

**1.1 Opinion**  
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The audit of the Financial Statements of the Bank of Ceylon (the “Bank”) and the Consolidated Financial Statements of the Bank and its subsidiaries (“Group”) for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the Financial Statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018.

The Bank has been exempted from the provisions of Part II of the Finance Act, No. 38 of 1971 by an Order of then Minister of Finance published in the Government Gazette No. 715 of 14 May 1992 by virtue of powers vested in him by Sections 5(1) of the said Finance Act. My comments and observations which I consider should be report to parliament appear in this report.

In my opinion, the accompanying Financial Statements of the Bank and the Group give a true and fair view of the financial position of the Bank and the Group as at 31 December 2019, 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**  
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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**  
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Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Bank’s 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

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

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

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

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

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Bank, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Bank has complied with applicable written law, or other general or special directions issued by the governing body of the Bank;
- Whether the Bank has performed according to its powers, functions and duties; and
- Whether the resources of the Bank had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Financial Statements

### 1.5.1 Internal Control over the preparation of Financial Statements.

| Audit Issue   | Management Comment  | Recommendation   |
|---|---|--|
| <p>(i) As per the guideline issued by the Central Bank of Sri Lanka on Additional Guidance on Impairment of Financial Instruments (Annex I), it was noted that the Bank need to further streamline the existing impairment process.</p> <ul style="list-style-type: none"> <li>• As per CBSL guidelines, credit facilities can be upgraded from a higher stage to lower stage (e.g., from stage 3 to stage 2) by fulfilling following conditions.</li> <li>- The upgrading of credit facilities shall only be carried out by Risk Management Department and be independent from the loan review mechanism.</li> <li>- Such upgrading shall be supported with a BOD approved policy, rationale and with adequate documentation.</li> <li>- When upgrading restructured facilities, satisfactory performing period of a minimum 90 days must be considered after the due date of the 1st capital and/or interest installment post-restructure. With respect to upgrading rescheduled facilities,</li> </ul> | <p>Comments noted.</p> <p>These concerns have been addressed in the draft SLFRS 09 process manual and the Board approved for the same will be obtained before end of this year.</p> | <p>Preparation of policies and procedures on assessment and measurement of expected credit losses as per the regulatory guidelines &amp; accounting standards is required.</p> |

licensed Banks must comply with Banking Act Directions No.3/4 of 2008 on Classification of Loans and Advances, Income Recognition and Provisioning.

- Bank has to have policies and procedures in place to validate models used to assess and measure expected credit losses.

(ii) There were some entries which were posted directly to the financial statements subsequently without adjusting to the GL (SLFRS Adjustments). Such information is maintained on spreadsheets. This might lead to loss or manipulation of data.

Therefore, the bank needs to evaluate the necessity of stronger process to ensure the data accuracy of such entries.

(iii) Even though “Modification of terms resulting in concession, including extension, deferment of payment, wave off convention (rescheduled and restructured) need to be identified under “Stage 3” loans and advances, there is no any mechanism for the Bank to capture restructured facilities in the core banking system. Hence there is no way to consider such restructured facilities when calculating impairment provision of the Bank.

Comments noted.

This will be resolved with the implementation of system solution for financial reporting of which the implementation project is currently underway.

The Bank needs to go for a system solution for financial reporting to ensure the data protection and accuracy.

Modification for Core Banking system to capture restructure facilities is in progress. UAT is in progress and expected to complete the implementation before 31 December 2020.

Speedup the modification process doing for the Core Banking system to identify restructured credit facilities and no. of times that the particular loans have been restructured.

## 1.5.2 Suspense Accounts

| Audit Issue   | Management Comment   | Recommendation   |
|---|--|--|
| <p>(i) The long outstanding suspense account debtor balances of Rs.34,974,551, Rs.5,266,076 and Rs.3,960,000, were observed in Badulle, Kandy and Kahatagasdigiliya branches respectively as at 31 December 2019. Those balances were lying in the same account since more than 03 years period. Actions have now been taken to clear long outstanding balance of Kahatagasdigiliya Branch and the rectification process of Kandy branch is under progress. However long outstanding balances of Badulle branch have not been cleared due to ongoing court cases.</p> | <p><u>Suspense Accounts Debtors</u><br/>Kahatagasdigiliya Branch - Rectified<br/>Badulla Branch - Ongoing court cases<br/>Kandy Branch - Ongoing process of rectifying</p> | <p>Establish a proper mechanism to monitor the suspense account debtors and creditors balances to clear long outstanding balances.</p> |

## 1.6 Accounts Receivable and Payable

### 1.6.1 Payables

| Audit Issue  | Management Comment   | Recommendation   |
|--|--|--|
| <p>(i) It was observed that some GL accounts categorized under other liabilities have long outstanding balances as at 31 December 2019. It was further evidenced that balances of 19 General Ledger accounts aggregating to Rs.637,829,357 shows the same balance as at 31 December 2019 and 31 December 2018.</p> | <p>Arrangements will be made by the respective branches to write off balances in relation to 07 accounts on or before 31 December 2020.</p> <p>Arrangements will be made to clear the outstanding balances in the GL number 22310044 with the coordination of the respective divisions collectively.</p> <p>Relevant other cost centers of all have been informed by letter dated 04 September 2020 to rectify the matter.</p> | <p>Establish a proper mechanism to monitor and avoid the maintaining of long outstanding balances.</p> |

