

## **1. Financial Statements**

### **1.1 Opinion**

The audit of the financial statements of the NSB Fund Management Company Limited (“Company”) for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the statement of comprehensive income, statement of changes in equity and cash flow statement 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. My comments and observations which I considered would be report to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **1.2 Basis for Opinion**

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

### **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 Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company 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 Company.

## **1.4 Auditor's Responsibility for the Audit of Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 Company'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 Company 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 Accounts Receivables and Payables

### 1.5.1 Receivables

Audit Issue	Management Comment	Recommendation
(i) Out of the total receivable balance of Rs.246,939,587 due from General Treasury in relation to the appointment of the Company as the lead manager for the reorientation of Sri Lanka Airlines Project in year 2016, an amount of Rs.88,939,587 which is equivalent to 36 percent of the total receivable balance, has remained outstanding since 2016 without any recovery.	NSBFMC has taken every possible action at its level to recover the balance. The latest letter with all the supporting documents were sent to the Ministry of Finance on 08.01.2025 and attached herewith (annex II).  The Board of Directors has approved at its meeting held on 27.05.2025 to make a 12-month provision for the Air Lanka Receivable. Please refer the attached board minute in annexure III.	The Company should take all necessary steps to recover the outstanding amount without further delay.
(ii) An income tax receivable balance amounting to Rs. 67,401,151 has remained outstanding since 2014 due to an over payment of income tax.	Responsible Officer –Accountant Pursuant to the discussion with the Inland Revenue Department, necessary adjustments for the over payment will be carried out.	The Company should take the necessary steps to claim the outstanding amount.
	Responsible Officer - Accountant	

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Management Comment	Recommendation
(i) Rule 17 of Financial Institutions (Customer Due Diligence)	Although every Financial Institution shall appoint a senior management level officer as the	The present compliance officer is functioning in the position since 02.11.2022 as an executive function and a KMP of the NSB Fund	It is recommended that the Company expedite the appointment of a compliance officer

<p>Rules, No. 1 of 2016 under the Financial Transactions Reporting Act, No. 06 of 2006.</p>	<p>compliance officer who shall be responsible for ensuring the Financial Institution's compliance with the requirements of the Act and these rules, the Company has failed to appoint a compliance officer who fulfills the above requirements.</p>	<p>Management Co Ltd. Her Fit and Propriety is submitted to the CBSL on an annual basis for the continuation of the post.</p>	<p>who fulfills the requirements stipulated under the Act and relevant rules.</p>
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Matter has referred to the attention of the Board of Directors of NSB FMC and Board of Directors recommended to suitable Officer from NSB Compliance division. Until appointment of suitable officer, existing officer will cover the duties at NSB FMC as Compliance Officer.

Responsible Officer  
/Committee –BIRMC

<p>(ii) Section 14(1)(b)(iv) of Financial Transactions Reporting Act No. 06 of 2006</p>	<p>The Company had not established or maintained a system with appropriate mechanism or procedures to identify and report suspicious transactions or business activities.</p>	<p>NSB FMC has secured access to the UNSCR Screening Solution (Compass System) to facilitate customer screening during onboarding, conduct periodic screenings of the existing customer base, and continuously monitor customers by verifying the source of funds for each investment. Additionally, we have an STR procedure detailed in the AML policy and have deferred the acquisition of an AML system until the merger process is completed. Please refer the attached board minute in annexure IV.</p>	<p>The Company should implement an appropriate automated system to detect suspicious transactions.</p>
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Ongoing maintenance of the STR registry to support STR recordings.

Responsible Officer -  
Compliance Officer

(iii)	Section 08 of Anti-Money Laundering & Combating of Financing of Terrorism (AML & CFT) Policy	The risk status of customers categorized as low, medium, and high has not been evaluated and updated once in every three years, once in every two years, and on an ongoing basis, respectively.	Each month, the Compliance Officer reviews the status of high-risk customers.  An annual analysis is conducted on all high, medium, and low-risk customers as part of the ML/TF risk assessment process annually.	The Company should assess customers' risk status in accordance with the relevant regulation.
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In accordance with the AML policy of NSB FMC, the risk ratings of Medium and Low risk customers are currently under further review and will be complied on or before 30.09.2025.

Please refer the annexure V - ML/TF Assessment report for the year of 2024.

