

Bank of Ceylon and its subsidiaries - 2023

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 2023 comprising the statement of financial position as at 31 December 2023 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 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. 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 give a true and fair view of the financial position of the Bank and the Group as at 31 December 2023, 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 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 scepticism 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 Company'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 Company, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company.
- Whether the Company has performed according to its powers, functions, and duties; and
- Whether the resources of the Company 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 Observation	Management Comment	Recommendations
<p>The following key concerns in relation to the Financial Statement Closure Process (FSCP) were observed.</p>		
a The Bank does not have a board approved procedure manual in place in respect of FSCP.	<p>Comment is noted. The FSCP procedure manual has been prepared and will be in place before the year end after obtaining relevant approvals.</p>	Need to place FSCP procedure manual.
b Lack of a formal and detailed documentation of judgments/assumptions relating to the calculation/valuation arising due to the adoption of Sri Lanka Financial Reporting Standards (SLFRS) were observed.	<p>Comment is noted. The FSCP procedure manual has been prepared and will be in place before the year end after obtaining relevant approvals.</p>	Need to available of a formal and detailed documentation of judgments/assumptions relating to the adoption of SLFRS.
c The Bank has a complex, fragmented GL system, with four separate (DBU, FCBU, Maldives and other foreign branches) GLs which are being manually consolidated by Excel and a large number of manual adjustments are being made to the ledger balances in order to derive the final figures.	<p>The automation of Financial Reporting is in progress and due to the complexity and high volume of data involved the automation task takes a considerable time period. Best effort will be made to complete before this year-end, since then controls over the manual process will be further strengthen.</p>	Need to automate the financial statement preparation process.
d The Bank does not have a documented policy for balance sheet reconciliation and substantiation process for all balances. Even though there is a reconciliation process for some balances, the process focuses more on the reconciliation of numerical balances, rather than substantiating whether they have been categorized under the correct financial statement line item (FSLI).	<p>Comment is noted. The FSCP procedure manual has been prepared and will be in place before the year end after obtaining relevant approvals.</p>	Need to have a documented policy for balance sheet reconciliation and substantiation process for all balances.

- e **Lack of process automation**
Due to the lack of automation in the existing systems, the Financial Reporting team spends a significant amount of time by performing manual processes.
- The automation of Financial Reporting is in progress and due to the complexity and high volume of data involved, the automation task takes a considerable time period. Best effort will be made to complete before this year-end, since then controls over the manual process will be further strengthened.
- Need to automate the financial statement preparation process.
- f **Non availability of documentation of GL accounts ownership**
The bank does not have a documented list of owners in relation to GL accounts and financial statement notes and disclosures. It is vital that the management identifies the custodians of respective notes (both preparer and approver).
- Comment is noted. Preparing GL Ownership Policy is in progress. The custodian of respective notes will be included with the introduction of FSCP manual by 31.12.2024.
- GL ownership policy needs to be in place.

1.6 Accounts Receivable and Payable
1.6.1 Receivable

Audit Observation

- a Following long outstanding balances in Interest Subsidiary Claiming accounts were observed as at 31 December 2023 without clearing.

Product Type	GL Code	Interest Outstanding as at 31.12.2023 (Rs.Mn)	Age Analysis of Interest Receivables (Rs. Mn)				
			Below 03 months	Betw een 03 - 06 mont hs	Betw en 06 - 12 mont hs	Bet ween 01 - 02 ye ars	Mor e than 02 year s
Deposit							
Incentive Interest Receivable for Special Deposit Accounts	1131 0600	275.37	59.98	71.56	143.83	-	-
Incentive Reimbursement Receivable Senior Citizen	1131 0566	24,349.44	0.83	224.62	2,053.38	15.048.97	7.021.65
Loans							

Management Comment

Deposit:
Incentive Reimbursement Receivable Senior Citizen
The Bank is claiming the incentive interest from CBSL which is being disbursed by Ministry of Finance to the bank on a periodic basis.
Incentive Interest Receivable for Special Deposit
We have already claimed the incentive reimbursement from Ministry of Finance which is being disbursed to the bank on a periodic basis.
Loans:
Enterprise Sri Lanka

Recommendations

Need to take necessary actions to clear long outstanding interest subsidiary calming accounts.

Enterprise Sri Lanka	5150 1021	589.06	105.48	76.76	19.69	386.79	0.33	
Diyawara Diriya	5150 1018	6.68	2.82	2.42	1.36	-	-	
Commercial Scale Dairy Development Loan Scheme	5150 1018	To be confirmed by the Central Bank *					1,473.68*	
Interest Free Education Loan	5150 1018	276.98	276.98					
STaRR Project	5150 1018	0.27	-	-	-	-	-	
NCRCS	5150 1006	14.12	3.70	10.42	-	-	-	

* Outstanding Amount as at 2023.12.31

Loan Scheme

Initially the payment confirmation was done by Ministry of Finance, while cross checking with their system. Presently (after October 2022), all the claims are submitted after receiving the internal audit confirmation.

Discussions are taking place to regularise the above interest subsidy payments which are relevant prior to October 2022.

Diyawara Diriya

There is an unresolved matter regarding the payment of interest subsidy in respect NPA loans, granted under the said scheme. Discussions took place with the Ministry of Fisheries and Aquatic Resources several times. But as of today, the said ministry has not provided a justifiable solution for the issue.

Commercial Scale Dairy Development Loan Scheme

Arrangements have already made to sort out the matter shortly, within this year.

Interest Free Education Loan

Interest subsidy claims have been regularized and subsidy payments were received till July 2024.

STaRR Project

Interest subsidy has been regularized and subsidy payments were received till 1st quarter of 2024.

NCRCS

Interest subsidy has been regularized and subsidy payments were received till 2nd half of 2023.

- b An amount of USD 250,000 is remained in “Suspense A/C Debtors USD - A/C No.11310021” in Maldives Branch since long period of time without any recoveries and this was due to fraudulent transaction occurred in 2018 and legal case is still pending.

Comment noted. Need to follow up the recovery process. An amount of USD 250,000 is remained due to a fraudulent transaction that occurred involving a staff member. A legal case is still ongoing regarding this matter. BOC, Maldives has recovered USD 45,000 related to the same as an insurance claim.

1.6.2 Payables

Audit Observation

The long outstanding payable balances are remained in following accounts and satisfactory actions have not been taken to clear such balances. Although the total outstanding balances are decreased, long outstanding balances are still remained as un-settle as at 31 December 2023. The details are as follows;

Account Name	GL No.	Amount (Rs.Mn)	Age Analysis
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Management Comment

Recommendations

Proceeds of Charge Vouchers sent on Collection

This GL balance is reduced to Rs 117,888,402.00 as at 30.09.2024

Reserve on Forged Cheque and Frauds

Provisions made for identified losses & frauds on the relevant year and variation of the O/S balances, due to recovered insurance claims or recover from customers. The Bank will continuously monitor the O/S balance & collect

Need to take necessary actions to clear long outstanding balances of other liability accounts.

Proceeds of Charge Vouchers sent on Collection 22310 082 126.94

Balances	Balance (Rs.Mn) As at 31.12.2023	Balance (Rs.Mn) As at 31.12.2022
More than 5 years	96.48	96.36
From 5-2 years	3.96	4.08
From 2 – 1 year	1.09	0.60
Less than 1 year	25.40	92.84
Total	126.93	193.88

the reasons for pending outstanding.

Reserve on Forged Cheque and Frauds 22310 122 1,609.74

Balances	Balance (Rs.) As at 31.12.2023	Balance (Rs.) As at 31.12.2022
More than 5 years	1,001.92	512.06
From 5-2 years	62.31	1,258.52
From 2 – 1 year	476.30	417.00
Less than 1 year	69.21	78.50
Total	1,609.74	2,266.07

Total 1,736.68

1.6.3 Advances

Audit Observation	Management Comment	Recommendations								
<p>(i) Total outstanding balance of loans and advances belonging to Government of Sri Lanka (GOSL) and State-Owned Enterprises (SOEs) as at 31 December 2023 was Rs. 938,825 million which represents 38.2 percent from total loans and advances and 21.28 percent from total assets value of the Bank. This government exposure as a percentage of total loans and advances and total assets of the Bank has slightly decreased by 7.7 percent and 13.2 percent respectively when compared with the previous year.</p>	<p>In accordance with the laid down guidelines, bank has set targets in the corporate plan to reduce GOSL & SOE exposure (direct) with a time line. The bank has taken measures to reduce the direct exposure to GOSL and SOE during recent past and exposure as at 30.06.2024 was decreased to 34%. The bank will take every endeavour to reduce the exposure to GOSL and SOEs.</p>	<p>Need to closely monitor the recoveries of Government of Sri Lanka and State-Owned Enterprises credit facilities.</p>								
<p>(ii) The Deputy Secretary to The Treasury ,Road Development Authority, Government of Sri Lanka, Sri Lanka Air Lines, Ceylon Petroleum Corporation, Government of Sri Lanka (USD Facility), National Water Board, Department of Pension, Ceylon Electricity Board, Lanka Coal Com Pvt, State Pharmaceuticals Corporation recognized as the top 10 State Owned Enterprises (SOEs) as at 31 December 2023 and total outstanding balance as at 31 December 2023 was Rs.890,125.58 million which include capital outstanding of Rs.868,321.60 million and interest outstanding of Rs.21,803.98 million. This represented 94.81 percent from total outstanding balance of loans & advances belonging to the Government of Sri Lanka (GOSL) and State-Owned Enterprises (SOEs). Therefore, there is a major dependency on main ten GOSL & SOE customers.</p>	<p>The bank will take every endeavour to reduce the exposure to GOSL and SOEs. Further, the term loans granted to SOEs are gradually settled based on the agreed repayment plan at the time of granting the facilities. The exposure amount of top 10 SOEs as at 30.06.2024 was Rs.884,113.28 Mn. <u>Government of Sri Lanka (USD Facility)</u> Outstanding with Offshore Banking is NIL from 30.06.2024. <u>Sri Lankan Airline</u> SLAL services monthly interest up to date without any dues. Claims were lodged with the Government Treasury dated 14.02.2024,15.04.2024,03.06.2024 and 18.09.2024. Repayment of all loans were</p>	<p>Need to follow up recoveries and maintain appropriate limits to reduce credit risk.</p>								
<table border="1"> <thead> <tr> <th data-bbox="252 1608 352 1635">Institute</th> <th data-bbox="438 1579 561 1780">Outstanding Balance as at 31 December 2023 Rs. Million</th> <th data-bbox="624 1608 724 1635">Security</th> <th data-bbox="818 1608 919 1675">Security Value</th> </tr> </thead> <tbody> <tr> <td data-bbox="199 1787 411 1991">The Deputy Secretary To The Treasury (After transfer CPC loan) Road Development</td> <td data-bbox="438 1821 561 1991">435,060.95 136,382.12</td> <td data-bbox="624 1787 724 1991">Loan Agreement Treasury Guarantee</td> <td data-bbox="818 1787 919 1991">- Rs. 147,657.25 Mn</td> </tr> </tbody> </table>	Institute	Outstanding Balance as at 31 December 2023 Rs. Million	Security	Security Value	The Deputy Secretary To The Treasury (After transfer CPC loan) Road Development	435,060.95 136,382.12	Loan Agreement Treasury Guarantee	- Rs. 147,657.25 Mn		
Institute	Outstanding Balance as at 31 December 2023 Rs. Million	Security	Security Value							
The Deputy Secretary To The Treasury (After transfer CPC loan) Road Development	435,060.95 136,382.12	Loan Agreement Treasury Guarantee	- Rs. 147,657.25 Mn							

Authority		Fixed Deposits	Rs. 2,552.71 Mn	suspended until 31.12.2024 or until finalization of the Restructuring process.
Government Of Sri Lanka (USD Facility)	78,094.30	Clean	-	Letters has been sent to General Treasury on 22.08.2024 and 10.09.2024 requesting to settle the claims already lodged or else make available the extended Letter of Comfort and Treasury Guarantee.
Sri Lankan Airline	69,492.19	Treasury Guarantee	USD 5.0Mn	SLAL revolves their OD limit of USD 70.0 M with export proceed receivables.
		Letter of Comforts	USD32.50Mn USD 42.50Mn USD 25.0Mn	
		Mortgage over ordinary shares of Sri Lankan Catering Ltd	USD186.0Mn	
Ceylon Petroleum Corporation	59,563.53	Treasury Indemnity	Rs. 100,000Mn	
National Water Supply And Drainage Board	49,404.07	Treasury Guarantee	Rs.33,152.10 Mn USD 107.49Mn	
Department of Pension	19,088.88	Clean	-	
Ceylon Electricity Board	15,969.27	Loan Agreement	-	
Lanka Coal Com (Pvt) Ltd	15,689.56	Treasury Guarantee	Rs. 4,780Mn	
State Pharmaceutical Corporations	11,380.71	Treasury Guarantee	Rs.49,500Mn	
Total	890,125.58			

(iii) The top 10 Non-Performing Customers (NPA) were analyzed during the past 5 year's period and the following observations were revealed.

Name of the Customer	Total Non-Performing Loan Balance (31/12/2023) (Rs. Mn)
Srei Equipment Finance LTD	5,465.70
Dholiya Investment (PVT) LTD	5,164.19
Mihin Lanka (PVT) LTD	4,684.69
W M Mendis & Company LTD	4,524.44
K D Ebert & Sons Holdings (PVT) LTD	4,341.04
Sintesi Limited	2,981.21
Hurihela Pathana (Pvt) Ltd	2,829.77
Anudan Holdings (PVT) LTD	2,644.01

Noted. Need to follow up recoveries and ensure satisfactory customer credit evaluation before granting loans in future.

% Increase of top 10 NPL balance has decreased since 2019 to 2021. However, it has been drastically increased in 2022 due to the repercussions of economic downturn.

The bank is also carrying out continuous follow ups by reviewing the Top 50 NPA Customers and providing solutions at the Assistant General Manager Reviews quarterly.

The status and present position of customers are as follows;

Almar Trading Co. (PVT) LTD	2,513.85
M/S Deshika Embroidery Solution (PVT) LTD	2,244.01
Total	37,393.42

- The aggregated balance of top 10 Non- Performing customers was Rs. 37,393.42 million as at 31 December 2023 and it has been increased by Rs. 300.45 million or 0.81 percent when compared with the preceding year. It represents 11.99 percent of Stage III gross loans and advances of the Bank as at 31 December 2023.
- The aggregated balance of top 10 non-performing customers has been increased by 132.86 percent or Rs.21,335.24 million as at 31 December 2023 over the last five years period.

- Srei Equipment Finance LTD, Dholiya Investment (PVT) LTD-Categorized stage III
- Mihin Lanka (PVT) LTD-claim lodged on the Treasury Guarantee
- W M Mendis & Company LTD-currently recovering Rs.45-47mn against monthly requirement of Rs.60mn.After restructure of facilities recovered Rs.75 mn as capital and rs.365 mn as interest as at 13.102024.
- Sintesi Limited, Almar Trading Co. (PVT) LTD, M/S Deshika Embroidery Solution (PVT) LTD-legal actions initiated and cases on going
- K D Ebert & Sons Holdings (PVT) LTD, Hurihela Pathana (Pvt) Ltd-Revival Package implemented
- Anudan Holdings (PVT) LTD-on discussion about possibility of loans reviving

(iv) Following observations are made on review of Top 10 Non performing customers' (group basis) exposure as at 30 September 2023.

1) Srei Equipment Finance Limited

The Company engaged with businesses which include infrastructure finance, advisory and development, infrastructure equipment finance, alternative investment funds, capital markets and insurance broking.

The Bank has participated with other 6 syndicate banks to finance loans of Srei Equipment with a global limit of USD 110 Mn.

A syndicate term loan facility of USD 15 Mn has been granted by the Bank to Srei Equipment Finance Limited on 30 July

Preliminary information is always being obtained from the borrower to evaluate credit proposals. Being the syndicate arranger, Standard Chartered Bank has forwarded a Confidentiality Agreement (CA) to Bank of Ceylon.

SREI is considered as a Loan Server for micro markets and complies with the parameter of a financial entity and such a financial entity records higher than

Need to follow up recoveries.

2018 which was lying under the non-performing category since 14 December 2021.

Although, the board has delegated the authority for signing the security documents and other related documents of the syndicate loan facility to the Deputy General Manager (Corporate and Offshore Banking) and to the Assistant General Manager (Offshore Banking) on behalf of the bank as per the board minute no 2.10 dated 30 November 2017, Offer Letter dated 07 December 2017 has been signed by the Assistant General Manager (Offshore Banking) and Relationship Manager (Offshore Banking) with the absence of the signature of Deputy General Manager (Corporate and Offshore Banking). Further it was observed that the board approval for aforesaid authority delegation for signing the security documents and other related documents has not been obtained at the time of forwarding confidentiality agreement to the Standard Chartered Bank through email dated 25 September 2017. Assistant General Manager (Offshore Banking) has individually signed the confidentiality agreement dated 23 August 2017 and Information Memorandum dated 22 August 2017, for and on behalf of the bank. Individually signing of above confidential documents lead to weaken the internal control system of the bank.

Further the bank had not conducted a proper evaluation towards the financial condition and repayment capacity of the company and not considered negative indicators of the financial position before granting the facility.

Under the important notice of the Information Memorandum (IM) which was sent by Standard Chartered Bank (SCB) to Bank of Ceylon stated that "It is the responsibility of potential lenders to obtain all consents, approvals or authorizations required by them to participate in the facility. By participating in the facility, potential lenders will be deemed to have acknowledged that the Mandated Lead Arranger does not owe them any duty of care in this respect." However, it was observed that the aforementioned statement has not been included in any of memorandum submitted to the credit committee or board of directors by offshore banking division.

As per the Credit Committee Memorandum dated 24 July 2018, Chief Risk Officer has commented that the other banks share for this syndicate loan as a risk mitigating factor while the Standard Chartered Bank's role as the lead bank.

It seems that bank had solely depended on the Standard Chartered Bank who act as mandated lead arranger, when participating for the syndicate loan facility.

As per the board minute No. 2.10 dated 30 November 2017,

the normal Debt-to-equity indices.

Market capitalization of SREI Equipment Finance Limited was USD 10 Bn. at the time of evaluating the company for granting credit facility and it was one of the lucrative business conglomerates in India.

As per the RBI approved distribution plan, Bank of Ceylon is under the category of Assent secured ECB (External Commercial Borrowings) lenders.

USD 2.35 M recovered as per the CIRP process.

Balance Resolution plan as follows.

- Optional Convertible Debentures (OCD) issued - INR 349.7 M (USD 4.19 M)
- Equity shares - INR 11.3 M (USD 0.13 M)
- Total amount to be received USD 4.66 M

Directors to appoint Mr. S Ramanujam, Senior Vice President Credit (Chennai Branch) as an authorized representative to participate in the meetings at Reserve Bank of India (RBI) / Committee of Creditors (COC) meeting and any other related matters by representing Bank of Ceylon – Offshore Banking Division on behalf of Bank of Ceylon.

the payable period has indicated as 05 years. This facility has been approved by the board of directors by only stating the total repayment period and has not specified any repayment structure. Latterly the board approved the repayment structure of the loan through the board minute No. 1.2.05 dated 23 August 2018 as 03 bullet payments of USD 5.0 Mn each to be payable on 30 September 2022, 30 March 2023 and 30 September 2023. Accordingly, it was observed that the grace period of 04 years has been granted towards the repayment of capital portion of the loan.

The total outstanding payable balance of the customer as at 30 September 2023 was Rs. 5,830.25 Mn with total capital and interest balance of Rs. 4,866.72 Mn and Rs. 963.53 Mn respectively. Later, payment of USD 2,335,950.38 were received from the Company on 15 December 2023 & 07 February 2024. The total amount received was USD 4,339,990.17 up to 07 March 2024.

The facility is secured by granting exclusive first ranking security interest by way of hypothecation over its specific receivables which are “Secured Receivables”, sufficient to provide a security cover of minimum 1.15 times on the outstanding facility at all times. “Secured Receivables” means receivables in respect of loans made by the Borrower to its customers and standard in the books of the Borrower. It was observed that the bank didn’t conduct any independent verification or an age analysis on Secured Receivables before granting the loan facility.

At present an insolvency case has been lodged by the Insolvency and Bankruptcy Board of India with the declaration of insolvency by the Reserve Bank of India on 11 October 2021.

2 Dholiyadhoo Investment (Pvt) Ltd

Dholiyadhoo is a “5 star” resort project in Maldives in Dholiyadhoo Island which was planned to build 100 villas including 65 water villas and 35 beach villas, three restaurants and all other leisure facilities.

Bank has granted two USD denominated term loans to the aforesaid customer aggregating to USD 8 Mn which includes USD 5 million by Offshores Banking Division and USD 3 million by BOC Maldives branch on 27 October 2010. Subsequently those facilities were transferred to the non performing category on 29 June 2012 and 31 June 2012 respectively. The loans have been granted to construct 35 numbers of Beach Villas, 65 numbers of Water Villas and three restaurants in Dholyadhoo Island. The project was initially funded by State Bank of India (SBI) and Bank of

The Bank has submitted the Need to enforcement case to civil follow up court to recover money from recoveries. the guarantors. During the enforcement proceeding, BML and SBI requested to intervene. Now SBI has submitted a new valuation report for Dholhiyadhoo Island, the court will soon issue a foreclosure order to sell the Island. State Bank of India (Assistant Vice President – Credit) update the present

Maldives (BML). The company has approached BOC for additional credit facility against pari-passu mortgage over the head leasehold right of Island “Dholhiyadhoo” in Shaviyani Atoll which was already mortgaged to SBI & BML. The facilities have been granted by the lenders over the pari-passu mortgage against the head leasehold right and personal guarantees of directors of AAA & Company, which is the group company of Dhohiyadhoo Investment (Pvt) Ltd.

The total outstanding payable balance of the customer as at 30 September 2023 was Rs.5,536.98 Mn which consist of total capital and interest payable balance of Rs.2,583.32 Mn and Rs.2,953.66 Mn respectively.

The company was unable to find an investor/lender to finance the escalated project cost and the company was unable to complete the construction of the project. The project promoter abandoned the project and all the lenders initiated the recovery action against the borrower to recover the facilities.

BOC has filed a case against DIPL and the guarantors of the facility in Maldivian Civil Court under the case number 610/Cv-C/2016. The court has issued a judgment in favor of BOC on 27 October 2016 and judgment ordered to pay the dues in 7 months from the date of Judgment. However, the company fails to repay the full outstanding amount within the said period.

As per the judgment, on behalf of all lenders, BOC has published to sell the leasehold rights of the island on 21 March 2019 at a reserve price of USD 42.8 Mn. Later SBI has published to sell the property on March 2020 at a Reserve Price of USD 38.5 Mn. Both publications were not successful. In 17 January 2022, SBI has published to sell the Island at USD 33 Mn and the auction has been closed on 01 February 2022 without a prospective bidder. SBI has decided to publish the auction at the value of USD 31.35 Mn based on the residual value basis. First pari-passu mortgage was given to BOC.

The Board of Directors of the bank has taken following decisions at its meeting held on 31 August 2023 (31.08.2023/13.8.01).

- a) To recover capital outstanding of USD 4,188,237.94 (52.6% of the capital outstanding of USD 7,962,201.71) as follows
 - Offshore Banking Division - USD 2,630,075.94
 - Bank of Ceylon , Maldives Branch - USD 1,558,162.94
- b) To write off capital outstanding of USD 3,773,963.77 (47.4% of capital outstanding of USD 7,962,201.71) as

position by an email as follows.

