

Directions, Determinations, and Circulars
issued to
Licensed Commercial Banks

(Inclusive of Amendments made up to 30 November 2013)



Bank Supervision Department
Central Bank of Sri Lanka

DISCLAIMER

This updated edition contains of Directions, Determinations and Circulars issued by Central Bank of Sri Lanka to Licensed Commercial Banks up to 30th November 2013. Please note that this edition is issued only for the purpose of convenience, and although every effort has been made to ensure the accuracy of the text, the Central Bank of Sri Lanka does not hold itself responsible for any errors, omissions or inadvertent alterations, in any manner.

Governor's Statement

Sri Lankan economy has now entered into an accelerated growth path of achieving Rs. 100 billion economy with USD 4,000 per capita income by 2016. In this scenario, Sri Lankan banking sector which holds more than 55% of the financial sector assets of the country is destined to play a pivotal role in supporting the growth momentum of the economy. Improved resilience to face external and internal shocks, innovative and futuristic banking products, expanded access to finance and consumer protection are some of the key drivers to promote a strong and dynamic banking sector through business excellence.

Despite the global financial crisis, Sri Lanka's banking sector has remained resilient with the existing prudential regulatory initiatives and reforms that have ensured the financial system stability. A strong regulatory framework that promotes risk management of banks is a key component of the safety net to ensure systemic stability. Thus, the earlier regulatory initiatives on improving risk management, corporate governance and capital requirements have continued with reforms in 2013 too. Compliance with these new regulatory reforms has enabled the Banks to improve their governance structure, risk management framework and capital requirements. It is expected that the consolidation between banks and the financial institutions would further strengthen the resilience in the financial sector.

At the same time, the Directors of Banks are expected to play a major role in setting strategic directions to ensure a sound and resilient banking sector in the country by adopting prudent policies in line with new financial reforms. In that context, the Central Bank expects all Directors, Senior Management and Other Staff of the banks to be fully conversant with the Directions, Determinations, and Circulars issued time to time by the Central Bank, thereby ensure compliance. In order to facilitate such task, this volume containing "Directions, Determinations, and Circulars issued to Licensed Commercial Banks", incorporating the changes and amendments up to 30 November 2013, is being issued.

It is hoped that this new volume will create greater awareness of and compliance therewith, so that more effective inputs will contribute to ensure improved risk management, corporate governance, efficiency and resilience in the Banking Sector.

Ajith Nivard Cabraal

Governor

Central Bank of Sri Lanka

02 December 2013

Contents

Page No.

1. Licensing of Banks

Determinations

- 1.1 Determination No.1 of 2011 – Annual Licence Fee 1

Circulars

- 1.2 Establishment of Bank Branches 2
1.3 Classification of Banking Outlets 3

2. Capital Adequacy

- 2.1 The Adoption of Basel II Capital Adequacy Framework Beginning 2008 4

Directions

- 2.2 Direction No. 09 of 2007 – Maintenance of Capital Adequacy Ratio 6
2.3 Direction No. 05 of 2013 – Supervisory Review Process
(Pillar 2 of Basel II) for Licensed Commercial Banks and Licensed Specialised Banks 74
2.4 Direction No. 09 of 2011 – Amendments to Directions on Maintenance of
Capital Adequacy Ratio 88
2.5 Direction No. 01 of 2009 – Amendment to Directions on Ownership of
Issued Capital Carrying Voting Rights 89
2.6 Direction No. 01 of 2007 – Ownership of Issued Capital Carrying Voting Rights 90

Determinations

- 2.7 Foreign Participation in the Share Capital of a Licensed Commercial Bank
Incorporated or Established in Sri Lanka 93

Circulars

- 2.8 ICRA Lanka Limited – Recognition as an External Credit Assessment Institution 94
2.9 Criteria for Selection of Valuers Undertaking the Revaluation of Fixed Assets
for the Computation of the Capital Adequacy Ratio 96
2.10 Interpretation of Capital Funds 98
2.11 Enhancement of Minimum Capital Requirement of Banks 99
2.12 Request to Maintain Capital of Banks in Foreign Currency 103
2.13 Shipping Guarantees Issued by Banks 105

3. Credit Risk Management

Directions

- 3.1 Direction No. 07 of 2007 – Maximum Amount of Accommodation 106
3.2 Direction No. 03 of 2010 – Amendments to Directions on Classification of Loans and
Advances, Income Recognition and Provisioning 112
3.3 Direction No. 03 of 2008 – Classification of Loans and Advances, Income Recognition and
Provisioning 113

| | | |
|-------------------------------------|--|-----|
| 3.4 | Direction No. 01 of 2013 – Exposure to Stock Market by Licensed Commercial Banks and Licensed Specialised Banks | 126 |
| <i>Determinations</i> | | |
| 3.5 | Shares in Companies Held by Licensed Commercial Banks | 129 |
| 3.6 | Accommodation Granted to a Director / a Close Relation of such Director / any Concern in which Director has a Substantial Interest | 130 |
| 3.7 | Determination No. 3 of 2009 – Lease-Backed Trust Certificates / Lease Receivables as Approved Security for Accommodation to any Director | 133 |
| <i>Circulars</i> | | |
| 3.8 | Accounting for Properties Acquired by Foreclosure of Collateral / Part Settlement of Debt | 134 |
| 3.9 | Establishment of a Revolving Fund to grant Loans to Acquire Property to the State Sector Employees | 135 |
| 3.10 | Financial Accommodation to Finance Companies | 136 |
| 3.11 | Prepayment of Import Bills | 137 |
| 3.12 | Recovery of Accommodation to Exporters | 140 |
| 3.13 | Concessions Granted to Tourism Industry | 148 |
| 3.14 | Relief Package for the Tea Sector | 149 |
| 3.15 | Granting Credit Facilities to Private Sector | 150 |
| <i>Orders</i> | | |
| 3.16 | Monetary Law Act Order No. 01 of 2012 – Ceiling on Credit Growth of Licensed Banks | 151 |
| <i>Guidelines</i> | | |
| 3.17 | Guidelines on the Grant of Facilities for the Issue of Commercial Paper and other Forms of Promissory Notes | 152 |
| 4. Liquidity Risk Management | | |
| <i>Circulars</i> | | |
| 4.1 | Definitions of Liquid Assets | 156 |
| 4.2 | Monthly Statement of Liquid Assets | 163 |
| 4.3 | Monthly Statement of Liquid Assets for the Domestic Banking Unit and the Off-Shore Banking Unit | 166 |
| 4.4 | Monthly Statement of Liquid Assets for the Off-Shore Banking Unit | 167 |
| <i>Determinations</i> | | |
| 4.5 | Application of Prudential Regulations on Off-Shore Banking Units | 169 |
| 4.6 | Liquid Assets | 93 |
| 5. Market Risk Management | | |
| <i>Directions</i> | | |
| 5.1 | Prudential Norms for Classification, Valuation and Operation of the Bank's Investment Portfolio | 170 |
| 5.2 | Direction No. 03 of 2009 – Risk Management Relating to Foreign Exchange Business | 173 |

| | | |
|-----------|---|-----|
| 5.3 | Direction No. 01 of 2012 – Foreign Exchange Trading Activities of Licensed Commercial Banks in Sri Lanka | 182 |
| | <i>Circulars</i> | |
| 5.4 | Adoption of the ACI Model Code by Sri Lanka | 188 |
| 5.5 | Declaration to be Submitted by Persons Engaged in Foreign Exchange Business | 189 |
| 5.6 | Forward Sales and Purchases of Foreign Exchange | 192 |
| | <i>Explanatory Notes</i> | |
| 5.7 | Explanatory Note 2/2012 Direction No. 01 of 2012 Foreign Exchange Trading Activities / FAQ | 199 |
| 6. | Operational Risk Management | |
| | <i>Directions</i> | |
| 6.1 | Direction No. 02 of 2012 – Outsourcing of Business Operations of a Licensed Commercial Bank and Licensed Specialised Bank | 201 |
| | <i>Circulars</i> | |
| 6.2 | Use of Banking System by Institutions and Persons not Authorised to Accept Deposits | 207 |
| 6.3 | Regulations made under the Public Security Ordinance Proscription of Tamil Rehabilitation Organization | 208 |
| 6.4 | Acceptance of Certificates of Deposit | 211 |
| 6.5 | Scheme of Certificates of Deposit with Maturity Periods of not less than Four Years | 214 |
| 6.6 | Conduct of Non-Government Organizations (NGO) Accounts by Licensed Banks | 215 |
| 6.7 | Customer Due Diligence – “Know Your Customer” Procedures | 219 |
| 6.8 | Dishonoured Cheques | 223 |
| 6.9 | Internal Audit Function | 224 |
| 6.10 | Prevention of Frauds Using Electronic Cards | 225 |
| 6.11 | Reporting of Post-Tsunami Remittances Received through NGOs and Non-NGOs to the Central Bank of Sri Lanka | 227 |
| 7. | Corporate Governance for Banks | |
| | <i>Directions</i> | |
| 7.1 | Direction No.11 of 2007 – Corporate Governance | 229 |
| 7.2 | Direction No. 05 of 2008 – Amendments to Directions on Corporate Governance | 245 |
| 7.3 | Direction No. 07 of 2008 – Amendments to Directions on Corporate Governance | 246 |
| 7.4 | Direction No. 03 of 2013 – Amendments to Direction on Corporate Governance Issued to Licensed Commercial Banks in Sri Lanka | 247 |
| 7.5 | Direction No. 07 of 2011 – Integrated Risk Management Framework | 248 |
| | <i>Determinations</i> | |
| 7.6 | Determination No. 03 of 2010 – Assessment of Fitness and Propriety of Officers Performing Executive Functions | 277 |

Circulars

| | | |
|------|---|-----|
| 7.7 | Special Payments / Benefits to Directors at their Retirement | 284 |
| 7.8 | Disclosures in Annual Reports | 285 |
| 7.9 | Appointment of Directors of Banks | 286 |
| 7.10 | Disclosures in Terms of the Direction on Corporate Governance | 300 |
| 7.11 | Requirements Under the Corporate Governance Direction | 301 |
| 7.12 | Assessment of Fitness and Propriety of Chief Executive Officers | 302 |

Explanatory Notes

| | | |
|------|---|-----|
| 7.13 | Explanatory Note 1/2012 – Authority of the Monetary Board to Issue Directions to Licensed Banks Reaffirmed by the Court of Appeal | 311 |
|------|---|-----|

8. Off-Shore Banking Business***Circulars***

| | | |
|-----|--|-----|
| 8.1 | Permitting Licensed Commercial Banks to Trade in the International Sovereign Bonds Issued in 2007 by the Government of Sri Lanka | 312 |
|-----|--|-----|

Orders

| | | |
|-----|---|-----|
| 8.2 | Amendment to Banking Act Order No. 02 of 2011 – Banking (Off-shore Banking Business Scheme) Order | 313 |
| 8.3 | Banking Act Order No. 1 of 2011 – Banking (Off-shore Banking Business Scheme) Order | 315 |
| 8.4 | Banking Act Order No. 1 of 2008 – Banking (Off-Shore Banking Business Scheme) Order | 317 |
| 8.5 | Banking Act Order No. 1 of 2009 – Banking (Off-Shore Banking Business Scheme) Order | 319 |
| 8.6 | Banking (Off-Shore Banking Scheme) Order 2000 | 321 |
| 8.7 | Off-Shore Banking Business | 324 |

9. Abandoned Property***Directions***

| | | |
|-----|--|-----|
| 9.1 | Direction No. 05 of 2009 – Identifying, Reporting, Transferring and Maintaining Abandoned Property | 326 |
|-----|--|-----|

Guidelines

| | | |
|-----|--|-----|
| 9.2 | Implementation of the Provisions of Part IX (Sections 72 to 76) of the Banking Act on Abandoned Property | 334 |
|-----|--|-----|

10. Disclosures***Circulars***

| | | |
|------|--|-----|
| 10.1 | Implementation of Part V of the Banking Act | 340 |
| 10.2 | List of Qualified Auditors | 341 |
| 10.3 | Preparation, Presentation and Publication of Annual Audited Accounts of Banks | 343 |
| 10.4 | Display of Interest Rates, Exchange Rates, Service Charges, Fees & Commissions | 380 |
| 10.5 | Inadequate / Incorrect Disclosures / Press Statements by Banks | 385 |
| 10.6 | Publication of Audited Financial Statements of Banks in the Press | 386 |
| 10.7 | Public Disclosure by Publication of Quarterly Financial Statements of Banks in Press | 387 |
| 10.8 | Public Disclosure by Publication of Bank Accounts in the Press | 401 |

| | | |
|---|---|-----|
| 10.9 | Publication of Capital Adequacy Statement in the Annual Report | 402 |
| 10.10 | Submission of Audited Financial Statements by Banks | 403 |
| 10.11 | Publication of Financial Statements and other Disclosures on the Websites | 404 |
| <i>Guidelines</i> | | |
| 10.12 | Guidelines for External Auditors Relating to their Statutory Duties | 405 |
| 11. Reporting of Data to Central Bank | | |
| <i>Circulars</i> | | |
| 11.1 | Submission of Statutory Returns | 415 |
| 11.2 | Implementation of the New Web-based Off-Site Surveillance System | 417 |
| 11.3 | Submission of the Monthly & Quarterly Compliance Reports | 423 |
| 12. General Banking Practices | | |
| <i>Directions</i> | | |
| 12.1 | Licensed Commercial Banks (Pawning) Conditions 1998 | 424 |
| 12.2 | Secrecy of Banking Transactions | 434 |
| 12.3 | Direction No. 08 of 2011 – Customer Charter of Licensed Banks | 435 |
| <i>Circulars</i> | | |
| 12.4 | Cap on Penal Interest Rates Charged by Licensed Banks on Loans and Advances | 440 |
| 12.5 | Interest Rates on Credit Cards and other Loans and Advances | 441 |
| 12.6 | Interest Rates on Credit Cards and Housing Loans | 442 |
| 12.7 | Extending / Restricting of Banking Hours by the Banks | 443 |
| 12.8 | Incentive Schemes for Mobilising Demand Deposit Accounts | 444 |
| 12.9 | Introduction of Products Based on Islamic Principles | 445 |
| 12.10 | Withdrawals on Savings Accounts | 446 |
| 12.11 | Withdrawals on Savings Accounts and 7 Day Call Deposit Accounts | 447 |
| 12.12 | Threshold Age of Senior Citizens for Transactions with Licensed Banks | 448 |
| 13. Sri Lanka Deposit Insurance Scheme | | |
| <i>Directions</i> | | |
| 13.1 | Direction No. 05 of 2010 – Insurance of Deposit Liabilities | 449 |
| <i>Gazette Notifications</i> | | |
| 13.2 | Amendment to the Sri Lanka Deposit Insurance Scheme Regulation, No. 02 of 2011 | 450 |
| 13.3 | Amendment to the Sri Lanka Deposit Insurance Scheme Regulation, No. 01 of 2011 | 451 |
| 13.4 | Sri Lanka Deposit Insurance Scheme Regulation, No. 01 of 2010 | 452 |
| <i>Circulars</i> | | |
| 13.5 | Sri Lanka Deposit Insurance Scheme – Operating Instruction, No. 01 of 2011 | 457 |
| 13.6 | Sri Lanka Deposit Insurance Scheme – Operating Instruction, No. 02 of 2010 | 458 |
| 13.7 | Sri Lanka Deposit Insurance Scheme – Premium to be Levied on Insured Deposits, No. 01 of 2010 | 460 |

14. Other Determinations, Circulars and Guidelines***Determinations***

| | | |
|------|--|-----|
| 14.1 | Limits on Purchase of Immovable Property | 462 |
| 14.2 | Definition of Intangible Assets | 93 |

Circulars

| | | |
|-------|--|-----|
| 14.3 | Exempting Foreign Borrowings of Licensed Commercial Banks from Regulatory Limits | 463 |
| 14.4 | Decision of the Cabinet of Ministers on Reservation of Government Sector Import Cargo for the Ceylon Shipping Corporation Ltd. | 464 |
| 14.5 | Stimulus Package Approved by the Government for the Finance and Leasing Industry | 465 |
| 14.6 | Appointment of Compliance Officers | 466 |
| 14.7 | Enhancing Lending to Agriculture Sector | 468 |
| 14.8 | Mandatory Lending to Agriculture Sector | 469 |
| 14.9 | Payment of Taxes by the Banking and Financial Sector | 475 |
| 14.10 | Misleading and Unethical Advertisements | 476 |
| 14.11 | Registration of Secured Interest over Movable Properties with the Secured Transaction Registry | 478 |

Guidelines

| | | |
|-------|--|-----|
| 14.12 | Guidelines for Employment of Expatriate Staff in Banks | 479 |
| 14.13 | Guidelines on Credit Rating of Banking Institutions | 482 |
| 14.14 | Amendments to Guidelines on the Operation of the Investment Fund Account | 483 |
| 14.15 | Guidelines on the Operations of the Investment Fund Account | 485 |

Determinations made by the Monetary Board of the Central Bank of Sri Lanka under Section 8 of the Banking Act, No. 30 of 1988, as amended.