## 1.6.2 Advances

|      | <b>Audit Issue</b>  | <b>Management Comment</b>   | <b>Recommendation</b>  |                                       |    |                                      |       |    |                             |       |    |                                     |       |    |                       |       |    |                        |       |    |                          |       |    |                                |       |    |                             |       |    |                   |       |     |                        |       |     |                         |     |     |                           |     |     |                                       |        |     |                               |     |     |                                     |     |     |                                      |        |     |                             |     |     |                        |     |     |                                |        |     |                                     |     |  |              |                  |         |  |
|------|---|---|--|---------------------------------------|----|--------------------------------------|-------|----|-----------------------------|-------|----|-------------------------------------|-------|----|-----------------------|-------|----|------------------------|-------|----|--------------------------|-------|----|--------------------------------|-------|----|-----------------------------|-------|----|-------------------|-------|-----|------------------------|-------|-----|-------------------------|-----|-----|---------------------------|-----|-----|---------------------------------------|--------|-----|-------------------------------|-----|-----|-------------------------------------|-----|-----|--------------------------------------|--------|-----|-----------------------------|-----|-----|------------------------|-----|-----|--------------------------------|--------|-----|-------------------------------------|-----|--|--------------|------------------|---------|--|
| (i)  | <p>The total outstanding amount of top 20 Non-Performing customers was Rs. 22,339.46 million as at 31 December 2019 and it represents 28 per cent of total non-performing gross loans and advances of the Bank as at that date. Details are given below.</p> <table border="1"> <thead> <tr> <th style="text-align: center;">No.</th> <th style="text-align: center;">Name of the Customer</th> <th style="text-align: center;">Total Amount Outstanding<br/>(Rs.' Mn)</th> </tr> </thead> <tbody> <tr><td>1.</td><td>K D Ebert And Sons Holding (Pvt) Ltd</td><td style="text-align: right;">2,636</td></tr> <tr><td>2.</td><td>Jayawickrama Rice (PVT) Ltd</td><td style="text-align: right;">2,108</td></tr> <tr><td>3.</td><td>Dholiyadhoo Investments (Pvt.) Ltd.</td><td style="text-align: right;">1,446</td></tr> <tr><td>4.</td><td>NB Foods (Private)Ltd</td><td style="text-align: right;">1,253</td></tr> <tr><td>5.</td><td>Anudan Holding Pvt Ltd</td><td style="text-align: right;">1,206</td></tr> <tr><td>6.</td><td>Link Engineering Pvt Ltd</td><td style="text-align: right;">1,193</td></tr> <tr><td>7.</td><td>Ruhunu Development Contractors</td><td style="text-align: right;">1,183</td></tr> <tr><td>8.</td><td>R N Constructions (Pvt) Ltd</td><td style="text-align: right;">1,144</td></tr> <tr><td>9.</td><td>Kaduwela Holdings</td><td style="text-align: right;">1,106</td></tr> <tr><td>10.</td><td>RDMD Textile (Pvt) Ltd</td><td style="text-align: right;">1,034</td></tr> <tr><td>11.</td><td>Dhoores Retreat Pvt Ltd</td><td style="text-align: right;">947</td></tr> <tr><td>12.</td><td>Castaway Maldives Pvt Ltd</td><td style="text-align: right;">934</td></tr> <tr><td>13.</td><td>Deshika Embroidery Solution (Pvt) Ltd</td><td style="text-align: right;">944.65</td></tr> <tr><td>14.</td><td>CML-MTD Constructions Limited</td><td style="text-align: right;">866</td></tr> <tr><td>15.</td><td>Shanbe Jeans Corporation (Pvt) Ltd.</td><td style="text-align: right;">741</td></tr> <tr><td>16.</td><td>Kandyan Arts Super Complex (PVT) Ltd</td><td style="text-align: right;">724.75</td></tr> <tr><td>17.</td><td>Isuru Engineering (PVT) Ltd</td><td style="text-align: right;">686</td></tr> <tr><td>18.</td><td>Kamal Cables (PVT) Ltd</td><td style="text-align: right;">677</td></tr> <tr><td>19.</td><td>Menaka Rice Products (PVT) Ltd</td><td style="text-align: right;">863.06</td></tr> <tr><td>20.</td><td>Nawaloka Steel Industries (PVT) Ltd</td><td style="text-align: right;">647</td></tr> <tr> <td></td> <td style="text-align: right;"><b>Total</b></td> <td style="text-align: right;"><b>22,339.46</b></td> </tr> </tbody> </table> | No.   | Name of the Customer   | Total Amount Outstanding<br>(Rs.' Mn) | 1. | K D Ebert And Sons Holding (Pvt) Ltd | 2,636 | 2. | Jayawickrama Rice (PVT) Ltd | 2,108 | 3. | Dholiyadhoo Investments (Pvt.) Ltd. | 1,446 | 4. | NB Foods (Private)Ltd | 1,253 | 5. | Anudan Holding Pvt Ltd | 1,206 | 6. | Link Engineering Pvt Ltd | 1,193 | 7. | Ruhunu Development Contractors | 1,183 | 8. | R N Constructions (Pvt) Ltd | 1,144 | 9. | Kaduwela Holdings | 1,106 | 10. | RDMD Textile (Pvt) Ltd | 1,034 | 11. | Dhoores Retreat Pvt Ltd | 947 | 12. | Castaway Maldives Pvt Ltd | 934 | 13. | Deshika Embroidery Solution (Pvt) Ltd | 944.65 | 14. | CML-MTD Constructions Limited | 866 | 15. | Shanbe Jeans Corporation (Pvt) Ltd. | 741 | 16. | Kandyan Arts Super Complex (PVT) Ltd | 724.75 | 17. | Isuru Engineering (PVT) Ltd | 686 | 18. | Kamal Cables (PVT) Ltd | 677 | 19. | Menaka Rice Products (PVT) Ltd | 863.06 | 20. | Nawaloka Steel Industries (PVT) Ltd | 647 |  | <b>Total</b> | <b>22,339.46</b> | Agreed. | Ensure that satisfactory actions have been taken by the bank to recover the total due amount from the customers. |
| No.  | Name of the Customer  | Total Amount Outstanding<br>(Rs.' Mn)   |  |                                       |    |                                      |       |    |                             |       |    |                                     |       |    |                       |       |    |                        |       |    |                          |       |    |                                |       |    |                             |       |    |                   |       |     |                        |       |     |                         |     |     |                           |     |     |                                       |        |     |                               |     |     |                                     |     |     |                                      |        |     |                             |     |     |                        |     |     |                                |        |     |                                     |     |  |              |                  |         |  |
| 1.   | K D Ebert And Sons Holding (Pvt) Ltd  | 2,636   |  |                                       |    |                                      |       |    |                             |       |    |                                     |       |    |                       |       |    |                        |       |    |                          |       |    |                                |       |    |                             |       |    |                   |       |     |                        |       |     |                         |     |     |                           |     |     |                                       |        |     |                               |     |     |                                     |     |     |                                      |        |     |                             |     |     |                        |     |     |                                |        |     |                                     |     |  |              |                  |         |  |
| 2.   | Jayawickrama Rice (PVT) Ltd   | 2,108   |  |                                       |    |                                      |       |    |                             |       |    |                                     |       |    |                       |       |    |                        |       |    |                          |       |    |                                |       |    |                             |       |    |                   |       |     |                        |       |     |                         |     |     |                           |     |     |                                       |        |     |                               |     |     |                                     |     |     |                                      |        |     |                             |     |     |                        |     |     |                                |        |     |                                     |     |  |              |                  |         |  |
| 3.   | Dholiyadhoo Investments (Pvt.) Ltd.   | 1,446   |  |                                       |    |                                      |       |    |                             |       |    |                                     |       |    |                       |       |    |                        |       |    |                          |       |    |                                |       |    |                             |       |    |                   |       |     |                        |       |     |                         |     |     |                           |     |     |                                       |        |     |                               |     |     |                                     |     |     |                                      |        |     |                             |     |     |                        |     |     |                                |        |     |                                     |     |  |              |                  |         |  |
| 4.   | NB Foods (Private)Ltd   | 1,253   |  |                                       |    |                                      |       |    |                             |       |    |                                     |       |    |                       |       |    |                        |       |    |                          |       |    |                                |       |    |                             |       |    |                   |       |     |                        |       |     |                         |     |     |                           |     |     |                                       |        |     |                               |     |     |                                     |     |     |                                      |        |     |                             |     |     |                        |     |     |                                |        |     |                                     |     |  |              |                  |         |  |
| 5.   | Anudan Holding Pvt Ltd  | 1,206   |  |                                       |    |                                      |       |    |                             |       |    |                                     |       |    |                       |       |    |                        |       |    |                          |       |    |                                |       |    |                             |       |    |                   |       |     |                        |       |     |                         |     |     |                           |     |     |                                       |        |     |                               |     |     |                                     |     |     |                                      |        |     |                             |     |     |                        |     |     |                                |        |     |                                     |     |  |              |                  |         |  |
| 6.   | Link Engineering Pvt Ltd  | 1,193   |  |                                       |    |                                      |       |    |                             |       |    |                                     |       |    |                       |       |    |                        |       |    |                          |       |    |                                |       |    |                             |       |    |                   |       |     |                        |       |     |                         |     |     |                           |     |     |                                       |        |     |                               |     |     |                                     |     |     |                                      |        |     |                             |     |     |                        |     |     |                                |        |     |                                     |     |  |              |                  |         |  |
| 7.   | Ruhunu Development Contractors  | 1,183   |  |                                       |    |                                      |       |    |                             |       |    |                                     |       |    |                       |       |    |                        |       |    |                          |       |    |                                |       |    |                             |       |    |                   |       |     |                        |       |     |                         |     |     |                           |     |     |                                       |        |     |                               |     |     |                                     |     |     |                                      |        |     |                             |     |     |                        |     |     |                                |        |     |                                     |     |  |              |                  |         |  |
| 8.   | R N Constructions (Pvt) Ltd   | 1,144   |  |                                       |    |                                      |       |    |                             |       |    |                                     |       |    |                       |       |    |                        |       |    |                          |       |    |                                |       |    |                             |       |    |                   |       |     |                        |       |     |                         |     |     |                           |     |     |                                       |        |     |                               |     |     |                                     |     |     |                                      |        |     |                             |     |     |                        |     |     |                                |        |     |                                     |     |  |              |                  |         |  |
| 9.   | Kaduwela Holdings   | 1,106   |  |                                       |    |                                      |       |    |                             |       |    |                                     |       |    |                       |       |    |                        |       |    |                          |       |    |                                |       |    |                             |       |    |                   |       |     |                        |       |     |                         |     |     |                           |     |     |                                       |        |     |                               |     |     |                                     |     |     |                                      |        |     |                             |     |     |                        |     |     |                                |        |     |                                     |     |  |              |                  |         |  |
| 10.  | RDMD Textile (Pvt) Ltd  | 1,034   |  |                                       |    |                                      |       |    |                             |       |    |                                     |       |    |                       |       |    |                        |       |    |                          |       |    |                                |       |    |                             |       |    |                   |       |     |                        |       |     |                         |     |     |                           |     |     |                                       |        |     |                               |     |     |                                     |     |     |                                      |        |     |                             |     |     |                        |     |     |                                |        |     |                                     |     |  |              |                  |         |  |
| 11.  | Dhoores Retreat Pvt Ltd   | 947   |  |                                       |    |                                      |       |    |                             |       |    |                                     |       |    |                       |       |    |                        |       |    |                          |       |    |                                |       |    |                             |       |    |                   |       |     |                        |       |     |                         |     |     |                           |     |     |                                       |        |     |                               |     |     |                                     |     |     |                                      |        |     |                             |     |     |                        |     |     |                                |        |     |                                     |     |  |              |                  |         |  |
| 12.  | Castaway Maldives Pvt Ltd   | 934   |  |                                       |    |                                      |       |    |                             |       |    |                                     |       |    |                       |       |    |                        |       |    |                          |       |    |                                |       |    |                             |       |    |                   |       |     |                        |       |     |                         |     |     |                           |     |     |                                       |        |     |                               |     |     |                                     |     |     |                                      |        |     |                             |     |     |                        |     |     |                                |        |     |                                     |     |  |              |                  |         |  |
| 13.  | Deshika Embroidery Solution (Pvt) Ltd   | 944.65  |  |                                       |    |                                      |       |    |                             |       |    |                                     |       |    |                       |       |    |                        |       |    |                          |       |    |                                |       |    |                             |       |    |                   |       |     |                        |       |     |                         |     |     |                           |     |     |                                       |        |     |                               |     |     |                                     |     |     |                                      |        |     |                             |     |     |                        |     |     |                                |        |     |                                     |     |  |              |                  |         |  |
| 14.  | CML-MTD Constructions Limited   | 866   |  |                                       |    |                                      |       |    |                             |       |    |                                     |       |    |                       |       |    |                        |       |    |                          |       |    |                                |       |    |                             |       |    |                   |       |     |                        |       |     |                         |     |     |                           |     |     |                                       |        |     |                               |     |     |                                     |     |     |                                      |        |     |                             |     |     |                        |     |     |                                |        |     |                                     |     |  |              |                  |         |  |
| 15.  | Shanbe Jeans Corporation (Pvt) Ltd.   | 741   |  |                                       |    |                                      |       |    |                             |       |    |                                     |       |    |                       |       |    |                        |       |    |                          |       |    |                                |       |    |                             |       |    |                   |       |     |                        |       |     |                         |     |     |                           |     |     |                                       |        |     |                               |     |     |                                     |     |     |                                      |        |     |                             |     |     |                        |     |     |                                |        |     |                                     |     |  |              |                  |         |  |
| 16.  | Kandyan Arts Super Complex (PVT) Ltd  | 724.75  |  |                                       |    |                                      |       |    |                             |       |    |                                     |       |    |                       |       |    |                        |       |    |                          |       |    |                                |       |    |                             |       |    |                   |       |     |                        |       |     |                         |     |     |                           |     |     |                                       |        |     |                               |     |     |                                     |     |     |                                      |        |     |                             |     |     |                        |     |     |                                |        |     |                                     |     |  |              |                  |         |  |
| 17.  | Isuru Engineering (PVT) Ltd   | 686   |  |                                       |    |                                      |       |    |                             |       |    |                                     |       |    |                       |       |    |                        |       |    |                          |       |    |                                |       |    |                             |       |    |                   |       |     |                        |       |     |                         |     |     |                           |     |     |                                       |        |     |                               |     |     |                                     |     |     |                                      |        |     |                             |     |     |                        |     |     |                                |        |     |                                     |     |  |              |                  |         |  |
| 18.  | Kamal Cables (PVT) Ltd  | 677   |  |                                       |    |                                      |       |    |                             |       |    |                                     |       |    |                       |       |    |                        |       |    |                          |       |    |                                |       |    |                             |       |    |                   |       |     |                        |       |     |                         |     |     |                           |     |     |                                       |        |     |                               |     |     |                                     |     |     |                                      |        |     |                             |     |     |                        |     |     |                                |        |     |                                     |     |  |              |                  |         |  |
| 19.  | Menaka Rice Products (PVT) Ltd  | 863.06  |  |                                       |    |                                      |       |    |                             |       |    |                                     |       |    |                       |       |    |                        |       |    |                          |       |    |                                |       |    |                             |       |    |                   |       |     |                        |       |     |                         |     |     |                           |     |     |                                       |        |     |                               |     |     |                                     |     |     |                                      |        |     |                             |     |     |                        |     |     |                                |        |     |                                     |     |  |              |                  |         |  |
| 20.  | Nawaloka Steel Industries (PVT) Ltd   | 647   |  |                                       |    |                                      |       |    |                             |       |    |                                     |       |    |                       |       |    |                        |       |    |                          |       |    |                                |       |    |                             |       |    |                   |       |     |                        |       |     |                         |     |     |                           |     |     |                                       |        |     |                               |     |     |                                     |     |     |                                      |        |     |                             |     |     |                        |     |     |                                |        |     |                                     |     |  |              |                  |         |  |
|      | <b>Total</b>  | <b>22,339.46</b>  |  |                                       |    |                                      |       |    |                             |       |    |                                     |       |    |                       |       |    |                        |       |    |                          |       |    |                                |       |    |                             |       |    |                   |       |     |                        |       |     |                         |     |     |                           |     |     |                                       |        |     |                               |     |     |                                     |     |     |                                      |        |     |                             |     |     |                        |     |     |                                |        |     |                                     |     |  |              |                  |         |  |
| (ii) | <p>There is a list of customers to whom loans were granted in 2019 and those loans are transferred to NPL category in the same year. The following customers represents the top 10 customers of the above list.</p>   | <p><u>Menake Rice Products (PVT) Ltd</u><br/>Customer agreed and credit committee approval obtained to service the facility in monthly payments of Rs.2.5Mn and Rs.3.5 million each in first and second years respectively.</p> | <p>Ensure that satisfactory customer evaluations have been performed by the bank before granting loans to a particular customer.</p> |                                       |    |                                      |       |    |                             |       |    |                                     |       |    |                       |       |    |                        |       |    |                          |       |    |                                |       |    |                             |       |    |                   |       |     |                        |       |     |                         |     |     |                           |     |     |                                       |        |     |                               |     |     |                                     |     |     |                                      |        |     |                             |     |     |                        |     |     |                                |        |     |                                     |     |  |              |                  |         |  |