As per court judgement, SBI published the auction notice in local newspaper” Mihaaru” and web site from 03.09.2024 to 15.10.2024 and notice published in SBI web site.

follows

- Offshore Banking Division - US 2,369,925.00
- Bank of Ceylon , Maldives Branch - USD 1,404,038.77
- c) To waive off 100% interest accrued totaling to USD 7,711,822.64 as at 09.08.2023 as follows and to waive off further interest to be accrued until the date of settlement –
 - Offshore banking Division - USD 4,866,249.97
 - Bank of Ceylon, Male - USD 2,845,572.67
- d) To waive off 100% penal interest accrued totaling USD 1,970,157.39 as at 09.08.2023 as follows and waiving off further penal interest to be accrued until the date of settlement –
 - Offshore banking Division - USD 1,280,533.47
 - Bank of Ceylon, Male - USD 689,623.92
- e) To consider above arrangement under (a), (b), (c), and (d) as a full and final settlement and to discharge all the liabilities of DIPL and Guarantors related to the aforesaid facilities granted from Offshore Banking Division and BOC Male, disregarding the conditions mentioned in Official Instruction Circular No. 16/2018.
- f) To issue the following letters and execute the settlement agreement
 - No objection letter to the borrower (DIPL) and co-lenders i.e. State bank of India (SBI) and Bank of Maldives (BML) or other related parties.
 - Discharge of liabilities letter to the borrower and guarantors.
 - Settlement Agreement between borrower, guarantors and BOC

In case of above transaction is not executed by the borrower or proposed buyer on or before 31 December 2023, the no objection letter become null and void. Therefore Bank of Ceylon, Maldives submitted the enforcement case to civil court on January 2024. First hearing was held on 07 February 2024 in which had discussion about how to carry out valuation and appoint a valuer to conduct the valuation of the mortgaged property.

3 **Daya Group**

a) Daya Apparel Exports (Pvt) Ltd

Daya Apparel Exports (Pvt) Ltd is engaged in the business of manufacturing readymade garments such as woven pants, ladies' jeans, shorts, trousers etc. Bank has granted 01 USD term loan with LKR equivalent of Rs. 486.67 Mn, 03 Bill Discounting facilities amounting to Rs. 153.20 Mn, 113

The company was running Need to the business with financial follow up distress situation. Due to recoveries. non-availability of export orders, the company was unable to adhere terms and conditions stipulated in

Hypothecation facilities amounting to Rs.1, 063.71 Mn and 02 numbers of Overdraft facilities amounting to Rs. 68.39 Mn during the period of 2004 to 2023 which were transferred to the non performing category during the period of 2019 to 2023 from time to time due to operation of the business far below the break-even point.

Company has not submitted audited financial statements for the period 2021/2022 and 2022/2023. The available financials of the company for the year 2020/2021, indicates Profit after Tax Ratio of -28.7 per cent (negative), zero Interest Coverage Ratio and increased Cash Cycle days from 103 days to 278.1 days.

Although the Credit committee decided at its meeting held on 20 April 2023 to initiate Legal actions for the company and for the other companies in the group, the Director of the company has requested to grant Letter of Credit facilities for import fabric and other raw materials from China for their new product line of linen manufacturing targeting for hotel industry by his letter dated 31 July 2023. The credit facilities of the company have been transferred from Offshore Banking Division to Recovery Corporate Division on 27 June 2023 and later, from Recovery Corporate Division to Business Revival and Rehabilitation Unit on 16 August 2023 without any debt recovery or the legal actions taken by the Bank.

The total outstanding balance as at 30 September 2023 was Rs. 2,085.63 Mn with capital and interest balance of Rs. 1,622.70 Mn and Rs. 462.93 Mn respectively.

Out of the total outstanding, an amount of Rs. 2,085.63 Mn was secured against 02 immovable properties at Thirukkivil property, plan no 19/2020 (7A.03R.22.00P) and Ampara property situated at No. 1/1, Hingurana Road, Ampara lot 670, cadastral map no 2800/10 (04A.03R.05.00P) which has a forced sale value of Rs. 200 Mn and Rs. 260 Mn respectively. Forced sales value of the mortgaged properties represents only 22.05 per cent of the total outstanding amount.

Letter of Offer dated 09.03.2023 and did not route LKR cash flow to the Bank, therefore decided to initiate legal actions.

Since customer proposal for Letter of Credit facility for new business was not viable and after carry out careful evaluation, decided to transfer Credit Facilities from Offshore Banking Division to Recovery Unit. Considering the customer request and rice mill operation, bank transfer credit file from Recovery Corporate Division to Business Revival and Rehabilitation Unit on 16 August 2023.

After transferring the credit file to BRRU, the company has deposited Rs. 450.0Mn for the partial recovery of the facilities granted to Daya Group Limited, Daya Apparel Exports (DAEPL) and Olympus Construction (OCPL).

Accordingly, BRRU has recovered Rs. 100.0Mn of total credit exposure of Olympus Construction, another Rs. 100.0Mn from Daya Apparel Exports and balance Rs. 250.0Mn from the total credit exposure of Daya Group Limited.

The bank has requested to submit a viable business plan together with additional information and to offer an adequate tangible security to secure the proposed revival package which is in process.

b) Bimpuh Finance PLC

Bimpuh Finance PLC was engaged with micro finance business.

The Bank has granted 03 term loans amounting to Rs 278.33 Mn, 06 Moratorium Converted Loans amounting to Rs. 141.93 Mn, 01 Rescheduled-B loan amounting to Rs.24.69 Mn and 01 Overdraft facility amounting to Rs.9,378.96 Mn during the period of 2016-2022 and those were transferred to the non performing category in year 2023.

The Company has incurred a loss of Rs. 520 Mn during the financial year 2019/2020 due to main reason of decline in interest income. At the time of granting the credit facilities, the company's risk rating was BBB and currently ranking under "D" category.

As per the Section 8.1.i & ii of Corporate Credit Policy Manual, a detailed-credit analysis should be done for all customers annually or semi-annually if the credit rating is "B" and below, and assess the credit quality of the assigned customers through the quarterly classification process, quarterly customer visit etc. However, customer visit reports were not available in the file for audit review.

The Monetary Board of Central Bank of Sri Lanka has observed that Bimpuh Finance has been continuously violating/contravening the provisions of the Finance Business Act and gave several extensions to comply with the provisions of the Finance Business Act. However, CBSL has decided to cancel the license issued to the company due to the continuous non-compliance with effective from September 01, 2023. Accordingly, Company was not allowed to engage in finance business thereafter.

Further it was observed that the moratorium facilities granted under OIC 340/2020 and OIC 29/2022 have not been formally documented and personal guarantee of the director has not been signed for the Rescheduled Loan B facility amounting to Rs. 32.30 Mn.

Thereafter credit files had been transferred to the Recovery Corporate Department on 27 December 2023 based on the approval of the credit committee meeting held on 25 October 2023. However, there has been no any progress in debt recovery and the legal actions have not been executed by the Bank against the Company.

The total outstanding balance as at 30 September 2023 was Rs.537.88 Mn with capital and interest balance of Rs. 444.95 Mn and Rs. 92.93 Mn respectively. No any immovable properties considered for the securities and total outstanding amount was secured against the Joint and Several Guarantee of

The Bank has considered Need to credit facilities to this follow up company considering the recoveries.

group relationship despite the company was not the most creditworthy.

However, after transferring the facilities to Non-performing category, the bank has taken all the measures to recover the facilities and initiated recovery actions as follows;

- Reinstated the moratorium facilities on 12.06.2024.
- LDs were sent to the customer on 13.08.2024.
- The claim against the winding up Case No CHC/41/2024/CO was lodged on 25.09.2024.
- Though, the Reschedule loan B no 88428657 was not secured by the Director Guarantee as the director has not signed the documents, the legal action will be continued against the company.
- Legal action for the other facilities are to be continued as scheduled.

the Directors of the Company. Five (05) Moratorium Loans also have been granted on clean basis and 01 moratorium loan was granted on a director guarantee. Therefore, recoverability of total outstanding is doubtful due to lack of strength of the available security.

c) Blue Diamonds Jewelry Worldwide PLC

Blue Diamonds Jewelry Worldwide PLC is engaged in the business of manufacturing and exporting diamond studded gold jewelry.

The Bank has granted 01 number of USD term loan with LKR equivalent of Rs 35.93 Mn and 01 number of moratorium converted USD term loan with LKR equivalent of Rs. 5.15 Mn on 17 August 2018 and 31 January 2022 respectively. Those were lying under the non performing category from the date of 16 January 2023 and 30 June 2023 respectively.

At the time of granting the USD term loan, the company had already obtained Rs. 35.5 million facilities from other banks and experienced in significant revenue decrease during the period of 2013 – 2018. During that period the company has incurred continuous losses and Debt Service Coverage Ratio (DSCR) was weak due to the negative earnings of the company. Further, tangible net worth was also declined to Rs. 174.9 Mn due to the continuous losses incurred by the company. As per the annual report of the Central Bank of Sri Lanka 2017, export earnings from gems, diamonds and jewelry declined by 17.4 per cent reflecting lower global demand. As per the audited financials, the company showed negative financial ratios such as Negative Profit after Tax Ratio (-261.6 per cent) and Negative Interest Coverage Ratio (-25 per cent) during the period of 2016/2017. As per the audited financials for the period of 2017/2018, loss for the year was Rs. 23.11 Mn and current ratio has declined from 4.91 to 3.48. Therefore, it was observed that the aforesaid loan facility has been granted by the Bank without considering the unfavorable financial position and performance of the Company prevailed at that time.

As per the Section 8.1.i & 8.1.ii of Corporate Credit Policy Manual, a detailed-credit analysis should be done for all customers annually or semi annually and if the credit rating is “B” and below, bank should assess the credit quality of the assigned customers through the quarterly classification process, quarterly customer visit etc. However, customer visit reports were not available in the file for audit review.

Further, as per the Annual Report of 2022/2023, the loss for the period was Rs. 17.75 Mn and the accumulated loss was Rs. 61.46 Mn. Further, current ratio has decreased from 2.75 to

The Bank has granted 02 numbers of USD term loans with LKR equivalent of Rs 38.09 Mn and 01 number of moratorium converted USD term loan with LKR equivalent of Rs. 5.15 Mn on 17 August 2018, 03 May 2019 and 31 January 2022 respectively.

The balance 02 USD loans amount equivalent of Rs.2.1 Mn was secured against the Personal guarantee of the Director Mrs. P M K Gamage and Moratorium loan amount of Rs.5.33Mn was secured against Loan Agreement

Considering the ownership structure of the business, it is decided the separately negotiate with the new management of the company in order to restructure facilities.

Despite recent management changes, the company has yet to provide any recovery plans.

The bank has sent final reminders to the company requesting a restructuring arrangement.

In the absence of such an arrangement, the bank will initiate legal action against the company as necessary.

Need to follow up recoveries.

1.94 when compared with the year of 2021/2022.

Two directors were resigned from the board of directors on 20 November 2023.

The total outstanding balance of the customer as at 30 September 2023 was Rs.44.42 Mn with capital and interest balance of Rs. 41.08 Mn and Rs. 3.34 Mn respectively.

Out of total outstanding balance, an amount of Rs.39.09 Mn was secured against assignment over lease hold rights of lands marked lots 49A and 49B depicted in Plan No. 3804 dated 21 February 2006 made by T.K.Dhanasena L.S. from and out of the land called “Kadiranawatta” of the Katunayake Export Processing Zone-Phase. The last valuation for that property has been taken on 07 February 2018 and bared a forced sales value of Rs. 30 Mn. The valuation has expired on 12 March 2024. The renewal of the Comprehensive Insurance Coverage was not available in the Security File. The balance outstanding amount of Rs.5.33 Mn was secured against the Loan Agreement.

Currently, legal actions have not been executed by the Bank against the Company.

(b) Olympus Construction (Pvt) Ltd

Olympus Construction (Pvt) Ltd is mainly engaged in road construction and building construction, both in public and private sectors. In addition, they are engaged in water supply and drainage projects, supplying of asphalt concrete etc.

Bank has granted three (03) numbers of rupee term loans amounting to Rs.139 Mn, 03 numbers of rescheduled rupee loans amounting to Rs 86 Mn , 15 numbers of series of USD term loans (revolving) amounting to Rs. 554.85 Mn, 01 number of Letter of Guarantee amounting to Rs. 47.11 Mn, 01 number of Letters of Credit amounting to Rs. 648 Mn, 01 number of Bill Acceptance amounting to Rs. 648 Mn and 8 Leasing Facilities amounting to Rs.42.85 Mn during the period of 2014 to 2019, which were lying under the non performing category from the date of 25 October 2019.

Considering the USD cash flow constraints of the company, USD facilities have been restructured in several times.

One non performing overdraft facility had been rescheduled on 15 May 2019 and secured against the joint and several guarantee of directors. . Accordingly, strong securities were not considered when rescheduling non-performing overdraft facility. Furthermore, at the time of rescheduling the aforesaid loan facilities, Debt Security Covering Ratio (DSCR) was below the acceptable norms mainly due to the significant increase in debts. Moreover, one of the company directors was appeared in CRIB for 04 indirect facilities obtained from

15 numbers of USD term Need to
loans are not revolving follow up
facilities. Letter of guarantee recoveries.
limit amount is Rs.300Mn
(revolving).

Machinery mortgages have been executed based on the invoice values. (Import LC’s have been established under the approved limit and after importing respective machineries same have been mortgaged to bank).

After transferring the credit file to BRRU, the company has deposited Rs. 450.0Mn for the partial recovery of the facilities granted to Daya Group Limited, Daya Apparel Exports (DAEPL) and Olympus Construction (OCPL).

Accordingly, BRRU has recovered Rs. 100.0Mn of total credit exposure of Olympus Construction,

Peoples Leasing Company as per the CRIB report dated 11 March 2019. The Chief Risk Officer has commented on 15 May 2019 as the Company's financial strength is not strong.

Further, Cash flows of the Company have not been routed through the Bank since 2021 from ongoing projects and the customer was unable to produce any credible evidences pertaining to the expected cash flows. As per the Recovery Corporate Division Memorandum dated 15 August 2023, financial discipline of the company was not satisfactory and historical fund diversion practice is uncontrollable.

The credit files were transferred to Recovery Corporate Division on 22 October 2021 by considering the non-availability of a proper settlement plan for existing facilities. Subsequently, the mortgaged machineries and vehicles were inspected by the Recovery Corporate Division on 15 June 2023, 26 June 2023 and 03 August 2023 respectively and found that value of almost all the machineries and vehicles have been erroneously estimated and some machineries were not available at the time of inspection. Further, the bank had not obtained any renewed insurance policy for those machineries. However, no any progress had been observed in debt recovery and the legal actions had not been executed by the Bank against the Company since October 2019.

Thereafter, recovery actions were stalled due to transfer of credit files from Recovery Corporate Division to Business Revival & Rehabilitation Unit on 16 August 2023 as per the request made by the Directors of the Company to revive the business. The company has verbally agreed to submit a fresh proposal to the bank and the bank has transferred credit files from Recovery Corporate Division to Business Revival and Rehabilitation Unit on 16 August 2023 to consider for Business Revival and Rehabilitation process.

The total outstanding payable balance of the customer as at 30 September 2023 was Rs. 718.21 Mn with capital and interest payable balance of Rs Rs.559.80 Mn and Rs. 158.41 Mn respectively. The total outstanding amount of Rs 1,036.35 Mn was secured against mortgage over Machineries, Personal Guarantee, Joint & Several Guarantee, Assignment over Public Quoted Company Shares, Corporate Guarantee, Lease Agreement over Vehicles, Counter Indemnity of the Company, Bills of Exchange, Shipping Documents, Underlying Goods under Bank's Constructive Control and Accepted Usance Draft.

e) Daya Group (Pvt) Ltd

Daya Group (Pvt) Ltd is the holding company of other companies in the Daya group and the company is providing

another Rs. 100.0Mn from Daya Apparel Exports and balance Rs. 250.0Mn from the total credit exposure of Daya Group Limited.

The bank has requested to submit a viable business plan together with additional information and to offer an adequate tangible security to secure the proposed revival package which is in process.

The said above two term Need to loans were granted to follow up restructure the financial recoveries.

managerial and executive supervisory and consultancy services to the companies within the group.

The Bank has granted 02 USD term loans amounting to Rs.1,297.79 Mn, 03 Trust Receipt Loans (Once and for all) amounting to Rs.200 Mn and 01 Overdraft facility during the period of 2017 to 2019 which were transferred to the non performing category during the period of 2019 to 2022.

At the time of granting the USD term loan facilities on 23 June 2017, the Company and two directors were appeared in CRIB according to the CRIB report dated on 13 January 2017. Moreover, the current ratio/liquidity of the company was 0.7 while the current ratio should remain at 1 as per the credit policy of the bank and the Debt Security Covering Ratio (DSCR) was below the acceptable norms. Those were evident that the Company was not performing well at the time of loan granting.

The Company was leased two stores situated at the premises of Singha Lanka Rice (Pvt) Ltd in Katukeliyawa, Diyabeduma for a period of one year from 09 February 2018 and intended to store paddy stock purchased out of the proceeds of the aforesaid loan facilities. However, as per the letter dated 20 April 2018 by AGM North Central Province, informed that there was a dispute between the management of the Singha Lanka Rice (Pvt) Ltd and Daya Group and due to that interruption has been occurred to operations of the rice mill. Thereafter, bank was carried out inspection of paddy stocks at aforesaid premises and observed that existing paddy stock value could not adequate to cover the outstanding exposure of the TR facilities. Therefore, bank has requested a written confirmation on the existing stock position of the TR loans and their settlement plan at that time. Moreover, as per the memorandum dated 30 January 2018, no any monthly inspections had been carried out by the bank. As per the above memorandum, it was mentioned that, in case of failure in acquiring the rice mill, the company would be able to sell stock and settle the bank dues. However the company has settled only Rs.59.2Mn worth of TR Loan facilities out of total facility outstanding of Rs 259.2Mn by selling rice stocks.

Furthermore, it was observed that the financial statements of the company have not been received by the bank after 30 December 2020 and cash flow of the company has not been routed through the bank since 2019. No any progress in debt recovery and the legal actions executed by the Bank against the Company was observed.

The total outstanding balance as at 30 September 2023 was Rs. 1,619.96 Mn with capital and interest balance of Rs. 1,195.79

position of the Daya Apperal Export (Pvt) Ltd by taking over the liability to holding company. At the same time this arrangement was proposed by Daya Group (Pvt) Ltd to attract prospective buyers with sound financial position of Daya Apperal Export (Pvt) Ltd.

After transferring the credit file to BRRU, the company has deposited Rs. 450.0Mn for the partial recovery of the facilities granted to Daya Group Limited, Daya Apparel Exports (DAEPL) and Olympus Construction (OCPL).

Accordingly, BRRU has recovered Rs. 100.0Mn of total credit exposure of Olympus Construction, another Rs. 100.0Mn from Daya Apparel Exports and balance Rs. 250.0Mn from the total credit exposure of Daya Group Limited.

The bank has requested to submit a viable business plan together with additional information and to offer an adequate tangible security to secure the proposed revival package which is in process.

Mn and Rs. 424.17 Mn respectively.

Out of total outstanding, an amount of Rs. 742.62 Mn was secured against assignment over Lease hold rights and interest of land marked lot 3 depicted in Plan No. SNR/2016/3145 dated 19 October 2016 made by Lion S.Nesarajah L.S. within the Urban Council limits of Ampara Situated at Zone H, Ampara Wewgampattu containing in extent A3-R2-P10.80. However, valuation report of the property and renewal of the Comprehensive Insurance Coverage were not available in Security File for audit review. Balance outstanding amount of Rs. 877.34 Mn was secured against Personal and Joint and Several guarantee of its directors. Subsequently, credit files of Daya Group (Pvt) Ltd has been transferred to the Business Revival & Rehabilitation Unit of the bank on 27 February 2023 for reviving and further rehabilitation of the business.

4 **Mihin Lanka (Pvt) Ltd**

The company has experienced financial constraints since its inception due to substantial losses incurred and was operated with assistance from the Government of Sri Lanka. Furthermore, the revival strategy introduced by the government in 2015 was not successful. Later operations (routes and remaining airplanes on lease basis) of the company were given to Sri Lankan Airlines by ceasing the operations in October 2016. The company is currently inoperative and under liquidation.

The Bank had granted 03 loans and 01 Overdraft facility during the period of 2015 to 2016 which were lying under the non-performing category since 03 April 2023.

The Bank has granted a loan facility of Rs.1,650 Mn (Loan Facility No. 78409763) on 31 December 2015 based on the board approval dated 10 December 2015 against the Treasury Comfort Letter at an interest rate of AWPLR + 2.5% p.a. No any board approval has been obtained to reduce the interest rate up to AWPLR+ 2.5% p.a from the originally approved rate of AWPLR+ 3.0% by the Board of Directors.

This loan facility has been approved on pending documentation due to unavailability of two directors since they are overseas at that time and considering the urgency of the requirement. Approval was obtained from the AGM (Corporate Relations) on 31 December 2015 for the same.

As per the Credit Appraisal Memo dated 04 October 2016 submitted based on the Credit Analysis performed, the company was running at a loss since 2011. The negative net worth of the company has increased during the period under review due to continuous losses incurred by the company. Past

The bank has again lodged the claim against the Letter of Comfort by General Treasury on 29.12.2022, followed by three reminders sent on 02.02.2023, 16.03.2023 and 06.10.2023 respectively. Subsequently the General Treasury has extended the validity period of the Letter of Comfort up to 31 December 2024 or until the liquidation process is completed whichever is earlier.

However, currently the aforesaid credit facilities have been categorized as stage III. The total outstanding payable balance of the customer as at 30th April 2024 is Rs.5,146.8Mn including capital and interest balance of Rs.3,135.0 Mn and Rs.2,011.80 Mn respectively. The total outstanding amount of Rs.5,146.8Mn was secured against Letters of Comfort issued by the General

Need to follow up recoveries.

financial statement figures of the company shows, Negative Gross Profit, far below Debt Security Covering Ratio (DSCR) when compare with industry norms, Current Ratio below the industry standards and negative Short Term Debt – Equity Ratio and Total Debt Equity Ratio.

The auditor of the company has indicated material uncertainty and significant doubt of the ability of the company to continue as a going concern.

The Bank has granted another two loan facilities under loan numbers 80022413 and 80139632 of USD 2.5Mn each which have been disbursed after Mihin Lanka ceasing its operations. According to the “Notice of discontinuation” Mihin Lanka has announced the discontinuation of all Mihin Lanka flights and services with effect from 30 October 2016. However the first facility of USD 2.5Mn has been granted on 04 November 2016 and the second facility has been granted on 02 December 2016 to settle the part of the outstanding of the creditors. Furthermore, the bank was aware that Mihin Lanka will be liquidated and operated under Sri Lankan Airline (Pvt) Ltd and same has been considered when approving the facilities. In addition, when granting the above two facilities, the previously granted facility of Rs.1,650 Mn with original tenor of 04 months (period from 31 December 2015 to 31 March 2016) had extended in line with the extension of the validity period of Letter of Comfort given by the General Treasury.

The original repayment period of those facilities were 03 – 10 months (short-term basis) which is in line with the expiry date of Letters of Comfort issued as security for the respective term loans. Thereafter, repayment period was extended in several times with the approval of the Credit Committee and Board of Directors upon receipt of extension for validity period of the Letter of Comfort by the General Treasury. The Board of Directors granted their approval on 04 April 2022 to extend the repayment period up to 31 December 2022 or until the liquidation process is completed whichever is earlier. The bank has lodged the claim with the liquidator on 09 July 2018. Further, the bank has already lodged the claim against the Letter of Comfort by General Treasury on 24 November 2021 and subsequently the General Treasury has extended the validity period of the Letter of Comfort up to 31 December 2022 or until the liquidation process is completed whichever is earlier as follows.