Nivard Ajith Leslie Cabraal

*Chairman of the Monetary Board and
Governor of the Central Bank of Sri Lanka*

Colombo
29 September 2011

**BANKING ACT DETERMINATION NO.1 OF 2011
ANNUAL LICENCE FEE OF LICENSED COMMERCIAL BANKS**

1. In terms of Section 8(1) of the Banking Act, the Monetary Board has determined that the licence fee that shall be paid by a licensed commercial bank for the period 2012 to 2014 shall be based on the total assets as follows:

Annual licence fee for the period 2012 – 2014.

| Total assets as at end of the previous year | Licence fee |
|--|--------------------|
| Above Rs. 200 bn | Rs. 20 mn |
| Rs. 125 bn to Rs. 200 bn | Rs. 15 mn |
| Rs. 75 bn to Rs. 125 bn | Rs. 10 mn |
| Rs. 25 bn to Rs. 75 bn | Rs. 5 mn |
| Less than Rs. 25 bn | Rs. 2 mn |

2. Every licensed commercial bank shall pay the licence fee to the Central Bank of Sri Lanka on or before 31st day of January of the respective year.
3. Licence fee shall be paid on calendar year basis.

Payment of licence fee.

Bank Supervision Department
26 May 2008

*To : CEOs of Licensed Commercial Banks and
CEOs of Licensed Specialised Banks*

Dear Sir/Madam,

ESTABLISHMENT OF BANK BRANCHES

The Central Bank currently approves the opening of bank branches and other outlets by licensed banks considering the feasibility and suitability of the proposed expansion. At present, nearly 40 per cent of the bank branches in the country are concentrated in the Western Province resulting in a banking density (bank branches for 100,000 persons) of 11.9 in the Western Province as against a range of 5.3 to 8.4 in the other provinces.

There is a need to accelerate economic development in areas of the country outside the Western Province to achieve balance regional development in the country. Establishing more branches and banking outlets outside the Western Province is expected to enhance access to finance and promote the savings habits, thereby increasing economic activity in those regions.

To facilitate this, the Monetary Board has decided that banks shall establish a minimum of two branches outside the Western Province for each new branch established in the Western Province. This new criteria will be applicable for all future requests made to the Central Bank for opening of branches.

Yours faithfully,

Sgd. B.D.W.A. Silva

Director of Bank Supervision

Our Ref. : 02/17/500/0554/001

Bank Supervision Department

29 November 2012

*To : CEOs of all Licensed Commercial Banks and
Licensed Specialised Banks*

Dear Sir / Madam,

CLASSIFICATION OF BANKING OUTLETS

As intimated to you at the periodic meeting of the CEOs of licensed banks held on 26th January 2012, the current classification of banking outlets system for licensed banks has been reviewed with a view to streamline and rationalize the branch approval procedures.

2. Accordingly, the Monetary Board has granted approval for licensed banks to:
 - a. reclassify the banking outlets into two categories, namely branches and student savings units and seek future approvals under these two outlet categories ;
 - b. upgrade all existing banking outlets except student savings units to branches with effect from 01.01.2013 ; and
 - c. conspicuously display the list of activities for the information of the customers in the premises of a branch when such branch is extending only selected banking services.
3. Circular issued under Ref. No. 02/08/005/0002/002 dated May 03, 2006 on the above subject is hereby rescinded.

Yours faithfully,

(Mrs.) T M J Y P Fernando
Director of Bank Supervision

Bank Supervision Department
26 December 2007

To : *The CEOs of all Licensed Commercial Banks and
Licensed Specialised Banks*

Dear Sir/Madam,

THE ADOPTION OF BASEL II CAPITAL ADEQUACY FRAMEWORK BEGINNING 2008

As announced in the “Road Map: Monetary and Financial Sector Policies for 2007 and beyond”, released by the Central Bank on January 2, 2007, the Monetary Board of the Central Bank of Sri Lanka has issued the Directions on the maintenance of capital adequacy ratios under the BASEL II for Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs), in terms of the provisions under Section 46(1) and 76J(1), of the Banking Act, No. 30 of 1988, respectively, which will be effective from January 1, 2008. These Directions have been prepared on the basis of the “International Convergence of Capital Measurement and Capital Standards – a Revised Framework”, widely known as Basel II, issued by the Basel Committee on Banking Supervision of the Bank for International Settlements (BIS) in June 2004 and revised thereafter in June 2006.

2. The Adoption of the Basel II

As you are aware, Basel II provides a “**three pillar**” approach, *i.e.*, (1) Minimum Capital Requirements; (2) Supervisory Review Process; and (3) Market Discipline, for the implementation of this framework. However, as announced at the Bank Managers’ Meeting held on November 22, 2007, the Central Bank has decided to adopt Pillar I, *i.e.*, “Minimum Capital Requirements” effective from 01 January 2008 and to adopt the other two pillars in the medium term. The approach for adoption of Basel II is as follows.

2.1 The Adoption of Pillar I: Minimum Capital Requirements

The Basel II framework provides several options for the implementation of the Pillar I, based on the level of sophistication and development of the banking system. Accordingly, all LCBs and all LSBs are required to apply the Standardised Approach for credit risk, the Standardised Measurement Method for market risk and the Basic Indicator Approach for operational risk, in computing the capital requirements, commencing January 1, 2008. For this purpose, the following documents are attached herewith.

- i.* Banking Act, Directions No.9 (for LCBs) and No.10 (for LSBs) dated 26.12.2007 issued by the Monetary Board.
- ii.* Guidelines on computation of capital adequacy ratio (**Schedule I**).*
- iii.* Return to be submitted on capital adequacy ratio (**Schedule II**).*

2.2 Migration to Advanced Approaches

The central Bank has decided to move to adopting the internal ratings based (IRB) advanced approaches beginning 2013. Once the Central Bank is satisfied that the banks have the appropriate models and risk management systems capacities, permission will be granted for

them to proceed with the IRB approaches. Separate guidelines in this regard will be issued later, specifying the pre-requisites and procedures for seeking the Central Bank's prior approval for such migration.

2.3 Resource Requirements: Data, IT Needs and Training

Data and IT Needs: Banks should begin preparing a comprehensive data capturing system to identify, measure and report all material risks and to assess and allocate capital against these risks in a systematic and objective manner to meet the requirements under the simplified approaches and to move to advanced approaches in the future. Accordingly, banks are required to implement changes, especially plan for systems integration, modifications to internal systems and use of new software for appropriate data collection, to move to the advanced approaches. In this regard, Banks are expected to have in place, or be actively developing, a data "warehouse", that is, a process that enables a bank to collect, store and draw upon loss statistics in an efficient manner over time. Guidelines in this regard are given in **Annex I**.*

Training: Upgrading skills in the areas of credit risk models and capital assessment strategies, credit risk mitigation techniques and measuring market and operational risks will be critical to the successful implementation of Basel II.

2.4 Adoption of the other two Pillars

2.4.1 The Pillar II: Supervisory Review Process (SRP)

The objective of SRP is to ensure that banks have adequate capital to support all material risks in their business and also encourage them to adopt more sophisticated risk management techniques for monitoring and managing all risks. For this purpose, banks are required to establish well-defined internal assessment processes within themselves in order to determine the additional capital requirement for all material risks, internally, and which would also be able to assure the Central Bank that adequate capital is actually held towards all their material risk exposures. However, considering the current level of internal systems of the banks, it has been decided to adopt the Pillar II from 2010.

2.4.2 The Pillar III: Market Discipline

The introduction of disclosure requirements for banks, based on the revised framework, will be initiated along with the adoption of new international accounting standards, *i.e.*, the International Financial Reporting Standards (IFRS 7). Accordingly, banks are advised to continue with the current disclosure requirements until the adoption of the Pillar III.

Yours faithfully,

Sgd, B D W A Silva

Actg. Director of Bank Supervision

Copy To : Secretary General / SLBA

* The schedule I and II and Annex I are available at www.cbsl.gov.lk

Directions issued by the Monetary Board of the Central Bank of Sri Lanka under Section 46(1) of the Banking Act, No.30 of 1988, as amended.

Sgd. Nivard Ajith Leslie Cabraal

Governor

Colombo
26th December 2007

DIRECTIONS
BANKING ACT DIRECTIONS NO. 9 OF 2007
MAINTENANCE OF CAPITAL ADEQUACY RATIO

WHEREAS in terms of the powers conferred by Section 19(7)(a) of the Banking Act, No.30 of 1988 as amended, the Monetary Board has arrived at a determination in respect of the maintenance of capital adequacy ratio of licensed commercial banks having regard to the guidelines for capital adequacy set out by the Bank for International Settlements in Basle; and

WHEREAS in the exercise of powers conferred by Section 46(1) of the Banking Act, No.30 of 1988 as amended, the Monetary Board hereby issues the following directions.

- | | |
|---|--|
| Minimum Capital Adequacy Ratio. | <p>1(1) Commencing from 01 January 2008, all licensed commercial banks shall, at all times, maintain a capital adequacy ratio of not less than 10% in relation to total risk weighted assets with core capital constituting not less than 5% in relation to total risk weighted assets.</p> <p>1(2) The capital adequacy ratios referred to in Direction 1(1) above shall be computed as per guidelines given in Schedule I hereto prepared in accordance with the Basel II Capital Accord “International Convergence of Capital Measurement and Capital Standards - A Revised Framework” recommended by the Basle Committee on Banking Supervision at the Bank for International Settlements.</p> |
| Reporting Format. | <p>2 Licensed commercial banks shall use the format at Schedule II attached hereto for reporting of capital adequacy ratios on a periodic basis as specified in Schedule I.</p> |
| Steps to secure compliance with Directions. | <p>3 Where a licensed commercial bank has failed to comply with these Directions, such licensed commercial bank shall not pay dividends or repatriate profits until such compliance is effected and confirmed by the Director of Bank Supervision.</p> |
| Revocation of previous Determinations. | <p>4(1) All previous Determinations, Directions and Guidelines that have been issued to licensed commercial banks by the Monetary Board in relation to maintenance of capital adequacy ratio in terms of Section 19(7) or 46(1) of the Banking Act are hereby revoked.</p> <p>4(2) Notwithstanding the revocation referred to in Direction 4(1) above, licensed commercial banks granted time by the Monetary Board in terms of Section 19(7)(b) of the Banking Act shall comply with the requirements contained in such previous Determinations, Directions and Guidelines until the expiration of the time so granted.</p> |

Schedule I

Guidelines
on
Computation of Capital Adequacy Ratio
(Revised Framework – Basel II)

CONTENTS

1. Introduction

- 1.1 Approaches to Implementation of the Basel II Framework
- 1.2 An initial step towards adopting Basel II

2. Scope of Application**3. Minimum Capital Ratio****4. Reporting Format****5. Submission dates****6. Instructions for Completion the Return**

- 6.1 Part I – Computation of Capital Adequacy Ratio
- 6.2 Part II (a) – Computation of Total Capital Base (Regulatory Capital)
- 6.3 Part II (b) – Computation of Eligible Tier III for Market Risk
- 6.4 Part III (a) – Computation of Risk-weighted Amount for Credit Risk
- 6.5 Part III (b) – Computation of Credit Equivalent Amount of Off-Balance Sheet Items
- 6.6 Part III (c) – Exposures Recognized under Credit Risk Mitigation (CRM)
- 6.7 Part IV – Computation of Risk-weighted Amount for Market Risk
- 6.8 Part V – Computation of Risk-weighted Amount for Operational Risk

Abbreviations

| | | |
|--------|---|---|
| AMA | – | Advanced Measurement Approaches |
| BIA | – | Basic Indicator Approach |
| BIS | – | Bank for International Settlements |
| BCBS | – | Basel Committee on Banking Supervision |
| CAR | – | Capital Adequacy Ratio |
| CBSL | – | Central Bank of Sri Lanka |
| CCR | – | Counterparty Credit Risk |
| CIPC | – | Cash Items in the Process of Collection |
| CRM | – | Credit Risk Mitigation |
| ECAI | – | External Credit Assessment Institution |
| GOSL | – | Government of Sri Lanka |
| IMF | – | International Monetary Fund |
| LKR | – | Sri Lanka Rupee |
| MDB | – | Multilateral Development Bank |
| NPA | – | Non Performing Assets |
| PSE | – | Public Sector Entities |
| SA | – | Standardised Approach |
| SLECIC | – | Sri Lanka Export Credit Insurance Corporation |
| SME | – | Small and Medium Enterprise |
| SMM | – | Standardised Measurement Method |
| LCB | – | Licensed Commercial Bank |
| LSB | – | Licensed Specialised Bank |

1. Introduction

1.1 Approach to Implementation of the Basel II Framework: As announced by the Central Bank of Sri Lanka (CBSL) in March 2006, the “International Convergence of Capital Measurement and Capital Standards – a Revised Framework”, widely known as Basel II, issued by the Basel Committee on Banking Supervision of the Bank for International Settlements in June 2004 and as amended to framework in June 2006, will be the basis for the computation of the Capital Adequacy Ratio effective from 1st January 2008.

1.2 As an initial step towards adopting Basel II, all licensed commercial banks (LCBs) and licensed specialized banks (LSBs) are required to apply the following approaches in computing the capital adequacy ratio.

1.2.1 The Standardised Approach for credit risk

1.2.2 The Standardised Measurement Method for market risk

1.2.3 The Basic Indicator Approach for operational risk.

2. Scope of Application

2.1 The revised capital adequacy norms will be applicable, in the case of all LCBs and LSBs incorporated in Sri Lanka:

2.1.1 on the solo basis - All positions of the bank and its local and overseas branches/offices.

2.1.2 on the consolidated basis – All position of the bank (including its local and overseas branches/ offices) and its subsidiary companies.

2.2 In the case of LCBs incorporated outside Sri Lanka, the revised capital adequacy norms will be applicable to the branch operations in Sri Lanka and subsidiaries in Sri Lanka, established with the assigned capital of the branch, if any.

2.3 All LCBs and LSBs are required to use the attached reporting format (Schedule II) for reporting capital adequacy, commencing 2008.

3. Minimum Capital Ratio

All LCBs and LSBs shall at all times maintain the capital adequacy ratios determined by the Monetary Board in term of Sections 19(7)(a) and 76J(1)(a) of the Banking Act, commencing from 01 January 2008.

4. Reporting Format

4.1 The attached reporting format (Schedule II) collects information on the capital adequacy position of licensed banks. The return comprises 5 major parts.

4.1.1 Part I – Computation of capital adequacy ratio.

4.1.2 Part II – (a) Computation of total capital base.
(b) Computation of eligible Tier III capital for market risk.

4.1.3 Part III – (a) Computation of risk-weighted amount for credit risk.
(b) Credit equivalent of off-balance sheet items.
(c) Exposures recognized under credit risk mitigation (CRM).

4.1.4 Part IV – Computation of risk-weighted amount for market risk.

4.1.5 Part V – Computation of risk-weighted amount for operational risk.

5. Submission dates

5.1 The return should show the position as at the last calendar day of each quarter/each financial year, and should be submitted through the web-based system as follows. Regional Developments Banks are required to submit the attached return (Schedule II) in the manual form.

5.1.1 Quarterly return/s – within 1 month after the end of each quarter.

5.1.2 Annual audited return/s – within 6 months after the end of the financial year of the respective bank.

5.1.3 If the submission deadline falls on a bank holiday, it will be deferred to the next working day.

5.2 The Statement of Certification on the information submitted in the above return/s and the capital adequacy ratio should be forwarded to Bank Supervision Department in manual form. For this purpose, banks may use the existing format (copy attached), which was issued under the implementation of the new web-based returns in July 2006.

6. Instructions for Completion the Return

The instructions for completion of the capital adequacy return are divided into eight parts. The details/definitions of each element in these eight parts are described with the web-based return code (WBRC).

6.1 Part 1 – Computation of Capital Adequacy Ratio

The values of the items in this form are updated automatically on the web-based return.

6.1.1 Eligible Core Capital (Eligible Tier I) (WBRC 11.1.1.0.0.0)

The amount must agree with item 6.2.2.1 of Part II (a) Computation of total capital base below.

[= WBRC 11.2.1.1.0.0 of Part II (a)]

6.1.2 Capital Base (Regulatory Capital) (WBRC 11.1.2.0.0.0)

The amount must agree with item 6.2.2.9 of Part II (a) Computation of total capital base below.

[= WBRC 11.2.1.5.0.0 of Part II (a)]

6.1.3 Total Risk-Weighted Amount (WBRC 11.1.3.0.0.0)

Total risk-weighted assets are determined by adding the resulting figures to the sum of risk-weighted assets for credit risk, market risk and operational risk.

Total of risk-weighted amount for credit risk (6.1.3.1), market risk (6.1.3.2) and operational risk (6.1.3.3).

(WBRC 11.1.3.1.0.0 + 11.1.3.2.0.0 + 11.1.3.3.0.0)

6.1.3.1 Risk-Weighted Amount for Credit Risk (WBRC 11.1.3.1.0.0)

The amount must agree with item 6.4.3.1 of Part III (a) Computation of risk-weighted amount for credit risk below.

[=WBRC11.3.1.0.0.0 of Part III (a)]

**6.1.3.2 Risk-Weighted Amount for Market Risk
(WBRC 11.1.3.2.0.0)**

The amount must agree with item 6.7.8.2 of Part IV Computation of risk-weighted amount for market risk below.

[= WBRC 11.4.2.0.0.0 of Part IV]

**6.1.3.3 Risk-Weighted Amount for Operational Risk
(WBRC 11.1.3.3.0.0)**

The amount must agree with item 6.8.2.3 of Part III (a) Computation of risk-weighted amount for operational risk below.