| No    | Name of the Borrower                      | Total Amount Outstanding as at 31.12.2019 (Rs.'Mn) |   |
|-------|---|--|---|
| 1     | Menake Rice Products (PVT) Ltd            | 850  | <u>N AND A Engineering Services (PVT) Ltd</u><br>Three loans were granted on 29 August 2018 and were transferred to Non-performing section on 28 February 2019. These loans were rescheduled on 27 June 2019 and categorized as NPL under the prevailing credit policy of the Bank. |
| 2     | N AND A Engineering Services (PVT) Ltd    | 630  |   |
| 3     | Jayawickrama Rice (PVT) Ltd               | 600  |   |
| 4     | Fits Aviation (PVT) Ltd                   | 246  |   |
| 5     | Daya Apparel Export (PVT) Ltd             | 172.62   |   |
| 6     | Olympus Constructions (PVT) Ltd           | 156  |   |
| 7     | K D Ebert & Sons Holding (PVT) Ltd        | 125  |   |
| 8     | Sunrise Industries (Private) Limited      | 101  |   |
| 9     | Komuthi Engineering Services (PVT) Ltd    | 96   |   |
| 10    | Ruhunu Deve: Contractors & Eng: (PVT) Ltd | 95   |   |
| Total |   | 3,071.62   | <u>Jayawickrama Rice (PVT) Ltd</u><br>After releasing the total balance of TR facility, the customer has stopped remitting the cash flow to the account and due to that the TR facility and all the term loans have been transferred to NPL category.                               |

Olympus Constructions (PVT) Ltd

Agreed cash flow not being routed through the bank and facilities transferred to Non-Performing category.

K D Ebert & Sons Holding (PVT) Ltd (KDESH)

The bank classified all the facilities granted to KDESH as NPA in July 2018, as per the instructions given by Central Bank of Sri Lanka. Therefore, any facility granted to the company after July 2018 is automatically transferred to NPA section with the initial grant. After classifying all the facilities as NPA, the bank has granted 14 fresh facilities to the company during the year 2019 amounting Rs.416.31M (O/S as at

31.12.2019 - Rs.124.86M), for three main projects. The bank is receiving cash flow from said projects and payments are released to them to operate the projects with the approval of RDA and NWSDB with a view of completion of the projects. Therefore, the bank's indirect exposure (Letter of Guarantee) will be reduced. Further part of the bank facilities is recovered from the cash flow. (O/S of the 14 credit facilities as at date: Rs.51.5M).

Komuthi Engineering Services (PVT) Ltd

Sub loans granted in 2019 under the invoice discounting facilities of Rs.300 Mn has transferred to NPA section and payments related to these invoices has not received yet.

Ruhunu Deve: Contractors & Eng: PVT Ltd

Sub loans granted under the invoice discounting facilities of Rs.95.0 Mn was transferred to NPA section. Payment related to these invoices has not received yet.