Treasury.

A discussion was requested from the Director General of Department of Public Enterprises to discuss about the settlement arrangement of the facilities granted to Mihin Lanka (Pvt) Ltd by the letter dated 08.08.2024.

Further, a reminder was sent to the General Treasury on 29.08.2024 regarding the claim lodged on the Treasury Guarantee.

The next hearing date of the Winding up case (Case No.4/2018/CO) at Court will be on 29.11.2024 for consideration of liquidator’s report. The liquidator had submitted his report to the court on 27.09.2024.

Letter of Comfort No.	Value		Date Issued	Date Renewed	Date of expiry
	US D Mn	Rs. Mn			
TO/REV/L C/495/8		1,650	28.07.2015	10.12.2021	31.12.2022 or until the liquidation process is completed, whichever comes first
TO/REV/L C/460/19	2.5		28.07.2015		
TO/REV/L C/482/15	2.5		07.10.2016		

However, the aforesaid credit facilities have been categorized as non-performing at present. The total outstanding payable balance of the customer as at 30 September 2023 was Rs.4,753.62 Mn including capital and interest balance of Rs.3,272.30 Mn and Rs.1,481.32 Mn respectively. The total loan outstanding amount of Rs.4,753.46 Mn was secured against Letter of Comforts issued by the General Treasury. Out of the total outstanding amount, Rs.0.16 Mn represents Over Draft balance of the Current account No. 5843011.

5 W M Mendis & Company Limited

The company was incorporated in 1947 and involves in distilling and manufacturing Coconut and Blended Arrack Products and manufacture of Ethanol. The bank has granted five rescheduled credit facilities amounting to Rs.2,055 Mn, Rs.240 Mn, Rs.500 Mn, Rs.32.58 Mn and Rs.1,398.2 Mn respectively for capitalizing of capital and interest outstanding of credit facilities which were granted in October 2016 with the approval of Board of Directors on 07 September 2016. Those facilities remain in Non - performing category since 2018.

The original credit package which was granted in 2016 to settle the outstanding balances at Pan Asia Bank was transferred to non performing category in January 2018 due to the CBSL bond scam chargers over Perpetual Treasuries. Then the current accounts of the company have been frozen on 01 January 2018 the Director of the Company was arrested in February 2018 and liquor production license was cancelled by the Department of Excise. The Company has reobtained liquor license on 27 April 2018 and recommenced liquor production at the beginning of May 2018. Again the blending license and liquor manufacturing license was cancelled by the Department of Excise in 2020.

At the time of granting initial credit facilities in 2016, the bank considered liquor stock as the security and later in 2020 it has lifted due to inability of considering as security since not being

Approval of the Board of Directors dated 31.03.2023 has been obtained to reschedule the total credit portfolio against existing securities and to grant fresh Letter of Credit/ Bill Acceptance / Series of loan limit of Rs 110.0M on once and for all basis to import dryer tube bundle (a part of machinery) required to run the ethanol manufacturing operation on continues basis. This facility has been approved in view of business revival of the company and repayment has been structured on staggered capital payment method with a 4 months grace period until new machine part is imported and fixed in the Kalkuda Factory. Reschedule facilities were

a gilt edged government security where title can be transferred easily and value can be realized speedily.

Risk rating has not been done for the company since 2019 due to non-availability of Audited Financials of the company. Chief Risk Officer (CRO) of the bank has imposed a condition on 23 March 2023 to obtain Audited Financial Statements for latest year 2021/2022 on or before 31 May 2023 and also to obtain previous financials for 2019/20, 2020/2021 and update the ratings accordingly. However the bank has not obtained above financials and updated risk rating accordingly. Nevertheless, bank had rescheduled the facilities based on old risk rating without complying with the said condition. As per the section 6.1.8 of Corporate Credit Policy Manual 2023/2024, realizable book debts (generally less than three months) outstanding due from reputed customers, relating to trading transactions can be taken, to be assigned to the Bank by nocturnally executed bond subject to bank's review at least quarterly to verify acceptability of security. However, the bank has not complied with the said condition too at the time of rescheduling of the facilities and thereafter.

As per Section 6.3 of Corporate Credit Policy Manual 2023/2024, unsecured facilities shall not be granted to customers rated "C" and below. In case of customers classified under "AAA – BB", only the unsecured facilities can be considered. However, it was difficult to apply that condition to the company due to unavailability of updated risk rating. Further as per the CRO's comment on facility rescheduled on 23 March 2023, a fair share of cash flows should be routed through the Bank. . However, the Board of Directors granted its approval to exclude the said condition due to Standard Chartered Bank and Peoples Bank may get court order by preventing routing cash flows through the Bank in order to recover their dues.

The total Non-Performing balance of the customer as at 30 September 2023 was Rs. 4,435.24 Mn with capital and interest payable balance of Rs. 4,225.75 Mn and Rs.209.49 Mn respectively.

Out of the total outstanding, Rs. 4,435 Mn was secured against the immovable property situated at No. 309/5 and 309/5A, Colombo Road, Welisara (3A.3R.1.66P) which has a forced sale value of Rs.625 Mn and MV of Rs.744.5 Mn (VRP on 28/05/2023). Board approval has been granted to consider 100 percent rate of advance from the Market Value of the property by deviating the standard norm of 60 per cent from Forced Sales Value (FSV) placed by Valuation Review Panle (VRP). It was observed that the forced sale value of the mortgaged

granted on June 2023. However, arrival of machine and fixing it in the factory premises got delayed unexpectedly due to adverse weather conditions and various other reasons explained by the customer. Dryer tube bundle is in operation since February 2024. Currently by product is selling to poultry industry. However, as expected the ethanol production is not running on continues basis. The reschedule loans have not been serviced on regular basis. However, company is in the process of improving their revenues and approximately more than 80% cash flow has been routed through BOC at present.

Company could enhance their monthly cash flow from zero up to Rs 660.0M from September 2022 to date. Although a monthly average cash flow of Rs 660.0M is being routed to our A/Cs within last six months, more than 55% of payments have been utilized to pay excise duty and IRD payments in view of securing the liquor license to continue the business without hindrance. Hence, company requested only to recovery minimum portion for reschedule loans until their sale is picked up to considerable level as their working capital requirement is being currently funded

property represents only 14 per cent of the total outstanding. The company has not taken necessary arrangement to settle existing dues as agreed as at 04 March 2024.

through their business cash flows. Company has settled the once off series of loan facility of Rs 110.0M by February 2024 from the sales proceeds received through our A/Cs.

Currently, the bank is recovering Rs 45.0 - 47.0M (Monthly requirement for loans – Rs 60.0M) per month and company agreed to enhance the recovery up to required level by December 2024.

6 K D Ebert & Sons Holdings (Private)

The Company is mainly engaged in the construction sector especially in construction of highways, bridges, civil construction and water supply projects. The Bank had granted loan facilities to the aforesaid customer to carry out its business and out of them 10 numbers of facilities were recorded as NPA as at 30 September 2023.

From time to time, the bank has rescheduled the NPA facilities and customer had not paid the outstanding as agreed. Accordingly, credit files of the company had been transferred to the Business Revival & Rehabilitation unit which establishes to revive the problematic customers with their businesses. Hence bank had rescheduled existing 88 numbers of NPA facilities aggregated to Rs. 2,680.69 Mn under the new revival plan based on Board approval dated 18 March 2021. Accordingly, bank had proposed a revival package of Rs.13,540.3 Mn (Including existing NPA facilities and fresh facilities) under the revival plan (Direct facilities Rs.6,540.3Mn and Indirect facilities Rs.7,000Mn). Furthermore, the bank has waived off the interest of Rs.20.39 Mn relating to a one loan bearing loan number 80204623 and waived off future interest of Rs.310,150.63 against a leasing facility bearing number 66000201600061800 under the revival plan. Subsequently, Board had granted approval as per the Board Minute No. 2.8 on 11 July 2023 for extending the maturity period of 57 loans aggregating to Rs.700 Mn by further nine months up to 31 December 2023 (Total extended period was 21 months) and amending the payment schedule to settle the capital and interest at the last installment of loans granted to KDESH and waving off late/penal interest up to the

At the time of obtaining the approval of the Board of Directors for reschedule the previous non-performing loans, obtained the approval from Board of Directors to consider 100% rate of advance against market value of all properties placed by Bank's Panel Valuer when deciding the quantum of advance.

Bank has considered K D Ebert & Sons Holdings (Pvt) Ltd (KDESH) for revival purpose in 2021 and revival package has been approved by the Board of Directors meeting held on 21.03.2021. Under the revival package the Bank has rescheduled capital outstanding of Rs 2,740.0 Mn and accrued interest of Rs 1,134.0 Mn while waiving off of Rs 20.39 Mn of accrued interest which was 1.08% of total accrued interest as at date of implementation of reschedulement.

Need to follow up recoveries.

date of implementation of extension and deferments.

However, expected cash flows had not occurred as anticipated and currently the aforesaid credit facilities have been categorized as non-performing. The total outstanding payable balance of the Non-performing facilities as at 30 September 2023 was Rs.4,239.55 Mn including capital and interest payable balance of Rs.3,538.75Mn and Rs.700.8Mn respectively.

Out of total outstanding amount, Rs.1,213 million was secured against commercial properties situated at Pannipitiya village, “Metyagane, Mutugala & Kossure” villages, Kotalawala, Pelenwatta village, Colombo 8, Homagama, Udahamulla and Maradana which have total forced sale value of Rs. 844.5 million, as per the valuation reports obtained in several dates during year 2021. The total outstanding represents 143.6% of the total forced sales value of the mortgaged properties. In addition, an amount of Rs.1,786.51 million was secured against vehicles & machineries which have total forced sale value of Rs.2,096 Mn, as per the valuation report obtained as at 31 May 2021. The total outstanding represents 85.2% of the forced sales value of the vehicles & machineries. The remaining NPA balance of Rs.1,240 Mn, which represents 29% of the total NPA balance was secured against Personal and Director guarantees.

7 Sintesi Limited

The Company is mainly engaged in the apparel industry. Initially Sintesi Limited operated as a joint venture of Brandix Lanka Ltd and in 2009 Brandix has withdrawn their shareholdings. With the inability to service the bank’s liability, the company confirmed about ceasing of its operations in 2016. Six credit facilities including term loans and rescheduled facilities denominated in USD and 02 temporary overdraft facilities were granted by Offshores Banking Division during the period of 2007 to 2017 which were lying under the non performing category on 04 August 2020. The bank experienced in extending of repayment periods, rescheduling and restructuring of existing credit facilities, converting overdraft to loan facilities, waiving off the interest/penal interest accrued/ late payment fee from 2016 to the date of NPA. However the total loan exposure of the company has been gradually increased and the repayment of facilities has been decreased over that period.

Subsequently, Board of Directors of the bank granted an approval on 01 March 2017 (01.03.2017/2.15) for the

The facilities granted as per the BOD approval dated 01/03/2017 (01.03.2017/2.15) under reschedule loan amounting to USD 6.752 million were as follows:

- i. Term Loan – (Original Approved Amount USD 1M granted on 08.08.2011)
- ii. Term Loan – (Original Approved amount USD 1.7M on 08.08.2011)
- iii. Term Loan – (Original Approved Amount USD 1M granted on 27.11.2015)
- iv. Hypothecation Loan Facility Sub Limit of LC facility of USD 4M

Need to follow up recoveries.

followings;

- To grant a reschedule loan amounting to USD 6.752 million for following outstanding facilities by keeping loan agreement as a security rather taking more strong collateral as security while the bank experienced credit default from the customer.

Facilities

- i) Term Loan – USD 3.1 Mn (granted on 02.10.2007)
 - ii) Term Loan – USD 0.324 Mn (Granted on 23.03.2009)
 - iii) Term Loan USD 1.3 Mn (Granted on 08.08.2011)
 - iv) LC (Sight/Term) / Acceptance USD 4.0 Mn
 - v) Hypothecation Loan (Sub limit of above 4) - USD 4.0Mn
 - vi) Export Bill Negotiation - USD 0.1 Mn
- To waive off the interest/penal interest accrued (USD 150,760 approx. as at 31.01.2017) and to be accrued of Term Loans, Hypothecation loans, Invoice Discounting and Overdraft facilities until granted of reschedule term loan.

The total outstanding payable balance of the customer as at 30 September 2023 was Rs.3,806.41 million including capital and interest payable balance of Rs.3,483.25 million and Rs.323.16 million respectively. Out of total outstanding amount, Rs. 805.48 million relating to one loan was secured against immovable property situated at No.606B, Sri Sumanathissa Mawatha, Nawagamawa, Ranala (9A.1R.17P) which has a forced sale value of Rs.630 million. The forced sales value of the mortgaged property represents 78 per cent of the corresponding mortgaged loan value and 16.55 per cent of the total outstanding balance respectively. The Board of Directors of the Bank has approved to sell the property by public auction (Board Minute No: 04.03.2021/8.1) and auctioned on 01 June 2023. The property was devolved to the bank. It was advertised again to sell the property and only one bid received from Quantum Clothing Lanka (Pvt) Ltd (a venture of Brandix Lanka Ltd) for a value of USD 4.25 million. The bidder was informed to make the initial agreed advance payment of USD 2.5 million as per the agreed settlement plan. However the bidder being an offshore account holder of HSBC was unable to transfer the USD to Bank of Ceylon due to the reason that underlying transaction would be affected to their export proceeds. Therefore the bank and bidder concluded to settle the transaction in Sri Lankan Rupee at a currency conversion equivalent to USD 4.25 million.

(Originally approved amount of USD 4M)

- v. Invoice Discounting facility sub limit of Hypothecation loan facility of USD 4M (Originally approved facility of USD 500,000/-)
- vi. Hypothecation Loan Facility (Originally approved limit of USD 650,000)
- vii. Hypothecation Loan Facility (Originally approved limit of USD 150,000)

viii. Standby Overdraft facility (Originally approved limit of Rs.26.58Mn)

ix. Temporary Overdraft facility of USD 188,000

According to the payment plan of the sold property, the second payment was received without any delay even though the 1st payment was delayed.

Even though there is an excess amount of Rs.563.75 Mn (Approx) from the sale proceeds of the devolved property, as per the Foreclosed Property Disposal Policy of the bank and the legal advice, the excess should be deposited in the relevant Courts until the judgment is delivered for the unsecured facilities.

The bank is seeking the possibility of taking a sequestration order to keep the excess funds within the bank from the resale of the

The Director of Bank Supervision, of the Central Bank of Sri Lanka, granted approval on 05 December 2023 to recover USD facilities of Sintesi Limited in LKR terms, subject to following conditions. -

1. The Bidder should pay the equivalent of 50 per cent of agreed purchase price as an advance payment, soon after the Bank informs that the offer is being considered.
2. The bidder should pay and settle the balance purchase price within the stipulated period decided by the Bank, once the necessary approvals have been granted by the relevant authorities.

Later, the payment plan was approved by the Board of Directors on 18 October 2023 (Board Minute No: 18.10.2023/7.2). The approved payment plan and payment received from Quantum Clothing Lanka (Private) Limited are given below.

Total Bid Value USD 4.25 Mn

Board Approved Payment Plan			Actual Receipt Details		
Upfront payment immediately	USD 2.5 Mn	Within 7 days from Board Approval	Rs.825 Mn received on 08.12.2023		
In Three months	USD 0.875Mn	Within 3 months from 1 st payment	Rs.281.75 Mn received on 26.01.2024		
In Six months	USD 0.875Mn	Within 6 months from 1 st payment	Payment pending		

According to the settlement plan, 1st and 2nd payments were received by the bank with some delays. The outstanding of the relevant loan was settled from the payment received and the balance of Rs. 283.75 million was transferred to Suspense Account Loan –LKR (Ledger Code: 22310014).

Out of the total outstanding as at 30 September 2023, Rs.2,858.54 million was remained in outstanding as at 29 February 2024 after settling a balance from the sales proceed received. The bank could settle another Rs. 563.75 Million (pending payment of Rs. 280 Mn and balance of Rs. 283.75 Mn lying in the suspense account) from the total outstanding and hence the possible loss to the bank approximately will be Rs. 2,294.79 million.

Furthermore, the bank has filed money recovery cases against Sintesi Limited and the Guarantors in respect of following facilities and details of cases are as follows.

devolved property until the judgement is delivered for the case number CHC152/2022MR (Next hearing date 27.01.2025).

Cases filed by the bank:

CHC 151/2022/MR - Next Hearing Date - 07.03.2024 (Steps and Moved)

CHC 153/2022/MR - Next Hearing Date - 16.10.2024

1. Term Loan Facility of USD 3.1 Mn and USD 0.324 Mn – Case No. CHC151/2022/MR against the company.
2. Rescheduled Term Loan of USD 6.752 Mn, Case No. CHC152/2022/MR against the company
3. Term Loan of USD 0.997 Mn and term loan of USD 0.4 Mn - Case No. CHC153/2022/MR – against the Company and Guarantor (Mr. Kaushal Duminda Yahampath)

8 Almar Trading Company (Pvt) Ltd and Almar Teas (Pvt) Ltd

a) Almar Trading Co(Pvt)Ltd

The company was incorporated in 1993 and mainly engaged in direct export of natural rubber. The corporate division of the bank has granted four credit facilities denominated in USD including 01 Term Loan amounting to USD 5.5 Mn, 02 Reschedule facilities amounting to USD 1.5 Mn & USD 0.15 Mn respectively and 01 Short-Term facility amounting to USD 1.819 Mn during the period from 2015 to 2020 which were transferred to the non performing category on 30 April 2021 and 17 October 2021 respectively.

The bank has experienced in converting short term credit facilities to Term Loans, granting grace period, extensions of repayment period, restructures and reschedule of credit facilities and granting credit moratorium from 2015 to the date of NPA.

The company did not remit significant cash flow to the bank as agreed due to incurring huge losses since financial year 2011/12 resulting from excessive bank borrowings, diverted funds to various investments such as invest in share market & to purchase assets, not operating their business under the company and operate rubber trading business through their sister company named Almar International (Pvt) Ltd, selling their properties as agreed and unable to raise additional capital as agreed.

As per the available financials of the company as at 31 March 2020, the auditors have express an Adverse Opinion based on matters relating to the Consolidated Financial Statements, Property Plant & Equipment and Going Concern of the Company. Further, the Company has incurred huge losses since financial year 2011/12 and it has showed gradual increase in negative Net Profit and negative Tangible Net Worth from 2013/14 to 2019/20. Furthermore, total Assets has reduced from Rs. 2,692Mn to Rs.759Mn during 2013/14-2019/20 and Risk Rating of the company has been decreased from “C” to “D” category from 2014 to 2020.

The bank has granted four credit facilities denominated in USD including 01 Term Loan amounting to USD 5.5 Mn, 02 Reschedule facilities amounting to USD 1.5 Mn & USD 0.15 Mn respectively and 01 Short-Term facility amounting to USD 1.819 Mn by the Corporate Branch.

Considering the financial difficulties faced by the company, the bank has granted grace period, credit moratorium, extensions of repayment period, restructures and reschedule of credit facilities.

The Bank has granted credit facilities to the corporate customers by evaluating the first way out (Cash flow basis). However, the Bank is able to securitized credit facilities with bank acceptable securities such as Corporate Guarantee of Almar Teas (Pvt) Ltd, Joint & Several Guarantee of the Directors of the company, Negative Pledge over assets of the company and Floating mortgage over stocks under customer’s control and book debts.

Letters of demand has been

Need to follow up recoveries.

The total outstanding balance of the customer as at 30 September 2023 was Rs. 2,476.83 Mn with total capital and interest balance of Rs.2,038.86 Mn and Rs.437.97 Mn respectively. The total Non-Performing balance was secured against Corporate Guarantee of Almar Teas (Pvt) Ltd, Joint & Several Guarantee of the Directors of the company, Negative Pledge over assets of the company and Floating mortgage over stocks under customer's control and book debts.

Accordingly, it was observed that the bank has approved & granted the aforesaid loan facilities on unsecured collateral basis and bank has currently exposed to a high risk of default.

The Letter of demand has been sent for all Non-Performing credit facilities on 15 December 2022 and the Counselor has been appointed for legal documentation.

b) Almar Teas (Pvt) Ltd

The company was incorporated in 2005 and mainly engaged in direct export of tea. The bank has granted 05 credit facilities including one Tem Loan amounting to Rs. 400 Mn, one Reschedule Facility amounting to Rs.50 Mn, one Moratorium Loan amounting to Rs. 18.627 Mn, two Enhancement Packing Credit Facility (Revolving) of Rs.500 Mn and USD 3,820 during the period from 2012 to 2021 and those were transferred to the non performing category from April 2021 to 2022.

The bank experienced in granting several concessions to the company including debt moratoriums, interest concessions, extensions of repayment period and rescheduling with the intension of easing the financial burden on customer upto the date of NPA. The company did not remit significant cash flows to the bank as agreed due to diversion of funds to other companies of the Group and not generating sufficient cash.

As per the available financials of the company, the auditor has expressed a disclaimed opinion on the Financial Statements as at 31 March 2020 and company showed gradual increase in negative Net Profit and Negative Net Working Capital from 2016/17 to 2019/20. Total Assets have been reduced from Rs.2,184 Mn to Rs.1,546 Mn during 2015/16 to 2019/20. Furthermore, Audited Financial Statements of 2019/20 indicated negative figures such as Debt/Equity, Debt Service Coverage Ratio, Interest Coverage Ratio and EPS. As well as Risk Rating of the company has decreased from "C" to "D" category from 2012 to 2021.

The total outstanding balance of the customer as at 30 September 2023 was Rs. 1,124.08 Mn with capital and interest balance of Rs. 857.31 Mn and Rs.266.77 Mn respectively. The total Non-Performing loans were secured by Mortgage over

sent for all Non-Performing credit facilities and Case filed for the facility of USD 5.5Mn and Counsel has been appointed for filing cases under Debt recovery action against other loan facilities.

Plaints are being preparing to file cases for the other facilities.

Parate actions to be initiated for the Permanent Overdraft facility.

The company was one of the leading tea exporters of the country. It is not uncommon for the bank to consider credit facilities to fund the working capital based on the cash flow of the business.

It is not realistic to expect collateral from leading exporters in granting credit facilities for working capital requirements.

The Letter of demand has been sent for all Non-Performing credit facilities and Counsel has been appointed for filing cases under Debt recovery/money recovery action against facilities.

Plaints are being preparing to file cases.

Need to follow up recoveries.

Stocks, Joint & Several Guarantee of the Directors of the company and Corporate Guarantee of the Almar International (Pvt)Limited

The Bank is holding margin of USD 46,573.36 equivalent to Rs.14.903 Mn (1USD @ Rs.320/=) as at 30 September 2023 in savings AC No. 2490849 and it has been suspended by the Bank. Letter of Demand sent for all Non – Performing facilities and documents submitted for the case filing.

It was observed that the Bank has approved and granted aforesaid loan facilities on unsecured collaterals. Thereby the customer has defaulted the loan facilities.

9 CML Group

a) CML-MTD Construction Limited

CML-MTD Construction Ltd is a limited liability company engaged in construction of roads, highways, bridges, port development and other civil and general contracts.

The Bank has granted 15 numbers of loans aggregating to Rs.693.18 Mn, an overdraft facility amounting to Rs. 150 Mn and a leasing facility amounting to Rs.21.15 Mn during the period of 2011 – 2018 which were lying under the non performing category as at 30 September 2023. The main facility of Rs.168 Mn has been granted on 28 June 2018 and transferred to non performing category on 28 May 2019. The other facilities were transferred to non performing category during the period of 2019 to 2021. The bank has granted extension of maturity dates continuously up to the date of NPA.

