of CBSL. Some instances are given below.</p>  | <p>The following steps have been taken with regard to merger process :</p>   | <p>Bank should speed up the merger process by negotiating with the parent.</p> |
| <p>(i) The requirement to implement the merger process by the Bank was re-emphasized by the director of Bank Supervision since the operational difficulties of the bank due to lack of competent staff.</p>  | <p>- As per the direction of CBSL action has been taken to sell the Lease &amp; Hire Purchase portfolios of the Bank. The Agreement with the buyer will be signed next week and the selling process is in the final stage.</p> |  |
| <p>(ii) By her letter dated 27 May 2022 the director of Bank Supervision of CBSL has indicated that both NSB and SLSBL had been granted sufficient period of time to implement the Monetary Board approved resolution framework for the bank. However, both banks had failed to ensure timely implementation of corrective measures informed from time to time by CBSL pertaining to the resolution framework.</p> | <p>- Staff mapping process has been carried out by the independent party ie. CIPM and they have submitted their report.</p>  |  |
| <p>(iii) The director of Bank Supervision has informed by her letter dated 13 January 2022 that the bank has submitted a Strategic Business Plan for the period 2022-2026 with unrealistic projections and non-consideration of key risk assessment factors.</p>   | <p>- Transferring of assets &amp; liabilities of SLSB will implement in October 2024.</p> <p>- The absorption of assets, liabilities and staff is scheduled to be completed before 31.12.2024.</p>                             |  |

### 3.2 Operational Inefficiencies

| Audit Issue   | Management Comment   | Recommendation   |
|---|--|--|
| <p>(i) Although the progress of the loan recovery of the Bank after the suspension of the operations (suspended on 05 January 2021) was at a satisfactory level for many loans types, the significant increase in the non-performing loans in SLS Diriya loan scheme was observed as at 31 May 2024. It was increased from Rs. 25,666,399 to Rs. 117,316,210 from the date of 01 January 2021 to 31 May 2024.</p> | <p>SLS Diriya loan scheme is consisted with loans granted to MSME sector, which is the most affected sector from the Covid-19 pandemic and the subsequent economic crisis of the country. As for many SME borrowers, some of considerably large valued loans were transferred to NPL during the period of year 2022. However, as a result of timely recovery actions implemented by the bank, amount has been reduced over the period and some of large facilities are under litigation process.</p> | <p>Loan recovery procedure of the bank should be tightened speeded up.</p> |
|   | <p>Accordingly, NPL balance which was stood at Rs.117.31Mn as at 31.05.2024, has been reduced to Rs.115.8 as at 31.07.2024. Further, this amount mainly includes from 3 loan facilities. Out of 50% representing the loan granted to SOE secured with Government Treasury Guarantee.</p>   |  |
|   | <p>Other 50% includes, loan of Rs.27.37Mn which is currently performing and yet to keep as NPL loan, complying CBSL direction. This would be transferred to PL category before end of the year 2024.</p>   |  |
|   | <p>Other loan, Rs.25Mn, is under court case which is also secured by property mortgage and proceeded for parate execution. Once, case is taken up, it would be settled either through parate auction or mutual settlement.</p>   |  |



Therefore, it is expected in reduction in NPL balance at least by Rs.27Mn to Rs.88Mn, by end of the year resulting the strict recovery actions taken by the bank.

Total value of NPL balances shown below for the period from 2021 - 31.07.2024 reflects considerable reduction in NPL for SLS Diriya Loan scheme.

| Year       | Rs.Mn |
|------------|-------|
| 31.12.2020 | 25.66 |
| 31.12.2021 | 11.76 |
| 31.12.2022 | 249.0 |
| 31.12.2023 | 206.5 |
| 31.05.2024 | 117.3 |
| 31.07.2024 | 115.8 |

It's shown gradual reduction in NPL balance during last two years.

- |       |  |   |   |
|-------|--|---|---|
| (ii)  | The aggregated total outstanding balance of 34 numbers of SLS Diriya Loans were Rs.187,906,998 as at 31 May 2024. Out of that, Rs.117,316,210 relating to 16 loans was in the NPL category. The NPL ratio was calculated as 62 per cent. | Refer Management Comment 3.2 (i)  | Loan recovery procedure of the bank should be tightened and speeded up. |
| (iii) | The aggregated total outstanding balance of Micro Finance loans was Rs. 239,967,255 as at 31 May 2024. Out of that, Rs. 238,960,447 was reported as non-performing loans   | Some of the loans were originally granted by the National Development Trust Fund (NDTF) before its merger with the Sri Lanka Savings Bank (SLSB). These loans were primarily aimed at promoting microfinance facilities for | Loan recovery procedure of the bank should be tightened and speeded up. |

and the Non Performing ratio is low-income individuals. calculated as 99.5 per cent.

Following a directive from the Central Bank of Sri Lanka dated January 5, 2021, SLSB was instructed to suspend its operations. Consequently, the bank discontinued granting loans to partner organizations which created challenges in recovering the outstanding loans.