[= WBRC 11.5.3.0.0.0 of Part V]

**6.1.4 Core Capital (Tier I) Ratio, %
(WBRC 11.1.4.0.0.0)**

Eligible core capital (6.1.1) divided by Total risk-weighted amount (6.1.3)

(WBRC 11.1.1.0.0.0/11.1.3.0.0.0)*100

**6.1.5 Total Capital Ratio, %
(WBRC 11.1.5.0.0.0)**

Total capital base (6.1.2) divided by Total risk-weighted amount (6.1.3)

(WBRC 11.1.2.0.0.0/11.1.3.0.0.0)*100

6.2 Part II (a) – Computation of Total Capital Base (Regulatory Capital)

6.2.1 Constituents of Capital Base

Capital base consists of eligible core capital (Tier I), eligible supplementary capital (Tier II) and eligible short term subordinated debt covering market risk (Tier III).

6.2.2 Specific instructions for elements of Capital

**6.2.2.1 Eligible Core Capital (Eligible Tier I)
(WBRC 11.2.1.1.0.0)**

The Eligible Core Capital shall be the total core capital less total amount of deductions/adjustments to core capital. Total eligible core capital should represent at least half of total capital base, *i.e.*, the sum total of **eligible supplementary capital plus eligible Tier III** capital should not exceed total eligible core capital.

The amount must agree with core capital (6.2.2.2) less Tier I adjustments (6.2.2.3).

(WBRC 11.2.1.1.1.0 - 11.2.1.1.2.0)

**6.2.2.2 Core Capital (Tier I)
(WBRC 11.2.1.1.1.0)**

Core capital includes only permanent shareholders' equity (issued and fully paid ordinary shares/common stock and perpetual non-cumulative preference shares), assigned capital and disclosed reserves (created or increased by appropriations of retained earnings or other surplus, *e.g.*, share premiums, retained profit, general reserves and statutory reserves).

The amount must agree with the sum of the following elements from 6.2.2.2.1 to 6.2.2.2.10

(WBRC 11.2.1.1.1.1 to 11.2.1.1.1.10)

**6.2.2.2.1 Paid-up Ordinary Shares/Assigned Capital
(WBRC 11.2.1.1.1.1)**

In the case of LCBs and LSBs incorporated in Sri Lanka: Issued and fully paid ordinary shares in terms of the Banking Act. For the computation only the paid up portion of partly paid shares should be counted as capital (will be revised in terms of the Companies Act, No.7 of 2007).

LCB incorporated or established outside Sri Lanka: Equity capital that shall be assigned by the Head Office of a LCB incorporated or established outside Sri Lanka.

**6.2.2.2.2 Non-cumulative, Non-redeemable Preference Shares
(WBRC 11.2.1.1.1.2)**

Issued and fully paid non-cumulative, non-redeemable preference shares where the payment of dividend could be reduced or waived permanently in the event of profitability being inadequate to support such payment in part or full.

**6.2.2.2.3 Share Premium
(WBRC 11.2.1.1.1.3)**

The excess of issue price over the par value of the ordinary shares or common stock or non-cumulative, non-redeemable preference shares (will be revised in terms of the Companies Act, No.7 of 2007).

**6.2.2.2.4 Statutory Reserve Fund
(WBRC 11.2.1.1.1.4)**

Balance in the Reserve Fund as per last audited statement of accounts and set up by banks in terms of the Banking Act.

**6.2.2.2.5 Published Retained Profits/(Accumulated Losses)
(WBRC 11.2.1.1.1.5)**

Balance in the profit and loss account brought forward from the previous financial years and as reported in the last audited statement of accounts. Accumulated losses should be reported in parenthesis and deducted from the other capital constituents.

**6.2.2.2.6 General and Other Reserves
(WBRC 11.2.1.1.1.6)**

Disclosed reserves in the form of general or other reserves created or increased by appropriation of retained earnings, share premium or other surplus as per last audited financial statements.

**6.2.2.2.7 Gain/(Loss) After Tax Arising from the Sale of Fixed and Long-term Investments
(WBRC 11.2.1.1.1.7)**

Any gain/(loss) after tax arising from the sale of fixed and long-term investments since the closing date of the last audited accounts. Net loss arising from the sale of fixed and long-term investments should be reported in parenthesis and deducted from the other capital constituents.

**6.2.2.2.8 Unpublished Current Year's Profit/(Loss)
(WBRC 11.2.1.1.1.8)**

Current year profit (excluding any profit/ (loss) after tax arising from the sale of fixed and long term investments) earned/incurred since the closing date of the last audited accounts and subject to certification by the institution's external auditor. Current year loss should be reported in parenthesis and deducted from the other capital constituents. For this purpose, the banks are required obtain the audit certificate based on the Sri Lanka Auditing Practice Statements 1 (SLAPs 1) "The Auditor's Report on Special Purpose Audit Engagements"

**6.2.2.2.9 Minority Interests (consistent with the above capital constituents)
(WBRC 11.2.1.1.1.9)**

Minority interests on consolidation of capital items.

**6.2.2.2.10 Perpetual Debt Capital Instruments
(WBRC 11.2.1.1.1.10)**

Perpetual debt capital instruments that satisfy the following conditions:

- (i) Prior written approval of the CBSL has been obtained.
- (ii) Such instruments shall have no maturity.
- (iii) Unsecured, fully paid up and subordinated to the interests of creditors
- (iv) The perpetual debt capital instruments should contain a clause that the issuing bank shall not be liable to pay interest, if:
 - a. The bank's CAR is below the minimum regulatory requirement in terms of the Direction on CAR, or
 - b. The impact of such payment results in the bank's CAR falling below the minimum CAR, and
 - c. Such interest not paid shall not be cumulative or accrued for payment in the future.
- (v) Such instruments may contain a call option, which may be exercised in 10 years from the date of issue, provided that the prior approval of CBSL has been obtained to exercise such option.
- (vi) Total perpetual debt approved as core capital shall not exceed 15 per cent of the total non-innovative core capital after adjustments and deductions.
- (vii) Any other conditions stipulated by CBSL on prudential grounds.

**6.2.2.3 Deductions/Adjustments – Core Capital (Tier I)
(WBRC 11.2.1.1.2.0)**

The amount must agree with the sum of the following items from 6.2.2.3.1 to 6.2.2.3.9

(WBRC 11.2.1.1.2.1 to 11.2.1.1.2.9)

**6.2.2.3.1 Goodwill
(WBRC 11.2.1.1.2.1)**

Report the amount of goodwill as shown in the balance sheet.

6.2.2.3.2 Net Deferred Tax
(WBRC 11.2.1.1.2.2)

Net debit balance of deferred tax.

6.2.2.3.3 Other Intangible Assets
(WBRC 11.2.1.1.2.3)

Intangible assets and losses in the current period and those brought forward from previous periods should be deducted from core capital.

6.2.2.3.4 Advances granted to employees of the bank for the purchase of shares of the bank under a share ownership plan.
(WBRC 11.2.1.1.2.4)

6.2.2.3.5 Amount due from head office & branches outside Sri Lanka in Sri Lanka Rupees (applicable only to branches of foreign banks).
(WBRC 11.2.1.1.2.5)

Debit balances in VOSTRO current accounts in Sri Lanka Rupees held by Head Office and branches outside Sri Lanka in Sri Lanka Rupees.

6.2.2.3.6 Amount due to head office & branches outside Sri Lanka in Sri Lanka Rupees (-) (applicable only to branches of foreign banks)
(WBRC 11.2.1.1.2.6)

Credit balances in VOSTRO current accounts in Sri Lanka Rupees held by Head Office and branches outside Sri Lanka in Sri Lanka Rupees. Report with negative (-) sign.

6.2.2.3.7 Amount due from head office & branches outside Sri Lanka in Foreign Currency (net) (applicable only to branches of foreign banks)
(WBRC 11.2.1.1.2.7)

Net Debit balances (after netting of credit balances) in NOSTRO current accounts in foreign currency held with Head Office and branches outside Sri Lanka and the net amount of fixed and other deposits placed with and amounts lent to Head Office and branches outside Sri Lanka (after netting of fixed and other deposits and amounts borrowed from Head Office and branches outside Sri Lanka) in foreign currency. Ignore any net credit balance.

6.2.2.3.8 50 per cent of Investments in Unconsolidated Banking and Financial Subsidiary Companies
(WBRC 11.2.1.1.2.8)

50 per cent of investments in capital by way of shares, perpetual/hybrid capital instruments or subordinated term debt in unconsolidated banking and financial subsidiary companies.

6.2.2.3.9 50 per cent of Investments in the Capital of Other Banks and Financial Institutions
(WBRC 11.2.1.1.2.9)

50 per cent of investments in capital by way of shares, perpetual/hybrid capital instruments or subordinated term debt in other banks and financial institutions.

6.2.2.4 Supplementary Capital (Tier II) (WBRC 11.2.1.2.1.0)

The amount must agree to sum of following items from 6.2.2.4.1 to 6.2.2.4.5
(WBRC 11.2.1.2.1.1 to 11.2.1.2.1.5)

6.2.2.4.1 Revaluation Reserves (approved by CBSL) (WBRC 11.2.1.2.1.1)

Revaluation reserves may be included within Tier II Supplementary Capital provided that such revaluation is prudently valued reflecting fully the possibility of price fluctuations and forced sale, with prior approval of CBSL, subject to a discount of 50 per cent. Revaluation surplus may be included in Tier II capital not more than once in 7 years.

6.2.2.4.2 General Provisions (WBRC 11.2.1.2.1.2)

General provisions or general loan loss reserves created against the possibility of future losses. Where they are not ascribed to particular assets and do not reflect deduction in the valuation of particular assets, they qualify for inclusion in Supplementary Capital (Tier II). General provisions should not exceed 1.25 per cent of the sum of risk-weighted assets.

6.2.2.4.3 Hybrid Capital Instruments (Debt/Equity) (WBRC 11.2.1.2.1.3)

Capital instruments which combine certain characteristics of equity capital and debt. *i.e.*, cumulative redeemable preference shares, *etc.* and satisfy the following characteristics :

- (i) Prior written approval of CBSL has been obtained for inclusion of such items in the capital.
- (ii) Unsecured, fully paid up and subordinated to the interests of creditors.
- (iii) Not redeemable in less than 5 years or without the prior approval of CBSL.
- (iv) Available to participate in losses without the Bank being obliged to cease trading.
- (v) Obligation to pay interest can be deferred where the profitability of the Bank would not support such payment.
- (vi) Any other condition stipulated by CBSL on prudential grounds.

6.2.2.4.4 Minority Interests arising from Preference Shares (WBRC 11.2.1.2.1.4)

Minority interests arising from the consolidation of preference shares.

6.2.2.4.5 Approved Subordinated Term Debt (WBRC 11.2.1.2.1.5)

Subordinated term debt that satisfies the following conditions:

- (i) The prior written approval of CBSL has been obtained for inclusion as Tier II capital.

- (ii) Unsecured and subordinated to the interests of creditors, at fully paid up value in the case of coupon bonds or paid up value plus accrued interest in the case of zero coupon bonds.
- (iii) A minimum original maturity of 5 years.
- (iv) Early repayment or redemption shall not be made without the prior consent of CBSL.
- (v) The amount counted as capital should be discounted by 1/5th each year during the four years preceding maturity.
- (vi) The total approved subordinated term debt should not exceed 50 per cent of total Tier 1 capital.
- (vii) Any other conditions stipulated by CBSL on prudential grounds.

**6.2.2.4.6 Actual Amount of Approved Subordinated Term Debts
(WBRC 0.0.0.0.0.0)**

Report total actual amount of approved subordinated term debts.

**6.2.2.5 Deductions – Tier II
(WBRC 11.2.1.2.2.0)**

The amount must agree to sum of following items from 6.2.2.5.1 to 6.2.2.5.2
(WBRC 11.2.1.2.2.1 to 11.2.1.2.2.2)

**6.2.2.5.1 50 per cent of Investments in Unconsolidated Banking and
Financial Subsidiary Companies
(WBRC 11.2.1.2.2.1)**

50 per cent of investments in capital by way of shares, perpetual/hybrid capital instruments or subordinated term debt in unconsolidated banking and financial subsidiary companies.

**6.2.2.5.2 50 per cent of Investments in the Capital of Other Banks and
Financial Institutions
(WBRC 11.2.1.2.2.2)**

50 per cent of investments in capital by way of shares, perpetual/hybrid capital instruments or subordinated term debt in other banks and financial institutions.

**6.2.2.6 Total Supplementary Capital
(WBRC 11.2.1.2.0.0)**

The amount must agree to **Supplementary Capital (Tier II)** (6.2.2.4) less Tier II deductions (6.2.2.5).

(11.2.1.2.1.0 - 11.2.1.2.2.0)

**6.2.2.7 Eligible Supplementary Capital
(WBRC 11.2.1.3.0.0)**

Eligible supplementary capital (Eligible Tier II) will be restricted to 100 per cent of Total Core Capital (6.2.2.1) (After deductions/adjustments).

**6.2.2.8 Short Term Subordinated Debt (Tier III)
(WBRC 11.2.1.4.0.0)**

Short term subordinated debt may be used for the sole purpose of meeting a proportion of the capital requirements for market risk. For short-term subordinated

debt to be eligible as supplementary capital, it needs, if circumstances demand, to be capable of becoming part of a bank's permanent capital and thus be available to absorb losses in the event of insolvency. It must, therefore, at a minimum:

- (i) be unsecured, subordinated and fully paid up
- (ii) have an original maturity of at least two years
- (iii) not be repayable before the agreed repayment date unless the prior consent of CBSL is obtained
- (iv) be subject to a lock-in clause which stipulates that neither interest nor principal may be paid (even at maturity) if such payment means that the bank falls below or remains below its minimum capital requirement.

**6.2.2.8.1 Approved Short Term Subordinated Debt
(WBRC 11.2.1.4.1.0)**

Total amount of approved short-term subordinated debts under above conditions.

**6.2.2.8.2 Eligible Supplementary Capital (Eligible Tier III) - Utilised
(WBRC 11.2.1.4.2.0)**

The amount must agree with item 6.3.3.6.1 of Part II (b) subject to the following conditions.

[=WBRC 11.2.2.6.1.0 of Part II (b)]

- (i) A minimum of about 28½ per cent of market risk needs to be supported by eligible core capital that is available to support market risk.
- (ii) Tier III capital will be limited to 250 per cent of a bank's eligible core capital that is available to support market risk after meeting credit risk and operational risk.

**6.2.2.9 Capital Base
(WBRC 11.2.1.5.0.0)**

The amount must agree with the sum of items of eligible core capital (6.2.2.1), eligible supplementary capital (6.2.2.7) and eligible tier III capital (6.2.2.8.2).

(WBRC 11.2.1.1.0.0 + 11.2.1.3.0.0 + 11.2.1.4.2.0)

6.2.3 An indicative list of institutions which may be deemed to be financial subsidiaries/ institutions for the purposes of items 6.2.2.3.8, 6.2.2.3.9, 6.2.2.5.1 and 6.2.2.5.2 above is as under:

(WBRC 11.2.1.1.2.8, 11.2.1.1.2.9, 11.2.1.2.2.1 and 11.2.1.2.2.2)

- (i) LCBs and LSBs,
- (ii) Insurance Companies,
- (iii) Registered Finance Companies,
- (iv) Specialised Leasing Companies,
- (v) Merchant Banks,
- (vi) Primary Dealers.

6.2.4 Subsidiary companies referred to in items 6.2.2.3.8, 6.2.2.3.9, 6.2.2.5.1 and 6.2.2.5.2 above will be as defined in the Banking Act.

6.3 Part II (b) - Computation of Eligible Tier III for Market Risk

6.3.1 Rule of Short-Term Subordinated Debt Covering Market Risk (Tier III Capital)

For short-term subordinated debt to be eligible as Tier III capital, it needs, if circumstances demand, to be capable of becoming part of a bank's permanent capital and thus be available to absorb losses in the event of insolvency. Short-term subordinated debt may be used for the sole purpose of meeting a proportion of the capital requirements for market risk. It must, therefore, at a minimum:

- (i) be unsecured, subordinated and fully paid up
- (ii) have an original maturity of at least two years
- (iii) not be repayable before the agreed repayment date unless the prior consent of CBSL is obtained
- (iv) be subject to a lock-in clause which stipulates that neither interest nor principal may be paid (even at maturity) if such payment means that the bank falls below or remains below its minimum capital requirement.

6.3.2 Eligible Tier III capital

- (i) Tier III capital will be limited to 250 per cent of a bank's eligible core capital that is available to support market risk after meeting credit risk and operational risk.
- (ii) The minimum of about 28½ per cent of market risk needs to be supported by eligible core capital that is available to support market risk.
- (iii) Tier 2 elements may be substituted for Tier III up to the same limit of 250 per cent so far as the overall limits stated in paragraphs 6.2.2.4.5 and 6.2.2.7 are not breached, *i.e.*, eligible supplementary capital may not exceed eligible core capital, and long-term subordinated debt may not exceed 50 per cent of core capital.
- (iv) In addition, eligible core capital should represent at least half of total capital base, *i.e.*, the sum total of supplementary capital plus Tier III capital should not exceed eligible core capital.
- (v) In determining the level of eligible core capital for the purposes of determining eligible Tier III capital, all adjustments required in arriving at the total capital base (as stated in 6.2.2.3 and 6.2.2.5) should be taken into consideration.