The bank has obtained approval of the Credit Committee to extend the maturity dates relating to Bills Discounting facilities of Rs. 796.7 Mn further from two to five months although the Risk Rating of the company has been decreased from B to C category from 2018 to 2019.

As per the Section 8.1.(i) & (ii) of Corporate Credit Policy Manual, a detailed- credit analysis should be done for all customers annually or semi-annually if the credit rating is “B” and below, and assess the credit quality of the assigned customers through the quarterly classification process, quarterly customer visit etc. However, customer visit reports were not available for audit review.

The total outstanding balance of the customer as at 30 September 2023 was Rs.1,601.48 Mn including capital and interest balance of Rs.860.35 Mn and Rs.741.13 Mn respectively. Out of total outstanding, Rs. 1,583.26 Mn was secured against the Corporate Guarantee of MTD walkers PLC and the leasing facility of Rs.18.22 Mn was secured against the

The Bank has considered the credit package to CML MTD Construction Limited as it was a leading construction company during the period of granting the facilities. Though, the entire construction industry was adversely affected by the economic downturn and therefore, transferred the facilities granted to this company to Non-Performing category.

The CML MTD Construction Limited is currently under liquidation and the Bank has lodged the claims for the case No. 32/2019 on 10.08.2023. The next hearing date of the court case No.32/2019 will be on 21/11/2024.

Need to follow up recoveries.

mortgage over the Leased Asset.

The company is under winding-up order of Commercial High Court of Colombo under Case No. HC (civil) 32/2019/Co and the bank has already lodged the claim for the total liabilities obtained by the company. A new liquidator has been appointed in respect of the above matter on 10 May 2023 and the bank is in the process of lodge the claims with the new liquidator. The above case has been fixed for 28 March 2024 for obligations of the liquidator in respect of an application made by the Sampath Bank.

b) MTD Walkers PLC

The Company engaged in managing a portfolio of investments in the civil and mechanical engineering, marine engineering, heavy and light machinery trading, real estate and power generation industries.

The Bank has granted a Permanent Overdraft Facility (POD) of Rs. 50 Mn for the purpose of group working capital requirement on 26 October 2016. According to the special condition mentioned in the overdraft agreement dated 01 December 2016, the overdraft limit has been reduced monthly by Rs. 1.0 Mn up to 13 June 2019 (29 months). Therefore, the total limit has been decreased up to Rs. 21 Mn. Further another temporary over draft facility had been granted on the current account No. 79257442 amounting to Rs.6.59 Mn without getting prior approval. Out of total outstanding, Rs.21Mn was secured against the overdraft agreement and the other is on clean basis. Accordingly, recoverability of the outstanding balance is doubtful since the facilities were not secured against strong collaterals.

A detailed- credit analysis has not been performed and customer visit reports were not available for audit review.

As per the special conditions No (d) in the offer letter, the customer was unable to submit copies of Auditors confidential reports to the company audited balance sheets and other relevant financial information and monthly management accounts that the company may receive from time to time.

As per the Memorandum to the Board dated 30 November 2022, it was recommended to continue with the case No. HC. Civil 143/2019/MR filed against transferring 100 per cent of the shares held by MTD Walkers PLC in Walkers Shipyard Limited, Northern Power Company (Private) Limited and Colombo Fort Heritage Company (Pvt) Limited to MTD Capital Berhard for a purchase consideration of USD 19,098,760.83.

MTD Walkers PLC was a pioneer in the engineering and infrastructure industry and was one of the oldest companies in Sri Lanka at the time of granting the facilities. With the working capital issues, facilities were transferred to the Non-performing category. Need to follow up recoveries.

The company is currently under liquidation. The Bank will lodge the claims once the liquidator is appointed. Next hearing Date is 30.10.2024

c) Walkers Equipment Limited

Walkers Equipment (Pvt) Ltd is a subsidiary of MTD Walkers PLC and incorporated in 2015 as infrastructure development support business and involved in import, distribution and maintenance of infrastructure development related products.

The Bank has granted package of credit facilities such as Hypothecation Loan (Revolving) facility with limit of Rs.200Mn, Overdraft facility limit of Rs. 25 Mn and Bills of Acceptance facilities amounting to Rs.40.57 Mn during the period of 2016 to 2018 which were lying under the non performing category as at 30 September 2023. The facilities were transferred to the non performing category during the period of 2018 to 2022. The bank has granted extension of maturity dates continuously up to the date of transferring to NPA.

The total outstanding payable balance of the customer as at 30 September 2023 was Rs. 287.73 Mn with total capital and interest balance of Rs.136.35 Mn and Rs.151.38 Mn respectively.

Out of total outstanding balance, only Rs.75.56 Mn was secured against the Corporate Guarantee of MTD Walkers PLC and remaining balance of Rs.212.17 Mn was granted on clean basis. The recoverability of the outstanding is doubtful since the bigger portion of outstanding balance was not secured and remaining balance was secured against weak collaterals.

A detailed- credit analysis has not been performed and customer visit reports were not available for audit review.

As per the special conditions no (d) in the offer letter the customer was unable to submit copies of Auditors confidential reports to the company audited balance sheets and other relevant financial information and monthly management accounts after 2018.

No any legal action has been taken for these facilities after the date of transferring to the NPA category.

d) Walkers Sons & Company Engineers (Pvt) Ltd

The Company was incorporated in 1992 to handle and execute engineering projects in the country. The company is a subsidiary of MTD Walkers PLC.

The Bank has granted 33 numbers of USD denominated loans and two Overdraft facilities during the period of 2016 to 2018 which were lying under the non performing category as at 30 September 2023. These facilities were transferred to non performing category during the year 2019.

The bank has granted extension of maturity dates continuously up to the date of transferring into NPA. The bank has obtained

The Walkers Equipment Limited was engaged in infrastructure support service and had franchisee rights with reputed brand names at the time of granting the facilities. The credit facilities were transferred to non-performing category mainly due to adverse economy prevailed in the country.

The Bank sent Letter of Demand on 11.03.2024 and instructed the Legal Unit to proceed with the legal actions.

Need to follow up recoveries.

At the time of considering the credit package for the Walkers Sons and Company Engineers (Pvt) Ltd by the Bank, it was a leading engineering company which mainly handled constructions of tea factories, supply and installation of Monorail Conveyer System etc. This is

Need to follow up recoveries.

approval of the Credit Committee to extend the repayment period of USD denominated loans amounting to USD 1.42 Mn and the maturity period of the overdraft facility of Rs. 100 Mn despite the CRO's comment of "extensions did not match with the cash flow and that extension was not a good proposal".

The total outstanding payable balance of the customer as at 30 September 2023 was Rs.1, 119.03 Mn with total capital and interest balance of Rs.544.92 Mn and Rs.574.11 Mn respectively.

Out of total outstanding, an amount of Rs.1, 103.35 Mn was secured against the Corporate Guarantee of MTD walkers PLC and the other facilities outstanding of Rs. 15.68 Mn was granted on clean basis. However, recoverability of the outstanding balance is doubtful since the facilities were not secured against strong collaterals.

A detailed- credit analysis has not been performed and customer visit reports were not available for audit review.

As per the special conditions no (d) in the offer letter, the customer was unable to submit copies of Auditors confidential reports to the company audited balance sheets and other relevant financial information and monthly management accounts after 2017.

Winding Up case application No: CHC 95/2018/CO was dismissed by the Commercial High Court by 24 February 2022 and further the leave to Appeal Application bearing No: SC/HC/LA/21/2022 filled by the petitioner against the said order was also dismissed by the Supreme Court on 19 May 2022. After that any recovery actions taken was not noticed up to the date of 07 March 2024.

e) Northern Power Company (Pvt) Ltd

The Company is a subsidiary of MTD Walkers PLC which was engaged in operating power plant in Chunnakam. During its operations, the power plant had faced a number of legal cases due to the alleged contamination of water resources in the region.

The Corporate division of the bank has granted a Letter of Credit (Revolving) facility of Rs. 263.52 Mn and over draft facilities of Rs.10.82 Mn to the aforesaid company during the period of 2015 – 2020 which were lying under the non performing category as at 30 September 2023. These facilities were transferred to non performing category during the period of 2019 – 2022. The bank has granted extension of maturity dates continuously up to the date of transferring to NPA category.

The total outstanding payable balance of the customer as at 30

a subsidiary of MTD Walkers PLC.

However, the facilities have been transferred to non-performing category mainly due to adverse economy prevailed in the country.

The Bank sent Letter of Demand on 12.03.2024 and instructed the Legal Unit to proceed with the legal actions.

Northern Power Company (Pvt) Ltd was an independent power producer from 2009. The operations of the power plant were suspended due to a court order issued. The Supreme Court ordered in 04.04.2019 for the company to pay compensation of Rs.20Mn to residents who were affected and to continue the operations. Since facilities were transferred to non-performing section, the bank has initiated recovery actions Need to follow up recoveries.

September 2023 was Rs.517.98 Mn with capital and interest payable of Rs.232.28 Mn and Rs.285.70 Mn respectively.

Out of total outstanding amount, Rs.493.30 Mn was secured against the Corporate Guarantee of MTD Walkers PLC and the balance of Rs.24.68 Mn was granted on clean basis. However, the recoverability of the outstanding is doubtful since the facilities were not secured against strong collaterals.

A detailed- credit analysis has not been performed and customer visit reports after 22 August 2014 were not available for audit review

As per the Credit Committee Memorandum dated 02 September 2019, it has granted approval to start the debt recovery actions against Northern Power Company (pvt) Ltd.

However, debt recovery action has not been taken against the company up to the date of review on 06 March 2024 and instead of that some correspondences were exchanged between Senior Manager - Recovery Corporate and Chief Legal Officer – Recovery Corporate of the bank.

against the company. Plaint drafted and case will be filed in due course.

f) Walkers Colombo Shipyard (Pvt) Ltd

Walkers Colombo Shipyard (WCS) is a fully integrated shipyard company which provides turnkey ship /vessel repair, building a wide spectrum of ships & vessels & other marine engineering services to the ships and vessels in Indian Ocean ship route with the emphasis on quality, reliability and quick turnaround time for national and international clients.

The Bank has granted two leasing facilities amounting to Rs.16 Mn in year 2016 which were lying under non performing category as at 30 September 2023. These facilities were transferred to non performing category during the year 2020 and transferred to Recovery Corporate Division in year 2021.

The total outstanding payable balance of the customer as at 30 September 2023 was Rs.10.00 Mn with total capital and interest balance of Rs. 8.66 Mn and Rs.1.34 Mn respectively.

Out of total outstanding amount, Rs.9.98 Mn was secured against the Assignment over Leased Assets.

As per the Section 20 of the Official Instructions Circular No. 29/2020, each leased asset should be inspected quarterly, by the Branch Manager or an Authorized officer of the Branch Manager with other responsible officer, during the tenure of the lease facility Further as per section 15.2 of the Special Conditions of the Memorandum (LAM) for Lease Facility Approval, Facility should monitor very closely and should inspect at least once in three months after the initial inspection

Considering the credit Need to worthiness and the follow up relationship with the recoveries.

Walkers Group, the bank has granted the facilities to the Walkers Colombo Shipyard (Pvt) Ltd.

Recovery actions have been duly initiated and the bank has issued the Seizing order on 11.09.2023.

which should be performed within a week from the date of purchase. However, the quarterly Inspection Reports were not available in the file for audit review. As per the memorandum to the Deputy General Manager (Recovery Corporate) dated 04 March 2024, approval was sought to accept Rs.4.24 Mn as the full and final settlement of a leasing facility against outstanding amount of Rs.4.33 Mn. Other leasing facility is to be settled.

10 Tri Star Apparel Exports (Pvt) Ltd

The Offshore Banking division of the Bank has granted 02 USD syndicate loan facilities (with consortium of Banks comprising Bank of Ceylon – 40 per cent, People’s Bank – 20 per cent , Hatton National Bank Limited – 26.68 per cent and Sampath Bank – 13.32 per cent) and 75 numbers of hypothecation sub loans and one overdraft facility to Tri Star Apparel Exports (Pvt) Ltd during the period from 1997 - 2007 which were transferred to the non performing category during the period of 2007 to 2012.

Originally the Syndicate Loan to Tri Star Apparel Exports (Pvt) Ltd was USD 7.5 Mn repayable in 36 installments at an interest rate of 3.75 per cent over 6 months US LIBOR. The lead managed by Hatton National Bank, Standard Chartered Bank and Sampath Bank, where a Bank of Ceylon’s participation was USD 2.5 million. Later the company was appealed to repay loan in 60 installments with 6 months grace period. However, the syndicate lenders extended the repayment period of loan to 48 months without grace period at an interest rate of 3.75 per cent over 6 months US LIBOR with a minimum of 9.5 per cent per annum. The loan was granted to repay all outstanding at National Development Bank (NDB), DFCC Bank & Merchant Bank of Sri Lanka and Finance PLC (MBSL) together with interest and to pay EPF & ETF arrears and settlement of overdue of People’s Bank.

Even though board approved interest rate was 3.75 per cent over 6 months US LIBOR with a minimum of 9.5 per cent per annum, the bank has maintained fixed rate of 8 per cent per annum over the period.

Subsequently Standard Chartered Bank informed their decision of not to participate to syndicate facility due to following reasons and Peoples Bank contributed for the said portion.

1. Uncertainty with regard to the future of SR Gent PLC, who is a shareholder/collaborator of Tri Star Apparel Exports (Pvt) Ltd.
2. Lack of confidence in the management of Tri Star “B” group factories.

Tri Star Apparel Exports (Pvt) Ltd was a leading apparel export company operated under the BOI approval. Facilities were granted after proper evaluation and subsequently they were transferred to the NPA category in 1998.

Recovery actions had been taken for the each and every facilities by way of taking legal actions and execution of Parate rights.

The scheduled auction for the property situated at No. 02, 2nd Lane, Off Maligawa Road, Nelumpura, Ratmalana was temporary suspended upon the application made by unauthorized person residing the said premises. Parate actions to be continued after the finalizing the said matter.

Need to follow up recoveries.

3. Unsatisfactory position regarding security documentation. Syndicate Loan I of USD 1.52 million was secured against mortgage over 8 freehold properties and Syndicate Loan II of USD 0.96 million was secured against 8 Leasehold Properties. At the time of syndicate loan granting following three Mortgage Bonds were executed and details are as follows.

Security Type	Bond Value (USD Mn)	Net Book Value of the Property in USD (1 \$ = Rs.58)
Freehold Properties (8 properties)	3.6	2.68
Leasehold Properties (8 Properties)	2.1	1.36
Machinery	1.3	4.29
Total	7.5	8.33

At the time of loan granting, Sampath Bank and Hatton National Bank indicated insufficiency of security position and requested from the company to bring more securities. However, no more additional securities provided by the company and facilities were granted against 100 per cent book value of the collaterals.

The total outstanding payable balance of the customer as at 30 September 2023 was Rs.3,426.98 Mn with capital and interest payable balance of Rs.833.30 Mn and Rs.2,593.68 Mn respectively.

Out of 16 mortgage properties, 3 freehold properties and 1 leasehold property have been sold by the Bank. Moreover, 04 freehold properties temporary handed over to Sri Lanka army on 14 December 2020 and 16 February 2021 to maintain quarantine centers. Covering approval had been granted by the board on 03 December 2020 (Board Minute No: 03.12.2020/11.5.02) and 18 March 2021 (Board Minute No: 18.03.2021/9.8.01) for temporary handed over the two properties as per the request made by Secretary to Ministry of Urban Development & Housing and Additional Secretary to the Ministry of Defense respectively. However other consortium banks have communicated their concern to hand over the remaining two properties on temporary basis while Sampath Bank expressing their concern subject to following conditions.

1. Formal acceptable request from the government along with Cabinet approval.
2. All overhead expenditure such as electricity, water,

security, etc.. capital expenditure/ renovation cost need to be borne by the relevant government authority. The Banks in the consortium are not liable for same.

3. Proper documentation to avoid any legal disadvantages to the Bank in the consortium on account of handing over the subject properties to establish quarantine centers.
4. Handing over the possession to the relevant authority should be for a specific period and the properties to be handed over back to Bank of Ceylon after the said period.
5. In the event properties to be acquired by the government, a separate consent from us and from the other banks in consortium to be obtained and the value should not be less than the liquidator price and same to be shared among the consortium banks as per the agreed percentage.
6. Reserving the right of the banks in the consortium to dispose of the property, if there is a prospective buyer in order to liquidate the debt from Tri Star Apparel (Pvt) Ltd.

Considering the urgency, bank has handed over the remaining two properties with the approval of General Manager on 16 February 2021 without considering the aforesaid condition by the Sampath Bank.

Furthermore, it was observed that the bank had already absorbed the following expenses in respect of properties which are temporary handed over to the Sri Lanka Army.

Property Details	Absorbed cost (Rs.)
No.88 Lot 22/23, Maligawa Road, Telawala	6,000,159.90
No.30 Maligawa Road, Telawala.	14,211,527.50
No.154, Sri Rahula Mw, Katubedda, Moratuwa.	3,081,936.43
No.29/5, Kandawala Mw, Rathmalana.	5,912,865.10
Tri Star Buttala – Leasehold Property	11,230,165.55
Tri Star Galgamuwa - Leasehold Property	10,585,409.82

District Court Colombo has issued an enjoining order under the Case No.DSP/106/24 for restraining the consortium banks and auctioneer upon the application made by one of unauthorized person residing at another freehold property which is mortgaged against syndicate facility.

Out of the 8 leasehold properties, 1 property has been already sold and present situation of the remaining 7 properties are as follows.

Property Details	Present Situation	Description
Paulandigama, Galgamuwa Megahawela, Buttala	Re-sales in progress To be advertise to re-sale	- -
Kuliyapitiya, Oruliyadda, Polgahawela	Not Auctioned	Lease agreement expired on 02 May 2022.
Kumbukulawa, Polpithigama	Not Auctioned	Lease agreement not available.
Nikaramulla, Yapahuwa	Not Auctioned	Lease agreement will expired on 29 May 2027.
Magallegama, Nikaweratiya	Not Auctioned	Lease agreement will expired on 15 July 2027
Obadawella, Bandarawela	Not Auctioned	Lease agreement will expired on 09 October 2048.

In addition to the above securities, the company has mortgage another freehold property situated in No. 30, Maligawa Road, Telawala (1A-2R-32P) against overdraft facility provided by the Bank and such property also temporary handed over to Sri Lanka Army on 10 November 2020 to maintain quarantine centers.

The letter dated 22 February 2024 addressed to General Manager of Bank of Ceylon by Additional Secretary – Parliamentary Affairs and Policy of Ministry of Defense, has informed following facts to the bank.

“Taking into account the facts presented by the Ministry of Defense and the Sri Lanka Army, the army units installed in these building will continue to enjoy the relevant land and property, considering the difficulty of moving the army units installed in these buildings to another place and the practical suitability of maintain the place. The honorable President advised that the property and land should be acquired for the use of the army and that the necessary funds should be allowed to be paid in installment by the Treasury.”

However the Treasury has not informed about any fund arrangement up to 13 March 2024. Therefore recoverability of loans by selling the mortgaged properties is doubtful.

The bank has lodged the claim under Case No. HC Civil 52/2016/CO with the liquidator on 20 February 2018 for

syndicate loan facilities granted against Security of Additional Floating Hypothecation Bond and Hypothecation Loan Agreement. Liquidation case filed by a company named Mc Ocean Logistics Limited. Other security of the facility was personal guarantee of late the Managing Director of the Company.

- (v) There were customers to whom loans were granted in a particular year and those loans were transferred to NPL category in the same year (Excluded rescheduled facilities). According to the analysis of top 10 customers who are falling into the above category, it was observed that Rs.514.92 million has been disbursed to these 10 customers during the year 2023 and Rs. 456.45 million or 88.64 per cent from the granted amount has been transferred to the Non-Performing category with in the same year.

No	Name of the Customer	As at 31 December 2023		
		No of Loans	Total Amount Disbursed during the year 2023 (Rs.Mn)	Total Amount Outstanding as at 31.12.2023 (Rs.Mn)
1	M/S HINGURANA DISTILLERIES (PVT) LTD	10	157.00	182.30
2	HINGURANA AGRO (PVT)LTD	2	100.00	106.19
3	M/S ELECTRO METAL PRESSINGS (PVT) LTD	1	50.00	50.21
4	WORLDWIDE COMMODITIES PVT LTD	8	71.71	43.19
5	M/S LAK CINNAMON PLANTERS AND EXPORTERS	5	31.98	28.93
6	M/S SUNCREST TEAS (PVT) LTD	4	36.60	23.19
7	MR K H C SANDARUWAN	2	4.50	5.72
8	NEW AMRA RICE MILL	1	52.50	5.69
9	MR D R HEWAKUTTIGE	1	5.00	5.55

As a controlling mechanism, a memorandum has been submitted to the Credit Committee on the facilities transferred to NPA within 06 months of granting date and letters are sent to the relevant branches querying the reasons for failing to keep these facilities in regular section and the actions taken to recover the same. The present position of recovery actions taken for the customers as follows.

Name of **Management Response** Facilities

M/S HINGURANA DISTILLERIES (PVT) LTD
HINGURANA DISTILLERIES (PVT) LTD
HINGURANA AGRO (PVT)LTD
M/S ELECTRO METAL PRESSINGS (PVT) LTD
WORLDWIDE COMMODITIES PVT LTD
M/S LAK CINNAMON PLANTERS AND EXPORTERS
M/S SUNCREST TEAS (PVT) LTD
MR K H C SANDARUWAN
NEW AMRA RICE MILL
MR D R HEWAKUTTIGE

BRRU division
Facilities RRU vision
Currently, company is servicing this facility with 2 installment arrears.
The company already settled

Need to ensure that satisfactory customer evaluations have been performed by the bank before granting loans to particular customers.

10	M/S WICKRAMARACHCHI DISTRIBUTORS(PVT)LTD	1	5.64	5.48	LTD	Rs.24,462,217.37 with export proceeds Recovery action to be initiated
					M/S LAK CINNAMO NS AND EXPORTE RS MR K H C SANDAR UWAN	Letter of demand dispatched on 01.04.2024 . Ongoing discussions for a reschedule ment. Facility was fully settled on 10.01.2024 . Facility is regularized .
					NEW AMRA RICE MILL MR D R HEWAKU TTIGE M/S WICKRA MARACH CHI DISTRIBU TORS(PV T)LTD	

(vi) When analyzing the Non-Performing ratio calculation on loans granted for various sectors of the Bank during the past five years period, it was observed that the non-performing ratios of the Manufacturing, Tourism and Construction sections have been gradually increased during last five years period and still record significant ratios.

Sector	NPA Ratio (%)				
	2023	2022	2021	2020	2019
Manufacturing	20.29	23.44	18.73	20.13	17.14
Tourism	11.69	7.85	3.49	3.93	5.06
Construction	18.19	16.87	11.72	13.40	13.23

Non-Performing ratio of the entire bank has been increased during last five years due to the unprecedented events faced by the Bank. Accordingly, Manufacturing, Tourism and are the mostly affected industries by the adverse impacts of economic downturn and still in recovering stage. This

Need to be closely monitored the recoveries of non-performing loans.

situation leads to increase in NPA ratios in relevant sectors.

Various recovery strategies have been introduced according to prevailing scenario. Further, proper credit evaluation is done prior to grants each facility. Regular review of loan portfolio, strengthening of recovery actions are taken into consideration at the NPA review committee level.

(vii) **Audit Review on Selected Loans of Business Revival and Rehabilitation Unit**

Need to follow up the recoveries.

a. Ruhunu Development Contractors and Engineers (Pvt) Ltd

The Ruhunu Development Contractor and Engineers (Pvt) Ltd is mainly engaged in the construction sector especially in Road construction under Road Development Authority (RDA) and Development of Sewerage facilities under the National Water Supply and Drainage Board.