At the time of the suspension, the total outstanding balance of microfinance loans was at Rs. 806.6 million, of which Rs. 505.3 million was performing loans and Rs. 301.2 million was classified as non-performing loans (NPL), reflecting an NPL ratio of 37.3%.

As of July 31, 2024, we successfully recovered Rs. 504.8 million of the performing loans. This left an outstanding balance of Rs. 0.48 million in performing loans. As a result, the NPL ratio increased significantly since the remaining outstanding balance mainly consists of non-performing loans.

It is important to note that legal action has been initiated against most of the partner organizations (POs) associated with these non-performing loans, and recovery efforts are ongoing.

- (iv) As at 31 December 2023, The bank has fully depreciated assets valued at Rs.107,817,357 or 73 percent of the total assets as at 31 December 2023, which are still in use. The Bank has not accurately estimated the useful life of those assets base
- PPE of the Bank has not been revalued as those are fully depreciated. The Bank has not done revaluation for the PPEs transferred from PSDB and NDTF at their merger in the year 2008 and 2010 respectively as the cost for revaluation is considerably high. Therefore, considering the high cost involvement, the Bank discloses the
- Bank should assess the useful life of its assets base on the future economic benefits embodied in those assets which are going to be

on the future economic benefits embodied in those assets which are going to be consumed by the Bank principally through its use.

fully depreciated assets in the Financial Statements, in PPE Note. It was decided by the Management to revalue only the items with significant values. Hence, action was taken to revalue the vehicles.

consumed by the entity through its use.

### 3.3 Human Resources Management

| Audit Issue  | Management Comment   | Recommendation   |
|--|--|--|
| (i) Two employees had been promoted to the post of Stenographer-III on 01 September 2020 considering the unavailability of career path for the Secretary Grade I and this post was not in the approved cadre of the Bank   | The decision regarding the creation of the Stenographer-III positions was made by the Executive Human Resources Committee at a meeting chaired by the General Manager/CEO of NSB on 18th December 2019. The committee determined that there was a lack of a defined career path for the Secretary Grade I positions and decided to establish a career progression by placing them at the grade of Stenographer-III within the NSB structure for their next grading/promotion cycle.  | Bank should adhere to approved cadre and approved Scheme of Recruitment.   |
| (ii) The actual cadre of the Bank as at 31 December 2023 was 95 and they were paid Rs.744,661,326 as staff emoluments and bonuses for the period from 05 January 2021 to 31 December 2023. Though a considerable cost has been incurred as staff emoluments, the Bank was unable to provide the optimum benefit for its customers due to temporary suspension of its major operations. It seems that this situation will continue in the future due to the | While deposit-taking and lending activities of the Bank have been suspended since 5th January 2021, the Bank is still required to comply with all regulatory and statutory obligations. During this period, the Bank continues to engage in critical functions such as recoveries, legal proceedings, financial reporting, risk management and compliance, treasury management, and branch operations. Additionally, four staff members have been seconded to NSB Fund Management Ltd. since August 2022. Furthermore, NSB has | Staff of the bank should be utilized in an effective and efficient manner. |

implementation delays of the merger proposal of the Bank.

appointed the Chartered Institute of Personnel Management (CIPM) to carry out the staff mapping process, which will facilitate the absorption of SLSB staff into NSB and expedite the merger process.

Regarding employee emoluments, payments have been made according to the approved wage policies and in line with the Bank's obligations under these policies.

### 3.4 Idle or underutilized Property, Plant and Equipment

| Audit Issue  | Management Comment  | Recommendation   |
|--|---|--|
| <p>The Bank had three vehicles which are not in running condition. The ownership of two numbers of vehicles (Vehicle No. 65-2021 and 59-1697) even did not vest with the bank. The original certificate of registration was not available for a one vehicle.</p> | <ul style="list-style-type: none"> <li>• Vehicle No. 65-2021 is undertaken by the PSDB (Pramuka Savings &amp; Development Bank) before 2002 and vested by the CBSL (Central Bank of Sri Lanka) to SLSB (Sri Lanka Savings Bank) in 2007. This vehicle is brand new imported under tax concession and when the SLSB trying to get the revenue license RMV has not issue the license to run the vehicle and instructed the bank to pay the due tax. However, Bank has used this vehicle till 2019 after obtaining the revenue license with an extensive effort. Although the due tax amount not kept informed, it is expected that the due tax amount would be higher than the current market value of the vehicle. Further there are major technical repairs to be done to get the vehicle running condition.</li> <li>• Vehicle No.59-1697 owned to PSDB and absolute owner is Pramuka Management Financial service Ltd. Although the SLSB attempted to get transfer this vehicle to SLSB's name, it was unable to do so. However Bank has used this vehicle till 2019 after obtaining revenue license with an extensive effort and thereafter RMV has not issue revenue license to run the vehicle.</li> </ul> | <p>The Bank should ensure that the ownership of its assets are vested with the Bank.</p> |

- Vehicle No. AAE-9755(Three wheeler) which has purchased by the SLSB merely for the use of Door to Door business operation and due to suspended of the business, no any request received for this vehicle for use since there were few other vehicles.