

Sri Lanka Savings Bank Limited - 2024

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Sri Lanka Savings Bank Limited (“Bank”) for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a material accounting policy information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

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

1.2 Basis for Opinion

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

Emphasis of Matter

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

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

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

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

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

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

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous

evaluation of the activities of the Bank, and whether such systems, procedures, books, records and other documents are in effective operation;

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

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Unreconciled Control Accounts or Records

Audit Issue	Management Comment	Recommendation																																	
(i) An unidentified Margin Account Loan balance of Rs. 21,438,407 was reported under “Other Liabilities of Pramukha Savings Development Bank (PSDB)” in the Financial Statements as at 31 December 2024. This balance has remained unsettled in the Financial Statements for a period exceeding ten years.	<p>Out of the Margin Account balance of Rs.21,438,407 as at 31.12.2024, a sum of Rs.5,653,986.27 is payments made by borrowers. The respective borrowers have been fully settled obligations in respect to PSDB. The breakup is given below.</p> <table> <tr> <th>Loan No.</th><th>Name</th><th>Amount Rs</th></tr> <tr> <td></td><td>Wonderlight</td><td>924,586.63</td></tr> <tr> <td></td><td>Consumers</td><td></td></tr> <tr> <td></td><td>CDK Lokuge</td><td>8,299.64</td></tr> <tr> <td>91</td><td>De Croose Kumar</td><td>500,000.00</td></tr> <tr> <td>22</td><td>A Amarakoon</td><td>100.00</td></tr> <tr> <td>568</td><td>Saliya Photo</td><td>1000.00</td></tr> <tr> <td></td><td>Vanik Corporation, Puttalam Agriculture</td><td>2,500,000.00</td></tr> <tr> <td>706 & 715</td><td>D W Wijesinghe</td><td>70,000.00</td></tr> <tr> <td>360</td><td>Lakpharma</td><td>1,650,000.00</td></tr> <tr> <td></td><td></td><td><u>5,653,986.27</u></td></tr> </table>	Loan No.	Name	Amount Rs		Wonderlight	924,586.63		Consumers			CDK Lokuge	8,299.64	91	De Croose Kumar	500,000.00	22	A Amarakoon	100.00	568	Saliya Photo	1000.00		Vanik Corporation, Puttalam Agriculture	2,500,000.00	706 & 715	D W Wijesinghe	70,000.00	360	Lakpharma	1,650,000.00			<u>5,653,986.27</u>	Necessary actions should be taken to clear the long outstanding balances within a reasonable period of time.
Loan No.	Name	Amount Rs																																	
	Wonderlight	924,586.63																																	
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Steps will be taken to pass account entries for the above each balances to remove from Margin Account.

- Loan No. 510 T G N Ponniah has paid Rs.19,200.00 in advance in respect to the re-scheduled loan and the same amount was kept in Margin Account to deduct in future installments.
- Rests of other balances are either connected to pending litigation action or to be obtained

Board approval to set off against the available loan balance and to write off the balances of each loan.

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| (ii) The 'Other Liabilities' in the Financial Statements include an unidentified suspense account balance of Rs. 5,344,465, comprising unidentified bank deposits. | These deposits were made directly by the customers without remarks to identify the customer. Hence, those have been transferred to suspense account. The bank has made every effort to identify them and time to time following up to identify them. Further, there had not been any amount accumulated to this in the year 2024 and up to August 2025. | Appropriate actions need to be taken to identify and resolve these balances within a reasonable time frame. |
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1.5.2 Going Concern of the Organization

Audit Issue	Management Comment	Recommendation
The Director of the Department of Bank Supervision of the Central Bank of Sri Lanka, by Letter No. 02/19/319/0001/005 dated 11 January 2024, instructed the Bank to complete the absorption process by 31 March 2024. This deadline was subsequently extended to 30 June 2025. However, as of 15 July 2025, the Bank has not completed the absorption process and has obtained a further extension until 31 December 2025.	Bank has transferred 74% of the assets of the bank. As the Legal Department of NSB has indicated that there are defects in the title of some of the properties, Bank has sought the opinion from Hon. Attorney General's department in this regard. The AG's department has requested to obtain a Court Order under Companies Act No 07 of 2007. The Board of Directors has requested the Central Bank to extend the time till 31 st December 2025 and Central Bank has granted approval for this.	The merger process should be expedited to prevent existing resources from remaining idle.