The bank had approved an exposure amount of Rs.4,155 Mn under the business revival strategy and the company has offered 08 immovable properties with a total market value of Rs.1,160 Mn placed by the panel valuer of the Bank. As per the collateral coverage analysis in Memorandum to the Board of Directors, unsecured exposure was Rs.2,903.9Mn which represents 70 per cent of the total exposure of the Company. The Board approval has been obtained on 01 April 2021 for the business revival reschedule package of the Company. Later, company requested to enhance the Letter of Guarantee limit from Rs.1Bn to Rs.2Bn and enhanced the Invoice Discounting (Revolving) limit from Rs.200Mn to Rs.400Mn subsequently. Accordingly, those requests were approved by the board on 16 September 2021. As a result of that, company exposure has increased up to Rs.5,355 Mn, while the bank has waived off accrued interest of Rs.85Mn and further accrued interest up to the date of reschedulement as a Terminal Benefit and waived off 100 per cent existing penal interest of Rs.31.11Mn accumulated for all facilities and further penal interest to be added up to the date of proposed reschedulement.

Moreover as per the BM no.210 of the Board Minute dated 11

Mr. Priyantha Malinduwapathirana is sole director of the RDCE. He is 53 years old and appears to be in good health condition. But we have already informed the company to submit their succession plan considering appointing of his children to the business operation plan.

The company agreed to appoint new directors on or before 31st March 2025 and an undertaking has been obtained stating the above.

Due to the pandemic situation and economic crisis in the recent past years, the company was unable to perform their contracts as desired. Due to heavy competition in obtaining new contracts out of limited projects, the company was able to generate marginal income. At present this situation is gradually increasing. During the 2015-19, RDA has not offered

July 2023, Board granted covering approval for extending of the maturity period of the loans by further nine months by amending the payment schedule for the settlement of the capital and interest at the last installment of all loans granted to the Company and deferring all dues and future installments of the loans up to the month of December 2023 and waving off late/penal interest up to the date of implementation of extension and deferments.

Total Non-Performing loan balance was Rs.1, 956.66 Mn, including capital and interest of Rs.1, 552Mn and Rs.404.66Mn respectively as at 31 December 2023. The exposure amount of Rs.822.14Mn which represents 42.02 per cent of the total NPA balance of the Company was granted against Personal Guarantee which has a lesser strong as collateral.

Following concerns were highlighted regarding the granting of aforesaid facilities,

- The company is a Sole Director Company and succession plan is not in place.
- A Key Financial figure of the company has recorded a net loss of Rs.267.259 Mn during the year 2018/2019 and the company's total liabilities exceeded its total assets by Rs.764.203 Mn as at 31 March 2019. Further, company recorded continues losses during the past years. These factors raised significant doubt of the company's ability to continue its business and serviceability of facilities.
- Credit Analysis has been done based on the Audited Financial statements of 2018/2019, instead of recent period of 2019/20.
- As per the offer letter, "Updated valuation should be called for existing properties." However, fresh valuations of majority for properties' have not been obtained.
- Insurance policies of all nine-leasing facilities have been matured on 10 February 2023 and insurance renewal was not available with the security files as at the date of audit on 08 November 2023.

Insurance policies of following mortgage immovable properties' have been matured and renewal documents were not available with the security file as at the date of audit on 08 November 2023. Details are given below.

construction projects and turnover of the company has been reduced drastically. Therefore, company made losses and all the facilities were transferred to NPA section.

Company is currently handling Sooriyakanda – Rakwana foreign funded road project and one road project in Eastern province has been awarded. During the revival period company has been routed more than Rs. 5.0 Bn cash flow to BOC and recovered around Rs. 3.2 Bn (Both STL and Rescheduled facilities) and around Rs. 220.0 Mn interest. Existing cash flows are not sufficient to repay the rescheduled facilities.

In past several months' company tried to obtained several funded projects through bidding process but unable to obtain the projects. Due to downward trend of the construction industry, the company has halt all business operation in 2019/2020. Therefore, they have not prepared financials of the company at the time of evaluation.

2022/2023 audited financial report has been obtained and the company agreed to provide 2023/2024 audited financials on or before November 2024. An undertaking has been obtained.

All the properties revalued and updated during

Property Description	Matured date of existing insurance policy	
P ₁ - Reschedule Loan A-1	2022.08.03	2023/2024.
P ₂ - Reschedule Loan A-2 and Series of Loans	2022.08.03	Valuation of machineries and vehicles in tea factories at Haughton, Malpudanella, Mihidum vally have been renewed up to date.
P ₄ - Reschedule Loan A-4	2022.08.10	All nine-leasing facilities insurance policy has been renewed
P ₅ - Reschedule Loan A-5	2022.08.10	Insurance policies of all properties has been renewed and 2 properties still pending. According to the letter submitted by the borrower the said properties are in abandoned condition and assessment of the insurance value is in process.
P ₆ - Reschedule Loan A-6	2022.08.10	Further, the bank has obtained the fire insurance cover for 6 properties out of 8 properties.
P ₇ - Series of Loans and Term Loan	2022.06.21	As per the business revival policy, BRRU has permission to entertain fresh facilities to customers who are adversely appear in CRIB. Also BRRU has clearly mentioned in this regard in loan approval memos and obtained approval from relevant approving authority.
P ₈ - Series of Loans	2020.06.18	
<ul style="list-style-type: none"> • Insurance renewals of mortgaged motor vehicles, machineries and properties have not been obtained for the year 2022/2023 up to the date of audit on 08 November 2023. • The bank has ignored the impact of CRIB report even the company and Managing Director adversely appear in the CRIB as default borrower and guarantor. As per the CRIB Report dated 10.05.2022 both of the company and director appeared on CRIB at the time of loan granting at first. (i.e. year 2010) 		

File was transferred to BRRU on 30th September 2020. Approval of the BOD has been obtained at its meeting held on 06th May 2021 to reschedule the existing NPA facilities. Accordingly, after the completing documentation rescheduled package has been implemented on 12th October 2021.

- In March 2024 Mr Nimala Korale has appointed his spouse and son also as directors. In 2023 Spouse of Mr Nimal Korale has become a shareholder with one share.
- This facility has been already settled.
- Informed the company to increase stated capital by Rs. 3.0Mn before end of 31.03.2025.
- Immovable property Plan No.17/12, last revaluation carried out in 2021.07.27.
- Further, delay in obtaining the fresh valuation of Plan No. 65/23 is due to obtaining approval for the surveyed plan from the Pradeshiya Sabha of the subject property. We have already informed the Company to submit the same at their earliest. However, revaluation has been called from the Panel Valuer and is in progress.
- Noted and arrangements already made to renew insurance policies.
- Last inspection was carried out by BRRU on 08.07.2024.
- Noted and arrangements already made to renew insurance policies and inform the company accordingly.
- Mortgage bond No. 2403 not available in the Komuthi Engineering's security files and

confirmed as misplaced at Land registry. Security documentation is to be rearranged securing the existing rescheduled loans in the immediate future to rectify the error.

d. M/S Teshan Engineering (Pvt) Ltd

M/S Teshan Engineering (Pvt) Ltd is engaged in fiber installation, wiring, cable connection, maintenance work of Sri Lanka Telecom/ Mobitel, Dialog and manufacturing poles and other components and accessories required for the telecommunication industry. Lanmark Engineering (Pvt) Ltd, M/S Otel Transformers (Pvt) Ltd and Senri Bio Packaging & Medicare (Pvt) Ltd are the group of companies falling under the Teshan Engineering (Pvt) Ltd. Loan facilities were initially granted by Metropolitan branch and subsequently branch had been obtained approval from the Credit Committee to transfer the credit files of existing non-performing loan facilities to BRRU and obtained the approval from the Board of Directors at the meeting held on 02 December 2021 to reschedule the existing NPA facilities to revive the business under new revival strategy. Accordingly, bank proposed a revival package of Rs.1,413.34 Mn (including existing NPA facilities and fresh facilities) under revival strategy. As a result, the bank has waived off accrued interest of Rs. 19.27 million (20 per cent of accrued interest) as a terminal benefit, waived off further accrued interest up to the date of reschedulement and waived off 100 per cent existing penal interest of Rs.1.63 Mn accumulated for all facilities and further penal interest to be added up to the date of proposed reschedulement.

The total Non-Performing loan balance was Rs.890.56Mn, comprising Rs.733.19Mn in capital and Rs.157.37 Mn in interest as at 31 December 2023. Out of total NPA loan balance, Rs.540.0Mn was secured against Guarantee of Directors which has lesser strong security and representing 60.52 per cent of the total NPA balance.

e. RN Constructions (Pvt) Ltd

RN Constructions (Pvt) Ltd was incorporated in 1996 and engaged with leading engineering and construction activities with a special focus on the private sector projects and foreign funded government sector projects.

The facilities granted to the company have been fallen into the NPA category in 2008. Later, credit files transferred to

During the reviving period total cash flow of Rs 545.9 Mn has been routed as Rs 294.0 Mn of Promissory notes and direct A/c transfers of Rs 251.0 Mn. During the past 05 months the cash flow has been drastically reduced. As a result, the cash flow routed to the bank has been reduced and was insufficient to meet the monthly commitment. Need to follow up the recoveries.

At the time of transferring credit files from Corporate Credit department to Business Revival & Rehabilitation unit, facilities granted to the Company had been already transferred to Need to follow up the recoveries.

Recovery Department and facilities have been rescheduled. All the facilities were transferred back to regular section and these credit files handed over to the corporate branch. Later, the facilities again have fallen under Non Performing category the bank has transferred the Credit files of the company to the Business Revival & Rehabilitation unit and rescheduled under new revival plan which was approved by the Board of Directors on 18 February 2021. The Company Exposure of Rs.3,154.54 Mn was secured against mortgages over 07 immovable properties, including 04 properties which are belonging to a third-party with a total value of Rs. 985Mn, representing 31.22 per cent of the overall company exposure. Total Non-Performing loan (NPA) balance was Rs.1,541.80 Mn, comprising Rs.1,258.6Mn in capital and Rs.283.2Mn in interest as at December 31 December 2023. Out of the total NPA balance, Rs.469.05 Mn or 30.42 per cent was granted against Personal Guarantee.

f. Senaro Motor Company (Pvt) Ltd

The company is engaged in importation and selling of unregistered motor vehicles, assembling of motor cycles and road assistance services. The company was canvassed by Kottawa branch in 2012 and later loan files of the company was transferred to the corporate branch in 2013 in order to enhance the facilities. The company has failed to perform well and not settled the bank dues as agreed. Therefore, loan files have been transferred to recovery corporate in 2017 to carry out the recovery actions. In the meantime, the company has settled some Non Performing facilities they maintained at corporate branch until 2018 before transferring the credit files to recovery corporate. Thereafter, the bank has decided to transfer the credit files of the customer to business revival and rehabilitation unit with the approval of Credit Committee by its meeting held on 12 April 2021.

The total Non-Performing Assets (NPA) balance was Rs.1,042.72Mn comprising Rs.866.23Mn in capital and Rs.176.49Mn in interest as at 31 December 2023. Out of the NPA balance, Rs.609.54Mn or 58 per cent was secured with Personal Guarantee of Directors and the collateral is less stronger than immovable properties.

The bank obtained approval of the Board of Directors at the meeting held on 20 January 2022 to reschedule the existing NPA facilities and revived the business under new revival strategy with a proposed revival package of Rs. 1,409.7 Mn. As per the proposal accrued interest was waived off

NPA category.

Out of the 07 immovable properties, 03 properties are owned by the R N Constructions (Pvt) Ltd and 02 properties are owned by the company directors.

Other 02 properties are owned by their sister company, Heladiva Hotels and Resorts (Pvt) Ltd whereas the directors are same.

All the above properties had been mortgage to secure the facilities granted to RN Construction Pvt Ltd with the approval of relevant delegated authority.

The company commenced the new project of assembling motorcycles with local value addition in March 2023 even in adverse economic condition in the country during last two years.

The company has achieved the following milestones during the initial six months of operations in 2023.

Senaro recognized as the best emerging enterprise at the prestigious Common Wealth Business Excellency Award Ceremony in 2023.

1,870 motorcycles have been received to the warehouse in CKD form and assembling process has been completed for 1,505 units.

41 sales dealers have appointed island wide and company is planning to increase the sales territory

Need to follow up the recoveries.

amounting to Rs. 155 million (25 per cent of accrued interest on existing Term Loans and 50 per cent of accrued interest on Hypothecation Loans) and further interest to be accrued up to the date of reschedulement as a terminal benefit. Further Waived off 100 per cent existing penal interest of Rs.25.98 million accumulated for all credit facilities and penal interest to be added up to the date of proposed reschedulement.

The company has mortgaged five immovable properties with a total market value of Rs.674.7 Mn placed by the panel valuer. Direct Exposure of the company was Rs.1,329.7Mn and 50.74 per cent of direct exposure has secured against Immovable Property value. The indirect exposure was Rs. 80.0 Mn which was secured against Joint and Several personal Guarantees.

Following major concerns were highlighted regarding the granting of aforesaid facilities,

According to the memorandum, negative deviation from the Credit Policy were observed such as Risk Rating less than 50, Tangible Net Worth is Negative, Debit/ Equity is negative and DSCR is below 1.5.

g. M/S Ackzorne Lanka (Pvt) Ltd

The Company is mainly engaged in the manufacturing plastic bottle lids and bottles. The credit files of existing loans have been transferred to BRRU from Badulla Branch. The bank had obtained approval of the Board of Directors at the meeting held on 02 October 2023 to reschedule the existing NPA facilities & revive the business under new revival strategy and proposed a revival package of Rs. 2,199.7 Mn (Direct exposure) including existing NPA facilities and fresh facilities.

When the loan granting to the Company, it had recorded continues losses and substantial loss of Rs. 465Mn has been reported for the financial year 2022/2023. According to the draft financial statements, Tangible Net Worth (TNW) is negative (Rs.933.8Mn) up to financial year 2021/2022 and it has been increased to Rs.4, 294Mn in financial year 2022/2023. Reason for such sudden increase has not been justified in the memorandum and therefore, the reason for the sudden increased was unrevealed.

The revival package was secured with mortgage over four immovable properties of the company with a total market value of Rs.2,374 Mn placed by the panel valuer.

The total Non-Performing balance was Rs.1,649.68 Mn as at 31 December 2023.

upto 100 dealers and 100 units of sale volume by end of the year 2024.

43.4% of direct facilities are covered by immovable properties which are prime commercial properties. However, ROA is more than 90% of the market value of the immovable properties given by the panel valuer except two properties.

According to the Board approved BRRU Policy, facilities can be considered for customers with adverse financial ratios with the relevant approval.

However, with the expected cash flow generation with business expansion, the financial ratios are expected to be improved in the future.

According to the financials of 2022/23, company has made revaluation of their assets in year 2022/2023. Therefore TNW of the company has decreased up to Rs. 4.294 Bn. But Management account of the company shows actual figure of TNW of 2022/23 and informed to company to rectify this error.

Need to follow up the recoveries.

d. Lanka Agri Produce Management Corporation (Pvt) Ltd

Although the Company has requested a facility of Rs.500 Mn from the Corporate Branch for their Working Capital needs, the branch has declined the request by considering Credit history of the customer. After that, the Corporate Branch has granted Rs.100 Mn for the company to purchase raw material. This facility was remained in unsettled and in the performing section.

The customer has requested to transfer the Credit facilities to Business Revival & Rehabilitation Unit (BRRU) due to financial difficulties. Accordingly, the Credit Committee has granted approval to transfer the Credit files to BRRU at its meeting held on 20 September 2023.

As per the CRIB report obtained on 05 October 2023, the Company appeared in CRIB as a regular customer for BOC facilities. However, some other banks' facilities were in NPA category. However, as per the BRRU policy, customers whose total credit exposure exceeds Rs.100Mn (Group exposure) and falls within the underperforming or non-performing asset (NPA) category are only transferred to the Business Revival and Rehabilitation – Corporate Unit upon obtaining approval from the Credit Committee. The BRR unit is tasked with managing these customers by restructuring existing credit facilities and extending new facilities. It was observed that, the bank has deviated from the BRR policy by transferring credit facilities to the BRRU while the company was in the regular section.

This company is falling into the PEP category and the Credit Committee has approved Rs.970 Mn for company exposure under Business Revival & Rehabilitation strategy. Further, as per the Section 8.3 of Office Instructions Circular no: 12/2021, “Relationships with PEPs should always be considered as relationships posing High Risk”. However, the credit package has approved on 100 per cent unsecured basis with zero contribution from the company.

As per the analysis of the company’s Credit History, Repayment Capacity, Capitalization, Collateral Quality & Sector fundamentals level were in a weak position.

According to approved BRRU policy, BRRU can entertain fresh facilities for customers under BRRU while appearing in the CRIB adversely. Also BRRU has obtained PEP approval from Board of Directors.

Facilities have been entertained to the said customer with the approval of the Credit Committee at its meeting held on 28.02.2024.

Facilities transferred to Recovery Corporate Division with the approval of the Credit Committee at its meeting held on 04.07.2024.

Need to follow up the recoveries.

(viii) **Nawaloka Group**

a. Nawaloka Industries (Pvt) Ltd

Credit facilities aggregating to 02 numbers of loans and 02 numbers of overdraft facilities were granted to the Company during the period of 2004 – 2019 were lying under the non performing category from 27 June 2019. Two reschedule facilities amounting to Rs.174.1 million and Rs.25.5 million have been granted on 27 June 2019. While above facilities were under NPA category, another 5 facilities (LC – Rs.30 Mn, Acceptance Rs.30 Mn, Series of Loans – Rs.30 Mn, Overdraft - Rs.17.5 Mn and Letter of Guarantee - Rs.2.5 Mn) have been granted by the Bank on 20 September 2019 to finance working capital requirements. The company experienced in extension of repayment period, rescheduling and restructuring of existing credit facilities, converting overdraft to loan facilities from 2006 up to the present. However, the total loan exposure of the company has been gradually increased and the repayment of facilities has been decreased over the period. Risk Rating of the company has been decreased from 2E to B category from 2008 to 2019.

As per the Section 8.1.i & ii of Corporate Credit Policy manual, a detailed- credit analysis should be done for all customers annually or semi-annually if the credit rating is “B” and below, and assess the credit quality of the assigned customers through the quarterly classification process, quarterly customer visit etc. However, customer visit reports were not available after 15 November 2022.

The customer was unable to route the business cash flows through the BOC account/repay any shortfall in accrued interest at the time of implementing the proposed rescheduled package as agreed. The business has been dropped from the financial year 2015/16 and further the business affected by the COVID 19 pandemic and business was further dropped.

The total outstanding payable balance of the customer as at 30 September 2023 was Rs. 315.41 Mn with total capital and interest payable balance of Rs.196.05Mn and Rs.119.36 Mn respectively.

Out of total outstanding amount of Rs. 217.1 million was secured against immovable property situated at No. 30/10, Negombo Road, Peliyagoda (1A.1R.24.34P) which has a forced sale value of Rs.400 Mn. The total outstanding represents 54.275 per cent of the forced sales value of the mortgaged property. However, the same property has been mortgage for facility granted to Nawaloka Piling (Pvt) Ltd too. Further, legal actions have not been executed by the Bank against the Company.

The total credit package granted to Nawaloka Industries (Pvt) Ltd was rescheduled in 2019. Need to follow up the recoveries.

Reschedule –A loan of Rs. 174.1 M was granted to cover the capital portion of import financing facilities amounting to Rs. 46.2M, along with two term loan facilities of Rs. 40.2M and two overdraft facilities totaling Rs. 87.7 M.

Both the Reschedule-A and loans were classified as Non-Performing Assets (NPA) in accordance with the guidelines of OIC 60/2021 on the Classification, Recognition, and Measurement of Credit Facilities, until fulfillment of the reschedule terms.

However, the company was unable to settle the rescheduled credit facilities as agreed due to cash flow constraints. Additionally, the business was adversely affected by the COVID-19 pandemic and the subsequent economic downturn in the country. The company managed to reduce the Reschedule B loans to Rs. 2.96 M but was unable to reduce the Reschedule-A loan.

As part of recovery actions, reminder emails, letters, and meetings were conducted with the company; however, they failed to submit an amicable settlement plan. Consequently, the credit files were transferred to the

Recovery Corporate Department on 06.09.2024, to closely monitor the credit facilities and initiate recovery/legal actions against the company if they fail to submit an acceptable recovery plan.

b. Nawaloka Pilling (Pvt) Ltd

Credit facilities aggregating to 09 numbers of term loans 13 numbers of revolving facilities and 01 number of Overdraft facility and 01 number of Letter of guarantee have been granted during the period of 2015 – 2023 and those were transferred to the non performing category during the period from October 2022 to May 2023. The main 4 restructured facilities amounting to Rs.1,082.5Mn have been granted on 31 December 2021 and transferred to non performing category on 02 and 05 May 2023. The company experienced in extension of repayment period, rescheduling and restructuring of existing credit facilities, waiving off late fee of Rs.0.5 million, granting grace periods and offering low interest rates up to the present. As per the Section 8.4.4.ii.(c) of Corporate Credit Policy manual, if the customer risk rating is “C” and “D”, granting credit facilities to such customers should be discouraged. If facilities are restructured for such customers, it is required to refer to the next higher authority for approval with proper justifications. The company has offered “D” under risk rating in 2022, and the bank has issued an Advance Payment Guarantee of Rs.45.7 million within the approved limit in October 2023 without obtaining an approval of Board while the total existing loan aggregating to Rs.1,840.1 million were lying under the non performing category. . Even though the unsecured facilities should not be granted to customers who are rated “C” and below as per the Section 3.6 of Corporate Credit Policy manual, the bank has considered aforesaid facility to the Company without adhering to the said guideline. As per the Section 8.1.i & ii of Corporate Credit Policy manual, a detailed- credit analysis should be done for all customers annually or semi-annually if the credit rating is “B” and below, and assess the credit quality of the assigned customers through the quarterly classification process, quarterly customer visit etc. However, customer visit reports were not available after 15 November 2022.

As per the available financials of the company the Auditors has emphasis the matter base on the following
” net assets were less than the half of the stated capital,

The total credit package granted to Nawaloka Pilling (Pvt) Ltd was restructured to align with the company’s cash flow. However, due to the COVID-19 pandemic and the economic downturn experienced in the country, the company was unable to service the credit facilities provided to them. Subsequently, a debt moratorium was granted at the company’s request. Despite this, the company continued to struggle, and the credit facilities were transferred to the Non-Performing section. Additionally, the bank issued an advanced payment guarantee of Rs. 45.7 million to the company within an existing guarantee limit of Rs. 500.0M, with approval from the Credit Committee at their meeting held on 12.10.2023. This guarantee was cancelled as at 07.10.2024. As part of recovery actions, reminder emails, letters, and meetings were conducted with the company; however, they failed to submit an amicable settlement plan. Consequently, the credit file

Need to follow up the recoveries.

resulting a serious of loss of capital situation in terms of 220 of the Companies Act No.7 of 2007.”

The company was incurred losses continuously resulting negative net worth and overall financial performances are unsatisfactory which was below the bank’s accepted criteria. The company has borrowed heavily on the mortgage of machinery and equipment.

The business has been affected by the COVID 19 pandemic and cash flows were dropped.

The total outstanding payable balance of the customer as at 30 September 2023 was Rs.2,393.26 Mn with total capital and interest payable balance of Rs.1,903.15Mn and Rs.490.06Mn respectively.