Responsible Officer -  
Compliance Officer

## 1.7 IT General Controls

	<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(i)	The Company currently performs its backup procedure manually. Thus, the absence of an automated backup system may create a high probability of having human errors and potential recovery issues which resulting high risk of data accuracy.	UAT is currently underway and is expected to be completed by 31.07.2025.  Responsible Officer -Manager IT	The Company's backup procedure should be automated to minimize the risk of human errors, enhance data integrity and ensure timely and reliable data recovery in the failures or other unforeseen incidents.
(ii)	As the Company's Efixin System has not been integrated with the SWIFT System, there is a high possibility of entering erroneous	NSB FMC is upgrading its existing system to address lapses in existing system. Swift Message automation for retail customers of T-Bills Bonds and	It is recommended to expedite the automation process to prevent the drawbacks of

messages into the SWIFT system due to lack of a fully automated process.

Repo have already been completed. The automation of reverse repo, recall and replacement of securities for repo and outright transactions are in the process of upgrading with the existing system. This message automation will be completed by 31.08.2025.

unavailability of fully automated system.

- (iii) Although the revised Terms of Reference (TOR) of the IT Steering Committee approved by the Board on 29 April 2024 requires the IT Steering Committee to meet quarterly, only one meeting has been held during the year 2024.

Responsible Officer -Manager IT  
Agreed.

NSB FMC is a fully own subsidiary of NSB, and it operates under the NSB domain facility. Due to this reason, two representatives from the NSB IT division have been included in NSB FMC IT Steering Committee. However, due to NSB migrating their Co Banking system, representatives of NSB were unable to participate for the ITSC meetings.

The Company should convene the respective meetings on a quarterly basis, in accordance with the Terms of Reference (TOR).

To remove this dependency, NSB FMC updated the ITSC TOR revising mandatory participating of the NSB IT representatives and placing the “by invitation representation”.

Two meetings have been conducted so far in 2025 on 06.02.2025 and 23.06.2025.

Pursuant to the ITSC’s Terms of Reference, we plan to conduct the remaining two meetings in 2025.

Please refer the annexure VI- ITSC meeting charter.

Responsible Officer -Manager IT

## 2. Financial Review

### 2.1 Financial Result

The financial result for the year under review amounted to a profit of Rs.958,175,255 and the corresponding profit in the preceding year amounted to Rs.1,641,605,934. Therefore, a deterioration amounting to Rs.683,430,679 of the financial result was observed. The reason for the deterioration is the decrease of net gain recognized from the fair value adjustment of financial instruments by Rs.1,395,730,084, despite an increase of interest income by Rs.780,095,266 compared to the previous year.

### 2.2 Trend Analysis of major Income and Expenditure items

Analysis of major income and expenditure items of the year under review compared with the preceding year with the percentage of increase or decrease is as follows;

Description	Variance Favorable/ (Unfavorable) (Rs.)	– Variance (%)	Reasons for Variance
Interest Income	615,634,818	20%	Increase in investment portfolio.
Net Interest Income	254,633,925	26%	Increase in interest income due to increase of investment portfolio.
Fee & Commission Income	(6,298,600)	(45%)	Decrease of fee income from customer auction bids and due to completion of some trustee activities.
Net Trading Gain/ (Loss) from Financial Instruments at FVTPL	(1,395,730,084)	(61%)	Decrease in unrealized gain due to fallen down of average market rates of trading portfolio from 13.6 per cent at the end of year 2023 to 9.91 per cent in year 2024.
Personnel Costs	35,692,667	51%	Salary increment given from the salary revision and 05 months performance bonus provision as per the new Bonus policy.
Other Expenses	64,975,763	111%	Due to making a provision of Rs.53 Mn for Treasury System, and increased brokerage expenses and annual membership fee.

## 2.3 Ratio Analysis

Some important accounting ratios of the Company for the year under review as compared with the previous year are given below.

Description	Year	
	2024	2023
Return on Equity (%)	15.97	29.8
Return on Asset (%)	5.39	9.7
Risk Weighted Capital Adequacy Ratio – (Minimum Requirement - 10%)	27.6	21.3

## 3. Operational Review

### 3.1 Uneconomic Transactions

Audit Issue	Management Comment	Recommendation
The Company had entered into an agreement with Credence Analytics Company in India to implement a new Treasury Management System by the end of March 2020 and had already made an advance payment of USD 267,131 which is equivalent to Rs.53,833,248. However, the Board of Directors of the Company has decided to terminate the agreement due to the delays by the vendor in providing required services and upgrade the existing system. The amount of Rs.53,833,248 has already been paid and observed as an uneconomical expense. No legal action has been initiated by the Company so far to recover this amount.	<p>Board of Directors of NSBFMC advised to seek legal advice from Legal Division of NSB.</p> <p>According to the advice of the Board, NSB FMC referred the matter to Legal division of NSB. Legal division of NSB has referred the matter to Attorney General Department for obtaining consultation on the matter.</p> <p>On advice of Attorney General Department, details of material breaches submitted for legal proceedings against Credence Analytics.</p> <p>Responsible Officer - Manager IT</p>	The Company should take the necessary actions to claim losses from the vendor.