6.3.3 Specific instructions for Computation of eligible Tier III for market risk

The values of the items in this form are updated automatically, except item 6.3.3.5.1 below.

(WBRC 11.2.2.5.1.0)

6.3.3.1 Total Risk Weighted Assets (RWA) (WBRC 11.2.2.1.0.0)

The amount must agree with the sum of the following items from 6.3.3.1.1 to 6.3.3.1.2

(WBRC 11.2.2.1.1.0 to 11.2.2.1.2.0)

6.3.3.1.1 Total Risk Weighted Assets for Credit and Operational Risks (WBRC 11.2.2.1.1.0)

The amount must agree with the sum of item 6.4.3.1 of Part III (a) Computation of risk-weighted amount for credit risk and item 6.8.2.3 of

Part V Computation of risk-weighted amount for operational risk below.

(WBRC 11.3.1.0.0.0 of Part III (a) and 1.5.3.0.0.0 of Part V)

**6.3.3.1.2 Total Risk Weighted Assets for Market Risk
(WBRC 11.2.2.1.2.0)**

The amount must agree to item 6.7.8.2 of Part IV Computation of risk-weighted amount for market risk.

(WBRC 11.4.2.0.0.0 of Part IV)

**6.3.3.2 Minimum Capital Charge
(WBRC 11.2.2.2.0.0)**

The amount must agree with the sum of the following items from 6.3.3.2.1 to 6.3.3.2.2 (WBRC 11.2.2.2.1.0 to 11.2.2.2.2.0)

**6.3.3.2.1 Capital charge for Credit and Operational Risk
(WBRC 11.2.2.2.1.0)**

The amount must agree with 10 per cent of the total risk weighted assets for credit and operational risks item 6.3.3.1.1 above.

(10% of WBRC11.2.2.1.1.0)

**6.3.3.2.2 Capital Charge for Market Risk
(WBRC 11.2.2.2.2.0)**

The amount must agree with 10 per cent of total risk weighted assets for market risk item 6.3.3.1.2

(10% WBRC 11.2.2.1.2.0)

**6.3.3.3 Total Capital Available to Meet the Capital Charge for Credit and Operational Risks
(WBRC 11.2.2.3.0.0)**

The amount must agree with the sum of total core capital (6.2.2.1) and eligible supplementary capital (6.2.2.7) of Part II (a) Computation of total capital base above.

[WBRC11.2.1.1.0.0 and 11.2.1.3.0.0 of Part II (a)]

**6.3.3.4 Total Capital Base Available to meet Market Risk
(WBRC 11.2.2.4.0.0)**

Total capital available to meet the capital charge for credit and operational risks (6.3.3.3) less capital charge for credit and operational risks (6.3.3.2.1)

(WBRC 11.2.2.3.0.0 - 11.2.2.2.1.0)

**6.3.3.5 Total Available Tier III Capital
(WBRC 11.2.2.5.0.0)**

**6.3.3.5.1 Approved Short-term Subordinated Debt
(WBRC 11.2.2.5.1.0)**

Report total amount of approved short-term subordinated debts under the conditions are stated at item 6.2.2.8.

(as per WBRC 11.2.1.4.0.0)

6.3.3.5.2 Minimum of 28.5 per cent of Capital Charge for Market Risk to be met by eligible core capital that is not Required for Credit Risk (WBRC 11.2.2.5.2.0)

A minimum of about 28½ per cent of market risk needs to be supported by eligible core capital that is available to support market risk.

(i) Limit (WBRC 11.2.2.5.2.1)

Limit is computed under condition at 6.2.2.8.2 (i) above. The amount must agree to item 6.3.3.2.2 *28.5%

(WBRC 11.2.2.2.0*28.5%)

(ii) Amount Utilised (WBRC 11.2.2.5.2.2)

Minimum utilised amount should be equal to above limit.

6.3.3.5.3 Maximum of 250 per cent of eligible core capital that is not Required for Credit and Operational Risks (WBRC 11.2.2.5.3.0)

Tier III capital will be limited to 250 per cent of a bank's eligible core capital that is available to support market risk after meeting credit risk and operational risk.

(i) Limit (WBRC 11.2.2.5.3.1)

Limit is computed under condition at 6.2.2.8.2 (ii) above. The amount must agree to item 6.3.3.4 *250%

(WBRC 11.2.2.4.0.0*250%)

(ii) Amount Utilised (WBRC 11.2.2.5.3.2)

The utilized amount is computed automatically.

6.3.3.6 Eligible Tier III Capital (WBRC 11.2.2.6.0.0)

Eligible Tier III capital for market risk is computed as follows.

6.3.3.6.1 Eligible Tier III Capital utilised (WBRC 11.2.2.6.1.0)

Total capital charge for market risk (6.3.3.2.2) less eligible core capital utilized for market risk [6.3.3.5.2 (ii)]

(WBRC 11.2.2.2.0 - 11.2.2.5.2.2)

6.3.3.6.2 Eligible but Unutilized Tier III Capital

The approved short-term subordinated debt (6.3.3.5.1) less eligible Tier III capital utilized (6.3.3.6.1).

(11.2.2.5.1.0 - 11.2.2.6.1.0)

6.4 Part III (a) – Computation of Risk-weighted Amount for Credit Risk

6.4.1 General Rules for Measuring Credit Risk Based on the Standardised Approach (SA)

- 6.4.1.1** Under the SA, the rating assigned by the eligible external credit assessment institutions (ECAIs) will largely support the measure of credit risk. Banks may rely upon the ratings assigned by the ECAIs recognised by CBSL (*See paragraph 6.4.2*) for assigning risk weights for capital adequacy purposes as per the mapping furnished in these guidelines.
- 6.4.1.2** The risk weighting of claims will be as described in paragraphs 6.4.3 (under specific rules for measuring credit risk).
- 6.4.1.3** Claims (exposures) on a counterpart would include placements with banks, investments, loans and advances or any other credit exposure.
- 6.4.1.4** On-balance sheet claims (exposures) would be risk weighted applying the risk weight as given in paragraphs 6.4.3 while off-balance sheet items would continue to be converted to credit equivalents using the credit conversion factors given in paragraph 6.5 and thereafter risk weighted according to the risk weight applicable to the counterpart.
- 6.4.1.5** All exposures should be risk-weighted net of specific provisions and interest in suspense that has been charged to the respective customer account.

6.4.2 External Credit Assessments

6.4.2.1 Recognition of Eligible Credit Rating Agencies

6.4.2.1.1 The Revised Capital Adequacy Framework requires recognizing ECAIs and developing a mapping process to assign the ratings issued by eligible credit rating agencies to the risk weights available under the Standardised Approach. In accordance with the principles laid down in the revised framework, CBSL has identified the following two credit rating agencies operating in Sri Lanka for the purposes of risk weighting claims by banks for capital adequacy purposes:

- (i) Fitch Ratings Lanka Ltd. and
- (ii) Lanka Rating Agency Ltd.

6.4.2.1.2 The following internationally recognized credit ratings agencies are also accepted as ECAIs.

- (i) Moody's
- (ii) Standard and Poor's and
- (iii) Fitch Ratings

6.4.2.1.3 Banks are required to obtain the prior approval of CBSL for the use of other ECAIs.

6.4.2.2 Scope of Application of External Ratings

6.4.2.2.1 Banks should use the chosen ECAIs and their ratings consistently for each type of claim, for both risk weighting and risk management purposes. Banks will not be allowed to “cherry pick” the assessments provided by different ECAIs.

6.4.2.2.2 Banks shall not use one ECAI's rating for one exposure, while using another ECAI's rating for another exposure to the same

counterpart, unless the respective exposures are rated by only one of the chosen ECAIs, whose ratings the bank has decided to use. External assessments for one entity within a corporate group cannot be used to risk weight other entities within the same group.

6.4.2.3 Mapping Process

6.4.2.3.1 The ratings issued by the eligible ECAIs have been mapped to the appropriate risk weights applicable as per the Standardised Approach under the Revised Framework. The rating risk weight - mapping furnished in the tables below shall be adopted by all banks:

Table 1

Mapping of Notations of the Credit Rating Agencies in Sri Lanka

| Fitch Ratings Lanka | Lanka Rating Agency | Rating Scale of CAR |
|---------------------|---------------------|---------------------|
| AA(sri) | AAA | AAA |
| AA+(sri) | AA1 | AA+ |
| AA(sri) | AA2 | AA |
| AA-(sri) | AA3 | AA- |
| A+(sri) | A1 | A+ |
| A(sri) | A2 | A |
| A-(sri) | A3 | A- |
| BBB+(sri) | BBB1 | BBB+ |
| BBB(sri) | BBB2 | BBB |
| BBB-(sri) | BBB3 | BBB- |
| BB+(sri) | BB1 | BB+ |
| BB(sri) | BB2 | BB |
| BB-(sri) | BB3 | BB- |
| B+(sri) | B1 | B+ |
| B(sri) | B2 | B |
| B-(sri) & Lower | B3 & Lower | B- & Lower |

Table 2
Mapping of Notations of the International Credit Rating Agencies

| Standard and Poor's | Moody's | Fitch Ratings | Rating Scale of CAR |
|---------------------|------------|---------------|---------------------|
| AAA | Aaa | AAA | AAA |
| AA+ | Aa1 | AA+ | AA+ |
| AA | Aa2 | AA | AA |
| AA- | Aa3 | AA- | AA- |
| A+ | A1 | A+ | A+ |
| A | A2 | A | A |
| A- | A3 | A- | A- |
| BBB+ | Baa1 | BBB+ | BBB+ |
| BBB | Baa2 | BBB | BBB |
| BBB- | Baa3 | BBB- | BBB- |
| BB+ | Ba1 | BB+ | BB+ |
| BB | Ba2 | BB | BB |
| BB- | Ba3 | BB- | BB- |
| B+ | B1 | B+ | B+ |
| B | B2 | B | B |
| B- & Lower | B3 & Lower | B- & Lower | B- & Lower |

Table 3
Mapping of Short Term Ratings

| Short term ratings | | | | Risk weights |
|---------------------|---------------------|---------|---------------|--------------|
| Lanka Rating Agency | Standard and Poor's | Moody's | Fitch Ratings | |
| L - 1 | A - 1+/A - 1 | P - 1 | F1+/ F1 | 20% |
| L - 2 | A - 2+/A - 2 | P - 2 | F2 | 50% |
| L - 3 | A - 3+/A - 3 | P - 3 | F3 | 100% |
| NP | Below A - 3 | NP | Below F3 | 150% |

6.4.2.4 Short-Term Ratings

- 6.4.2.4.1** Short-term assessments may only be used for short-term claims against banks and corporates.
- 6.4.2.4.2** For risk-weighting purposes, short-term ratings are deemed to be issue specific. They can only be used to derive risk weights for claims arising from the rated facility. They cannot be generalised to other short-term claims. In no event can a short-term rating be used to support a risk weight for an unrated long-term claim.
- 6.4.2.4.3** If a short-term rated facility attracts a 50 per cent risk weight, unrated short-term claims cannot attract a risk weight lower than 100 per cent. If an issuer has a short-term facility with an assessment that warrants a risk weight of 150 per cent, all unrated claims, whether long term or

short term, should also receive a 150 per cent risk weight, unless the bank uses recognized CRM techniques for such claims.

6.4.2.4.4 The above risk weight mapping of both long term and short-term ratings of the chosen domestic rating agencies would be reviewed annually by CBSL.

6.4.2.5 Use of Unsolicited Ratings

A rating would be treated as solicited only if the issuer of the instrument has requested the credit rating agency for the rating and has accepted the rating assigned by the agency. As a general rule, banks should use only solicited rating from the chosen ECAIs. No ratings issued by the credit rating agencies on an unsolicited basis should be considered for risk weight Computation as per the Standardised Approach.

6.4.2.6 Issuer versus Issues Assessment

Where a bank's exposure is to a particular issue that has an issue-specific assessment, the risk weight of the claim will be based on this assessment.

6.4.2.7 Use of Multiple Rating Assessments

Banks shall be guided by the following in respect of exposures/obligors having multiple ratings from the eligible ECAIs chosen by the bank for the purpose of risk weight Computation:

6.4.2.7.1 If there is only one rating by an eligible credit rating agency for a particular claim, that rating would be used to determine the risk weight of the claim.

6.4.2.7.2 If there are two ratings accorded by eligible credit rating agencies, which map into different risk weights, the higher risk weight should be applied.

6.4.2.7.3 If there are three or more ratings accorded by eligible credit rating agencies with different risk weights, the ratings corresponding to the two lowest risk weights should be referred to and the higher of those two risk weights should be applied, i.e., the second lowest risk weight.

6.4.3 Specific Rules for Measuring Credit Risk Based on the Standardised Approach (SA)

6.4.3.1 Total Risk-weighted amount for Credit Risk (BRC 11.3.1.0.0.0)

The amount must agree to sum of total amount of on-balance sheet items and total amount of credit equivalent items (from 6.4.3.1.1 to 6.4.3.1.14) after applying the *specific risk weight assigned*.

(WBRC 11.3.1.1.0.0 to 11.3.1.14.0.0)

6.4.3.1.1 Claims on Government of Sri Lanka and Central Bank of Sri Lanka (WBRC 11.3.1.1.0.0)

All claims on Government of Sri Lanka and Central Bank of Sri Lanka *are risk-weighted at zero per cent*. The amount must agree to sum of items (i) and (ii)

(WBRC 11.3.1.1.1.0 to 11.3.1.1.2.0)

(i) **Claims on Government of Sri Lanka
(WBRC 11.3.1.1.1.0)**

All claims on Government of Sri Lanka *are risk-weighted at 0%*.

(ii) **Claims on Central Bank of Sri Lanka
(WBRC 11.3.1.1.2.0)**

All claims on Central Bank of Sri Lanka *are risk-weighted at 0%*.

**6.4.3.1.2 Claims on Foreign Sovereigns and their Central Banks
(WBRC 11.3.1.2.0.0)**

Exposures on foreign sovereigns and their central banks will attract risk weights as per the rating assigned to those sovereigns/sovereign exposures by international rating agencies as given in the table below. *The amount must agree to sum of following items from (i) to (vi).*

(WBRC 11.3.1.2.1.0 to 11.3.1.2.6.0)

Table 4

| Item | WBRC | Credit Assessment | Risk Weight |
|-------|--------------|-------------------|-------------|
| (i) | 11.3.1.2.1.0 | AAA to AA- | 0% |
| (ii) | 11.3.1.2.2.0 | A+ to A- | 20% |
| (iii) | 11.3.1.2.3.0 | BBB+ to BBB- | 50% |
| (iv) | 11.3.1.2.4.0 | BB+ to B | 100% |
| (v) | 11.3.1.2.5.0 | Below B- | 150% |
| (vi) | 11.3.1.2.6.0 | Unrated | 100% |

**6.4.3.1.3 Claims on Public Sector Entities (PSEs)
(WBRC 11.3.1.3.0.0)**

All *performing claims* on domestic public sector entities (including public corporations, statutory boards, provincial authorities, local government bodies, etc.) and claims on foreign PSEs will be risk weighted in a manner *similar to claims on corporates* as given in the table below. The amount must agree to sum of following items from (i) to (v).

(WBRC 11.3.1.3.1.0 to 11.3.1.3.5.0)

Table 5

| Item | WBRC | Credit Assessment | Risk Weight |
|-------|--------------|-------------------|-------------|
| (i) | 11.3.1.3.1.0 | AAA to AA | 20% |
| (ii) | 11.3.1.3.2.0 | A+ to A- | 50% |
| (iii) | 11.3.1.3.3.0 | BBB+ to BB- | 100% |
| (iv) | 11.3.1.3.4.0 | Below BB- | 150% |
| (v) | 11.3.1.3.5.0 | Unrated | 100% |

6.4.3.1.4 Claims on Official Entities and Multilateral Development Banks (MDBs)
(WBRC 11.3.1.4.0.0)

The amount must agree with the sum of the following items from (i) to (iii).

(WBRC 11.3.1.4.1.0 to 11.3.1.4.6.0)

- (i) **Exposures on following official entities will be assigned zero risk weight:**
- (a) Bank for International Settlements (BIS)
 - (b) International Monetary Fund (IMF)
 - (c) European Central Bank (ECB)
 - (d) European Community (EC)
- (ii) **The following Eligible MDBs will be assigned a zero risk weight:**
- (a) The World Bank Group comprising of the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC)
 - (b) The Asian Development Bank (ADB)
 - (c) The African Development Bank (AFDB)
 - (d) The European Bank for Reconstruction and Development (EBRD)
 - (e) The Inter-American Development Bank (IADB)
 - (f) The European Investment Bank (EIB)
 - (g) The European Investment Fund (EIF)
 - (h) The Nordic Investment Bank (NIB)
 - (i) The Caribbean Development Bank (CDB)
 - (j) The Islamic Development Bank (IDB)
 - (k) The Council of Europe Development Bank (CEDB)
 - (l) The International Finance Facility for Immunization (IFFIm)
- (iii) The risk weight applicable to claims on other MDBs will depend on the **external rating** assigned for each MDBs as follows:

Table 6

| Item | WBRC | Credit Assessment | Risk Weight |
|-------|--------------|-------------------|-------------|
| (i) | 11.3.1.4.1.0 | BIS,IMF and MDBs | 0% |
| (ii) | 11.3.1.4.2.0 | AAA to AA- | 20% |
| (iii) | 11.3.1.4.3.0 | A+ to BBB- | 50% |
| (iv) | 11.3.1.4.4.0 | BB+ to B- | 100% |
| (v) | 11.3.1.4.5.0 | Below B- | 150% |
| (vi) | 11.3.1.4.6.0 | Unrated | 100% |

6.4.3.1.5 Claims on Banks (WBRC 11.3.1.5.0.0)

Total *performing claims* on banks denominated in LKR and foreign currency. The amount must agree to sum of total rupee claims and foreign currency claims.