Out of total outstanding amount 64.27 per cent or Rs1,538.07 Mn was secured against the Mortgage over immovable property, Mortgage over third party property and machinery. The balance was granted on personal guarantee of the Directors of the Company and other security. Further, legal actions have not been executed by the Bank against the Company.

c. Nawaloka Polysacks (Pvt) Ltd

Rescheduled credit facilities aggregating to 03 numbers of loans and 04 numbers of Overdraft facilities were granted during the period of 2018 to 2022 and those were lying under the non performing category since 03 April 2023. One facility amounting to Rs.96.5 million has been granted on 02 April 2018 and transferred to non performing category on 03 April 2023. Other two loan facilities amounting to Rs.37.04 million are moratorium converted facilities granted on September 2021 & 2022.

The company experienced in extension of repayment period, repayment holidays, rescheduling and restructuring of existing credit facilities, granting and converting of moratorium facilities, waived-off late payment fee, offering low interest rate up to the present.

The total outstanding payable balance of the customer as at 30 September 2023 was Rs.125.68 Mn with total capital and interest payable balance of Rs.110.94Mn and Rs.14.74Mn respectively. All outstanding facilities were secured against the Joint and several guarantee of the Directors of the Company and loan agreement.

As per the Section 8.1.i & ii of Corporate Credit Policy manual, a detailed- credit analysis had not been done and customer visit reports had not been available for the customer. The Company has recorded continuous loses and current ratio remained below one. Further, the company had been experiencing long term

was transferred to the Recovery Corporate Department on 06.09.2024, to closely monitor the credit facilities and initiate recovery/legal actions against the company if they fail to submit an acceptable recovery plan.

Need to follow up the recoveries. Recently, the company has faced significant challenges due to the escalating prices of raw materials and increased competition from low-cost products imported from China. These factors have adversely impacted the company’s turnover and working capital position. All term loans and the overdraft limit granted to the company have been transferred to the Non-Performing Assets (NPA) section since April 2023. Despite several discussions with the company management, NPPL was unable to submit an acceptable revival plan. As part of the recovery actions, reminder emails, letters, and meetings have been conducted, but the company

working capital difficulties due to management decision taken such as utilizing short term funds in long term investment and to compensate the accumulated losses. Further, legal actions have not been executed by the Bank against the Company.

has failed to provide an amicable settlement plan. Consequently, the credit file was transferred to the Recovery Corporate Department on 06.09.2024, to closely monitor the credit facilities and initiate recovery actions against the company if they fail to submit an acceptable recovery plan.

(ix) **Nawaloka Holdings**

a. Nawaloka Steel Industries (Pvt) Ltd

Credit facilities aggregating to 03 numbers of facilities were rescheduled on 26 July 2021. The company experienced in rescheduling non-performing credit facilities, extension of repayment period, granting moratorium period and offering low interest rates up to the present. Further total loan exposure of the company has been gradually increased and the repayment of facilities has been decreased over the period.

The total outstanding payable balance of the customer as at 30 September 2023 was Rs. 1,433.50Mn with total capital and interest payable balance of Rs.1,113.19Mn and Rs.320.31Mn respectively.

Out of total outstanding amount, 55.6 per cent or Rs.797.60 Mn was secured against primary mortgage over third party commercial property and the balance of 44.4 per cent was secured against personal guarantee of the Directors of the Company which is a lesser strong security in terms of recoverability. The company has incurred losses continuously resulting negative net worth. The overall financial performance of the Company was unsatisfactory which are below the bank's accepted criteria. The business has been dropped due to internal control issues and impact of the COVID 19 pandemic.

The customer and bank were unable to meet the conditions stated in the offer letter during the loan reschedulement such as submit debts/stock/sales statements on monthly basis (after July 2023), obtaining management accounts on quarterly basis and ascertain whether the company is driving towards the desired financial results, monitoring end use of funds, make sure that the company has implemented adequate controls and proper monitoring mechanism for sales and collection and correction mechanism, routing 75 per cent of the cash flows

Around 80 -90 per cent of cash flow has been routed to Bank since June 2021 to mid of 2022. Although there is a restriction for importing Raw Material, Company has been continuing the business in low scale. Monthly cash flow of Rs. 70.0Mn has been routed and rescheduled loans are being serviced without any arrears up to June 2022. Out of total Non-performing advances outstanding balance of Rs. 1,387 Mn as at 30 September 2023, Rs. 1,160 Mn has been restructured against a third party property mortgage offered by the customer. Further, the facility no. 87708853 amounting to Rs. 226 Mn has been restructured against guarantees of Mr Harshith Dharmadasa and Mr H K Jayantha Dharmadasa (Director).

The Bank has visited the company in 28.03.2023 and 23.11.2023, observed that they have very limited business operations going on

Need to follow up the recoveries.

of the business through the Bank and carrying out periodical inspections. Further, legal actions have not been executed by the Bank against the Company up to February 2024.

as only one shift is being working per day, mostly due to all working capital facilities granted by banks have been restricted due to cash flow issues of the company and main business was affected badly due to slow moving nature of construction industry and house hold construction purposes as well as a result of current economic situation of the company, buying power and extra spending of general public have been restricted. Machineries in work flows are also old and out dated.

The bank has sent first demand letter on 25 August 2023 to the company. Then company approached the bank with a request to reschedule all facilities again and allow them to use balance LC facilities. Bank requested them to submit a comprehensive business plan to revive the business with a proper analysis of the market demand for their products prior to proceed with rescheduling.

This matter has been taken up with Mr Jayantha Dharmadasa - Chairman few times and informed that we need an additional security and proper business plan supported by market analysis conducted by a reliable party to the Bank. Company is in the process of completing that information. Mr Jayantha Dharmadasa agreed

to come up with a solution for this company's way forward as they are trying few possible avenues to address banks concerns on this company. Considering the long-standing relationship that Nawaloka Holdings has had with the bank over six decades and current economic conditions and change of exchange rate has great impact over the company's current situation, we have given company an opportunity to come up with a workable solution. If we did not receive the same within next two months the bank will proceed with legal actions for the said facilities.

(x) **Facilities Granted to Pearl City Hotel (Pvt) Ltd**

The hotel is operating as a three-star class hotel in Kollupitiya since 2003. The bank has granted one (1) USD term loan facility, four (4) LKR denominated term loan facilities, one (1) USD moratorium loan facility and four (4) moratorium loan facilities amounting to USD 7.5 Mn, Rs.4,024.42 Mn, USD 2.26 Mn and Rs.2,266.31 Mn respectively. Facilities have been granted for financing of part of the project cost of Pearl Grand Tower, settlement of existing liabilities of Sampath Bank PLC and to import/local purchase of hotel construction related materials. Even though the last payments of the all 10 loans have to be made in the year 2022, they were not falling under non-performing category since moratorium has been granted to the loans until December 2024.

The original credit facility of USD 7.5 million has been granted to part finance the project cost of Pearl Grand Tower including the settlement of existing liability at Sampath bank due to rejection of loan facility by the Sampath bank since the of project cost has increased by Rs.6,000 million. Further facilities have been initially granted to Pearl City Hotel (Pvt) Ltd to construct Pearl Grand Tower Hotel (Pvt) Ltd on unregistered leased agreement bearing no. 985.

As per the board minute number 01.04.2021/2.7, board has approved the granting of a term loan to retire established letter of credit, subject to not granting any more facilities to this

Sampath Bank PLC initially financed the Hotel project. The company reached BOC in 2017 to get financial assistance as Sampath Bank PLC refused to further finance the Hotel project and at that time Sampath Bank's liabilities were Rs.1,184.4 Mn.

Considering the magnitude of the project BOC decided to finance the project in phase wise. Accordingly, cost of phase I was Rs.6,739.49 Mn and the cost of Phase II was Rs.5,596.8 Mn.

Considering the Hotel Project feasibility (not based on the financials of the Pearl City Hotel existing business) in December 2017, BOC granted two Term Loans of

Need to follow up the recoveries.

company until capital is infused. However, as per the board minute number 01.07.2021/2.14, the board has approved the following to Pearl City Hotel (Pvt) Ltd although the company had not infused the capital and unfavorable comments made in Chief Risk Officer's memo dated 25 May 2021 such as expired granted local LC facilities, inability to provide equity contribution, the bank has lent more than the project cost, high debt to equity ratio, uncertain future cash flows etc..

- i) Enhancing the approved loan amount of Rs. 255 Mn for the purpose of retiring the already established letters of credit up to Rs. 297 Mn considering the inability of providing equity contribution of the loan.
- ii) Deviation from the conditions stipulated by the board of directors at its meeting held on 01 April 2021 and disbursing the loan amount without having company's equity contribution of 15 per cent. (approximately Rs.42 Mn - Debt/Equity ratio should be 85:15)

At present the project stands as an uncompleted building without capacity to perform any commercial activity. Construction work of the project had been commenced on 15 June 2017 and estimated to complete in 31 December 2019. Initial estimated total project cost was Rs. 12.5 Bn and it has revised up to Rs.15.9 Bn in 2023. The bank has contributed to Rs. 8.5 Bn or 68 per cent of the estimated entire project cost. Further, at the meeting held on 15 November 2021, Q Serve Company emphasized the necessity of having competent and loyal quantity survey in order to streamline the operations of the project and create close monitoring mechanism of the project. However, the bank had not closely monitored the progress of the construction of the hotel which was evidenced through unavailability of customer inspection reports for visit dates of 08 May 2023 and 10 August 2023.

The bank has experienced in waiving off the accrued penal interest amounting to Rs.22.885 Mn and granting moratorium facilities and moratorium period from July 2022 to December 2024. However, the total loan outstanding of the company has been gradually increased.

Furthermore, in the stage of granting the initial loan in 2017, the overall financial performance of the Company was at unsatisfactory level and branch has not deeply evaluated the sales, investment, long term debt and the repayment capacity of the customer before granting loans. Audited financial statements of the company had recorded significant net losses in 2016/17, 2017/18 and 2020/21. This loss has occurred due to significant reduction in the revenue generation in tourism industry with COVID 19 pandemic situation and economic

Rs.3,368.3Mn and USD 7.5Mn.

The Hotel Project is constructed on land owned by PCH. Hence, BOC granted facilities to construct the hotel under the name of PCH to get the Parate execution rights over the company.

Repayment will be assured through the lease agreement between PCH and PGTH. (As per the prevailed legal background, not required to register lease agreements).

After signing the IHG agreement, promoters sought finance to complete Phase II of the hotel with an additional cost of Rs. 5,596.84 Mn and BOC granted a Term Loan of Rs. 2,966.3Mn with initially agreed Debt Equity of 50.1:49.9.

Currently company has fully completed the super structure of the building. Furthermore, the areas including mechanical, electrical and plumbing installations and doors and window works have been materially completed.

Accordingly, current overall position of the Hotel Project (Based on the confirmation provided by QServe, Prof. Chithra Weddikara) is 83.4%. (Total Project Cost – Revised 2023- Rs. 15,676.25Mn and Work Done – Rs. 13,074.74Mn)

In 2022, the promoter has attempted to meet the equity

crisis prevailed at that time. The Company's long term debt, long term debt/equity ratio, total debt/equity ratio and interest coverage were unsatisfactory all over the period.

Further, deviations from the Credit Policy of the Bank in terms of Leverage, Minimum Sales, Minimum Net Profit/Sales, Debt Service Coverage, Interest Service Covering Ratio, Maximum Term, Rate of Advance and obtaining title insurance were observed.

The total Non-Performing balance of the Company as at 31 December 2023 was Rs. 13,365.15 Mn with capital and interest payable balance of Rs. 11,540.67 Mn and Rs.1,824.48 Mn respectively.

Total outstanding was secured against the immovable property located at Millagiriya Ward No. 39, Edward Lane and Baudhaloka Mawatha, Kollupitiya which has a forced sale value of Rs.15,000 Mn and MV of Rs.17,500 Mn (as per VRP on 06/04/2023).

infusion gap by disposing of their existing hotel, Pearl Grand Hotel to Rathna Group for Rs.1,650Mn.

However, company was unable to complete the Hotel Project and the promoter had continuously requested bank assistance to complete the project and emphasized on unavailability of further equity contributions from promoters.

Due to the accumulation of interest since Easter Sunday and the depreciation of foreign exchange loans granted to the Hotel project have escalated up to Rs.13.47Bn.

Initial loan disbursement of LKR 7.8Bn has increased by LKR 5.7Bn due to exchange rate devaluation and interest accumulation after the Easter Sunday Attack which the client has limited control over.

Following to several discussions, the promoter has agreed to provide an upfront amount of Rs.500Mn to meet working capital requirements of the project.

In the meantime, company is in the process of evaluating viable investors for the project and moratorium has been granted up to December - 2024. According to the company, attracting viable investors for a partially completed project of this nature is challenging.

(xi) **Facilities Granted to Laugfs Gas PLC**

The company is involving in downstream business operations of import, storage, filling, distribution and sale of Liquefied Petroleum Gas (LPG). The bank has granted three term loan facilities, two sub loan facilities and four hypothecation loan facilities with aggregated amount of Rs.2,994 Mn, Rs.131.36 Mn, and Rs.1,415.64 Mn respectively. Facilities have been granted to settle short term liabilities of other commercial banks, restructure the capital outstanding of existing hypothecation loans, import purposes and moratorium purposes. Bank of Ceylon has first granted facilities in September 2018 and facilities were rescheduled initially in 2020 and restructured in June 2021. Facilities were categorized under Non performing category since February 2023.

The overall financial performance of the company shows unsatisfactory at the time of granting new facilities in 2018 which evidenced through the significant net losses recorded in audited financial statements of the company since 2017/18 to 2020/21. This was mainly due to high finance cost incurred which was insufficient to cover up by the company income, even prior to COVID pandemic. Leverage of the company has increased throughout the period of 2017-2021 due to heavy borrowings and continuous losses. Also company's current ratio stated below the standard requirement for the same period. When considering these adverse financial indicators, it was evidenced that the bank had not properly evaluated the repayment capacity and overall financial position of the company before granting these facilities.

The Board of Directors has granted approval for term loans of Rs.1,200 Mn and Rs.800 Mn respectively on 29 August 2018, without considering the unfavorable factors highlighted in the memorandum., The bank was unable to verify the end use of fund which was used by the Company to settle short term liabilities of Hatton National Bank and Standard Chartered Bank in order to restructure its statement of financial position in order to reduce cost of capital of the company.

The deviations with the credit policy of the Bank was observed due to inability of maintaining expected level of Debt to Equity Ratio, Risk Rating and Rate of Advance against property. Further unfavorable comments have been made by the Chief Risk Officer such as unsatisfactory financial health, no method on generating additional cash flow to service loans, mortgage cover is available for 60 per cent and balance covered with a negative pledge and borrowing from other banks by offering same negative pledge.

1. Company's business cash flow was affected due to control of the LPG prices by the Government. From October 2021 onwards, consumer prices of LPG are being determined only by market forces and free of regulatory controls by the authorities.

2. Bank was in the process of recovery of NPA facilities from the business cash flow prior to consider the second-way out. The customer was also positively adhered to the settlement of NPA by routing required additional cash flow.

3. At the end of year 2022, company had a NPA outstanding of Rs. 3,480.36 Mn and company could gradually settle total NPA by May 2024.

4. According to the Audited financials for FY 2023/24, company has generated a revenue of Rs.22, 475.78 Mn (revenue growth 21.3%) and recorded a profit of Rs. 463.6Mn (PAT 2.1%)

Risk rating : BB (2023)

5. Securities

MV of Properties 2022: Over the period land value has been appreciated.

VRP: Rs. 1,320.0Mn

Panel Valuer: Rs. 1,344.8Mn

Negative pledge over Mabima property, Corporate Guarantee of Laugfs Holdings Ltd,

Company was not adhered to the special conditions stipulated by the Chief Risk Officer in his memorandum dated 10 June 2021 such as, only 6.6 per cent of cash flows were routed without route 1/3rd of the cash flows through the account maintained at Corporate branch, not submitted forecasted sales plan and profitability statement for each quarter, delay in submitting statements of debtors, receivables with age analysis, monthly production, sales and stock for each quarter, etc...

The bank has granted 40 per cent interest waiver from accrued interest, and granted moratorium facilities and moratorium period from 2021 to up to December 2024. However the total loan exposure of the company has been gradually increased.

The total Non-Performing balance of the customer as at 31 December 2023 was Rs. 3,100.29 Mn with capital and interest payable balance of Rs. 2,691.15 Mn and Rs.409.14 Mn respectively.

Out of the total outstanding, Rs. 1,487.87 Mn was secured against the immovable property situated along Kumaratunga Munidasa Mawatha, Reid Avenue at Bambalapitiya (0A-1R-0.05P) and Sri Sammbuddathwa Jayanthi Mawatha, Havelock town (A0-R0-P35.21)) which have a forced sale value of Rs.650 Mn (MV of Rs.720 Mn as per VRP on 08/03/2022) and Rs.510 Mn (MV of Rs.600 Mn as per VRP on 04/10/2022) respectively. Board approval has been granted on 29 August 2018 to consider 100 per cent rate of advance of the Market Value placed by the panel valuer for the properties which mortgaged to the bank to securitize the proposed credit facilities. However other facilities have not been covered by any immovable properties.

At present, the company was able to recover its loss due to favorable market condition and all the existing facilities were transferred to the regular section as at 09 October 2024.

book debts and other relevant securities available for the credit package.

6. Company has been submitting statements of debtors with age analysis/ stocks, monthly revenue, interim accounts for each quarter without any delay.

As there are exposures at other banks, company agreed to route propionate Cash flow through accounts, which is currently adhered. As at date (09.10.2024) all the existing facilities of company are in regular section, no dues recorded and settlements are satisfactory.

7. Under favorable market conditions, the company has the opportunity to sell its products at a cost-effective price, which will strengthen its revenue generation and profitability. Ultimately it will assure the settlement of credit facilities in a satisfactory manner.

8. Relationship team is strictly monitoring the facilities granted to the company and the timely settlement of the same.

- (xii) **Loan Granted by Islamic Banking Unit** Need to
- The value of the total loan exposure of the unit as at 31.12.2023 was Rs. 1451.45 Mn and out of that Rs. 669.62 Mn or 46.13 percent was recorded as non performing. The ratio of non-performing loan exposure out of the total loan exposure of the unit was recorded high during the last five years period from 2019 to 2023 as 15.20 per cent, 37.61 percent, 59.76 per cent, 45.36 per cent and 46.13 per cent respectively.
- Out of the total Non-performing loan exposure, an amount of Rs.656.81 million or 45.25 percent covered by the top 10 non-performing customers of the unit as at 31 December 2023 and the company who ranked as top one Non Performing customer owed Rs.327.71 million or 48.94 percent from total non-performing loan exposure of the Unit.
- NPA ratio reduced to 15.5% as at 30th Sep 2024. IBU has initiated recovery action on top 10 NPA customers. follow up the recoveries.

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

Reference to Laws, Rules Regulations etc.	Non-Compliance	Management Comment	Recommendations	
(i) Bank of Ceylon Ordinance No.53 of 1938 and Direction 3(2)(i) of Corporate Governance Directives issued by the Central Bank of Sri Lanka	The Bank has not complied with the minimum of 6 Director's requirement as per the Bank of Ceylon Ordinance and Corporate Governance Directives during the year 2023. Details are as follows;	Present Position of amending the BOC Ordinance: As per the letter dated 25.05.2024, addressed to the Additional Director General (ADG) of Department of Legal Affairs by the Director General of Public Enterprises, he has instructed the ADG of Legal Affairs to submit the comments sent by Chairman, Bank of Ceylon on 08.12.2023 along with the comments of Director, Bank Supervision CBSL dated 03.05.2024 to the Legal Draftsmen's Department.	It is recommended to comply with the requirement of Bank of Ceylon Ordinance and Corporate Governance Directives.	
	Period			Number of Board of Directors
	01.01.2023			5
	02.01.2023-12.01.2023			4
	13.01.2023-17.01.2023			3
	18.01.2023-30.03.2023			4
	31.03.2023-20.04.2023			5
	21.04.2023-03.05.2023			4
	04.05.2023-03.12.2023			5
	(ii) Para number 5.3 of Direction No. 13 of			As per the direction, In case where a borrower has

2021, Banking Act Direction.	several current accounts with overdraft limits with the bank, the aggregate sanctioned limits and the daily outstanding aggregated balance on all such accounts shall be considered for the classification of OD. However current practice of the bank is not in compliance with this requirement.	issued by M/S Ernst & Young.	with relevant regulation in future.
(iii) Provisions of the Financial Reporting Transaction Act, No.6 of 2006	The Central Bank of Sri Lanka imposed Rs.6,000,000 penalty on 07 November 2023 since the bank has failed to comply with the provisions of the act.	<p>The Central Bank of Sri Lanka imposed Rs 6,000,000/- penalty on 07th November 2023 since the Bank has failed to comply with the provisions of the Act by</p> <ul style="list-style-type: none"> • Not obtaining or timely obtaining Senior Management approval for business relationship with PEP's • Not taking immediate freezing action and other supplementary measures with regard to designated individuals <p>Further the Central Bank of Sri Lanka (CBSL) has issued a verification of Compliance dated 07th November 2023 since the Bank has failed to comply with the provisions of the Act by</p> <ul style="list-style-type: none"> • Not reporting transactions above prescribed threshold value • Not adhering to suspension orders and extension orders. • Not conducting ongoing scrutiny of transactions undertaken throughout the course of the business relationship with a customer. • Not implementing proper risk controls and mitigation measures. 	Need to comply with relevant regulation.

Following precautionary actions were already taken to Strengthen the adherence to PEP related Guidelines issued by FIU of CBSL

1. Addendum was issued to Office Instruction Circular (OIC) 01 of 2023 PEP Guidelines describing all the requisites and procedures to be followed including procedure manuals.
2. Inform all relevant staff including Frontline Staff, Branch Managers, Area Managers, Operations Managers through Compliance training covering all Provinces
3. Restriction was added to open new accounts where PEP approval is not available.
4. Separate location was introduced to keep softcopies of PEP approvals in DMS (Customer Registration, Account Opening and Document Management system of the Bank) for easy reference.
5. Employment categories in DMS as well as Core Banking System were reviewed and added with PEP related Employment categories shared by FIU.
6. Development in progress to automate PEP identification through Employment and automate PEP approval process in DMS at customer registration.

PEP Accounts Monitoring Process was developed and Compliance, Branch Operations

and Corporate teams were nominated for that tasks.

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|------|--|---|---|--|
| (iv) | Para No.8.3 of the Training agreement of the trainees sign with the bank | As per the section, In the event of the trainee terminates their job prior to the last date of the agreement, he/she shall pay a sum relevant to their agreement as a cost of the training and other expenses incurred by the bank. However, it was observed that, the bank had terminated training agreements relevant to the 11 trainees during the period of 2011 to 2020 without collecting the bond value of Rs.1.95 million. | The reported 11 trainees have terminated their training agreement prematurely. However, the Bank did not consider their resignation request and did not issue any service letters or letter of release until they settle their training bond obligations in full and their resignation was not accepted as completed. | Need to comply with relevant regulation. |
| (v) | Section 1.2.1 (c) of the Bank of Ceylon's Procurement Manual 2014 amended by the Board of Directors at meeting held on 15 October 2019 | As per the Section 3 of Request for Proposal (RFP), bank has clearly mentioned that "RFP has been prepared solely for the purpose of enabling Bank of Ceylon to select a vendor for supply, installation and commissioning of a Queue Management Solution (QMS) at 200 branch locations as desired by the bank and the number of Machines mentioned above is indicative and the actual number may vary up to 25 per cent from those specified". However, the requirement of the project was reduced by 98 per cent due to the Queue Management Solution has installed machines only for selected four branches which is 07 years back and system had not been installed for remaining number of branches out of 200 up to now. Accordingly, bank has acted contrary to the said section by reducing the requirement of 200 branches to 04 branches. As because of scope | QMS was installed at 4 branches as pilot. Based on the performance of the pilot project, bank has terminated the contract. | Need to comply with guideline. |

of project works reduced, basic objectives of the procurement "providing fair, equal and maximum opportunity for eligible interested parties to participate in procurement" as stated in the section has been violated.