- |   |  |  |
|---|--|--|
| <p>(iii) The total outstanding balance from Kaduwela Holdings (PVT) Ltd and its Directors were Rs.1,120.509 million as at 31 December 2019 and the loans were transferred to non performing category on 23 June 2017. The details are given in the following table.</p> | <p>Letter of demand sent and cases filed against the borrower and guarantors in commercial high court.</p> | <p>Ensure strict compliance with approved credit granting process of the Bank.</p> |
|---|--|--|



| Facility No.   | Facility Amount (Rs.'Mn) | Date Granted | Outstanding as at 31.12.2019 (Rs.' Mn) |
|--|--------------------------|--------------|--|
| <b>Kaduwela Holdings (PVT) Ltd – Metropolitan Branch</b> |                          |              |  |
| C/A 78332257   | POD 70.0                 | 25.07.2016   | 134.092                                |
| LN 80186447  | STL 100.0                | 16.12.2016   | 95.301                                 |
| LN 80118030  | 1.346                    | 29.11.2016   | 1.346                                  |
| LN 80119165  | 0.669                    | 29.11.2016   | .669                                   |
| Letter of Credit   | 400                      | 07.07.2016   | 426.579                                |
| Hypothecation Loans                                      | 450                      | 07.07.2016   | 447.985                                |
| Sub Total  |                          |              | <b>1,105.972</b>                       |
| <b>Kaduwela Branch – D C J Katugampola</b>               |                          |              |  |
| C/A 71241036   | TOD                      | 13.03.2017   | 10.470                                 |
| 6080020150087  | Leasing                  | 09.09.2015   | 4.067                                  |
| 9800   |                          |              |  |
| Sub Total  |                          |              | <b>14.537</b>                          |
| Grand Total  |                          |              | <b>1,120.509</b>                       |

A Forensic audit examination has been carried out by a private audit firm on 04 September 2018 against the loans granted to Kaduwela Holdings (PVT) Ltd and its directors by the Metropolitan Branch and Kaduwela Branch of the Bank. The examination revealed the following weaknesses of each branch.

#### Metropolitan Branch

- Improper discharge of duties by the Metropolitan Branch officials when granting facilities and monitoring of the utilization of the proceeds by the company
- Misuse of delegated authority limits of the officers
- Granting unauthorized excess
- Settlement of facility via Bank's own funds
- Unsatisfactory actions taken to recover the outstanding amount related to Letter of Credit and Hypothecation loans

#### Kaduwela Branch

- Not obtaining relevant approvals
- Non-recovery of unauthorized TOD granted
- Misuse of delegated authority limits of the officers
- Granting of unauthorized excess

- (iv) The aggregated total loan outstanding balance of K D Ebert & Sons Holding (Pvt) Ltd was Rs.7,730.592 million. The forensic audit performed by a private audit firm in November 2018, against the facilities granted to K D Ebert & Sons Holding (Pvt) Ltd
- At time to time, the bank has informed the company the requirement for adherence to the terms and conditions imposed by the bank and the
- Ensure strict compliance with approved credit granting process of the Bank.

revealed the clear case of over-financing by the Bank. The Bank has issued certain terms and conditions and those have not been met by the customer and the bank has failed to ensure the compliance with those conditions by the customer, despite restructuring the facilities. The details of the facilities are summarized in the below table.

company was unable to meet them. However, with the view of closely monitoring the facilities, the credit files were transferred to the Business Revival Unit in September 2020.

| <b>Facility Type</b>         | <b>Outstanding<br/>Balance as at 31<br/>December 2019<br/>(Rs.' Mn)</b> |
|------------------------------|---|
| Loans                        | 2,070.106   |
| Overdraft Facilities         | 172.568   |
| Leasing Facilities           | .832  |
| Letter of Guarantee<br>Claim | 392.307   |
| Direct Exposure              | 2,635.813   |
| Letters of Guarantees        | 5,094.779   |
| <b>Total Exposure</b>        | <b>7,730.592</b>  |

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

| <b>Reference to<br/>Laws, Rules<br/>Regulations<br/>etc.</b>                | <b>Non-compliance</b>   | <b>Management Comment</b>   | <b>Recommendation</b>   |
|---|---|---|---|
| <b>Office<br/>Instruction<br/>Circular No.<br/>13/2018<br/>Section 11.9</b> | Mortgage of plant, mahinery and equipments should be based on an external valuation report or in the absence of such valuation, the net book value which is calculated by using 20% depreciation rate since the year of acqutition should be taken as the mortgeged value.<br><br>Though the Maanuk International (Pvt) Ltd's machinaries were taken along with the tea factory as mortgaged against Rs.327,000,000 worth of loans granted on 07 December 2016, all the machinaries except 03 were fully depreciated which shows the net book vale as zero. | Rectified.<br><br>Bank has considered the valuation given by the bank panel valuer and new valuation has been called on 16 September 2018. Present valuation is sufficient to securitize the facilities which were granted by the bank. | Ensure compliance with the instructions given under relevant office instruction circular. |

**Office  
Instruction  
Circular  
No.90/99**

Though the Branch need to closely monitor and control the temporary overdraft facilities of the Branch, it was observed that total TOD facilities amounting to Rs.1,091 million has been transfred to non performing catgory as at 31 December 2019 without taking adequate recovary actions. The following top 10 customers were identified.

| No    | Customer                                | TOD<br>Facility<br>(Rs.'Mn) |
|-------|---|-----------------------------|
| 1     | N S Ameresekere                         | 225                         |
| 2     | Gunathilake<br>Constructions (PVT) Ltd  | 187                         |
| 3     | RDMD Textile (PVT)<br>Ltd               | 108                         |
| 4     | Walker Sons &<br>Co.Engineers (PVT) Ltd | 104                         |
| 5     | C J Croos                               | 99                          |
| 6     | S S Croos                               | 99                          |
| 7     | L H Piyasena & Co.<br>(PVT) Ltd         | 76                          |
| 8     | Shan Tra & Tours (PVT)<br>Ltd           | 67                          |
| 9     | M S Kaduwela Holdings<br>(PVT) Ltd      | 64                          |
| 10    | M S Bobby Industries<br>(PVT) Ltd       | 62                          |
| Total |   | 1,091                       |

NS Amarasekara

Letter of Demand was sent and meanwhile, it is informed that there is a settlement between the customer and General Treasury.

Gunathilake Constructions (PVT) Ltd

Cases were filed against the company and directors and summons could not be served due to the company\_and directors were not in the given addresses.

RDMD Textile (PVT) Ltd

The facility has resheduled at present and customer has started the repayment. There is no arrears up to now.

Walker Sons & Co.Engineers (PVT) Ltd

The company has to receive approximately USD 2.6 million for a project on which the overdraft facility of Rs.100 Mn was granted. The company is negotiating with their client to obtain the balance payment.

C J Croos

This overdraft has been created due to fraud transaction. Internal investigation is already done and disciplinary actions have been taken against the involved staff members.

S S Croos

This overdraft has been created due to fraud transaction. Internal investigation is already done

Actions need to be taken to closely monitor and control the temporary overdraft facilities in order to prevent them from transferring into non-performing catgory.

and disciplinary actions have been taken against the involved staff members.

L H Piyasena & Co. (PVT) Ltd

After having several discussions with the bank, the company and its' directors were agreed to deposit at least Rs. 300 million by selling their two properties. However, this was not worked up to now.

The bank has proposed several recovery plans and however, the directors finally communicated their inability to service neither any option.

Total credit package of the group was transferred to "Business Revival Unit" since December 2020 to take revival measures.

Shan Tra & Tours (PVT) Ltd  
Available documents have been submitted to the legal department in order to initiate legal actions.

M S Bobby Industries (PVT) Ltd  
Customer is absconding. Further legal consultation is going on with a president counsellor in order to initiate legal action.

**Office Instruction Circular No.46/2010**  
Section 7.5

Article below 18 karat should not be accepted. However during the branch inspection, 08 instances in Maradana Branch and 01 instance in Minuwangoda Branch were observed that the Bank had accepted articles which are lower than 18 karats.

Maradana Branch  
Informed borrower to redeem the article within one month and follow-up action will be done. Staffs concerned have been advised not to accept article below 18K.

Ensure compliance with the instructions given under relevant office instruction circular.

Minuwangoda Branch  
 Rectified. (Article redeemed  
 by customer)  
 Staff members are being  
 advised not to accept article  
 below 18K.

|   |  |  |  |
|---|--|--|--|
| <p><b>Public Enterprise Circular No PED 03/2016</b><br/>         dated 29 April 2016<br/>         Paragraph (2)</p> | <p>PAYE Tax of public officers including employees of state owned enterprises, should be deducted from tax liable employee earnings as per the relevant regulations of the IRD. However, the collective agreement signed between the Bank and Ceylon Bank's employee union directs to pay the income tax liability of the employees by the Bank without being deducted from the employees' salary. Based on that, the Bank has paid Rs.681,789,671 as PAYE tax on behalf of employees for the year ended 31 December 2019, without deducting from employee's earnings.</p> | <p>Based on the collective agreement signed between the Bank and Ceylon Bank's employee union subject to approval of Board of Directors, Bank as the employer settles the income tax liability of the employees without it being deducted from their salary.</p> | <p>Ensure compliance with the instructions issued under PED Circular No.03/2016.</p> |
|---|--|--|--|

**Receipt of Financial Remittance to the Batticaloa Campus (Private) Limited and the Affiliated Institutions through Bank of Ceylon**

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|   |  |  |   |
|---|--|--|---|
| <p><b>Foreign Exchange Act No. 12 of 2017 / Exchange Control Act No 24 of 1953.</b></p> | <p>Foreign exchange buying and selling should be reported to the Central Bank using Form I and Form II. However, evidences were not available to audit to ensure that, the Bank had reported to CBSL inward remittances worth of Rs.504,710,570 relating to 04 number of accounts maintained by Kollupitiya and Kaththankudy Branches.</p> | <p>Generally, all the inward remittances which are over one million are reported in every fortnight to the Central Bank of Sri Lanka by the bank.</p> <p>Accordingly, all the remittances which have mentioned in observation have reported to the Central Bank.</p> <p>Further, when inward remittances have been reported to the Central Bank under Form II at the time of conversion and data submitted to Central Bank's Forex Net system.</p> | <p>Ensure compliance with the instructions given under relevant Acts.</p> |
|---|--|--|---|

Now Forex net System was suspended by CBSL and hence Bank is not in a position to confirm the accuracy of the statement given by the auditor.