### 3.2 Identified Losses

Audit Issue	Management Comment	Recommendation
The Company has to pay a penalty of Rs.467,612 to Department of Inland Revenue due to the delayed payment of PAYE tax for the year of assessment 2015/16.	PAYEE for the Professional Allowance of the NSB Fund Management Company has been paid by the National Savings bank	The Company should discuss with the Department of Inland Revenue and resolve the



(NSB) under their TIN No matter. 409046266 for the period 2015/2016 (April 2015 to March 2016).

Since the NSB Fund Company is registered under separate TIN number, the PAYEE for the professional allowance is being paid by the NSB FMC from April 2016 onwards.

Please refer the annexure VIII – Letter submitted to the IRD from the NSBFMC.

Responsible Officer - Accountant

### 3.3 Human Resources Management

Audit Issue	Management Comment	Recommendation
(i) The Company has failed to appoint and retain an immediate qualified successor for the post of Chief Executive Officer of the Company and it was observed that the post of Chief Manager has been continuously vacant due to the company's incapability to attract and select appropriate person for that position.	NSB FMC is currently having a senior manager (Seconded from NSB) as the successor for the post of Chief Executive Officer.  Responsible Committee - BHRCC/BOD	The Company should take actions to attract and retain executives for an extended period.
(ii) The Company has recruited an internal audit officer for the Company who had been unemployed for over 8 years with relevant audit experience only prior to 2016. The internal audit function plays a critical role in ensuring robust internal controls, effective risk management and sound corporate governance of a Company. Therefore, appointing a candidate to such key position after a prolonged career gap and lack of recent professional	At present the internal audits of the NSBFMC conducting by the external party and to further strength the internal control and monitoring, the company has recruited an internal audit officer to the Investment Assistant III grade.  Internal audit officer has been recruited in accordance with the SOR of NSBFMC. The appointment of internal audit officer will be subject to the contract period of six months. Internal audit officer will report to the BAC. If the	The Company needs to be more concerned when recruiting employees who require extensive induction, high cost and take significant time to adopt to specialized areas such as primary dealing operations. As well the Company should focus on enrolling existing employees in structured training programmes to enhance their

engagement, may adversely affect to the expected level of performance of the company. Furthermore, the similar recruitment approaches have been observed in previous audits which have been taken into attention of the Company.

expected level of performance is not par with the company expectations, continuation of the employment will be decided by the BAC.

Responsible Officer -BAC/BHRCC

competencies and ensure operational efficiency in these specialized areas.

#### 4. Accountability and Good Governance

##### 4.1 Annual Action Plan

###### Audit Issue

As per the annual action plan 2019, although the Company had planned to introduce a Mobile App for customer convenience in the year 2019, it had not been implemented as of the date of audit on 31 May 2025.

###### Management Comment

NSB FMC is upgrading its internal Treasury system and its Customer Management System (CMS). Upon completion of upgrading, action will be taken to introduce Mobile App on or before 31.03.2026

###### Recommendation

The proposed programs should be implemented in timely manner.

Responsible Officer -Manager IT

##### 4.2 Internal Audit

###### Audit Issue

Although it was agreed that the outsourced internal auditor would conduct internal audits on a monthly basis, the reports have not been submitted regularly. Specifically, the audit reports for the months of August to December 2024 were presented to the Board Audit Committee on 13 June 2025, with significant delays from their respective examination periods.

###### Management Comment

NSB FMC conducted a Board Audit Committee meeting on 16.06.2025 and submitted internal audit reports up to December 2024. Further, Internal audit reports up to May 2025 were reviewed by the Management and submitted to the Internal Auditor (E & Y).

Responsible Officer -Internal Auditor

###### Recommendation

The Company should take the necessary actions to obtain internal audit reports from the outsourced service provider in a timely manner.