1.5.3 Documentary Evidences not made available for Audit

Audit Issue		Management Comment	Recommendation
No evidence was observed to verify the following assets vested from Pramuka Savings and Development Bank (PSDB).		<p>1. Discount paid in advance has been transferred at the vesting of PSDB. Hence, there is no evidence available for verification.</p> <p>2. There are two appeal cases pending before the Supreme Court regarding an issue on Gratuity payments of PSDB employees of which total case value is Rs.7,098,200. The cases are</p> <p>•SC/HC/LA/01/2017</p> <p>•SC/HC/LA/02/2017</p>	Adequate supporting documents and detailed breakdowns should be maintained for all balances presented in the financial statements.
Item	Amount (Rs.)		
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Discount paid in advance	13,356,809		

Deposit fund on behalf of PSDB L/T case 7,098,200

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
The following balances have remained outstanding for several years without recovery.	Stamp duty receivable amount is a payment made when acquiring of a mortgaged property to the Bank on defaulted loan customer. This amount could be recovered only when the property is disposed.	Timely and appropriate actions should be undertaken to recover the long-outstanding balances.
Item Amount (Rs.)		
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Stamp duty – receivable 1,999,000		
Post-date cheque discounted A/C 349,419	Post-date cheque discounted A/C: legal action taken to recover the balance.	

1.6.2 Payables

Audit Issue	Management Comment	Recommendation
A PSDB borrowing amount of Rs. 31,707,499 disclosed under “Due to Other Borrowers” has remained in the same account for over three years.	Pramuka Savings and Development Bank (PSDB) Borrowing- These are unclaimed by the PSDB customers. Hence, these balances are in the PSDB Borrowing account. Every six months, we report the balances of PSDB liabilities to the CBSL.	The Bank should verify the current status of this balance and take appropriate actions to clear the balance.

1.7 Related Parties and Related Party Transactions not disclosed

Audit Issue	Management Comment	Recommendation
Although the NSB Fund Management Company (NSBFMC) and the Bank (reporting entity) belong to the same group where each parent, subsidiary, and fellow subsidiary is considered related in accordance with Paragraph 09(b)(i) of Sri Lanka Accounting Standard 24 on Related Party Disclosures, the Bank has not identified NSBFMC as a related party and not disclosed the transactions with NSBFMC in its Financial Statements.	The Bank has made investments in Govt. Securities (T/Bills & T/Bonds) through the Primary Dealer NSBFMC. No direct investments made with NSBFMC. However, will disclose in the year 2025.	The Bank should identify all related parties and ensure that the necessary disclosures are appropriately made in the financial statements.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.416,393,464 and the corresponding profit of the preceding year amounted to Rs.758,720,218. Therefore, a deterioration amounting to Rs.342,326,754 of the financial result was observed. The reduction in interest income and net other operating income by Rs.148,277,050 and Rs.219,396,731 respectively, compared to the previous year, was the main reason to this deterioration.

2.2 Ratio Analysis

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

Description	Sector		SLSBL	
	2024	2023	2024	2023
Return on Equity (%)	14	8.4	5	9.91
Return on Asset (%)	2	0.5	6	8.45
Net Interest Margin	5	2.70	16	18.88
Liquid Asset Ratio	N/A	51.5	N/A	1289
Tier 1 Capital Ratio (Minimum 8.5%)	14.9	15.2	171	163
Total Capital Ratio (Minimum 12.5%)	18.4	18.4	171	164
Stage 3 Loans to Total Loans and Advances	12.3	10.7	49	44

3. Operational Review

3.1 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(i) Although the Bank's loan recovery progress following the suspension of operations on 05 January 2021 was satisfactory across many loan categories, a	The total non-performing loan amount of "SLS Diriya" loan scheme as at 30. 04. 2025 is Rs. 112Mn. Out of which Rs. 77.5Mn includes 3 main loan facilities. One facility is secured by Treasury Guarantee whereas the other facility is	Satisfactory actions need to be taken to recover the Non-performing loans of SLS Diriya Loan

significant increase in non-performing loans was observed under the SLS Diriya loan scheme as of 30 April 2025. The total non-performing loan amount was increased from Rs.25,666,399 on 01 January 2021 to Rs.112,002,428 by 30 April 2025.

secured by property mortgage.

Scheme.

1.Northsea Ltd – Rs. 52.3Mn

Northsea Ltd is a state owned Company. Facility is secured by a Treasury Guarantee of Rs. 60.0Mn.We have demanded the Treasury Guarantee claim from the Treasury. But Treasury if yet to honour the claim. The Company is now paying a part of installment of Rs. 300,000/= p.m.

2.Bank had passed the Board Resolution to auction the mortgaged property of Mr. Guruge under “Parate Action”. However, Mr. DM Guruge& Mr. DS Guruge

Obtained an injunction order preventing the auction. Immediate recovery couldn’t be expected. Facility is granted against the security of immovable property.