Further, the bank has now established a mechanism to maintain backups of the transactions reporting using Form II under new system of CBSL.

Now a system is in place in the Bank to report foreign exchange buying and selling transactions through Form1/ Form2.

**Sec. 8.3**

The sources of funds and wealth or beneficial ownership of funds mentioned in the KYC form should be identified of politically exposed persons. However, under the source of fund and source of wealth, it had been mentioned as “other” and specified as foreign remittance. But there had not been identified specific foreign investor.

Money received through international banks can be reasonably considered as received from legal sources and there is no requirement to find sources of funds/wealth by the BOC again.

Sources of Funds of PEPs need to be clearly identified as per the instructions given under relevant office instruction circular.

Money received through inward remittance, had been credited to relevant beneficiary accounts correctly by the bank as per the instruction given to the bank. Also, the purpose/use of funds had also been recognized appropriately by the bank.

**Section 12.1**

Minimum frequency requirement for ongoing due diligence based on customer risk profile is within every 06 months for politically exposed persons. However evidences were not available to ensure that ongoing due diligence for the PEP accounts have been undertaken in every 06

There are no sufficient documentary evidences to verify that relevant Branches had reviewed according to the circular instructions.

Ensure compliance with the instructions given under relevant office instruction circular.

months period by the Kollupitiya Branch.

Following steps had been taken by the branches as ongoing due diligence.

- Inquiring customers before credit inward remittances to customer accounts.
- Inquiring customers by the officers of respective branches regarding unusual transactions which were identified by AMLOCK system which was used by Bank of Ceylon for preventing anti money laundering transactions.

Bank of Ceylon is using "Clari5" system for AML and CFT purposes w.e.f March 2019.

The system is used to conduct ongoing due diligence on business transactions with politically exposed persons and high risk customers automatically.

### Section 4.3

All cash deposits exceeding rupees two hundred thousand (200,000) or equivalent in any foreign currency made into an account separately or in aggregate by a third-party customer, it should have a record of name, address, identification number of a valid identification document, purpose and the signature of the third party customer. However, a sum of Rs. 60,980,000 had been deposited as a current cash deposit into the account of Batticaloa Campus (Pvt) Limited without indicating aforesaid specific information.

Out of 10 instances, 9 instances were made at kanthakkudy Branch.

Branch Manager confirmed that these deposits were made by two employees of the institution and those two persons were coming to the branch regularly for day to day banking operations as representatives of the customer.

Ensure that the relevant information is entered when making deposits exceeding Rs.200,000 in order to comply with the instructions given under relevant office instruction circular.

Further, since the manager was well aware that those

employees were working in the institution, those deposits had not been considered as deposits made by a third party.

The remaining cash deposit of Rs.500,000 had been deposited through Battaramulla Branch.

|   |  |  |
|---|--|--|
| <p><b>Section 3.3.14</b> Where two or more accounts are opened by one customer, the specific purpose to be recorded for which such accounts are opened, in order to enable ongoing Customer Due Diligence of all accounts.</p> <p>However the specific purposes have not been clearly mentioned when opening two accounts by the customer in Kollupitiya Branch and Welikanda Branch”.</p> <p>The specific purpose has mentioned as “higher education institution” when opening the account at Kollupitiya Branch while it was mentioned as “education” when opening the account at Welikanda Branch under the title of “nature of business”.</p> | <p>The Batticaloa Campus (Pvt.) Ltd. had opened two accounts at Kollupitya branch, out of those two accounts A/C no 78495137 had opened in LKR currency for business purposes.</p> <p>Account no 79387634 of Kollupitiya branch which was USD currency denominated account was opened on 30 June 2016, and no transactions has been done through this account.</p> <p>In addition to that account no 82603832 at BOC Wellikanda branch which is LKR denominated current account had been opened for the propose of salary payments of employees who were engaged in constructions of the Betticaloa Campus.</p> <p>They had selected Welikanda branch as it was the nearest branch to the construction site.</p> | <p>Ensure compliance with the instructions given under relevant office instruction circular.</p> |
| <p><b>Section 3.1.1</b> It is prohibited to open, operate or maintain any anonymous account, any account in a false name or in a name of a fictitious person or any account that is identified only by a</p>  | <p>BOC Kanthankudhi branch had opened account No. 74791337 which was named as "Malik Abdhulla Bin</p>  | <p>Ensure compliance with the instructions given under</p>                                       |



number. Even though there are no documentary evidences for business registration, a current account had been opened under the name of “Malik Abdullah bin Abdul Aziz University Collage” which bare the account no of 74791337.

Abdhul Asis Unversity College Batticala" based on Memorandum of understanding (MOU) signed between Ministry of youth Affairs and Skills Development and Hira Foundation on 11 June 2013. relevant office instruction circular.

The chairman of Hira Foundation has requested from the manager, to open current account.

The Chairman of Hira foundation has requested from the manager, Kaththankudi branch, by his letter dated 19 June 2013 to open a current account under the name of "Malik Abdhulla Bin Abdhul Asis University College Batticalao" at Kanthankudhi branch with a copy of above MOU.

At the time of account opening, the branch manager had inquired about the non-availability of business registration and the customer had informed him that proposed campus is expected to name as "Malik Abdhulla Bin Abdhul Asis Unversity College Batticalao" and had informed to open the current account by the same name for the account.

Further, manager declared that the same was confirmed though newspaper articles and articles in internet during that time. The same articles are still can be read in the internet. Based on the above,

the account was opened in the name of "Malik Abdhulla Bin Abdhul Asis Unversity College Batticalao".

**Annexure IV**

Even though following warning signals were identified, the Bank has not paid any attention to them.

- a) Account that show frequent large value transactions without a business reason.
- b) A customer who builds up large balances, not consistent with the known turnover of the customer's business, especially where there is a subsequent transfer overseas.
- c) Business account(s) where deposits or withdrawals are primarily in cash rather than cheques and this is not consistent with the usual activities of a business of that nature.
- j) A large number of individuals making deposits into the same account.
- q) A Business that is reluctant to reveal details about its activities or to provide financial statements.
- y) Charity/relief organization linked to various transactions.
- ee) Multiple parties to a transaction, complex transaction

**Section (a)**

The account had been opened with the objective of establishing a campus. Authorized officers of the account had informed that these funds are used for the construction of the campus buildings. During time large scale building constructions were going on in the proposed land which justified the transaction volume.

**Section (b)**

At the time of opening the account, it has been mentioned in the KYC the source of funds as foreign remittances and value is more than USD 10,000. Therefore it is observed that this account has been opened for a specific purpose and customer had revealed it at the time of opening the account.

**Section (c)**

This account has been opened with the objective of establishing a campus. And it is revealed by the customer at the opening of the account, as to the nature of remittances being foreign remittances. Therefore, it is different from the usual activities of a business account.

Ensure

compliance with the instructions given under relevant office instruction circular.

**Section (j)**

This had been due to the nature of the account opening.

**Section (q)**

This account has been opened for a specific purpose and customer had revealed it at the time of opening the account. Bank has not requested for financial statements of the customer.

**Section (y)**

This is not a charity/relief organization as per the documents submitted to the bank.

**Section (ee)**

Remittances to the account had been received through SWIFT. Therefore transactions have not been considered as complex by the bank.

**1.8 IT General Controls**

|                   | Audit Issue  | Management Comment  | Recommendation   |                   |                        |  |   |
|-------------------|--|---|--|-------------------|------------------------|--|---|
| (i)               | <p>The Bank does not maintain adequate user account details in the user lists, which were collected during the audit. The below table indicates such inadequate details which did not include sufficient user account details.</p> <table border="1"> <thead> <tr> <th style="text-align: center;">Missing Field</th> <th style="text-align: center;">Applications</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Deactivation date</td> <td style="text-align: center;">Prime4, Treasury, ICBS</td> </tr> </tbody> </table> | Missing Field   | Applications   | Deactivation date | Prime4, Treasury, ICBS | <p>Deactivation of User IDs Of Prime4 handles through active Directory and deactivation date is available in the logs.</p> <p>Last User ID change date is recorded in the Treasury and ICBS Systems and from that deactivation date can be obtained.</p> | <p>Ensure the maintenance of adequate user account details and the details are make available for the audit purposes.</p> |
| Missing Field     | Applications   |   |  |                   |                        |  |   |
| Deactivation date | Prime4, Treasury, ICBS   |   |  |                   |                        |  |   |
| (ii)              | <p>The 32 number of resigned user accounts are not deactivated and remained active even after their resignation dates in the leasing system at</p>   | <p>Passwords already deactivated. Steps have been taken to disable user</p> | <p>Steps need to be taken to deactivate the user accounts of</p> |                   |                        |  |   |

the time of auditor's review on 20 January 2020.

accounts as stated in the annexure.

resigned employees in the leasing system on a timely manner.