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|--------|---|--|--|--|
| (vi) | As per the Information Technology Steering Committee meeting minute dated 22 October 2018. | The bank had not entered into an Annual Maintenance Agreement (AMC) with the company when aforesaid project was offered. As a result of not having a formal Annual Maintenance Agreement, it was observed that the company has not responded properly to the issues faced by the bank subsequent to the completion of pilot project. | Since this is a pilot project, the bank had not enter into an Annual Maintenance Agreement (AMC). The pilot project became unsuccessful. | Need to comply with relevant regulation. |
| (vii) | Section 4.2.2 of the Bank's Procurement Manual 2014 amended by the Board of Directors at meeting held on 15 October 2019 | As per the Section, Procurement Time Schedule (PTS) was not prepared by the bank for each procurement.
Ex :- Queue Management Solution procurement. | This procurement was carried out as a special procurement process as approved by the Board of Directors (BOD) vide Board Minute No.18.11.2014/1.2.08 (under the "Wenasa" transformation procurement process) | Need to adhere with relevant regulation. |
| (viii) | Section 4.2.1, (a, b, c, and d) of the Procurement Manual of the Bank of Ceylon 2014 amended by the Board of Directors at meeting held on 15 October 2019 | The Procurement Committee of the Bank has not complied with following requirements of,
- Prepare the Master Procurement Plan (MPP),
- Procurement activities envisaged at least for a period of three years
- Procurement activities for the immediately succeeding year prepared in detail,
- Regularly updated MPP intervals not exceeding six months. | However, MPP was prepared for the period of 03 years from 2024 to 2026. | Need to adhere with relevant regulation. |
| (ix) | Section 8.1.1 (a) of the Bank's Procurement Manual 2014 amended by the Board of Directors at | As per the Section, the bank has to inform to the aggrieved bidders about the reasons for lack of success, pointing out the specific shortcomings in its bid | Noted.
Approval of the BOD was obtained for procurement of purchases/ projects with regard | Need to adhere with relevant regulation. |

meeting held on 15 October 2019 without disclosing contents of other bids. However, it was observed that the bank has not informed to the other bidders who were not selected according to the said section.

Ex:- Queue Management Solution procurement.

to the “Wenasa” project under a special approved procurement process.

1.8 Non -Compliance with Tax Regulations

Audit Observation	Management Comment	Recommendations
<p>(i) According to the confirmation of the Inland Revenue Department total tax liability of the bank was Rs. 5,802 million as at 31 December 2023. However, the bank has provided only a provision of Rs.2,650 million in the financial statements of the year 2023, since the assessments are in the appeal hearing process.</p>	<p>As per the bank's records, the tax liability related to the assessments amounts to Rs. 2,638,002,412/-, which differs from the figure of Rs. 5,802,010,266/- mentioned in the report. In accordance with the actual tax liability, the bank has made a provision of Rs. 2,656,424,862 in the financial statements to date, excluding any penalties. However, the following discrepancies have been identified based on our records:</p> <ul style="list-style-type: none"> • A new assessment for VAT on Financial Services was issued on 28 December 2022 for the year of assessment 2019/2020 and the determination of Commissioner General of Inland Revenue issued for the year of assessment 2017/2018. Accordingly, it is noticed that two assessments were inadvertently considered for the tax payables without excluding the assessments of 7501718002 amounting to Rs. 1,636,147,809/- for the year of assessment 2017/2018 and 7501920001 amounting to Rs. 858,721,507/- for the year of assessment 2019/2020. • Further, no tax liability for the year of assessment 2017/2018 as per the bank records and IRD has to adjust the records on RAMIS. A pending decision at Tax Appeals Commission for the year of assessment 2019/2020 in relation to withholding tax credits due from IRD. Moreover, the income tax liability of Rs. 779,681,406/- for the year of assessment 2020/2021 was reduced and 	<p>Need to make adequate provision in Financial Statements after having discussion with IRD.</p>

outstanding balance has to be changed as Rs. 404,319,230/-.

- Nation Building Tax on Financial Services tax liability recognized for the year of assessment 2017/2018 should be Rs. 9,264,519/- considering the refund assessment No. NBTFS/BFSU/2020/632.

1.9 IT General Controls

1.9.1 Lapses in IT General Control.

Audit Observation	Management Comment	Recommendations
(i) Certain user accounts were duplicated based on “Text” in ICBS, “Username” in Smart Remittance system, Trade finance system, MCS outward system, IFRS system and IRMS system and “Officer ID” in Sky lease system and remained active during the financial year.	Rectified.	Need to place preventive measures.
(ii) Inadequate procedures over timely deactivation of user accounts of resigned/transferred/ retired employees in ICBS, Sky Lease, MCS Outward and MCS Inward systems and it could result in significant issues when allocating responsibilities for business transactions.	Rectified.	Need to place preventive measures.
(iii) The bank does not employ a Data Loss Prevention (DLP) solution in order to monitor data in real-time, as an automated mechanism, to manage the data that is being transmitted within and to outside the network, and to ensure that confidential data is not transmitted to unauthorized parties within and outside the company.	DLP agent roll out is completed. Email integration is in progress. Target date for completion: 31.12.2024	DLP solution need to be available.
(iv) The bank uses the following version of the Database Management systems, which is in the state of End of Support (EOS) terms of assurance, for which there will be none of security updates/ patches received from the service provider. Since the version is already in the End of standard support, the Original Equipment Manufacturer (OEM) would not be able to provide any security updates/patches for vulnerabilities and security threats due to which vulnerabilities may remain open which may be exploited by malicious attackers or intruders.	<ul style="list-style-type: none"> • Finacle Treasury Finacle Treasury Solution Upgrade is in progress. Target date for completion: 30.06.2025 • Sky Lease The upgrading process has already started, and it's currently in the UAT phase. Target date for completion: 31.12.2024 • Prime 4 Initiated discussions with both management 	Need to complete upgrades early as possible.

IT Application	Version	End of Support date (DD/MM/YYYY)
Finacle Treasury	Oracle	31/12/ 2020
Sky Lease	11g	
Prime4		
Internet Banking		
IFRS		
IRMS		
MCS Inward		
MCS Outward	MS SQL	13/07/2021
HCM	2016	
Notiva	Oracle	31/07/2022
	12c	

and the vendor regarding the potential upgrade of the current system to its latest version. The task will be completed by end of year 2025.

- **Internet Banking**

Currently we are in the process of selecting new solution for Internet and Mobile Banking System. Therefore, current system will terminate after new implementation.

Target date for completion: 15.12.2024 (For retail module)

- **IFRS/IRMS**

We have informed to the vendor and planning to upgrade the DB version to Oracle 19c.

- **MCS Inward**

Will be Upgraded to Oracle 19c. The task will be completed by end of December 2024,.

- **MCS Outward**

MS SQL 2016 will be upgraded to MS SQL 2019 by end of December 2024.

- **HCM**

Database migration process going on with vendor.

Target date for completion: 31/12/2024

- **Notiva**

It is planned to migrate Oracle Database version (19C) after confirming the technology stack and its compatibility Metrix.

Target date for completion:
30.06.2025

(v) **Obsolete Operating Systems – Sky Lease, Prime4 and Finacle Treasury systems**

The bank uses the following version of the operating systems, which is in the state of End of Support (EOS) terms of assurance, for which there will be none of security updates/ patches received from the service provider. Since the version is already in the End of standard support, the Original Equipment Manufacturer (OEM) would not be able to provide any security updates/patches for vulnerabilities and security threats due to which vulnerabilities may remain open which may be exploited by malicious attackers or intruders.

System	Version	End of support date (DD/MM/YYYY)
Sky Lease	Oracle Linux 5.6	06/07/2022
Prime4	Windows Server 2008 R2	14/01/2020

• **Sky Lease**
The upgrading process has already started, and it's currently in the UAT phase.

Target date for completion: 31.12.2024

• **Prime 4**
Initiated discussions with both management and the vendor regarding the potential upgrade of the current system to its latest version. The task will be completed by end of year 2025.

Need to complete upgrades early as possible.

1.9.2 Maldives Payment System Development (MPSD) Project.

Audit Observation

Management Comment

Recommendations

(i) Maldives Payment System Development (MPSD) Project is initiated by Maldives Monetary Authority (MMA) with the objective of establishing instant payment system in Maldives. The bank had selected a company to implement this project after the procurement process. The bank had entered into an agreement with the company on 05 July 2022 after 06 months of the issuance of the offer letter.

Noted.
The offer letter was accepted by the Epic Lanka (Pvt) Ltd on 14.12.2021. A legal contract was created between the Bank and the Epic Lanka (Pvt) Ltd with the above acceptance as per the clauses of the offer letter. Due to changes made by MMA time to time to the initial scope and the internal proceedings of the Bank and the vendor, Epic Lanka (Pvt) Ltd

Need to adhere with relevant procurement procedure.

including Legal Department and related business unit's comments, the execution of the agreement was delayed. However, considering the urgency requirement of the Regulator (MMA), the project was started after acceptance of the offer letter.

- (ii) As per the contract data (section VII) of Bidding document, the software implementation should be completed within 02 months from the date of issuance of the purchase order. However, as per the project plan given by the bidder to the bank before starting the project, it was stated that it will take 156 days (approximately 05 months) to complete this project.

Although the vendor has submitted project plan with a duration of 59 days along with the BID document, the signing of the agreement by the bank with the Vendor was delayed due to the impact of COVID 19 and the multiple changes made to the project scope by the Maldives Monetary Authority. As such the vendor submitted a revised project plan in order to cater the MMA's updated requirement with a duration of 156 days at the signing of the agreements on 05.07.2022.

- (iii) As per the contract data (section VII) of Bidding document, the amount of the performance security shall be 10 per cent of the contract value and it was observed that the performance security submitted by the company to the bank has expired on 10 April 2023. Accordingly, bank had not obtained renewed performance security even though more than 17 months have been elapsed from the date of expiry of the performance security. Noted. The Bank has sent reminders to the vendor time to time. Even though the vendor has requested full payment after completion of the project, the Bank has paid only 30% of the total contract value as per the payment milestone.
- (iv) Due to an investigation is carrying out against Epic Lanka (Pvt) Ltd related to other field, the bank had sought advice from the ICTA by letter dated 29 October 2021 regarding the selection of this company for the project development. Accordingly, ICTA had responded through the letter dated 16 November 2021 to seek advice from the Department of Public Finance. However, no evidence was presented to evident that the bank has sought advice from the Department of Public Finance accordingly. Noted.
- (v) As per the Section 23 of conditions of contracts (section VI) of Bidding document, the goods supplied under the Contract shall be fully insured against loss or damage incidental to manufacture or acquisition, transportation, storage and delivery. However, it was observed that the company has not obtained such an insurance coverage and bank had not followed up thereon. Noted.
- (vi) Furthermore, as per the Section 8.1.1 (a) of the Bank's procurement manual 2014, bank has to inform the aggrieved bidder about the reasons for lack of success, pointing out the specific shortcomings in its bid without disclosing contents of other bids. However, it was observed that the bank has not informed to the other bidders who were not considered accordingly. Noted.
- (vii) As per the letter No MIS/2022/1678 dated 18 August 2022, development of Application Programming Interfaces (APIs) of the project as specified by MMA should have completed by 20 September 2022. However, bank was unable to meet the deadline given by MMA & paid MVR 95,000 (95,000x23.348=Rs. 2,218,060) as Rectified. Covering Approval of BOD was obtained on 08.11.2023.

administrative penalty on 06 November 2022 as per the notice number MIS/2022/2153 and dated 06 October 2022 due to non-compliance with the completion of APIs requirement of MMA's instructions without prior approval of the board.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 26,694 million and the corresponding profit in the preceding year amounted to Rs. 31,972 million. Therefore, a decrease amounting to Rs. 5,278 million of the financial result was observed.

2.2 Trend Analysis of major Income and Expenditure items

Description	Variance Amount Increase/ (Decrease) (Rs' Mn)	Variance %	Reason for the Variance
Interest Income	68,530	15	<p>During the fiscal year under review, the bank's portfolio of loans and advances experienced a marginal decline, while there was a notable decrease in interest rates. Despite these trends, the bank reported an increase in interest income derived from loans and advances. This upturn can be primarily attributed to the expiration of moratorium period.</p> <p>As a state-owned financial institution, a substantial portion of our loan portfolio was subject to these moratoriums. The conclusion of these relief measures has led to resurgence in interest income.</p> <p>Although there was an overall contraction in the loan balances, the bank observed growth in balances of high-interest products such as pawn-broking services and credit card facilities. These factors collectively contributed to the elevation of interest income for the period.</p>
Interest expense	103,689	31.4	<p>The bank's interest expense is predominantly composed of payments made to holders of fixed deposits. Despite a reduction in interest rates over the course of the year, the bank experienced an increase in interest expenses, primarily due to the following.</p> <p>In the latter part of the second quarter of 2022, the Bank of Ceylon introduced new fixed deposit products with tenures ranging from 100 to 400 days, offering customers significantly higher interest rates. A majority of our customers opted for fixed deposits with durations</p>

of 300 and 400 days. The interest expenses associated with these deposits not only impacted the financials of the 2022 but also carried over into 2023. Consequently, this has led to an escalation in the bank's interest expenses.

Impairment Charges/ (reversal) for loan and other losses (92,061) (105.6)

In accordance with the domestic debt restructuring policy, the Government of Sri Lanka has undertaken the conversion of foreign currency-denominated loans into Sri Lankan Rupees (LKR). In 2023, the Bank of Ceylon (BOC) reached an agreement with the government to convert its Foreign Currency Banking Unit (FCBU) USD-denominated loans into LKR. This conversion has led to a substantial reversal of provisions previously made for these loans.

As a result of this agreement and the subsequent conversion, the bank has recognized a reversal of the impairment charge for the current year. This adjustment reflects the reduced credit risk and aligns with the updated valuation of the loan portfolio following the government's debt restructuring initiative.

Net other Operating Income (21,743) (132.7)

The significant decrease in Net Other Operating Income from 2022 to 2023 can be attributed to several factors:

1. Net Gains/(Losses) from Trading: There was a substantial drop in net gains/(losses) from trading, which is included in Other Operating Income. This decrease was primarily due to a decline in exchange rates, leading to lower valuation of foreign currencies.
2. Net Fair Value Gains/(Losses) from Financial Instruments at Fair Value Through Profit or Loss: There was a decrease in net fair value gains/(losses) from financial instruments at fair value through profit or loss. This decline was caused by a decrease in the market value of equities and unit trusts during the year.
3. Net Other Operating Income: The category of net other operating income also experienced a drop, primarily due to revaluation losses incurred in the 2023 year.

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	
		2023	2022
Performance Ratios			

Return on Equity (ROE)	10.9	10.6	14.1
Return on Assets (ROA)	1.0	0.9	0.8
Interest Margin	3.1	2.1	3.1
Assets Quality Ratio			
Capital Adequacy Ratios			
Tier 1 Capital (Minimum 10%)	13.1	12.41	12.4
Total Capital (Minimum 14%)	16.7	15.38	15.4
Statutory Ratio (Minimum Requirement 20%)			
Liquid Assets Ratio (Domestic)	33.8	42.8	21.2

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

3. Operational Review

3.1 Identified Losses

Audit Observation

- (i) Actual losses and provision made for losses during the year 2022 and 2023 with risk level categorization are as follows;

Loss Event	Year 2023		Year 2022	
	Amount Written Off/Provision made	Percent age from total loss event (%)	Amount Written Off/Provision made	Percent age from total loss event (%)
Business Disruption and System failures	11,983,450	14.12	607,041	0.07
Clients, Product and Business Practices	51,796,510	61.03	7,962,567	0.98
Execution, Delivery and Process management	13,024,994	15.35	730,758,809	89.86
External Fraud	7,115,068	8.38	6,149,982	0.76
Internal Fraud	945,598	1.11	67,776,684	8.33
Total	84,865,620		813,255,083	

Management Comment

Provisions have been made for the losses reported and the write-offs which are recorded in the respective General Ledger Accounts have been made with the recommendation of the respective committees. Some losses/provisions reported are subject to finalisation of the investigation reports and finalisation of the insurance claims.

The Bank still carry out the recovery process even after write off of a particular loss. In addition to that controls are in placed to ensure better

Recommendations

Need to strictly adhere with internal control procedures and need mechanism to monitor their compliance.

As per the above details Total Actual losses and provision for losses has been decreased in year 2023 due to not making additional provisions for fraudulent transfers and high court case in 2022, while losses from Business Disruption and System failures, client Product & Business Practices have been significantly increased during the year 2023 compared with the preceding year. The main provision was Rs.44.806 million made for refunding EUR 125,000 accumulated as a Temporary Overdraft interest on the Euro Account No. 9575777 of M/S. Valutrans Spa – Italy which categorized under loss event of Clients, Product and Business Practices . Valutrans Spa has been a remittance partner of Bank of Ceylon since year 2009 and only active exchange company in Italy. The account 9575777 of Valutrans Spa was had an overdrawn balance of ERU 993,924.53 as at 10 July 2023 and the company has ceased their business on 31 March 2023. In recognition of the mutually beneficial exclusive relationship had with the company for a long time and taking in to account of the company, board of directors of the company has been approved to refund EUR 125,000 accumulated on the EUR account No. 9575777 as a Temporary Overdraft interest by Board Minute: 28.07.2023/2.18 dated 28 July 2023. Other than above, provision of Rs.10.549 Mn made for unsuccessful CEFT transactions due to core banking system timeout categorized under Business Disruption & System failures and provision of Rs.7.076 Mn made for dud/ fake gold article recondition contributed for loss events during the year 2023.

(ii) Although the full provision has been made for the difference of Rs.397.57 Mn between the General Ledger balance and the outstanding balances of the Bank's Trade Finance System due to some system failures which were charged to Reserve on Forged Cheques and Frauds account (GL No. 22310122) in the financial year 2021, actions had not been taken to reconcile those balances up to the end of year 2023.

internal control within the Bank.

Provision Made for Outstanding amount with M/S. Valutrans Spa

Bank is in the process of instituting legal action against the company.

An Italian based legal firm has been selected to initiate the legal proceeding.

Provision made for unsuccessful CEFT transactions

- Recovery actions are being taken and balance outstanding to recover is reduced to 10,108,136.94 as of now.
- Insurances were lodged to recover outstanding amount and it is in progress.
- A fix has been deployed to rectify this issue on 28.04.2023 and such transaction scenario has not been repeated thereafter.

A further reconciliation of interest outstanding being carried out. More than 90% of the reconciliation is completed as at

Action need to be taken to clear reconciled balances.

30.09.2024.
 Remaining reconciliation will be completed before 15.11.2024 and Management approval will be obtained to reverse the provision before 30.11.2024.

3.2 Operational Inefficiencies

Audit Observation

Management Comment

Recommendations

3.2.1 Foreclosed Properties

Following 06 devolved properties were temporary handed over to Sri Lanka army in 2020 and 2021 respectively to maintain quarantine centers. Covering approval had been granted by the board on 03 December 2020 (Board Minute No: 03.12.2020/11.5.02) and 18 March 2021 (Board Minute No: 18.03.2021/9.8.01) for temporary handing over the six properties as per the request made by Secretary to Ministry of Urban Development & Housing and Additional Secretary to the Ministry of Defense respectively. However significant delays were identified in reacquisition of properties or claiming on devolved properties and settling outstanding balances of respective non performing facilities.

The bank devolved Tri Star properties which have been temporarily handed over to Sri Lanka Army to establish Quarantine Centres -

In this regard the bank has been furnished with the minutes from the Cabinet Minister's meeting held on 9th July 2024, communicated by the Additional Secretary, Parliamentary Affairs and Policies. The key recommendations outlined in the related Cabinet Memorandum are as follows.

Need to take prompt actions on bank owned properties.

Name of the property	Date of Transfer	Board Approval Date	Valuation Amount (Rs. Mn)
Tri-Star, No.30 Maligawa Para, Rathmalana	06.11.2020	03.12.2020	441.60
Tri Star No. 154, Katubedda Road, Moratuwa.	16.02.2021	18.03.2021	120.21
Tri Star No.88, Maligawa Road, Rathmalana (Lot No 22)	14.12.2020	03.12.2020	52.20
Tri Star No.88, Maligawa Road, Rathmalana (Lot No 23)	14.12.2020	03.12.2020	49.70
Tri Sta No. 29/5, Kandawala Road, Rathmalana	16.02.2021	18.03.2021	80.71
Kamal cables, No.56,	06.11.2020	03.12.2020	480.00

1. In accordance with the provisions of the Land Acquisition Act No.9 of 1950(as amended), the lands can be acquired by the state to facilitate the Sri Lanka Army in establishing their sub-units on the respective properties.
2. The valuation of these properties, in accordance with the Land Acquisition Act, will be based on the assessment provided by the Government Chief valuer.
3. Budgetary allocations for the

acquisition process will be provided by the General Treasury. Considering the prevailing financial conditions, these allocations will be made in instalments and released over the next few years.

Additionally, we have received an undated communication from the Additional Secretary Parliamentary Affairs and Policies.

These positions were updated to the consortium of banks on 11.09.2024, updated to the liquidator to Tri star properties on 18.09.2024 and updated Central Bank of Sri Lanka on 30.09.2024.

3.2.2 Analysis of the amounts written off and recoveries made from the write off amount over last six years from 2018 to 2023 are as follows;

Year	Amount Written off (Rs. Mn)	Amount Recovered During the Year (Rs. Mn)	
2018	35.50	47.65	
2019	710.30	36.50	
2020	5.63	57.03	
2021	73.73	1.66	
2022	13.61	0.65	
2023	17.17	25.54	- A
Total	855.94	169.02	ccumula

amount of write off for last six years of the bank was recorded as Rs.855.94 million which included highest write off balance of Rs.616.46 Million belongs to Tandong Lanka (Pvt) Ltd during the year 2019. In the year 2023 bank had written off loan balance of Rs.17.17 million and out of that Rs.5.71 million or 33.25 per cent represents write off relating to the overseas branch.

- Although the recoveries from write off balances of year 2023 have been increased compared to

Recovery Units of the bank take every endeavour to recover the NPCFs through negotiations, litigation and property realization. If all the steps taken were failed, the bank will write off the facilities with the approval of the Board of Directors.

In retail sector writing off the loan balance as bad debts is the last resort to be followed as per the Write off policy. It is implemented after following no of recovery procedures such as Restructuring, Rescheduling, Revival and Rehabilitation attempts, legal actions or Parate actions. Total amount mentioned as write off facilities in Retail segment have followed all of the above-mentioned recovery steps.

While, having strong and regular practices, the bank has recovered Rs. 25.54Mn of write off recoveries in 2023.

Need to take all possible action to recover written off loans.

preceding year, overall recoveries are not at a satisfactory level compared with unrecovered overall write off balance.