3. MR. P L S R Kumara - Board Resolution has been passed to execute Parate action on 27.01.2023. After that borrower has commenced monthly repayments regularly from January 2023 and has submitted a request to the bank to reschedule the loan as he can service Rs.1.0Mn per month. Accordingly, Loan was rescheduled, by opening a fresh loan in March 2024,for accumulated arrears of Rs.13.8Mn.However, borrower is currently servicing both the facilities monthly. After reschedulement of the facility, he has deposited **Rs. 9.7Mn up to 30. 04. 2025.**

(ii) The aggregated total outstanding balance of 29 numbers of SLS Diriya Loans was Rs.166,041,462 as at 30 April 2025. Out of that, Rs.112,002,428 relating to 17 loans was in the NPL category. The NPL ratio calculated for this loan segment was 67 per cent which is a very high ratio.

Recovery Status of Main NPL Loans

Name of the Borrower	Capital Amount O/S as at 30.04. 2025 (Rs.)	Present Status of Recovery
Mr.PLSR Kumara	Rs. 9.9Mn	Board Resolution has been passed to execute Parate action on 27.01.2023.

Satisfactory actions need to be taken to recover the Non-performing loans of SLS Diriya Loan Scheme.

After that borrower has commenced monthly repayments regularly from January 2023 and has submitted a request to the bank to reschedule the loan as he can service Rs.1.0Mn per month. Accordingly, Loan was rescheduled, by opening a fresh loan in March 2024, for accumulated arrears of Rs.13.8Mn.

However, borrower is currently servicing both the facilities monthly. After reschedule the facility, he has deposited Rs. 9.7Mn up to 30. 04. 2025.

Northsea
Limited.

Rs.
52.3Mn

This facility has been granted to govt. owned company with the security of Treasury Guarantee of

Rs.60Mn.

Since company is currently under performing and facing liquidity crisis, We have demanded the Treasury Guarantee claim from the Treasury by our letter dated 02.06.2022, and sent several reminders and also had several meetings with the Treasury.

As a result of our continuous follow ups, Northsea Ltd has agreed to commence payments @ Rs.100,000 wef Aug 2023 and now its increased up to Rs.300,000/-. From the limited cash they generate from outsourced production, they have allocated this amount for us.

Mr.DM Guruge&Mr.DS Guruge	Rs. 25.2Mn	Parate Auction has been scheduled to be carried out on 04.07.2023 & all regulatory requirements fulfilled. However, Auction couldn't be held as borrower has obtained injunction order from the Colombo District Court on 28.06.2023.
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Court case is
still pending.

Mr. D M Ranjith Mrs. D P Wanasinghe	Rs.2.3Mn	Under litigation.
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TOTAL 89.7Mn

- (iii) The aggregated total outstanding balance of Micro Finance loans was Rs.233,391,715 as at 30 April 2025 and the entire amount was classified under non-performing category.
- Some of the loans were originally granted by the National Development Trust Fund (NDTF) before its merger with the Sri Lanka Savings Bank (SLSB). These loans were primarily aimed at promoting microfinance facilities for low-income individuals.
- Following a directive from the Central Bank of Sri Lanka dated January 5, 2021, SLSB was instructed to suspend its operations. Consequently, the bank discontinued granting loans to partner organizations which created challenges in recovering the outstanding loans.
- At the time of the suspension, the total outstanding balance of microfinance loans were at Rs. 806.6 million,
- It is important to note that legal action has been initiated against most of the partner organizations
- The Bank's loan recovery procedures should be strengthened and expedited to ensure timely collection of outstanding dues.

(POs) associated with these non-performing loans, and recovery efforts are ongoing.

3.2 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
<p>The Bank possesses two vehicles (Vehicle Nos. 65-2021 and 59-1697) that are not in running condition and ownership of these vehicles has not been vested with the Bank.</p>	<ul style="list-style-type: none"> • Vehicle No. 65-2021 had been handed over to the PSDB (Pramuka Savings & Development Bank) by a customer before 2002 and vested by the Central Bank of Sri Lanka (CBSL) to Sri Lanka Savings Bank (SLSB) in 2007. This vehicle is brand new imported under tax concession and when the SLSB trying to get the revenue license RMV has not issue the license to run the vehicle and instructed the bank to pay the due tax. However, Bank has used this vehicle till 2019 after obtaining the revenue license with an extensive effort. Although the due tax amount not kept informed, it is expected that the due tax amount would be higher than the current market value of the vehicle. Further there are major technical repairs to be done to get the vehicle running condition. • The Certificate of Registration for vehicle No. 59-1697 was obtained on 20th August 2025. 	<p>Appropriate actions should be undertaken to ensure the transfer of ownership of these vehicles to the Bank.</p>