(iii) The non-utilized user accounts of 13, 18, 40 and 27 respectively existed in the Finacle Treasury, HCM, Leasing and ICBS systems at the time of auditor's review on 20 January 2020, since the users had not logged into the respective systems during the financial period.

**Finacle Treasury**  
We have already deactivated the two users mentioned and confirm that All users are now in "active" status in the Finacle Treasury System.

Steps need to be taken to deactivate the non-utilized user accounts prevailed in different systems.

**Leasing system**

Out of 41 employees, 33 employees have not resigned from the employment.

Only 2 employees have resigned and 6 employees have retired from the bank service.

Relevant actions have been taken to disable from active stage for resigned and retired employees.

However, system password has been deactivated for the working employees.

**ICBS system**

User accounts cannot be eliminated due to all are active users of the ICBS system. Password has been disabled for all users.

**HCM**

Passwords already deactivated. HCM Profile Status cannot be changed due to ongoing inquiries.

- (iv) Adequate password parameters had not been defined for the application level security configurations of the below systems and shortcomings will depicted in below Table.

| Password Parameter  | Application | Applied Setting | Leading                  |
|---|-------------|-----------------|--------------------------|
| Minimum password length   | HCM         | 6<br>Character  | 8<br>Characters or more  |
|   | Leasing     | 6<br>Character  |                          |
| Frequency of forced password changes *                                | HCM         | 90 days         | 90 days – 4<br>Passwords |
| Number of passwords that must be used before using a password again * | HCM         | 0<br>Passwords  |                          |
| Idle session logout time  | ICBS        | 30<br>minutes   | 15 Minutes<br>or less    |
|   | Treasury    | 30<br>Minutes   |                          |

System parameters can be changed to comply with the minimum password length, frequency of expiry and idle session logout time.

Adequate password parameters need to be defined for the application level security configurations.

The bank explores the Possil of checking the previously passwords according recommended configurations.

\* These two parameters must be set in conjunction with each other to avoid the use of the same password for at least one year.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.23 Billion and the corresponding profit in the preceding year amounted to Rs.21 Billion. Therefore, an improvement amounting to Rs.2 Billion of the financial result was observed. The main reason for the improvement is the reduction of income tax expense due to exemption granted by the Department of Inland Revenue on interest income earned from Sri Lanka Development Bonds (SLDB) with effect from 01 April 2018.

## 2.2 Trend Analysis of major Income and Expenditure items

2.2.1 The following table summaries the financial results of the Bank in the year under review and the preceding four years period.

| <b>Year</b>  | <b>2019</b> | <b>2018</b> | <b>2017</b> | <b>2016</b> | <b>2015</b> |
|--|-------------|-------------|-------------|-------------|-------------|
| Interest Income (Rs. Mn)                             | 220,477     | 195,394     | 171,344     | 134,685     | 112,745     |
| % of Increase/Decrease compare to the preceding Year | 13%         | 14%         | 27%         | 19%         |             |
| Interest Expenses (Rs. Mn.)                          | 145,331     | 129,836     | 112,988     | 80,728      | 66,419      |
| % of Increase/Decrease compare to the preceding Year | 12%         | 15%         | 40%         | 22%         |             |
| Profit Before Tax (Rs.Mn)                            | 29,685      | 33,416      | 30,343      | 31,189      | 25,279      |
| % of Increase/Decrease compare to the preceding Year | -11%        | 10%         | -3%         | 23%         |             |

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

| <b>Description</b>                           | <b>Variance Amount Increase/ (Decrease) (Rs'000)</b> | <b>Variance %</b> | <b>Reason for the Variance</b>   |
|--|--|-------------------|--|
| Interest Income                              | 25,083,204   | 13                | Interest income on loans and advances has increased by 17 per cent mainly backed by increase in term loans, overdraft and personal loans.                          |
| Interest expense                             | 15,494,700   | 12                | Deposit base has increased from 1.8 trillion in 2018 to 2 trillion by end of 2019 showing a 13 per cent growth rate.   |
| Impairment Charges for loan and other losses | 3,556,764  | 24                | Non-performing loans have been increased by 1.17 per cent by following similar situation of the whole industry.  |
| Income Tax                                   | (5,826,233)  | (47)              | An exemption has been granted by the Department of Inland Revenue on interest income earned from Sri Lanka Development Bonds (SLDB) with effect from 1 April 2018. |
| Other Liabilities                            | 14,255,258   | 72                | Net employee benefit liability on Bank of Ceylon pension trust fund has been increased as per the actuarial valuation report in 2019.                              |

## 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  |       |
|---|----------------|-------|-------|
|   |                | 2019  | 2018  |
| <b>Performance Ratios</b>                           |                |       |       |
| Return on Equity (ROE)                              | 10.6           | 16.8  | 17.3  |
| Return on Assets (ROA)                              | 1.0            | 1.3   | 1.6   |
| Interest Margin                                     | 3.6            | 3.2   | 3.1   |
| <b>Assets Quality Ratio</b>                         |                |       |       |
| Gross Nonperforming Advances (NPL)                  | 4.6            | 4.8   | 3.6   |
| <b>Capital Adequacy Ratios</b>                      |                |       |       |
| Tier 1 Capital (Minimum 10%)                        | 13.0           | 11.16 | 10.3  |
| Total Capital (Minimum 14%)                         | 16.6           | 15.58 | 14.58 |
| <b>Statutory Ratio</b>                              |                |       |       |
| Liquid Assets Ratio (Minimum Requirement 20%)       | 27.8           | 24.6  | 24.5  |
| Liquidity Coverage Ratio (Minimum Requirement 100%) |                | 125.6 | 115.0 |

\* Sector ratios were extracted from the information published by Central Bank of Sri Lanka

## 3. Operational Review

### 3.1 Identified Losses

| Audit Issue   | Management Comment | Recommendation  |
|---|--------------------|---|
| (i) Investigation Branch of the Internal Audit Department has completed investigations on 24 no of identified fraudulent cases during the year 2020 and 40 no of fraudulent cases during the year 2019 which are involved with both financial and non-financial values. Details of the fraudulent cases are given as an annexure 01 to this report. | Agreed             | Internal controls of the bank need to be further strengthened in order to avoid frauds. |

### 3.2 Management Inefficiencies

| Audit Issue   | Management Comment   | Recommendation  |
|---|--|---|
| (i) The rent agreement entered between the Bank and Property Development PLC in relation to renting out of head office building has lapsed on 30 June 2019. A new agreement has not | Board of Directors of the Bank has granted its approval only for the rent for the period from 01 July 2019 to 31 March 2020. Further, Board has instructed to request a rent reduction from PDL based on a fresh valuation | Recommended speed up the rent value finalization process and enter into a new agreement between |

been entered between two parties due to the negotiation process with PDL towards rent reduction is in progress. The rent has been paid as agreed in the previous agreement.

with effect from 01 April 2020. Since, the agreement period is 3 years, rent applicable for the rest of the period to be finalized. Negotiation process with PDL is in progress. After finalization of the rent for the total period of 3 years from 01 July 2019, agreement will be executed.

the Bank and PDL.

(ii) It was observed that the Treasury Guarantees provided on loans of USD 45 million and USD 11.25 million granted to Lanka Sathosa Ltd were expired on 30 April 2015 and 31 July 2015 respectively and renewal had not been occurred even up to 13 October 2020.

Treasury Guarantees of Lanka Sathosa Ltd lapsed on 30.04.2015 and 31.07.2015. Claims were lodged on 30.04.2015 and 27.07.2015. The Cabinet approval has been granted on 26.02.2020 for annual budgetary allocation for debt servicing (Capital and interest only up to 30.12.2019) after approval of next annual budget for import loans. (Bank has to waive off the interest from 01.01.2020 up to the date of reschedulment).

Speedup the treasury guarantees obtaining process.