(WBRC 11.3.1.5.1.0 + 11.3.1.5.2.0 + 11.3.1.5.3.0)

Short-Term Claims: In order to qualify for the preferential treatment for short-term claims, they should have an original contractual maturity of 3 months or less, and should not be rolled over.

Branches of banks incorporated abroad: The rating applicable to the Head Office may be used as the rating applicable to the particular branch, if the branch is not rated locally.

(i) Claims on Banks: Rupee Exposures less than 3 months (WBRC 11.3.1.5.1.0)

All performing claims on all banks (short-term) including LCBs and LSBs, excluding investment in equity shares and other instruments eligible for capital status, **denominated in LKR** would be risk weighted based on their external credit assessment as follows:

The amount must agree with the sum of the following items from (i) to (iv).

(WBRC 11.3.1.5.1.1 to 11.3.1.5.1.4)

Table 7

| Item | WBRC | Credit Assessment | Risk Weight |
|-------|--------------|-------------------|-------------|
| (i) | 11.3.1.5.1.1 | AAA to BBB- | 20% |
| (ii) | 11.3.1.5.1.2 | BB+ to B- | 50% |
| (iii) | 11.3.1.5.1.3 | Below B- | 150% |
| (iv) | 11.3.1.5.1.4 | Unrated | 100% |

(ii) Claims on Banks: Foreign Currency Exposures less than 3 months (WBRC 11.3.1.5.2.0)

All performing claims denominated in foreign currency on banks (short-term) will be risk weighted based on their external credit assessment as given in the table below.

The amount must agree with the sum of the following items from (i) to (v).

(WBRC 11.3.1.5.2.1 to 11.3.1.5.2.5)

Table 8

| Item | WBRC | Credit Assessment | Risk Weight |
|-------|--------------|-------------------|-------------|
| (i) | 11.3.1.5.2.1 | AAA to A- | 20% |
| (ii) | 11.3.1.5.2.2 | BBB+ to BBB- | 50% |
| (iii) | 11.3.1.5.2.3 | BB+ to B- | 100% |
| (iv) | 11.3.1.5.2.4 | Below B- | 150% |
| (v) | 11.3.1.5.2.5 | Unrated | 100% |

(iii) Claims on Banks: Rupee and Foreign Currency Exposures more than 3 months

(WBRC 11.3.1.5.3.0)

All **performing claims** denominated in rupee and foreign currency on banks (more than 3 months) will be risk weighted based on their external credit assessment as given in the table below.

The amount must agree with the sum of the following items from (i) to (v).

(WBRC 11.3.1.5.3.1 to 11.3.1.5.3.5)

Table 9

| Item | WBRC | Credit Assessment | Risk Weight |
|-------|--------------|-------------------|-------------|
| (i) | 11.3.1.5.3.1 | AAA to AA- | 20% |
| (ii) | 11.3.1.5.3.2 | A+ to BBB- | 50% |
| (iii) | 11.3.1.5.3.3 | BB+ to B- | 100% |
| (iv) | 11.3.1.5.3.4 | Below B- | 150% |
| (v) | 11.3.1.5.3.5 | Unrated | 100% |

6.4.3.1.6 Claims on Financial Institutions

(WBRC 11.3.1.6.0.0)

Total **performing claims** on non-bank financial institutions. However, investment in equity shares and other instruments eligible for capital status in the financial institutions are stated in paragraph 6.2.3 and 6.2.4 should be excluded from here.

(WBRC 11.3.1.6.1.0 + 11.3.1.6.2.0)

(i) Claims on Primary Dealers/Finance Companies/Specialised Leasing Companies
(WBRC 11.3.1.6.1.0)

All **performing claims** on following institutions.

Primary Dealers: Registered under the Local Treasury Bills Ordinance (Primary Dealers), Regulations No.1 of 2002.

Finance Companies: Registered under the Finance Companies Act, No.78 of 1988, as amended.

Specialised Leasing Companies: Registered under the Finance Leasing Act, No.56 of 2000.

The amount must agree with the sum of the following items from (i) to (v).

(WBRC 11.3.1.6.1.1 to 11.3.1.6.1.5)

Table 10

| Item | WBRC | Credit Assessment | Risk Weight |
|-------|--------------|-------------------|-------------|
| (i) | 11.3.1.6.1.1 | AAA to AA- | 20% |
| (ii) | 11.3.1.6.1.2 | A+ to BBB- | 50% |
| (iii) | 11.3.1.6.1.3 | BB+ to B- | 100% |
| (iv) | 11.3.1.6.1.4 | Below B- | 150% |
| (v) | 11.3.1.6.1.5 | Unrated | 100% |

**(ii) Claims on Other Financial Institutions
(WBRC 11.3.1.6.2.0)**

All **performing claims** on other financial institutions.

The amount must agree with the sum of the following items from (i) to (v).

(WBRC 11.3.1.6.2.1 to 11.3.1.6.2.5)

Table 11

| Item | WBRC | Credit Assessment | Risk Weight |
|-------|--------------|-------------------|-------------|
| (i) | 11.3.1.6.2.1 | AAA to AA- | 20% |
| (ii) | 11.3.1.6.2.2 | A+ to A- | 50% |
| (iii) | 11.3.1.6.2.3 | BBB+ to BB- | 100% |
| (iv) | 11.3.1.6.2.4 | Below BB- | 150% |
| (v) | 11.3.1.6.2.5 | Unrated | 100% |

**6.4.3.1.7 Claims on Corporates
(WBRC 11.3.1.7.0.0)**

All **performing claims** on corporates shall be risk weighted as per the ratings assigned.

Banks can, with prior approval of CBSL, exercise the option to rate all corporate customers at 100 per cent. Once decided and approved by CBSL the banks should apply a single consistent approach.

The amount must agree with the sum of the following items from (i) to (v).

(WBRC 11.3.1.7.1.0 to 11.3.1.7.5.0)

Table 12

| Item | WBRC | Credit Assessment | Risk Weight |
|-------|--------------|-------------------|-------------|
| (i) | 11.3.1.7.1.0 | AAA to AA- | 20% |
| (ii) | 11.3.1.7.2.0 | A+ to A- | 50% |
| (iii) | 11.3.1.7.3.0 | BBB+ to BB- | 100% |
| (iv) | 11.3.1.7.4.0 | Below BB- | 150% |
| (v) | 11.3.1.7.5.0 | Unrated | 100% |

6.4.3.1.8 Retail Claims (WBRC 11.3.1.8.0.0)

All performing retail claims include: Retail claims that qualify for regulatory capital purposes and retail claims that do not qualify for regulatory capital purposes.

However, the following shall be excluded from the retail portfolio:

- (a) Investments in securities such as bonds and equities (to be treated as investments).
- (b) Residential housing loans secured by mortgages over the residential property that qualify for inclusion as claims secured by residential property (refer WBRC 1.3.1.9.0.0).

The amount must agree with the sum of the retail claims that *qualify* for regulatory capital purposes and retail claims that *do not qualify* for regulatory capital purposes.

(WBRC 11.3.1.8.1.0 to 11.3.1.8.2.0)

(i) Retail claims that qualify for regulatory capital purposes (WBRC 11.3.1.8.1.0)

Performing claims that meet the criteria given below qualify for inclusion in the regulatory retail portfolio. All such exposures qualify for a 75 per cent risk weight.

The qualifying criteria for the Regulatory Retail Portfolio (applicable to both the retail and SME portfolios):

- (a) **Orientation Criterion** – The exposure should be to an individual person or persons or to a SME.
- (b) **Product Criterion** – The exposure should be of one of the following product types. Both fund based and non-fund based facilities to be included:
 - Revolving credit and lines of credit including overdrafts and credit cards
 - Personal term loans and leases (*e.g.*, installment loans, vehicle loans and leases, student and educational loans, personal finance)
 - SME facilities.
- (c) **Granularity Criterion** – The regulatory retail portfolio must be sufficiently diversified to a degree that reduces the risks in the portfolio. In order to meet this criterion,
 - No aggregate exposure without considering CRM, to one counterparty should exceed 0.2 per cent of the overall retail portfolio (excluding any non-performing retail/SME claims).
 - “To one counterparty” means one or several entities that constitute a single beneficiary, *e.g.*: in the case of a small business affiliated to another small business, the limit would apply to the bank’s aggregate exposure on both businesses.

(d) Low value of Individual Exposures –

- **Individual Exposures:** The maximum aggregate retail exposure (not taking any CRM into account) to one counterpart cannot exceed:
 - the lower of 0.4 per cent of capital base (as included in the computation as at the reporting date) or Rs.10 million at the time of first granting.
 - This criterion will be applicable for a period of 3 years from adoption.
 - From 01.01.2011, the criterion would be the lower of 0.2 per cent or Rs.10 million.
- **SME Exposures:**
 - The maximum exposure in the case of SME loans would be Rs.35 million at the time of first granting.
 - In order to qualify as an SME, the firm's annual turnover should not be more than Rs.140 million.
 - The annual turnover should be based on the latest available audited financial statements at the time of granting the facilities.
 - If audited financial statements are not available, the draft accounts may be used. However, the audited financial statements should be obtained during the year.
 - The qualifying criteria is given above should be reviewed in respect of each financial year.

(ii) Retail claims that do not qualify for regulatory capital purposes (WBRC 11.3.1.8.2.0)**Claims that not qualify for inclusion in the regulatory retail portfolio:**

Performing claims that do not meet the criteria given above do not qualify for inclusion in the regulatory retail portfolio. All such exposures qualify for a 100 per cent risk weight.

6.4.3.1.9 Claims Secured by Residential Property (WBRC 11.3.1.9.0.0)

All performing claims secured by residential property include: Claims that qualify for regulatory capital purposes and claims that do not qualify for regulatory capital purposes.

However, the exposures **secured by mortgages on commercial real estates** shall be excluded from here.

The amount must agree with the sum of the claims secured by residential property that qualify for regulatory capital purposes and claims secured by residential property that do not qualify for regulatory capital purposes.

(WBRC 11.3.1.9.1.0 to 11.3.1.9.2.0)

(i) **Claims that qualify for regulatory capital purposes
(WBRC 11.3.1.9.1.0)**

- (a) Subject to conditions below, residential housing loans fully secured by a primary mortgage over such residential property that is or will be occupied by the borrower, or rented, qualify for a risk weight of 50 per cent.

The claims should strictly meet the following qualifying criteria to be able to use the preferential risk weight

- A margin of at least 25 per cent on the value of the property based on the latest valuation report
- **Valuation of property:** valuation of property is carried out by an external independent valuer or current internal assessment of the value of the properties subject to the conditions stated in the Directions on Classification of Advances and Specific Provisions issued under Banking Act.

- (b) Mortgages other than primary mortgages will qualify for the same risk weight, subject to the above conditions, if:
- The mortgage is with the same bank
 - The purpose of the loan is for residential purposes.

(ii) **Claims that do not qualify for regulatory capital purposes
(WBRC 11.3.1.9.2.0)**

Performing claims that do not meet the criteria given above do not qualify for inclusion in the regulatory residential portfolio. All such exposures qualify for a 100 per cent risk weight.

**6.4.3.1.10 Claims Secured by Commercial Real Estate
(WBRC 11.3.1.10.0.0)**

Commercial real estate exposure is defined as exposures secured by mortgages on commercial real estate (office buildings, multi-purpose or multi-tenanted commercial premises, multi-family residential buildings, industrial or warehouse space, hotels, land acquisition, land development and construction).

Commercial real estate exposures, as defined above will attract a **risk weight of 100 per cent**.

**6.4.3.1.11 Non-Performing Assets (NPAs)
(WBRC 11.3.1.11.0.0)**

The unsecured portion of NPAs, other than a qualifying residential mortgage loan which is addressed in item 6.4.2.1.12, net of specific provision will be risk weighted as items (i) and (ii) below.

For the purpose of computing the level of specific provisions of NPAs for deciding the risk-weighting, all funded NPA exposures of a single counterparty (without netting the value of the eligible collateral under CRM) should be reckoned in the denominator.

For the purpose of defining the **secured portion of the NPA**, eligible collateral will be the same as recognised for credit risk mitigation purposes. Hence, other forms of collateral like land, buildings, plant,

machinery, current assets, *etc.*, will not be reckoned while computing the secured portion of NPAs for capital adequacy purposes.

The amount must agree with the sum of the following items (i) and (ii).

(WBRC 11.3.1.11.1.0 + 11.3.1.11.2.0)

- (i) **Specific provisions are equal or more than 20 per cent**
(WBRC 11.3.1.11.1.0)

100 per cent risk weight when specific provisions are equal or more than 20 per cent of the outstanding amount of the NPA.

- (ii) **Specific provisions are less than 20 per cent**
(WBRC 11.3.1.11.2.0)

150 per cent risk weight when specific provisions are less than 20 per cent of the outstanding amount of the NPA.

6.4.3.1.12 Non-Performing Assets Secured by Residential property (WBRC 11.3.1.12.0.0)

The unsecured of portion NPAs (without netting the value of property mortgage), net of specific provision will be risk weighted as items (i) and (ii):

For the purpose of computing the level of specific provisions in NPAs for deciding the risk-weighting, all funded NPA exposures of a single counterparty (without netting the value of property mortgage) should be reckoned in the denominator.

The amount must agree with the sum of the following items (i) and (ii).

(WBRC 11.3.1.12.1.0 + 11.3.1.12.2.0)

- (i) **Specific provisions are equal or more than 20 per cent**
(WBRC 11.3.1.12.1.0)

50 per cent risk weight when specific provisions are equal or more than 20 per cent of the outstanding amount of the NPA.

- (ii) **Specific provisions are less than 20 per cent**
(WBRC 11.3.1.12.2.0)

100 per cent risk weight when specific provisions are less than 20 per cent of the outstanding amount of the NPA.

6.4.3.1.13 Higher-Risk Categories (WBRC 11.3.1.13.0.0)

Exposures to the following segments, which are considered as high-risk exposures, will attract a higher **risk weight of 150 per cent**:

- (i) Venture capital funds/companies
(ii) Private equity investments

6.4.3.1.14 Cash Items and Other Assets (WBRC 11.3.1.14.0.0)

The amount must agree with the sum of cash items (i) and Other Assets (ii)

(WBRC 11.3.1.14.1.0 to 11.3.1.14.2.0)

(i) Cash Items**(WBRC 11.3.1.14.1.0)**

Total of cash items from (a) to (c)

(a) Notes and Coins**(WBRC 11.3.1.14.1.1)**

Local currency notes and coins held by tellers, in ATMs, in vault and petty cash.

Risk weight is 0 per cent

(b) Gold and Bullion held in own vault**(WBRC 11.3.1.14.1.2)**

Gold and bullion held in the bank's vaults. Gold items held in safe custody should be excluded.

Risk weight is 0 per cent

(c) Cash Items in the process of Collection**(WBRC 11.3.1.14.1.3)**

Cheques, drafts and other cash items, such as money orders, postal orders drawn on banks and other authorized institutions and paid immediately on presentation. Trade bills, such as import bills and export bills, in the process of collection should be excluded from this item and considered as loans and advances.

Risk weight is 20 per cent.

(ii) Other Assets**(WBRC 11.3.1.14.2.0)**

Total of items (a) and (b) below.

(a) Fixed Assets**(WBRC 11.3.1.14.2.1)**

The item includes bank premises, immovable property, machinery and equipment, motor vehicles, furniture and fittings and other fixed assets, reported at cost or at revalued amount, net of accumulated depreciation will attract a risk weight of 100 per cent.

(b) Other Assets/Exposures**(WBRC 11.3.1.14.2.2)**

All other assets/exposures which are not specified elsewhere will attract a uniform risk weight of 100 per cent.

6.5 Part III (b) – Computation of Credit Equivalent Amount of Off-Balance Sheet Items**6.5.1 General Instructions**

6.5.1.1 The risk-weighted amount of an off-balance sheet item that gives rise to credit exposure is generally calculated by means of a two-step process:

6.5.1.1.1 The notional amount of the transaction is converted into a credit equivalent amount, by multiplying the amount by the specified credit conversion factor or by applying the current exposure method, and

6.5.1.1.2 The resulting credit equivalent amount is multiplied by the risk weight applicable to the counterpart or type of asset.

6.5.1.2 Where the off-balance sheet item is secured by eligible collateral or guarantee, the CRM guidelines detailed in paragraph 6.6 may be applied.