3.2.3 Credit Card Operations.

- (i) There is a significant delay in posting the credit card usage to GL. GL posting is now up to date. The difference between GL balance and the Card Management System balance was due to a system error in Prime4 system which is now fixed. GL Posting should be up to dated.
- (ii) There is no segregation of duties in credit card application approving, limit enhancements, card creation, printing and dispatching. The said tasks are being handled from the same department under one unit head. Ideally the credit card applications and limit enhancements should be approved by an independent unit to avoid conflict of interest and fraud risk. Segregation of duties implemented. Card approving and limit enhancements are assigned under Chief Manager-Issuing. Card creation, printing and dispatching are assigned under Chief Manager-Card Operations. Proper segregation should be implemented.
- (iii) Returned credit cards are not suspended or cancelled in the credit card management system before the destruction of the physical card. This can lead to internal frauds and at the renewal date, the same will be renewed unnecessarily. The issued Credit cards are in inactive status when they are dispatched and returned. Those are kept under Dual control until destruction. Returned cards will be cancelled in the system after 6 months, giving the customer opportunity to collect the card during this period. Returned credit cards should be suspended or cancelled in the credit card management system before the destruction of the physical card.
- 3.2.4 The following table depicts the stage III impaired loan ratio of the Bank during the past four years' period. It is evidence that the ratio of stage III loans to Gross loan and advances were increased gradually during past three years period. However, the Stage 03 ratio is increased since 2020 due to,
- High inflation
 - Currency depreciation
 - Political instability of the country
 - Sectorial stress (Tourism sector, Construction sector)
 - High interest rates
 - Suspension of parate execution
- Need to closely follow up the potential default borrowers. Need to follow up NPA balances
- | Description | As at 31 December (Rs. Mn) | | | |
|--|----------------------------|--------------|--------------|--------------|
| | 2023 | 2022 | 2021 | 2020 |
| Gross Loan and Advances | 2,457,771.74 | 2,584,778.97 | 2,576,668.17 | 2,115,204.74 |
| Stage III Loan and Advances | 311,862.94 | 324,630.07 | 251,157.73 | 207,523.94 |
| (%) of Stage III Loans to the Gross Loans and Advances | 12.69 | 12.56 | 9.75 | 9.81 |
- 3.2.5 Out of total fixed deposits denominated in MVR of the Maldives branch, 53 percent and 75 percent of deposits were spread among top four (4) depositors and top ten (10) depositors as at 31 December 2023 respectively. Thus it indicates that the branch is more depend on few/limited number of customers with high deposit value which may expose to high Comment noted. Due to the unavailability of a sophisticated internet banking solution, retail customers and even many corporates cannot be attracted. The bank's ATM card cannot be used as a debit card, Need to take prompt action on diversification of its deposit base

liquidity risk.

3.2.6 Out of total fixed deposits denominated in USD of the Maldives branch, 59 percent of deposits were spread among ten (10) depositors as at 31 December 2023. Thus it indicates that the branch is more depend on few/limited number of customers with high deposit value which may expose to high liquidity risk.

while the market heavily relies on debit cards for their day-to-day needs. This limitation also hinders efforts to attract a large number of deposit customers. As a result, the bank is primarily dependent on providing tailor-made services to corporate and high-net-worth (HNW) clients, which affects the diversification of its deposit base.

Further, the bank is in the process of procuring a new internet banking solution for the entire bank, including overseas operations in Male and Seychelles. With the implementation of these digital banking platforms, the bank expects to focus more on the retail banking business by diversifying the deposit base.

As of 30th September, BOC Maldives has finalized its RFP documents and shared them with stakeholders to purchase the solutions with the required modifications.

3.2.7 Staff Loan

(i) Following non-performing long outstanding (more than 1 year) staff loan balances were identified as at 31 December 2023. The bank has not taken satisfactory level of actions to recover those long outstanding balances from the staff and all these balances were not categorized under non performing loans and advances since bank has not transferring these loans into non performing category contrary to IFRS classification. Further interest outstanding has not been identified over the period while granting deferments for the months of February, March, April, May June, July September October November and December and allowed in August 2023, who have not obtained Inflation Relieve Loan. The details are given below.

All the loan facilities were transferred to Non-performing categories which were needed to transfer. Need to follow up recovery action.

Relevant interest was received during the period of deferment allowed. Only capital was deferred.

(for the month of March, deferred interest was recovered from Bonuses)

Recovered as follows:

Over 1 year - Rs. 23,495,989.16

Over 2 Year - Rs. 6,047,711.19

Over 3 Year – Rs. 13,439,676.49

Total- Rs. 42,983,376.84

Further, recovery actions including legal actions have been

Loan Type	Balance as at 31.12.2023 (Rs. Mn)	Age Analysis		
		More than 1 Year (Rs. Mn)	More than 2 Years (Rs. Mn)	More than 3 Years (Rs. Mn)
Housing Loan	184.44	52.63	20.67	111.14
PF Loan Unified	38.28	16.96	4.26	17.06
General Loan	32.09	11.32	5.58	15.20
Distress Loan	2.83	1.46	0.05	1.33
Computer Loan	0.43	0.23	-	0.20
Special Loan	1.13	0.65	0.001	0.47
Total	259.20	83.25	30.56	145.40

initiated.

- (ii) Staff loan facilities do not maintain through ICBS system and maintain in the HCM system. Accordingly, reasonable delays were observed in the classification of loans into overdue section from regular section in the HCM system due to automated recognition is not happened. Since the staff loans deductions are directly presented to the employee's salary, it is not possible to maintain staff loans in ICBS system. Salary process is done once a month in every month and the bank transferred the NPA to overdue section just after the salary processed. Arrangements will be made to develop HCM system to generate automated reports regarding Non-Performing Advances. Using such reports, the entries should be passed manually in order to transfer loans among categories. Manual process will be applied since, GL A/C is maintained in ICBS and loans maintained in HCM and there is no link between two systems. Need automated recognition of classification in to overdue section since manual intervention may create risk of manipulation, errors, etc...
- (iii) Interest rates on staff loans (other than staff housing loan facilities) remain unchanged for employees who have been dismissed or left service as a result of disciplinary action regarding various frauds and irregularities due to absence of such internal policy/decision. The circulars will be updated with clear guidelines for the loans of dismissed employees. Need to update circulars with clear guidelines,
- (iv) (i) The Section 23.2(g) of Disciplinary Code of Bank of Ceylon which was in effect from 12 October 2021, mentioned the following; The Bank investigate the matter and thereby issue the investigation report with the Need to expedite the disciplinary

“within 21 days after the conclusion of the preliminary investigation, the Investigation Officer shall forward his report with the draft of charge sheet to the respective Assistant General Manager with notice to the Chief Internal Auditor”

The Section 25.2 of Disciplinary Code *“the Authorized Officer to issue a charge sheet, within 14 days from the date of receipt of the preliminary investigation report,”*

However, reasonable delays were identified in the process of taking disciplinary actions for frauds and irregularities done by the bank’s employees during the sample checking and this delay also caused to remain loan balances as outstanding for long period without recovering.

recommendations when some action to incident was reported to the recover long Investigation Unit. Thereafter, the outstanding draft charge sheet is issued by the balances. investigation department to the relevant Authorized Officer after getting comments from the legal department. Thereafter, the charge sheet is issued by the Authorized Officer based on the investigation report and the draft charge sheet. A formal disciplinary inquiry is conducted (if interdicted or based on any special request) and the inquiry report is placed before the Disciplinary Authority. If the final decision is to dismiss the accused employee, the approval of the Board of Directors (BOD) should be obtained.

The delay of the said process has been occurred during the period of 2020 - 2023 due to the COVID-19 pandemic, travel restrictions, fuel crisis, lack of support given by several accused employees and filing cases against the Bank by the accused employees.

The mentioned section 25.2 of the Disciplinary code - *“the Authorized Officer to issue a charge sheet, within 14 days from the date of receipt of the preliminary investigation report”* is not mandatory as per the section 59 of the Disciplinary Code – Time periods which are not mandatory.

(v) Recoveries of the long outstanding balances of loans belonging to dismissed, resigned and deceased employees are at weak level since the proper securities were not considered and satisfactory actions had not been taken to recover those balances.

Need to Out of the balance as at recover long 31.12.3023, Rs. 42.9 Mn has outstanding balances. been recovered (5 employees settled in full) Other recovery actions initiated

are as follows:

- Transfer to regular section for 15 members
- Other loans recovered except housing loan for 29 members
- Other loans except housing and UGL recovered for 10 members
- PF balances not released for 18 members to recover the loans
- Agreed to settle the loans before 31.12.2024 for 3 members
- Court cases pending and loans can be recovered from PF balances for 7 members
- Legal action imposed for 1 member
- Remind letters sent for 11 members.
- Disciplinary decision pending for 12 members.

Currently there is a suspension of Parate Execution in Sri Lanka, we are not in a position to recover the housing loans above 5 Mn

After having array of discussions, meetings, negotiations with Lazard (Consultant to GOSL), officials of Ministry of Finance (MOF) and CBSL, bank received latest restructuring proposal by ST by the letters dated 04.06.2024 and 07.06.2024 and replied by our letter dated 06.06.2024 for clarifications and consented for the said proposal by Actg. GM's letter dated 29.07.2024. The Cabinet Ministers at their meeting held on 27.08.2024 granted approval for the finalized restructuring proposal subject to submit a parliament resolution to provide

Need to follow up the negotiations.

3.2.8 As per the cabinet decision dated 30 January 2023, the Ministry of Finance (MOF) via the letter dated 14 February 2023, has communicated to the Ministry of Power and Energy, Ceylon Petroleum Corporation (CPC) and the bank on transfer of foreign currency (FCY) exposure of CPC amounting to USD 1,341 million (as of 31 December 2022) to the Government of Sri Lanka. The Secretary to the Office of the Cabinet of Ministers, by his letter dated 13 September 2023 has informed the Secretary to the Government Treasury on the Cabinet decision taken to transfer the debit from CPC to the Deputy Secretary of Treasury (DST). However, still in the process of negotiation of terms with the MOF on the restructure of CPC debt and therefore, the agreement on the same is yet to be finalized and signed by both parties.

Rs. 130 Bn for recurrent expenditure (for both BOC and PB). Further, the draft loan agreement was shared by the General Treasury on 11.09.2024 and the same was shared with GOSL with the comments/expected amendments etc. of the bank.

Further, the approval of the Board of Directors at their meeting held on 18.09.2024 was obtained with the recommendation of the Credit Committee on 13.09.2024 for the restructuring credit facility shared by the ST by his letters dated 04.06.2024 and 07.06.2024.

- 3.2.9 It was observed that in 131 number of instances aggregating to 286 hours and 29 minutes of system down time (Both partial & Full system) was recorded relating to the 13 systems as per the IT system down time report in year 2023. Unplanned system down time is higher than the planned system down time and according to the aforesaid report the times were respectively 217 hours 20 Minutes and 69 hours 07 minutes. Highest system down times was reported in Internet & Mobile Banking System, BOC Smart Passbook System and SWIFT System. The system downtimes were 75 hours 3 minutes, 71 hours 19 minutes and 61 hours 45 minutes respectively.
- The reported instances of system downtime and total number of hours is a matter of concern, particularly the unplanned downtime exceeding more than 217 hours. This is well noted and following action plan has already been initiated:
- Need to take prompt action to reduce system down time in the future
1. The Bank is currently in the process of implementing internet & mobile banking system.
 2. SWIFT system hardware is upgraded and we have not witnessed any downtime ever since.
 3. Presently bank is almost completed the TEC evaluation to procure ITSM/ITAM tool with the introduction of the COBIT-2019 requirement and this will allow us to respond swiftly to any potential issues and minimize repetitive issues.

The Bank is confident that these measures will significantly reduce system downtime in the future.

3.3 Procurement Management

Audit Observation	Management Comment	Recommendations
<p>3.3.1 As per the Definition of the Procurement manual of the Bank of Ceylon 2014, "Service means services other than consultancy services". However, there is no any internal guideline developed for the procurement of consultancy services for the Bank. Thereby, the separate guideline issued by the National Procurement Agency (NPA) in 2007 for selection & employment of consultants should be followed by the Bank. However the bank had not follows the said guideline, though the absence of bank owned guidelines.</p>	<p>Presently apply National Procurement Agency (NPA) guideline to select the consultant and use the authority levels of procurement manual of Bank of Ceylon for the financial approval. Also this will be included to the procurement manual at the time of renewal for the year 2025.</p>	<p>Need to prepare a guideline for bank or apply NPA guideline.</p>
<p>3.3.2 Implementation of "Queue Management Solution" project in 200 branches of the Bank of Ceylon. The following concerns were observed during the audit of implementation of "Queue Management Solution" project in 200 branches of the Bank.</p>	<p>Before the make payment, a negotiation was done and Fentons (Pvt) Ltd has agreed to revise the price.</p>	<p>Payment should be made on recent confirmation in the future.</p>
<p>(i) As per the letter of the Assistant Director/IT (Operations & Technical Support) dated 05 April 2016, the project was successful and the payment to the M/S Fentons (Pvt.) Ltd was recommended. However, the payment of Rs.6,219,739.40 (with tax) was made in fully to the company on 24 December 2018 after more than two years were elapsed from payment confirmation while many issues raised with this System subsequently. Accordingly, it was observed that the bank has paid to the company based on the old confirmation without considering issues raised subsequently after the confirmation date which could be negotiated for payment deduction or getting involved the Company to correct the c defects of the system.</p>	<p>As per the memorandum initiated by Organization Transformation unit (dated 15.11.2018), the original invoice value of USD 35,628.00 (invoice date 20.01.2016) has been brought down to USD 33,766.00 as a result of negotiations. This amount has been paid for the Queue Management Solution (QMS) installation & services obtained for the 04 branches.</p>	
<p>(ii) Although the bank had spent an amount of Rs. 6.22 million to implement this project, this project remained completely inoperative in Gampola, Ambilipitiya and Kuliyaipitiya branches as at the date of Audit. Moreover, system installed was not working satisfactorily in the Hulftsdorp branch and the token display has broken as confirmed. As per the email sent by the Assistant General Manager (Province Sales Management) to the Deputy General Manager</p>	<p>Pilot branches started their operations in 2015 and was operational till 2019. Subsequent technical issues and lack of support from vendor compelled pilot to be abandoned. Payment of USD 1,000/- was paid on 24.12.2018 for</p>	<p>Need to take action to recover losses/expenses and blacklist the supplier.</p>

(Support Services) on 01 October 2019, it was stated that this project has failed and the company has not provided any supportive responses towards issues faced by branches. However, Bank had paid an amount of Rs. 160,175.00 (US\$ 1000) to the company for the first year (24/12/2018-24/12/2019) maintenance although the company had not responded properly to the bank.

the period from 24/12/2018 to 24/12/2019 being 1st year maintenance charges. Assistant General Manager (Province Sales Management) was sent the e-mail on 01/10/2019 mentioning the project has failed and the company has not provided any supportive responses towards issues faced by branches. Therefore, any other payment was not made.

(iii) As per the memorandum of product and banking development division dated 23 January 2020, mentioned that Local partner (M/S Fentons (Pvt.) Ltd) does not possess adequate technical knowledge on the solution and always depend on the Principal Solution owner “Wavetec” which is an overseas partner. The required knowledge transfer to the local agent has not been taken place which was proven by poor responses and continuous negligence of the solution at pilot branches. Accordingly, it was observed that the bidders have not been evaluated properly and the Cross Functional Team (CFT) and the Corporate Procurement Committee (CPC) have not fulfilled the relevant duties and responsibilities properly. Although, a pre-bid meeting was held with the company on 03 June 2015, before the selection, the purpose of holding the pre-bid meetings has not been achieved.

Approval of the BOD was obtained for procurement of purchases/ projects with regard to the Wenasa project under a special approved procurement process. CFT involved throughout the procurement process. According to the said procedure, there was no requirement for CPC.

CFT/TEC and CPC should evaluate bidders properly to fulfill their relevant responsibilities and duties. Should take necessary action of CFT/CPC members on negligence of their duties.

(iv) As per the email sent by Assistant General Manager (Province Sales Management/HO/BOC) to Deputy General Manager (Support Services) on 01 October 2019, it was stated that “there are defects in the project in Kuliyaipitiya, Gampola and Hulftsdorp branches. The focus was on getting this project done again by another supplier”. Due to the weak responses of the company to the issues occurred in this project, the agreement with the company has been canceled through the board paper 29.01.2020/9.4.03 and approval has been given to start a new procurement again. It was observed that, many deficiencies were occurred within the procurement process which resulting to failure of the project by wasting the time

BOD has granted approval to proceed with the rolling out the QMS at 100 branches. Accordingly, the bid was awarded to Sri Lanka Telecom PLC on 28.05.2024 for installation of QMS for 100 branches.

Technical evaluation should be more effective when evaluate the bidders.

& cost incurred by the Bank.

Again, , the Board has approved for inviting public bids to implement a New Queue Management System for 200 Branches at the estimated cost of Rs. 200 million. The Corporate Procurement Committee (CPC) had selected the Sri Lanka Telecom company to perform the relevant tasks and the board had approved the decision on 03 March 2022. However, it was observed that the bid security of the bidder was extended from time to time without awarding the bid to the selected bidder since more than one year from the date of board decision. Thereafter, it was observed that this procurement process has been hold after incurring a selection cost of Rs 236,744 as at the date of Audit. Due to discontinuation of this procurement, the project was suspended in second time too. Accordingly, the bank has not achieved the project purposes of reducing queue congestion in the Branch network, managing queues properly by increasing official efficiency and customer satisfaction.

3.4 Human Resources Management

Audit Observation	Management Comment	Recommendations
(i) It was observed that 382 nos. of staff were excess in the Executive Officers under Executive Level category as per the bank’s carder confirmation as at 31 December 2023.	When promoting the employees to a particular designation, the bank has considered the upcoming promotions and retirements of the bank. We have promoted 408 employees to Assistant Manager grade from Executive Officers on 23.07.2024.	Carder confirmation should be prepared based on the actual situation except upcoming promotions and retirements.
(ii) It was observed that the bank had incurred Rs. 3.48 Million cost per employee in 2023 and it indicates Rs.0.05 million or 1.42 percent slight decrease comparing to the preceding year. The profit generated per employee was Rs. 3.11 million for the year 2023 and it indicates Rs.0.78 million or 20.05 percent further decrease comparing to the preceding year. Further Personal expenses as a percentage of net operating income of the bank was recorded as 28.33 percent for the	The bank has recruited 765 employees to the bank in the year 2023 including 250 Management Trainees and 453 Trainee Staff Assistants. Since the Trainee Staff Assistants were recruited in December 2023, those employees were counted to the staff position of the bank as at 31.12.2023, but not participated to the operational activities in the bank for the year 2023. Further, due to the higher inflation in the country, the medical expenses and cost of living were increased in recent years and also been effected to	Need to use the bank funds increasing the efficiency and effectiveness of employees.

year 2023 which has been decreased by 4.03 percent compared with preceding year and which is still higher than previous years and with other competitive commercial banks

increase the personal expenses in the bank.

(iii) Though the applications for the post of Management Trainee had been called via career portal site (online) as per the newspaper advertisement dated 06 December 2020, which was approved through board minute No.4.1 dated 20 October 2020, one candidate was selected for the aforesaid post from the offline application, which hindered the transparency and fairness of the recruitment process.

Due to online system limitation, the candidates who have applied previously for any other position(s) and persons already employed in the Bank in different capacity were not allowed by the system to apply online. Hence, with the approval of the management, it was decided to cater their applications in the offline method and the HR division has entered their applications manually to the Career Portal system. However, the offline system also checked the validation of the eligibility criteria and therefore, the ineligible applications could not be submitted via offline as well. With the view of that the candidates should not be penalized for the system error and also it is the responsibility of the Bank to provide fair opportunity to all victim candidates, as a responsible state Bank, the reported applicants were allowed to send their applications manually. It is further confirmed that only 71 qualified candidates who fulfilled the eligibility criteria, were allowed to sit for the selection examination; not all the 145 manual applicants.

Need to apply transparent application calling process.

4. Accountability and Good Governance

4.1 Corporate Plan

The progress achieved for selected target activities of the Bank as per the Corporate Plan prepared for 2023 – 2025 are given below.

Strategy	Status as at 31.12.2023	Observation	Management Comment	Recommendations	
Stability, Governance and Sustainable Growth					
Grow existing market share	Recorded 21% work remittance	21% work during	Achievement is below the target.	The target is to be reached by 2025. It was observed that post COVID-19	Need to take all possible

the year 2023.

pandemic almost all local banks entered into sever competition for worker remittances by giving cash incentives, credit facilities, etc.

measures to achieve targets.

However, the monthly average of worker remittances received has been increased annually.

We have identified several new remittance partners with good potential to enhance our market share and in the process of onboarding them.

Increase the contribution from BOC subsidiaries and associates via effective management

Not completed as targeted

Not completed as targeted.

• GOH was in a restructuring plan under Selandiva Investment Ltd. (SIC), formed by the Ministry of Finance, Economic Stabilization and National Policies (MOF). Stabilization and National Policies (SOERU of MOF). SOERU of MOF by its letter dated 04th August 2023 has informed that restructuring of GOH should be kept on hold until further notice

Need to take all possible measures to achieve targets.

The Bank has appointed new CEO and FM to oversee the operation of GOH.

• BOC Travels (PVT) Ltd (BCOT) divestment process was carried out with a Board approved divestment plan. However, in the first bidding process, it has not been able to identify suitable investor for BOCT.

• Bank has given its concurrence to divestment of MBSL holding of MBSLI. MBSL is working on Board approved divestment plan.

• Amalgamation of PDML and PDL was suspended due to high capital gain tax will arise on proposed amalgamation.

Maintain the Cost to Income ratio below 40%

Cost to income ratio as at 30.09.2023 was 55.7%

Achievement is below the target.

Cost to Income ratio has reduced to 47.93% as at August 2024.

Need to take all possible measures to achieve targets.

Several reasons have caused the increase in operating cost of the bank as follows;

• High cost of living caused to

increase staff cost.

- branch network incurring high administrative cost.
- High interest have been paid for Special Deposits product .

However, the Bank has taken continuous actions to reduce the operating cost and overhead cost at Province level and Head office level.

Excellence in Customer Experience

<p>Delight the customer via personal touch</p>	<p>- Pilot has been done in 3 Branches (Ragama, Borella SG,Rambukkana) - Tender Awarded but SLT not accepted this and requested price negotiation. QMS with difference specification was proposed by SLT - PMSC instructed to implement the project in 100 branches in 4 years with 25 branches each. - CPC meeting to be arranged for further actions. - On hold till the recommendation received from Board ICT Committee.</p>	<p>Not completed.</p>	<p>The project is in progress. 25 branches are planned to be completed by 31.12.2024 and balance 75 branches by 31.03.2025.</p>	<p>Need to expedite the project completion since too delays in progress.</p>
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Rewarding Credit Culture and Healthy Credit Portfolio

<p>Achieving the budgeted loan growth</p>	<table border="0"> <tr> <td>Business Segment</td> <td>Growth %</td> </tr> <tr> <td>Corporate</td> <td>-9.1</td> </tr> <tr> <td>BCR I</td> <td>-2.5</td> </tr> <tr> <td>BRC II</td> <td>-4.9</td> </tr> <tr> <td>Bank</td> <td>-4.8</td> </tr> </table>	Business Segment	Growth %	Corporate	-9.1	BCR I	-2.5	BRC II	-4.9	Bank	-4.8	<p>Not achieved.</p>	<p>The slow recovery from the economic challenges in 2023 has impacted.</p>	<p>Need to take all possible measures to achieve targets.</p>
Business Segment	Growth %													
Corporate	-9.1													
BCR I	-2.5													
BRC II	-4.9													
Bank	-4.8													

Strengthen the credit evaluation and monitoring process	New facilities transferred to NPA (Granted in 2022) Corporate- 1.17Bn	Not achieved.	A memorandum to Credit Committee is submitted on monthly basis on the facilities transferred to NPA within 06 month of granting date, and letters are sent to the relevant branches querying the reasons.	Need to take all possible measures to achieve targets.
Maintain 85% of the loan portfolio in performing category	Exceeding 5%	Achievement is below the target.	The Stage III ratio has been increased due to the financial stress impacted on the corporate customers due to the unexpected economic events faced.	Need to take all possible measures to achieve targets.