### 3.3 Transactions of Contentious Nature

| Audit Issue   | Management Comment       | Recommendation |                          |           |       |           |                                     |         |                                    |           |                                    |           |                            |           |                                 |         |                          |               |              |                          |   |   |
|---|--------------------------|----------------|--------------------------|-----------|-------|-----------|-------------------------------------|---------|------------------------------------|-----------|------------------------------------|-----------|----------------------------|-----------|---------------------------------|---------|--------------------------|---------------|--------------|--------------------------|---|---|
| <p>The Bank has made a contentious payment aggregating to Rs.32,039,733 to the former General Manager as premature retirement benefits during the year 2020 following a Board Decision on 04 March 2020. The details of the payments made are given in the below table.</p> <table border="1" style="width: 100%; margin-top: 10px;"> <thead> <tr> <th style="text-align: left;">Types of Payment</th> <th style="text-align: right;">Amount (Rs.)</th> </tr> </thead> <tbody> <tr> <td>Entertainment Allowances</td> <td style="text-align: right;">7,564,516</td> </tr> <tr> <td>Bonus</td> <td style="text-align: right;">9,007,169</td> </tr> <tr> <td>Bonus Advance payment on April 2020</td> <td style="text-align: right;">411,586</td> </tr> <tr> <td>Contribution to Pension Trust Fund</td> <td style="text-align: right;">5,814,877</td> </tr> <tr> <td>15% Difference of Salary &amp; Pension</td> <td style="text-align: right;">7,049,516</td> </tr> <tr> <td>Contribution to Trust Fund</td> <td style="text-align: right;">1,453,719</td> </tr> <tr> <td>Under charge of Vehicle Benefit</td> <td style="text-align: right;">656,250</td> </tr> <tr> <td>Vehicle Maintenance Cost</td> <td style="text-align: right;"><u>82,100</u></td> </tr> <tr> <td><b>Total</b></td> <td style="text-align: right;"><b><u>32,039,733</u></b></td> </tr> </tbody> </table> | Types of Payment         | Amount (Rs.)   | Entertainment Allowances | 7,564,516 | Bonus | 9,007,169 | Bonus Advance payment on April 2020 | 411,586 | Contribution to Pension Trust Fund | 5,814,877 | 15% Difference of Salary & Pension | 7,049,516 | Contribution to Trust Fund | 1,453,719 | Under charge of Vehicle Benefit | 656,250 | Vehicle Maintenance Cost | <u>82,100</u> | <b>Total</b> | <b><u>32,039,733</u></b> | - | <p>Avoid from contentious payments which gives wrong precedent.</p> |
| Types of Payment  | Amount (Rs.)             |                |                          |           |       |           |                                     |         |                                    |           |                                    |           |                            |           |                                 |         |                          |               |              |                          |   |   |
| Entertainment Allowances  | 7,564,516                |                |                          |           |       |           |                                     |         |                                    |           |                                    |           |                            |           |                                 |         |                          |               |              |                          |   |   |
| Bonus   | 9,007,169                |                |                          |           |       |           |                                     |         |                                    |           |                                    |           |                            |           |                                 |         |                          |               |              |                          |   |   |
| Bonus Advance payment on April 2020   | 411,586                  |                |                          |           |       |           |                                     |         |                                    |           |                                    |           |                            |           |                                 |         |                          |               |              |                          |   |   |
| Contribution to Pension Trust Fund  | 5,814,877                |                |                          |           |       |           |                                     |         |                                    |           |                                    |           |                            |           |                                 |         |                          |               |              |                          |   |   |
| 15% Difference of Salary & Pension  | 7,049,516                |                |                          |           |       |           |                                     |         |                                    |           |                                    |           |                            |           |                                 |         |                          |               |              |                          |   |   |
| Contribution to Trust Fund  | 1,453,719                |                |                          |           |       |           |                                     |         |                                    |           |                                    |           |                            |           |                                 |         |                          |               |              |                          |   |   |
| Under charge of Vehicle Benefit   | 656,250                  |                |                          |           |       |           |                                     |         |                                    |           |                                    |           |                            |           |                                 |         |                          |               |              |                          |   |   |
| Vehicle Maintenance Cost  | <u>82,100</u>            |                |                          |           |       |           |                                     |         |                                    |           |                                    |           |                            |           |                                 |         |                          |               |              |                          |   |   |
| <b>Total</b>  | <b><u>32,039,733</u></b> |                |                          |           |       |           |                                     |         |                                    |           |                                    |           |                            |           |                                 |         |                          |               |              |                          |   |   |



### 3.4 Procurement Management

| Audit Issue   | Management Comment        | Recommendation            |                             |                             |         |     |     |       |      |       |     |       |                      |         |        |       |                       |       |       |       |              |       |       |       |  |  |
|---|---------------------------|---------------------------|-----------------------------|-----------------------------|---------|-----|-----|-------|------|-------|-----|-------|----------------------|---------|--------|-------|-----------------------|-------|-------|-------|--------------|-------|-------|-------|--|--|
| <p>A procurement plan had been prepared by the Bank for the financial year 2019 according to the paragraph 4.2 of the Procurement Manual issued by the Bank of Ceylon. Considerable deviations were observed when analyzing the progress achieved against the estimated value. The details are summarized below.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Procurement Type</th> <th style="text-align: center;">Estimated Value (Rs.)' Mn</th> <th style="text-align: center;">Actual (Rs.)' Mn</th> <th style="text-align: center;">Progress as a % of Estimate</th> </tr> </thead> <tbody> <tr> <td>Vehicle</td> <td style="text-align: right;">959</td> <td style="text-align: right;">299</td> <td style="text-align: right;">31.18</td> </tr> <tr> <td>Land</td> <td style="text-align: right;">1,500</td> <td style="text-align: right;">770</td> <td style="text-align: right;">51.33</td> </tr> <tr> <td>IT related Equipment</td> <td style="text-align: right;">4,779.5</td> <td style="text-align: right;">3420.5</td> <td style="text-align: right;">71.57</td> </tr> <tr> <td>Branch Transformation</td> <td style="text-align: right;">1,500</td> <td style="text-align: right;">347.2</td> <td style="text-align: right;">23.15</td> </tr> <tr> <td>Construction</td> <td style="text-align: right;">4,315</td> <td style="text-align: right;">3,035</td> <td style="text-align: right;">70.34</td> </tr> </tbody> </table> | Procurement Type          | Estimated Value (Rs.)' Mn | Actual (Rs.)' Mn            | Progress as a % of Estimate | Vehicle | 959 | 299 | 31.18 | Land | 1,500 | 770 | 51.33 | IT related Equipment | 4,779.5 | 3420.5 | 71.57 | Branch Transformation | 1,500 | 347.2 | 23.15 | Construction | 4,315 | 3,035 | 70.34 | <p>Actual expenditure is below the budgeted value because of the reasons such as;</p> <p>i) Cancellation of some IT procurements.</p> <p>ii) Cancellation of procurement of vehicles; 02 nos. of 16 seater Vans, 16 nos. SUV Type Vehicles, 4 nos. of cash carriers, 60 nos. of motor cycles, 1 no. Propaganda Vehicle as per the restrictions imposed by the Government on purchasing of vehicles for Government Institutions.</p> <p>iii) Completion/commencement delays of contracts due to environmental factors (eg. Easter attack on April 2019, heavy rainfall from May to December 2019, Presidential election November 2019)</p> <p>iv) Non-commencement of few planned IT procurements in the Year 2019 such as system for procurement, desktop virtualization, land infrastructure of H/O building etc.</p> | <p>It is recommended to prepare the procurement plan with more concern by considering all the external factors and take all necessary steps to achieve satisfactory progress towards the estimated procurement activities.</p> |
| Procurement Type  | Estimated Value (Rs.)' Mn | Actual (Rs.)' Mn          | Progress as a % of Estimate |                             |         |     |     |       |      |       |     |       |                      |         |        |       |                       |       |       |       |              |       |       |       |  |  |
| Vehicle   | 959                       | 299                       | 31.18                       |                             |         |     |     |       |      |       |     |       |                      |         |        |       |                       |       |       |       |              |       |       |       |  |  |
| Land  | 1,500                     | 770                       | 51.33                       |                             |         |     |     |       |      |       |     |       |                      |         |        |       |                       |       |       |       |              |       |       |       |  |  |
| IT related Equipment  | 4,779.5                   | 3420.5                    | 71.57                       |                             |         |     |     |       |      |       |     |       |                      |         |        |       |                       |       |       |       |              |       |       |       |  |  |
| Branch Transformation   | 1,500                     | 347.2                     | 23.15                       |                             |         |     |     |       |      |       |     |       |                      |         |        |       |                       |       |       |       |              |       |       |       |  |  |
| Construction  | 4,315                     | 3,035                     | 70.34                       |                             |         |     |     |       |      |       |     |       |                      |         |        |       |                       |       |       |       |              |       |       |       |  |  |