6.5.2 The credit conversion factors to be used will be as follows:

6.5.2.1 Off-Balance Sheet Items:

(WBRC 11.3.2.0.0.0)

The exposure on off-balance sheet items is to be included in the computation of the risk weighted capital ratio. The conversion of the credit risk inherent in each off-balance sheet item would be converted into an on-balance sheet credit equivalent by multiplying the principal amount by a credit conversion factor. The credit equivalent amount would then be weighted according to the corresponding asset item.

The amount must agree with the sum of the principal amount of off-balance sheet items and credit equivalent of off-balance sheet items from 6.5.2.1.1 to 6.5.2.1.10.

(WBRC 11.3.2.1.0.0 to 11.3.2.10.0.0)

6.5.2.1.1 Direct Credit Substitutes

(WBRC 11.3.2.1.0.0)

Total direct credit substitutes of the following items from (i) to (iv).

Conversion Factor 100 per cent

(WBRC 11.3.2.1.1.0 to 11.3.2.1.4.0)

(i) General Guarantees of Indebtedness

(WBRC 11.3.2.1.1.0)

General guarantees of indebtedness where the risk of loss in the transaction may crystallise into a direct liability and become a direct claim on the counterparty. These include Guarantees in respect of counterparties like insurance agents, sales agents, etc., to cover any non-payment by them of premium, sales proceeds, etc. to their beneficiaries. Bank Guarantees in favor of customs would cover any non-payment of customs duties by their counterparties.

(ii) Stand-by LCs serving as Financial Guarantees

(WBRC 11.3.2.1.2.0)

Stand-by Letters of Credit, which are direct, credit substitutes where the risk of loss in the transaction is equivalent to that of a direct claim on the counterparty. This includes stand-by Letters of Credit serving as financial guarantees for loans, securities and other financial liabilities.

(iii) Bank Acceptances

(WBRC 11.3.2.1.3.0)

Liabilities arising from acceptances on accommodation of bills but excludes bills that have been discounted by the bank itself. Risk participation and other similar commitments undertaken to repay the financial obligation of a customer, on his failure to do so, should be included.

(iv) Others
(WBRC 11.3.2.1.4.0)

Any other obligation which carries the same risk of loss in the transaction and is equivalent to that of a direct claim on the counterparty.

6.5.2.1.2 Transaction-Related Contingencies
(WBRC 11.3.2.2.0.0)

Total transaction-related contingencies of following items from (i) to (iii).

Conversion Factor 50 per cent

(WBRC 11.3.2.2.1.0 to 11.3.2.2.3.0)

(i) Performance Bonds, Bid Bonds & Warranties
(WBRC 11.3.2.2.1.0)

Transaction-related contingent items such as Performance Bonds, Bid Bonds and Warranties, where the risk of loss arises from an irrevocable obligation to pay a third party, the non-financial obligation of the customer upon his failure to fulfill obligations under a contract or a transaction. Such contingencies would crystallise into actual liabilities dependent upon the occurrence or non-occurrence of an event other than that of a default in payment by the counterparty.

(ii) Stand-by LCs related to particular transactions
(WBRC 11.3.2.2.2.0)

Contingent liabilities relating to particular transactions. Here too, there is a likelihood of the contingencies crystallizing into actual liabilities depending upon the occurrence or non-occurrence of an event other than that of a default in payment by a counterparty.

(iii) Others
(WBRC 11.3.2.2.3.0)

Other contingent liabilities arising from an irrevocable obligation to pay a third party, the non-financial obligation of a customer upon his failure to fulfill such obligation or terms under contract or transaction.

6.5.2.1.3 Short-Term Self Liquidating Trade-Related Contingencies
(WBRC 11.3.2.3.0.0)

Total short-term self liquidating trade-related contingencies of following items from (i) to (iv).

Conversion Factor 20 per cent

(WBRC 11.3.2.3.1.0 to 11.3.2.3.4.0)

(i) Shipping Guarantees
(WBRC 11.3.2.3.1.0)

Guarantees issued by the reporting institution to customers where the reporting institution agrees to indemnify fully, to a named

shipping agent, against all liabilities arising from the release of goods without production of Bills of Lading and/or other shipping documents by the receiving party.

**(ii) Documentary Letters of Credit
(WBRC 11.3.2.3.2.0)**

Documentary credits collateralised by the underlying shipments which are short-term self-liquidating and trade-related transactions.

**(iii) Trade-Related Acceptances
(WBRC 11.3.2.3.3.0)**

Liabilities arising from acceptances that are based on a specific trade transaction either domestic or foreign *e.g.*: Letters of Credit.

**(iv) Others
(WBRC 11.3.2.3.4.0)**

Contingent liabilities arising from short-term self-liquidating trade related obligations.

**6.5.2.1.4 Sale and Repurchase agreements and Assets sale with recourse where the credit risk remains with the bank
(WBRC 11.3.2.4.0.0)**

Total of following items from (i) to (vi).

Conversion Factor 100 per cent

(WBRC 11.3.2.4.1.0 to 11.3.2.4.6.0)

**(i) Sale and Repurchase Agreements
(WBRC 11.3.2.4.1.0)**

Sale and Repurchase Agreement (REPO) is an agreement whereby a bank sells an asset to a third party with a commitment to repurchase it at an agreed price on an agreed future date. Purchase and Resale Agreements (Reverse REPOS) should be considered as collateralised loans. The risk is to be measured as an exposure to the counterparty unless the underlying asset has been reported as an on-balance sheet item where the risk weight appropriate to the underlying asset should be used.

**(ii) Housing Loans Sold with Recourse
(WBRC 11.3.2.4.2.0)**

The amount of housing loans sold to a counterparty with recourse where the credit risk remains with the Bank.

**(iii) Other Assets Sold with Recourse
(WBRC 11.3.2.4.3.0)**

Assets sold with recourse where the credit risk remains with the reporting institution. The holder of the asset is entitled to put the assets back to the reporting institution within an agreed period or under certain prescribed circumstances – *e.g.*: deterioration in the value or credit quality of the asset concerned.

**(iv) Forward Assets Purchases
(WBRC 11.3.2.4.4.0)**

Commitment to purchase, at a specified future date and/or on pre-arranged terms, a loan, security or other asset from another party.

**(v) Partly-Paid Shares/Securities
(WBRC 11.3.2.4.5.0)**

Unpaid amounts on partly-paid shares and securities where the issuer may call upon the bank to pay at a pre-determined or unspecified date in the future.

**(vi) Others
(WBRC 11.3.2.4.6.0)**

Placements of forward deposits and other commitments with certain drawdown. A forward deposit is an agreement between two parties whereby one will place and the other will receive, at a pre-determined future date, a deposit, at an agreed rate of interest. A commitment to place a forward deposit should be reported under this item and weighted according to the risk-weight appropriate to the counterparty.

**6.5.2.1.5 Obligations under an On-going Underwriting Agreement
(WBRC 11.3.2.5.0.0)**

Total of following items from (i) to (iii).

Conversion Factor 50 per cent

(WBRC 11.3.2.5.1.0 to 11.3.2.5.3.0)

**(i) Underwriting of Shares/Securities Issue
(WBRC 11.3.2.5.1.0)**

Obligations due to underwriting of shares and securities, net of the amount sub-underwritten by another institution.

**(ii) Note Issuance Facilities and Revolving Underwriting Facilities
(WBRC 11.3.2.5.2.0)**

Arrangements where a borrower may draw funds up to a prescribed limit over a pre-defined period through the issue of notes which the reporting bank has committed to underwrite.

**(iii) Others
(WBRC 11.3.2.5.3.0)**

Other obligations due to on-going underwriting agreements.

**6.5.2.1.6 Commitments with an Original maturity of up to one year or which can be unconditionally cancelled at any time
(WBRC 11.3.2.6.0.0)**

Total of following items from (i) to (iv).

Conversion Factor 0 per cent

(WBRC 11.3.2.6.1.0 to 11.3.2.6.4.0)

**(i) Formal Stand-by Facilities and Credit Lines
(WBRC 11.3.2.6.1.0)**

Commitments include the undrawn portion of any binding arrangements which obligate the reporting institution to provide funds at some future date. Such commitments would have an original maturity of less than one year or which can be unconditionally cancelled at any time by the reporting bank at its discretion. Formal stand-by facilities and credit lines for Letters of Credit, Trust Receipts, etc; should be included under the item.

**(ii) Undrawn Term Loans
(WBRC 11.3.2.6.2.0)**

Undrawn portion of a term loans with an original maturity of less than one year or which can be unconditionally cancelled at any time by the reporting bank.

**(iii) Undrawn Overdraft Facilities/Unused Credit Card Lines
(WBRC 11.3.2.6.3.0)**

The undrawn portion of overdraft facilities and credit card lines with an original maturity of less than one year or which can be unconditionally cancelled at any time by the reporting bank.

**(iv) Others
(WBRC 11.3.2.6.4.0)**

Any other commitment with an original maturity up to one year or which can be unconditionally cancelled at any time.

**6.5.2.1.7 Other Commitments with an Original maturity of up to one year
(WBRC 11.3.2.7.0.0)**

Total of following items from (i) to (iii).

Conversion Factor 20 per cent

(WBRC 11.3.2.7.1.0 to 11.3.2.7.3.0)

**(i) Formal Stand-by Facilities and Credit Lines
(WBRC 11.3.2.7.1.0)**

The commitments under formal standby facilities and credit lines with an original maturity is up to one year.

**(ii) Undrawn Term Loans
(WBRC 11.3.2.7.2.0)**

The undrawn portion of term loans where the original maturity is up to one year.

**(iii) Others
(WBRC 11.3.2.7.3.0)**

Any other commitment with an original maturity up to one year.

**6.5.2.1.8 Other Commitments with an Original maturity of over one year
(WBRC 11.3.2.8.0.0)**

Total of following items from (i) to (iii).

Conversion Factor 50 per cent

(WBRC 11.3.2.8.1.0 to 11.3.2.8.3.0)

**(i) Formal Stand-by Facilities and Credit Lines
(WBRC 11.3.2.8.1.0)**

The commitments under formal standby facilities and credit lines with an original maturity is over one year.

**(ii) Undrawn Term Loans
(WBRC 11.3.2.8.2.0)**

The undrawn portion of term loans where the original maturity is over one year.

**(iii) Others
(WBRC 11.3.2.8.3.0)**

Any other commitment with an original maturity over one year.

**6.5.2.1.9 Exchange Rate Contracts
(WBRC 11.3.2.9.0.0)**

Exchange rate contracts shall include the following items (*a* to *e*), but exclude exchange rate contracts which have an original maturity of 14 calendar days or less.

- (a) Forward foreign exchange contracts
- (b) Currency futures
- (c) Currency options purchased
- (d) Cross currency FX swaps
- (e) Other similar instruments

To arrive at the credit equivalent amounts of exchange rate contracts, applying the original exposure method, a bank will have to apply one of the conversion factors as given in the table below to the notional principal amounts of each instrument according to the nature of the instrument and its maturity.

Table 13

| Item | WBRC | Original Maturity | Conversion Factor |
|-------|--------------|----------------------------------|-------------------|
| (i) | 11.3.2.9.1.0 | Less than one year | 2% |
| (ii) | 11.3.2.9.2.0 | One year and less than two years | 5% |
| (iii) | 11.3.2.9.3.0 | For each additional year | 3% |

**6.5.2.1.10 Interest Rate Contracts
(WBRC 11.3.2.10.0.0)**

Interest rate contracts shall include,

- (a) Single currency interest rate swaps
- (b) Basis swaps
- (c) Forward rate agreements
- (d) Interest rate futures
- (e) Interest rate options purchased, and
- (f) Other similar instruments

To arrive at the credit equivalent amounts of interest rate contracts, applying the original exposure method, a bank will have to apply one of the conversion factors as given in the table below to the notional principal amounts of each instrument according to the nature of the instrument and its maturity.

Table 14

| Item | WBRC | Original Maturity | Conversion Factor |
|-------|---------------|----------------------------------|-------------------|
| (i) | 11.3.2.10.1.0 | Less than one year | 0.5% |
| (ii) | 11.3.2.10.2.0 | One year and less than two years | 1.0% |
| (iii) | 11.3.2.10.3.0 | For each additional year | 1.0% |

Note: In the case of foreign exchange and interest rate contracts above, the netting of contracts subject to novation would be permitted. Therefore, the net rather than the gross claims arising out of swaps and similar contracts (subject to novation) with the same counterpart will be weighted. In this context, **novation** is defined as a bilateral contract between two counterparties under which any obligation to each other to deliver a given currency on a given date is automatically amalgamated with all other obligations for the **same currency** and value date, legally substituting one single net amount for the previous gross obligations.

6.6 Part III (c) – Exposures Recognized under Credit Risk Mitigation (CRM)

6.6.1 Overview of CRM

- 6.6.1.1** Banks use a number of techniques to mitigate the credit risks to which they are exposed. For example, exposures may be collateralised by first priority claims, in whole or in part with cash or securities, a loan exposure may be guaranteed by a third party, or a bank may buy a credit derivative to offset various forms of credit risk. Additionally, banks may agree to net loans owed to them against deposits from the same counterpart.
- 6.6.1.2** The revised approach to credit risk mitigation allows a wider range of credit risk mitigants to be recognised for regulatory capital purposes than is permitted under Basel I, provided that these techniques meet the minimum conditions described below.
- 6.6.1.3** While the use of CRM techniques reduces or transfers credit risk, it simultaneously may increase other risks (residual risks). Residual risks include legal, operational, liquidity and market risks. Therefore, it is imperative that banks employ robust procedures and processes to control these risks, including strategy, consideration of the underlying credit, valuation, policies and procedures, systems, control of roll-off risks and management of concentration risk arising from the bank's use of CRM techniques and its interaction with the bank's overall credit risk profile.
- 6.6.1.4 Legal Certainty:** All documentation used in collateralised transactions and guarantees must be binding on all parties and legally enforceable in all relevant jurisdictions. Banks must have conducted sufficient legal review, which should be well documented, to verify this. Such verification should have a well founded legal basis for reaching the conclusion about the binding nature and enforceability of the documents. Banks should also undertake such further review as necessary to ensure continuing enforceability.

6.6.1.5 Treatment of Pools of CRM Techniques: In case where a bank has multiple CRM techniques covering a single exposure (*e.g.*: a bank has both collateral and guarantee partially covering an exposure), the bank will be required to subdivide the exposure into portions covered by each type of CRM technique (*e.g.*: portion covered by collateral, portion covered by guarantee) and the risk-weighted assets of each portion must be calculated separately. When credit protection provided by a single protection provider has differing maturities, they must be subdivided into separate protection as well.

6.6.2 CRM Techniques

6.6.2.1 Collateralised Transactions: A collateralised transaction is one in which:

- banks have a credit exposure or potential credit exposure; and
- that credit exposure or potential credit exposure is hedged in whole or in part by collateral posted by a counterpart or by a third party on behalf of the counterpart.

6.6.2.1.1 The Simple Approach will be Followed in Computing the Effects of CRM

- (i) In the simple approach, the portions of claims collateralised by the market value of recognised collateral receive the risk weight applicable to the collateral instrument. The risk weight on the collateralised portion will be subject to a floor of 20 per cent. The remainder of the claim should be assigned to the risk weight appropriate to the counterpart.
- (ii) Mismatches in the maturity of the underlying exposure and collateral will not be allowed, *i.e.*, the collateral must be pledged for at least the life of the exposure.

6.6.2.1.2 Risk Weights

- (i) The 20 per cent floor for the risk weight on a collateralised transaction will not be applied and 0 per cent risk weight can be applied provided the exposure and the collateral are denominated in the same currency, and either:
 - (a) the collateral is cash on deposit and gold or
 - (b) the collateral is in the form of Government securities or
 - (c) the collateral is in the form provident fund balances.

6.6.2.1.3 Minimum Conditions

- (i) **Legal Certainty:** as described in paragraph 6.6.1.4
- (ii) **Ability to Liquidate:** The bank should have the right to liquidate or take legal possession of it, in a timely manner, in the event of the default, insolvency or bankruptcy (or one or more otherwise-defined credit events set out in the transaction documentation) of the counterpart (and, where applicable, of the custodian holding the collateral). Furthermore banks must take all steps necessary to fulfill those requirements under the law applicable to the bank's interest in the collateral for obtaining and maintaining an enforceable security interest.
- (iii) **Material Correlation:** In order for collateral to provide protection, the credit quality of the counterpart and the value of

the collateral must not have a material positive correlation. For example, securities issued by the counter party or by any related group entity - would provide little protection and so would be ineligible.

- (iv) **Recovery Procedures:** Banks must have clear and robust procedures for the timely liquidation of collateral to ensure that any legal conditions required for declaring the default of the counter party and liquidating the collateral are observed, and that collateral can be liquidated promptly. Where the collateral is held by a custodian, banks must take reasonable steps to ensure that the custodian segregates the collateral from its own assets.

6.6.2.1.4 Eligible Financial Collateral

The following collateral instruments are eligible for recognition in the simple approach:

- (i) Cash (as well as certificates of deposit or comparable instruments, including fixed deposit receipts, issued by the lending bank) on deposit with the bank, which is incurring the counterparty exposure.
- (ii) Gold: Gold would include both bullion and jewellery.
- (iii) GOSL securities
- (iv) Provident fund balances
- (v) Debt securities rated by a recognized ECAI where these are either
- At least BB- when issued by sovereigns or PSEs that have been recognized, or
 - At least BBB- when issued by other entities (including banks), or
 - At least A-3//P-3 for short-term debt instruments.
- (vi) Debt securities not rated by a ECAI where these are:
- Issued by a bank; and
 - Listed on a recognized exchange, and
 - Classified as senior debt
 - Other securities, specified by the Central Bank.
- (vii) Equities those are included in the Milanka index, subject to a discount of 25 per cent on the market value.