### 3.5 Human Resources Management

|                                       | Description  | Management Comment   | Recommendation   |                           |    |                                   |    |                |    |                |    |                   |    |                   |    |                                       |    |                          |    |                                    |    |                 |    |                               |    |              |           |  |  |
|---------------------------------------|--|--|--|---------------------------|----|-----------------------------------|----|----------------|----|----------------|----|-------------------|----|-------------------|----|---------------------------------------|----|--------------------------|----|------------------------------------|----|-----------------|----|-------------------------------|----|--------------|-----------|--|--|
| (i)                                   | The approved cadre of the Bank for the year 2019 was 11,310 employees and the actual cadre as at that date was 10,058 which consists 8,503 permanent staff and 1,555 contract basis employees. Therefore 1,252 posts are vacant as at 31December 2019.   | Approval of the Board will be obtained to recruit new employees for the Bank with the recommendation of HRPC after assessing the required carder.  | Take necessary steps to recruit the employees for the vacant positions to ensure smooth functioning of Bank's activities.                                    |                           |    |                                   |    |                |    |                |    |                   |    |                   |    |                                       |    |                          |    |                                    |    |                 |    |                               |    |              |           |  |  |
| (ii)                                  | Forty Eight (48) numbers of vacant posts were observed in Internal Audit Division when compared with the approved cadre of 126 employees as at 31 December 2019. The vacancies exist in following staff categories.  | Most of the vacancies have been filled with assigning of the staff with new promotions. i.e. Assistant General Managers, Senior Managers, Etc..<br><br>Recently, applications were called for assigning staff to investigations and 06 staff assigned accordingly. | Take necessary steps to recruit the employees for the vacant positions of Internal Audit Division to ensure smooth functioning of internal audit activities. |                           |    |                                   |    |                |    |                |    |                   |    |                   |    |                                       |    |                          |    |                                    |    |                 |    |                               |    |              |           |  |  |
|                                       | <table border="1"> <thead> <tr> <th>Staff Category</th> <th>No. of Vacancies</th> </tr> </thead> <tbody> <tr> <td>Assistant General Manager</td> <td>02</td> </tr> <tr> <td>Chartered Accountants non-banking</td> <td>07</td> </tr> <tr> <td>Senior Manager</td> <td>04</td> </tr> <tr> <td>Branch Manager</td> <td>09</td> </tr> <tr> <td>Assistant Manager</td> <td>05</td> </tr> <tr> <td>Executive officer</td> <td>04</td> </tr> <tr> <td>Executive Audit officer – non banking</td> <td>08</td> </tr> <tr> <td>Junior Executive officer</td> <td>02</td> </tr> <tr> <td>Junior Audit Officer – non banking</td> <td>01</td> </tr> <tr> <td>Staff Assistant</td> <td>05</td> </tr> <tr> <td>Audit Assistant – non banking</td> <td>01</td> </tr> <tr> <td><b>Total</b></td> <td><b>48</b></td> </tr> </tbody> </table> | Staff Category   | No. of Vacancies   | Assistant General Manager | 02 | Chartered Accountants non-banking | 07 | Senior Manager | 04 | Branch Manager | 09 | Assistant Manager | 05 | Executive officer | 04 | Executive Audit officer – non banking | 08 | Junior Executive officer | 02 | Junior Audit Officer – non banking | 01 | Staff Assistant | 05 | Audit Assistant – non banking | 01 | <b>Total</b> | <b>48</b> |  |  |
| Staff Category                        | No. of Vacancies   |  |  |                           |    |                                   |    |                |    |                |    |                   |    |                   |    |                                       |    |                          |    |                                    |    |                 |    |                               |    |              |           |  |  |
| Assistant General Manager             | 02   |  |  |                           |    |                                   |    |                |    |                |    |                   |    |                   |    |                                       |    |                          |    |                                    |    |                 |    |                               |    |              |           |  |  |
| Chartered Accountants non-banking     | 07   |  |  |                           |    |                                   |    |                |    |                |    |                   |    |                   |    |                                       |    |                          |    |                                    |    |                 |    |                               |    |              |           |  |  |
| Senior Manager                        | 04   |  |  |                           |    |                                   |    |                |    |                |    |                   |    |                   |    |                                       |    |                          |    |                                    |    |                 |    |                               |    |              |           |  |  |
| Branch Manager                        | 09   |  |  |                           |    |                                   |    |                |    |                |    |                   |    |                   |    |                                       |    |                          |    |                                    |    |                 |    |                               |    |              |           |  |  |
| Assistant Manager                     | 05   |  |  |                           |    |                                   |    |                |    |                |    |                   |    |                   |    |                                       |    |                          |    |                                    |    |                 |    |                               |    |              |           |  |  |
| Executive officer                     | 04   |  |  |                           |    |                                   |    |                |    |                |    |                   |    |                   |    |                                       |    |                          |    |                                    |    |                 |    |                               |    |              |           |  |  |
| Executive Audit officer – non banking | 08   |  |  |                           |    |                                   |    |                |    |                |    |                   |    |                   |    |                                       |    |                          |    |                                    |    |                 |    |                               |    |              |           |  |  |
| Junior Executive officer              | 02   |  |  |                           |    |                                   |    |                |    |                |    |                   |    |                   |    |                                       |    |                          |    |                                    |    |                 |    |                               |    |              |           |  |  |
| Junior Audit Officer – non banking    | 01   |  |  |                           |    |                                   |    |                |    |                |    |                   |    |                   |    |                                       |    |                          |    |                                    |    |                 |    |                               |    |              |           |  |  |
| Staff Assistant                       | 05   |  |  |                           |    |                                   |    |                |    |                |    |                   |    |                   |    |                                       |    |                          |    |                                    |    |                 |    |                               |    |              |           |  |  |
| Audit Assistant – non banking         | 01   |  |  |                           |    |                                   |    |                |    |                |    |                   |    |                   |    |                                       |    |                          |    |                                    |    |                 |    |                               |    |              |           |  |  |
| <b>Total</b>                          | <b>48</b>  |  |  |                           |    |                                   |    |                |    |                |    |                   |    |                   |    |                                       |    |                          |    |                                    |    |                 |    |                               |    |              |           |  |  |

#### Annexure 01

| Nature of Fraud  | Year 2020    |                       | Year 2019    |                       |
|--|--------------|-----------------------|--------------|-----------------------|
|  | No. of Cases | Financial Value (Rs.) | No. of Cases | Financial Value (Rs.) |
| Fraudulent POS transactions  | 1            | 25,000                | 2            | 163,574               |
| Fraudulent ATM withdrawal  | 5            | 869,494               | 5            | 392,529               |
| Fraudulent fund transactions through Just Pay  | 8            | 317,343               | -            | -                     |
| Granting loans & withdrawing funds of the customers without their consent<br>(Nature of Fraud: Irregularities on loan facilities granted and withdrawing funds based on forged documents by an employee) | 1            | 14,500,000            |              |                       |

|  |   |           |   |             |
|--|---|-----------|---|-------------|
| Irregularities on loan facilities granted based on post-dated cheques  | 2 | 7,147,000 | 1 | 13,360,000  |
| Misusing bank funds by encashing cheques without physical cash by an employee  | 1 | N/A       | - | -           |
| Pawning fake/dud article   | 1 | 32,000    | 1 | 764,000     |
| Skimmed card transactions  | 1 | 3,100     | 3 | 1,481,447   |
| Submitting forged qualification at the time of employment by an employee   | 2 | N/A       |   |             |
| Withdrawal made by an employee on customer account   | 1 | 15,000    |   |             |
| Cheque Fraud by collecting blank cheques from the customers by an employee   |   | -         | 1 | 484,000     |
| Creating ATM card in the system by placing officer's password without officer's consent & defrauding customers' interest money |   | -         | 1 | 14,053      |
| Creating forged FD on the system without physical cash under his name by an employee   |   | -         | 1 | 8,115,000   |
| Creating fraudulent facilities & irregularities on pawning   |   | -         | 1 | N/A         |
| Forged entries on an application by an employee  |   | -         | 1 | N/A         |
| Frauding bank funds by an employee debiting GL Accounts  |   | -         | 2 | 22,249,577  |
| Frauding bank funds for gambling by an employee  |   | -         | 1 | 86,700      |
| Fraudulent balance confirmation  |   | -         | 4 | N/A         |
| Fraudulent cash withdrawal   |   | -         | 1 | 102,000     |
| Fraudulent cheque payment  |   | -         | 2 | 318,000     |
| Fraudulent fund transfer   |   | -         | 1 | \$ 311,040  |
| Fraudulent fund transfer via internet banking facility   |   | -         | 2 | 1,437,400   |
| Fraudulent POS transactions due to system failure  |   | -         | 1 | 19,590      |
| Irregular liquor stock & defrauding money from customers   |   | -         | 1 | 20,100      |
| Irregularities & limitations on leasing facilities granted   |   | -         | 1 | N/A         |
| Irregularities on loan facilities granted as a SME loan  |   | -         | 1 | 131,000,000 |
| Irregularities on loan facilities granted to relatives   |   | -         | 2 | 15,000,000  |
| Irregularities on OD facilities granted based on post-dated cheques  |   | -         | 2 | 60,000,000  |