6.6.2.2 On-Balance Sheet Netting - Where a bank,

- 6.6.2.2.1** has a well-founded legal basis for concluding that the netting or offsetting agreement is enforceable in each relevant jurisdiction regardless of whether the counterpart is insolvent or bankrupt;
- 6.6.2.2.2** is able at any time to determine those assets (loans) and liabilities (deposits) with the same counterpart that are subject to the netting agreement;
- 6.6.2.2.3** monitors and controls its roll-off risks; and
- 6.6.2.2.4** monitors and controls the relevant exposures on a net basis

6.6.2.2.5 it may use the net exposure of loans and deposits as the basis for its capital adequacy computation.

6.6.2.3 Guarantees

6.6.2.3.1 Guaranteed Transactions: Where guarantees are direct, explicit, irrevocable and unconditional, banks may take account of such credit protection in calculating capital requirements.

6.6.2.3.2 Minimum Conditions

- (i) A guarantee (or counter-guarantee) must represent a direct claim on the protection provider and must be explicitly referenced to specific exposures or a pool of exposures, so that the extent of the cover is clearly defined and incontrovertible.
- (ii) Other than non-payment by a protection purchaser of money due in respect of the credit protection contract it must be irrevocable; there must be no clause in the contract that would increase the effective cost of cover as a result of deteriorating credit quality in the hedged exposure.
- (iii) It must also be unconditional; there should be no clause in the protection contract outside the control of the bank that could prevent the protection provider from being obliged to pay out in a timely manner in the event that the original counterpart fails to make the payment(s) due.
- (iv) In addition to the legal certainty requirements above, the following conditions must also be satisfied:
 - On the qualifying default or non-payment of the counterpart, the bank may in a timely manner pursue the guarantor for any monies outstanding under the documentation governing the transaction. The guarantor may make one lump sum payment of all monies under such documentation to the bank, or the guarantor may assume the future payment obligations of the counterpart covered by the guarantee. The bank must have the right to receive any such payments from the guarantor without first having to take legal actions in order to pursue the counterpart for payment.
 - The guarantee is an explicitly documented obligation assumed by the guarantor.
 - Except as noted in the following sentence, the guarantee covers all types of payments the underlying obligor is expected to make under the documentation governing the transaction, for example notional amount, margin payments, *etc.*
 - Where a guarantee covers payment of principal only, interests and other uncovered payments should be treated as an unsecured amount.

6.6.2.3.3 Eligible Guarantors (counter-guarantors): Credit protection given by the following entities will be recognised: sovereign entities, PSEs and other entities with a risk weight of 20 per cent or better and a lower risk weight than the counterpart.

6.6.2.3.4 Risk Weights

The protected portion is assigned the risk weight of the protection provider. The uncovered portion of the exposure is assigned the risk weight of the underlying counterparty.

- (i) A zero risk weight will be applied to that portion of loans guaranteed by GOSL and CBSL.
- (ii) The portion of exposures guaranteed by the Sri Lanka Export Credit Insurance Corporation (SLECIC) will receive a 50 per cent risk weight.

6.6.3 Specific Instructions for completion Part III (c)

6.6.3.1 Total CRM Exposure

(WBRC 11.3.3.0.0.0)

Total exposure of collateralised transactions and other CRM techniques. All exposures should be reported net of specific provisions and interest in suspense that has been charged to the respective counterparty account. Exposures which are reported in this part under CRM should not be reported in the other parts of the capital adequacy return. The amount is automatically shown on web-based return.

The amount must agree with the sum of items 6.6.3.1.1 and 6.6.3.1.2.

(WBRC 11.3.3.1.0.0 + 11.3.3.2.0.0)

6.6.3.1.1 Collateralised Transactions

(WBRC 11.3.3.1.0.0)

The sum of collateralised retail exposures and collateralised other exposures. The amount must agree to sum of items (i) and (ii). The amount is automatically shown on web-based return.

(WBRC 11.3.3.1.1.0 + 11.3.3.1.2.0)

(i) Retail Exposures

(WBRC 11.3.3.1.1.0)

The total amount of retail exposures against the collateral instruments which are eligible for recognition in the simple approach as specified in paragraph 6.6.2.1.4. The amount is automatically shown on web-based return.

(WBRC 11.3.3.1.1.1 to 11.3.3.1.1.7)

(ii) Other Exposures

(WBRC 11.3.3.1.2.0)

The total amount of other exposures against the collateral instruments which are eligible for recognition in the simple approach as specified in paragraph 6.6.2.1.4. The amount is automatically shown on web-based return.

(WBRC 11.3.3.1.2.1 to 11.3.3.1.2.7)

6.6.3.1.2 Other CRM Techniques (WBRC 11.3.3.2.0.0)

The total amount of exposures against the other CRM techniques (other than collateralized transactions). The amount is automatically shown on web-based return.

(WBRC 11.3.3.2.1.0 + 11.3.3.2.2.0)

(i) On-Balance Sheet Netting (WBRC 11.3.3.2.1.0)

The total amount of exposures against the on-balance sheet netting should be reported in line with the instructions given in the items under paragraph 6.6.2.2 above.

(ii) Guarantees (WBRC 11.3.3.2.2.0)

The total amount of exposures against the guarantees should be reported in line with the instructions given in the items under paragraph 6.6.2.3 above.

6.7 Part IV – Computation of Risk-weighted Amount for Market Risk

6.7.1 Capital Charge for Market Risk - Market risk is defined as the risk of losses in on-balance sheet and off balance sheet positions arising from movements in market prices. The market risk subject to the capital charge requirements are:

6.7.1.1 The risks pertaining to interest rate related instruments in the trading book.

6.7.1.2 The risks pertaining to equities in the trading book.

6.7.1.3 The risks pertaining to foreign exchange position (including gold positions) throughout the bank.

6.7.2 Scope and Coverage of Capital Charge for Market Risks

6.7.2.1 This involves computing capital charges for interest rate related instruments in the trading book, equities in the trading book and foreign exchange risk (including gold positions) throughout the bank. For the purpose of this section, the trading book and foreign exchange position will include the following:

6.7.2.1.1 Securities classified in the 'Trading Account' in terms of the direction on Prudential Norms for Classification, Valuation and Operation of the Bank's Investment Portfolio issued by the CBSL dated 01 March 2006.

6.7.2.1.2 Open gold positions

6.7.2.1.3 Open foreign exchange positions.

6.7.3 Measurement of Capital Charge for Interest Rate Risk

6.7.3.1 This section describes the framework for measuring the risk of holding or taking positions in debt securities and other interest rate related instruments denominated in *Sri Lanka Rupees as well as foreign currencies* in the trading book.

6.7.3.2 The capital charge for interest rate related instruments would apply to the **current market value** of these items in the bank's trading book. Since banks

are required to maintain capital for market risk on an ongoing basis, they are required to mark-to-market their trading positions on a daily basis. The current market value will be determined according to the Direction on Prudential Norms for Classification, Valuation and Operation of the bank's investment portfolio issued by CBSL.

6.7.3.3 The minimum capital requirement is expressed in terms of two separately calculated charges, “**specific risk**” charge for each security, which is akin to the conventional capital charge for credit risk, both for short and long positions, and “**general market risk**” charge for interest rate risk in the portfolio, where long and short positions in different securities or instruments can be offset.

6.7.3.3.1 Specific Risk

- (i) The capital charge for specific risk is designed to protect against an adverse movement in the price of an individual security owing to factors related to the individual issuer.
- (ii) The risk charges to be used in the Computation of specific risk will be as follows:
- (iii) Specific risk charge for government securities and **central banks**:
 - (a) Government securities issued by the GOSL and securities issued by the CBSL will be subject to a risk charge of 0 per cent.
 - (b) Securities issued by a foreign government or by a foreign central bank will be subject to a risk charge based on the credit rating as indicated in the following table:

Table 15

Specific Risk Charge for Securities Issued by Foreign Governments/Central Banks

| Sovereign Rate | Capital Charge for Specific Risk |
|----------------|--|
| AAA to AA- | 0% |
| A+ to BBB- | 0.25% (residual term to final maturity 6 months or less) 1% (residual term to final maturity greater than 6 and up to and including 24 months) 1.60% (residual term to final maturity exceeding 24 months) |
| All others | 10.00% |

- (iv) The ‘Qualifying’ category for Corporate entities:
 - (a) Corporate entities (Local) will be given a risk charge for specific market risk based on their ratings as indicated in the table below:

Table 16
Specific Risk Charge for Corporates

| Sovereign Rate | Capital Charge for Specific Risk |
|----------------|--|
| AAA to AA- | 0.25% |
| A+ to BBB- | 1.00% (residual term to final maturity 6 months or less) 1.60% (residual term to final maturity greater than 6 and up to and including 24 months) 10.00% (residual term to final maturity exceeding 24 months) |
| All others | 10.00% |

- (b) The specific risk charge for foreign corporates would be one notch less favourable than the risk charge applied to the local corporates.
- (v) ‘Public sector entities’ should be treated like corporate entities unless they are backed by an explicit Treasury guarantee, which warrants a risk charge of 0 per cent.
- (vi) The ‘Other’ category:
A capital charge of 10 per cent will apply to all other types of exposures.
- (vii) Banks may rely upon the ratings assigned by the ECAs recognised by CBSL (See paragraph 6.4.2) for the purpose of ratings referred in the table 15 and 16 above.

6.7.3.3.2 General Market Risk

The capital requirements for general market risk are designed to capture the risk of loss arising from changes in market interest rates. The capital charge is the sum of four components:

- (i) the net short or long position in the whole trading book;
- (ii) a smaller proportion of the matched positions in each time-band (the “vertical disallowance”);
- (iii) a larger proportion of the matched positions across different timebands (the “horizontal disallowance”), and
- (iv) a net charge for positions in options, where appropriate.

Note – Components (ii), (iii) and (iv) will not apply at present.

6.7.3.4 It has been decided to allow banks to initially adopt the *Standardised Measurement Method*, as Sri Lankan banks are still at a nascent stage of developing internal risk management models. There are two principal methods of measuring market risk under the Standardised Measurement Method, *i.e.*, a ‘maturity’ method and a ‘duration’ method. It has been decided to adopt the ‘duration’ method to arrive at the capital charge. Accordingly, banks are required

to measure the general market risk charge by calculating the price sensitivity of each instrument in the trading book separately and adding the resulting price sensitivities based on a maturity ladder, subject to disallowances if any.

6.7.3.5 The steps for the computation are as follows:

- 6.7.3.5.1** Calculate the price sensitivity of each instrument in terms of a change in interest rates between 1.2 and 2.0 percentage points, depending on the maturity of the instrument (see Table 17);
- 6.7.3.5.2** slot the resulting price sensitivities into a duration based maturity ladder with the fifteen time bands as set out in Table 17;
- 6.7.3.5.3** subject long and short positions in each time band to a 5 per cent vertical disallowance designed to capture basis risk; and
- 6.7.3.5.4** carry forward the net positions in each time-band for horizontal offsetting subject to the disallowances set out in Table 18.

Note – Steps (6.7.3.5.2) to (6.7.3.5.4) are not required at present since components ii, iii and iv under paragraph 6.7.3.3.2 above are currently not applicable.

Table 17

Duration Method – Time Bands and Assumed Changes in Yield

| Time Bands | Assumed Change in Yield |
|------------------------------|--------------------------------|
| Maturity Zone 1 | |
| 1 month or less | 2.00 |
| Over 1 month to 3 months | 2.00 |
| Over 3 months to 6 months | 2.00 |
| Over 6 months to 12 months | 2.00 |
| Maturity Zone 2 | |
| Over 1.0 year to 1.9 years | 1.80 |
| Over 1.9 years to 2.8 years | 1.60 |
| Over 2.8 years to 3.6 years | 1.50 |
| Maturity Zone 3 | |
| Over 3.6 years to 4.3 years | 1.50 |
| Over 4.3 years to 5.7 years | 1.40 |
| Over 5.7 years to 7.3 years | 1.30 |
| Over 7.3 years to 9.3 years | 1.20 |
| Over 9.3 years to 10.6 years | 1.20 |
| Over 10.6 years to 12 years | 1.20 |
| Over 12 years to 20 years | 1.20 |
| Over 20 years | 1.20 |

Table 18
Horizontal Disallowances

| Maturity Zones | Time Band | Within the zones | Between adjacent zones | Between zones 1 and 3 |
|---------------------------|------------------------------|------------------|------------------------|-----------------------|
| Maturity Zone 1 | 1 month or less | 40% | 40% | 100% |
| | over 1 month to 3 months | | | |
| | over 3 months to 6 months | | | |
| Maturity Zone 2 | over 6 months to 12 months | 30% | 40% | |
| | Over 1.0 year to 1.9 years | | | |
| | Over 1.9 years to 2.8 years | | | |
| Maturity Zone 3 | Over 2.8 years to 3.6 years | 30% | 40% | |
| | Over 3.6 years to 4.3 years | | | |
| | Over 4.3 years to 5.7 years | | | |
| | Over 5.7 years to 7.3 years | | | |
| | Over 7.3 years to 9.3 years | | | |
| | Over 9.3 years to 10.6 years | | | |
| | Over 10.6 years to 12 years | | | |
| Over 12 years to 20 years | | | | |
| | Over 20 years | | | |

6.7.4 Measurement of Capital Charge for Equities

6.7.4.1 The minimum capital requirement to cover the risk of holding or taking positions in equities in the trading book is set out below. It applies to all instruments that exhibit market behaviour similar to equities. The instruments covered include equity shares (voting and non-voting), convertible securities that behave like equities (*e.g.*: units of unit trusts) and commitments to buy or sell equity securities (*e.g.*: warrants, right issues and bonus issues).

6.7.4.2 Specific and General Market Risk

6.7.4.2.1 Specific Equity Risk

Specific risk is defined as the bank's gross equity positions (*i.e.*, the sum of all long equity positions and of all short equity positions). The *capital charge for specific risk for equities on the Milanka Price Index will be 5 per cent, while all other equities will have a specific risk charge of 10 per cent.*

6.7.4.2.2 General Equity Risk

General market risk is defined as the overall net position in an equity market (*i.e.*, the difference between the sum of the longs and the sum of the shorts). The *general market risk charge will be 10 per cent.*

6.7.5 Measurement of the Capital Charge for Foreign Exchange and Gold Open Positions

6.7.5.1 This section sets out the minimum capital requirement to cover the risk of holding or taking positions in foreign currencies, including gold. Gold is treated

as a foreign exchange position rather than a commodity because its volatility is more in line with foreign currencies, and banks manage it in a similar manner.

6.7.5.2 The Off-balance sheet position, including forward contracts, will be included in computation of the capital charge for foreign exchange risks.

6.7.5.3 Computing the capital requirement for foreign exchange risk consists of two processes.

6.7.5.3.1 Measuring the Exposure in a Single Currency Position

The bank's net open position in each currency should be calculated by summing the net position of all on balance sheet and off-balance sheet position, including forward contracts denominated in that particular currency.

6.7.5.3.2 Measuring the Risks Inherent in a Bank's Mix of Long and Short Positions in Different Currencies

Banks are required to adopt the shorthand method of computation. Under the shorthand method, the nominal amount of the net position in each foreign currency and in gold is converted at spot rates into the reporting currency (*i.e.*, LKR). The overall net open position is measured by aggregating:

- (i) the sum of the net short positions or the sum of the net long positions, whichever is the greater, plus
- (ii) the net position (short or long) in gold, regardless of sign.

6.7.5.4 The capital charge will be 10 per cent of the overall net open position of foreign currency and gold.

Table 19

Example of the Shorthand Measure of Foreign Exchange Risk

| YEN | EURO | GB | INR | US\$ | GOLD |
|------|------|------|------|------|------|
| +50 | +100 | +150 | -20 | -180 | -35 |
| +300 | | | -200 | | -35 |

In the above example, the capital charge would be 10 per cent of the higher of either the net long currency positions or the net short currency positions (*i.e.*, 300) and of the net position in gold (35) = $335 \times 10\% = 33.5$.

6.7.6 Aggregation of the Capital Charge for Market Risks

The capital charges for specific risk and general market risk are to be computed separately before aggregation.

6.7.7 Capital Charge for Interest Rate Derivatives

The capital charge for interest rate derivatives will be excluded from the capital charge for market risks at present and will be introduced shortly.

6.7.8 Specific Instruction for completion of Part IV return

(Computation of Risk-weighted amount for Market Risk)

6.7.8.1 Total Capital Charge for Market Risk (WBRC 11.4.1.0.0)

The total amount of capital charge for interest rate risk (6.7.8.1.1), capital charge for equity risk (6.7.8.1.2) and capital charge for foreign exchange risk (6.7.8.1.3). The amount is automatically shown on web-based return.

(WBRC 11.4.1.1.0.0 + 11.4.1.2.0.0 + 11.4.1.3.0.0)

6.7.8.1.1 Capital Charge for Interest Rate Risk (WBRC 11.4.1.1.0.0)

The total amount of capital charge for general interest rate risk and capital charge for specific interest rate risk. The amount is automatically shown on web-based return.

(WBRC 11.4.1.1.1.0 + 11.4.1.1.2.0)

(i) General Interest Rate Risk (WBRC 11.4.1.1.1.0)

Capital charge for general interest rate risk should be calculated in line with the specific instruction given in the paragraph 6.7.3.3.2

(ii) Specific Interest Rate Risk (WBRC 11.4.1.1.2.0)

Capital charge for specific interest rate risk should be calculated in line with the specific instruction given in the paragraph 6.7.3.3.1

6.7.8.1.2 Capital Charge for Equity Risk (WBRC 11.4.1.2.0.0)

The total amount of capital charge for general equity risk and capital charge for specific equity risk. The amount is automatically shown on web-based return.

(WBRC 11.4.1.2.1.0 + 11.4.1.2.2.0)

(i) General Equity Risk (WBRC 11.4.1.2.1.0)

Capital charge for general equity risk should be calculated in line with the specific instruction given in the paragraph 6.7.4.2.2.

(ii) Specific Equity Risk (WBRC 11.4.1.2.2.0)

Capital charge for specific equity risk should be calculated in line with the specific instruction given in the paragraph 6.7.4.2.1.

6.7.8.1.3 Capital Charge for Foreign Exchange & Gold (WBRC 11.4.1.3.0.0)

Capital charge for Foreign exchange & gold should be calculated in line with the specific instruction given in the paragraph 6.7.5.

6.7.8.2 Total Risk-weighted Amount for Market Risk (WBRC 11.4.2.0.0.0)

The total amount of risk-weighted amount for market risk should be ten times the capital charge for market risk (6.7.8.1*10). The amount is automatically shown on web-based return.

(WBRC 11.4.1.0.0.0*10)

6.8 Part V – Computation of Risk-weighted Amount for Operational Risk.

6.8.1 Capital Charge for Operational Risk

6.8.1.1 Definition of Operational Risk: Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Legal risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

6.8.1.2 The Basic Indicator Approach (BIA): To begin with, banks shall compute the capital requirements for operational risk under the BIA. Under the BIA, banks must hold capital for operational risk equal to the average over the previous three years of a fixed percentage (denoted α) of positive annual gross income. Figures for any year in which annual gross income is negative or zero should be excluded from both the numerator and denominator when calculating the average.

6.8.1.3 The charge may be expressed as follows:

$$K_{BIA} = [\sum (GI_{1..n} \times \alpha)] / n$$

Where;

K_{BIA} = the capital charge under the Basic Indicator Approach

GI = annual gross income, where positive, over the previous three audited financial years

n = number of the previous three financial years for which gross income is positive

α = 15%, which is set by the BCBS.

6.8.1.4 Gross income is defined as “net interest income” plus “net non-interest income”. It is intended that this measure should:

6.8.1.4.1 be gross of any provisions (*e.g.*: for unpaid interest),

6.8.1.4.2 be gross of operating expenses, including fees paid to outsourcing service providers, in contrast to fees paid for services that are outsourced, fees received by banks that provide outsourcing services shall be included in the definition of gross income,

6.8.1.4.3 exclude realized profits/losses from the sale of securities in the banking book, and

6.8.1.4.4 exclude extraordinary or irregular items.

6.8.1.5 Banks are advised to compute the capital charge for operational risk under the BIA as follows:

6.8.1.5.1 Average of [Gross Income x α] for each of the last three financial years, excluding years of negative or zero gross income

6.8.1.5.2 Gross income = Net interest income + non-interest income – items (6.8.1.4.3) and (6.8.1.4.4) of above.

6.8.1.5.3 $\alpha = 15\%$

**6.8.2 Specific Instruction for completion of Part V
(Computation of Risk-weighted amount for Operational Risk)**

**6.8.2.1 Gross Income
(WBRC 11.5.1.0.0)**

The total gross income should be total net income (6.8.2.1.1) less total exclude items as specified in the paragraph 6.8.1.4.3 and 6.8.1.4.4. The amount is automatically shown on web-based return.

(WBRC 11.5.1.1.0.0 - 11.5.1.2.0.0)

**6.8.2.1.1 Net Income
(WBRC 11.5.1.1.0.0)**

The total net income should be sum of total net interest income and total non-interest income. The amount is automatically shown on web-based return.

(WBRC 11.5.1.1.1.0 + 11.5.1.1.2.0)

**(i) Net Interest Income
(WBRC 11.5.1.1.1.0)**

The total net interest income should be the total interest income less total non-interest expenses as reported in the annual audited profit and loss statement.

**(ii) Non-Interest Income
(WBRC 11.5.1.1.2.0)**

The total non-interest income should be the total income other than the interest income.

**6.8.2.1.2 Less Amount
(WBRC 11.5.1.2.0.0)**

The total aggregate amount of following items, as specified in the paragraph 6.8.1.4.3 and 6.8.1.4.4, which banks are required to deduct from total net income.

**6.8.2.2 Total Capital Charge for Operational Risk
(WBRC 11.5.2.0.0.0)**

The total capital charge for operational risk should be 15 per cent of gross income (6.8.2.1.) above. The amount is automatically shown on web-based return.

(WBRC 11.5.1.0.0.0*15%)

**6.8.2.3 Total Risk-weighted Amount for Operational Risk
(WBRC 11.5.3.0.0.0)**

The total amount of risk-weighted amount for operational risk should be ten times the capital charge for operational risk (6.8.2.2*10). The amount is automatically shown on web-based return.

(WBRC 11.5.2.0.0.0*10)

Schedule II

**CAPITAL ADEQUACY RATIO OF
LICENSED COMMERCIAL / SPECIALISED BANKS
BANK ONLY (SOLO Basis) / CONSOLIDATED RETURN**

Part I – Computation of Capital Adequacy Ratio (Rs. '000)

| Web-based Return Code | Item | Amount |
|-----------------------|--|--------|
| 11.1.1.0.0.0 | Eligible Core Capital (Eligible Tier I) = 11.2.1.1.0.0 of Part II (a) | |
| 11.1.2.0.0.0 | Capital Base = 11.2.1.5.0.0 of Part II (a) | |
| 11.1.3.0.0.0 | Total Risk-weighted Amount | |
| 11.1.3.1.0.0 | Risk-Weighted Amount for Credit Risk = 11.3.1.0.0.0 of Part III (a) | |
| 11.1.3.2.0.0 | Risk-Weighted Amount for Market Risk = 11.4.2.0.0.0 of Part IV | |
| 11.1.3.3.0.0 | Risk-Weighted Amount for Operational Risk = 11.5.3.0.0.0 of Part V | |
| 11.1.4.0.0.0 | Core Capital (Tier 1) Ratio, % = (11.1.1.0.0.0/11.1.3.0.0.0)*100 | |
| 11.1.5.0.0.0 | Total Capital Ratio, % = (11.1.2.0.0.0/11.1.3.0.0.0)*100 | |

Part II (a) – Computation of Total Capital Base (Rs. '000)

| Web-based Return Code | Item | Amount |
|-----------------------|--|--------|
| 11.2.1.1.0.0 | Eligible Core Capital (Eligible Tier I) | |
| 11.2.1.1.1.0 | Core Capital (Tier 1) | |
| 11.2.1.1.1.1 | Paid-up Ordinary Shares/ Assigned Capital | |
| 11.2.1.1.1.2 | Non-cumulative, Non-redeemable Preference Shares | |
| 11.2.1.1.1.3 | Share Premium | |
| 11.2.1.1.1.4 | Statutory Reserve Fund | |
| 11.2.1.1.1.5 | Published Retained Profits/(Accumulated Losses) (+/-) | |
| 11.2.1.1.1.6 | General and Other Reserves | |
| 11.2.1.1.1.7 | Gain/(Loss) After Tax arising from the Sale of Fixed and Long-term Investments | |
| 11.2.1.1.1.8 | Unpublished Current Year's Profit/(Loss) (+/-) | |
| 11.2.1.1.1.9 | Minority Interests (consistent with the above capital constituents) | |
| 11.2.1.1.1.10 | Perpetual Debt Capital Instruments | |
| 11.2.1.1.2.0 | Deductions/ Adjustments-Tier 1 | |
| 11.2.1.1.2.1 | Goodwill | |
| 11.2.1.1.2.2 | Net Deferred Tax | |
| 11.2.1.1.2.3 | Other Intangible Assets | |
| 11.2.1.1.2.4 | Advances granted to employees of the bank for the purchase of shares of the bank under a share ownership plan. | |
| 11.2.1.1.2.5 | Amount due from head office & branches outside Sri Lanka in Sri Lanka Rupees (applicable only to branches of foreign banks) | |
| 11.2.1.1.2.6 | Amount due to head office & branches outside Sri Lanka in Sri Lanka Rupees (-) (applicable only to branches of foreign banks) | |

| Web-based Return Code | Item | Amount |
|-----------------------|--|--------|
| 11.2.1.1.2.7 | Amount due from head office & branches outside Sri Lanka in Foreign Currency (net) (applicable only to branches of foreign banks) | |
| 11.2.1.1.2.8 | 50% of Investments in Unconsolidated Banking and Financial Subsidiary Companies | |
| 11.2.1.1.2.9 | 50% of Investments in the Capital of Other Banks and Financial Institutions | |
| 11.2.1.2.1.0 | Supplementary Capital (Tier II) | |
| 11.2.1.2.1.1 | Revaluation Reserves (approved by CBSL) | |
| 11.2.1.2.1.2 | General Provisions | |
| 11.2.1.2.1.3 | Hybrid Capital Instruments (Debt/Equity) | |
| 11.2.1.2.1.4 | Minority Interests arising from Preference Shares | |
| 11.2.1.2.1.5 | Approved Subordinated Term Debt | |
| 0.0.0.0.0.0 | Actual Amount of Approved Subordinated Term Debts | |
| 11.2.1.2.2.0 | Deductions -Tier II | |
| 11.2.1.2.2.1 | 50% of Investments in Unconsolidated Banking and Financial Subsidiary Companies | |
| 11.2.1.2.2.2 | 50% of Investments in the Capital of Other Banks and Financial Institutions | |
| 11.2.1.2.0.0 | Total Supplementary Capital (Tier II) = (Item 11.2.1.2.1.0 - 11.2.1.2.2.0) | |
| 11.2.1.3.0.0 | Eligible Supplementary Capital (Eligible Tier II) | |
| 11.2.1.4.0.0 | Short Term Subordinated Debt (Tier III Capital) | |
| 11.2.1.4.1.0 | Approved Short Term Subordinated Debt | |
| 11.2.1.4.2.0 | Eligible Tier III Capital-Utilised = (item 11.2.2.6.1.0) | |
| 11.2.1.5.0.0 | Capital Base | |

Part II (b) – Computation of Eligible Tier III Capital for Market Risk (Rs. '000)

| Web-based Return Code | Item | Amount |
|-----------------------|--|--------|
| 11.2.2.1.0.0 | Total Risk Weighted Assets (RWA) | |
| 11.2.2.1.1.0 | Total Risk Weighted Assets for Credit and Operational Risks | |
| 11.2.2.1.2.0 | Total Risk Weighted Assets for Market Risk | |
| 11.2.2.2.0.0 | Minimum Capital Charge | |
| 11.2.2.2.1.0 | Capital Charge for Credit and Operational Risk | |
| 11.2.2.2.2.0 | Capital Charge for Market Risk | |
| 11.2.2.3.0.0 | Total Capital Available to Meet the Capital Charge for Credit and Operational Risks | |
| 11.2.2.4.0.0 | Total Capital Base Available to meet Market Risk | |
| 11.2.2.5.0.0 | Total Available Tier III Capital | |
| 11.2.2.5.1.0 | Approved Short-term Subordinated Debt | |

| Web-based Return Code | Item | Amount |
|-----------------------|--|--------|
| 11.2.2.5.2.0 | Minimum of 28.5% of Capital Charge for Market Risk to be met by Tier 1 Capital that is not Required for Credit Risk | |
| 11.2.2.5.2.1 | (a) Limit | |
| 11.2.2.5.2.2 | (b) Amount Utilised | |
| 11.2.2.5.3.0 | Maximum of 250% of Tier 1 Capital that is not Required for Credit and Operational Risks | |
| 11.2.2.5.3.1 | (a) Limit | |
| 11.2.2.5.3.2 | (b) Amount Utilised | |
| 11.2.2.6.0.0 | Eligible Tier III Capital | |
| 11.2.2.6.1.0 | Eligible Tier III Capital Utilised | |
| 11.2.2.6.2.0 | Eligible but Unutilized Tier III Capital | |

Part III (a) – Computation of Risk-weighted Amount for Credit Risk

(Rs. '000)

| Web-based Return Code | Item | Amount | Credit Equivalent of Off-balance Sheet Items | Total | Risk Weight % | Risk Weighted Assets Amount |
|-----------------------|--|--------|--|-------|---------------|-----------------------------|
| 11.3.1.0.0.0 | Total Risk-weighted Amount for Credit Risk | | | | | |
| 11.3.1.1.0.0 | Claims on Government of Sri Lanka and Central Bank of Sri Lanka | | | | | |
| 11.3.1.1.1.0 | Government of Sri Lanka | | | | | |
| 11.3.1.1.2.0 | Central Bank of Sri Lanka | | | | | |
| 11.3.1.2.0.0 | Claims on Foreign Sovereigns and their Central Banks | | | | | |
| 11.3.1.2.1.0 | AAA to AA- | | | | 0 | |
| 11.3.1.2.2.0 | A+ to A- | | | | 20 | |
| 11.3.1.2.3.0 | BBB+ to BBB- | | | | 50 | |
| 11.3.1.2.4.0 | BB+ to B- | | | | 100 | |
| 11.3.1.2.5.0 | Below B- | | | | 150 | |
| 11.3.1.2.6.0 | Unrated | | | | 100 | |
| 11.3.1.3.0.0 | Claims on Public Sector Entities PSEs) | | | | | |
| 11.3.1.3.1.0 | AAA to AA- | | | | 20 | |
| 11.3.1.3.2.0 | A+ to A- | | | | 50 | |
| 11.3.1.3.3.0 | BBB+ to BB- | | | | 100 | |
| 11.3.1.3.4.0 | Below BB- | | | | 150 | |
| 11.3.1.3.5.0 | Unrated | | | | 100 | |

| Web-based Return Code | Item | Amount | Credit Equivalent of Off-balance Sheet Items | Total | Risk Weight % | Risk Weighted Assets Amount |
|-----------------------|---|--------|--|-------|---------------|-----------------------------|
| 11.3.1.4.0.0 | Claims on Official Entities and Multilateral Development Banks (MDBs) | | | | | |
| 11.3.1.4.1.0 | BIS, IMF, ECB, EC and Eligible MDBs | | | | 0 | |
| 11.3.1.4.2.0 | AAA to AA- | | | | 20 | |
| 11.3.1.4.3.0 | A+ to BBB- | | | | 50 | |
| 11.3.1.4.4.0 | BB+ to B- | | | | 100 | |
| 11.3.1.4.5.0 | Below B- | | | | 150 | |
| 11.3.1.4.6.0 | Unrated | | | | 100 | |
| 11.3.1.5.0.0 | Claims on Banks | | | | | |
| 11.3.1.5.1.0 | Rupee Exposures less than 3 months | | | | | |
| 11.3.1.5.1.1 | AAA to BBB- | | | | 20 | |
| 11.3.1.5.1.2 | BB+ to B- | | | | 50 | |
| 11.3.1.5.1.3 | Below B- | | | | 150 | |
| 11.3.1.5.1.4 | Unrated | | | | 100 | |
| 11.3.1.5.2.0 | Foreign Currency Exposures less than 3 months | | | | | |
| 11.3.1.5.2.1 | AAA to A- | | | | 20 | |
| 11.3.1.5.2.2 | BBB+ to BBB- | | | | 50 | |
| 11.3.1.5.2.3 | BB+ to B- | | | | 100 | |
| 11.3.1.5.2.4 | Below B- | | | | 150 | |
| 11.3.1.5.2.5 | Unrated | | | | 100 | |
| 11.3.1.5.3.0 | Rupee and Foreign Currency Exposures more than 3 months | | | | | |
| 11.3.1.5.3.1 | AAA to AA- | | | | 20 | |
| 11.3.1.5.3.2 | A+ to BBB- | | | | 50 | |
| 11.3.1.5.3.3 | BB+ to B- | | | | 100 | |
| 11.3.1.5.3.4 | Below B- | | | | 150 | |
| 11.3.1.5.3.5 | Unrated | | | | 100 | |
| 11.3.1.6.0.0 | Claims on Financial Institutions | | | | | |
| 11.3.1.6.1.0 | Claims on Primary Dealers/ Finance Companies/Specialised Leasing Companies | | | | | |
| 11.3.1.6.1.1 | AAA to AA- | | | | 20 | |
| 11.3.1.6.1.2 | A+ to BBB- | | | | 50 | |
| 11.3.1.6.1.3 | BB+ to B- | | | | 100 | |

| Web-based Return Code | Item | Amount | Credit Equivalent of Off-balance Sheet Items | Total | Risk Weight % | Risk Weighted Assets Amount |
|-----------------------|---|--------|--|-------|---------------|-----------------------------|
| 11.3.1.6.1.4 | Below B- | | | | 150 | |
| 11.3.1.6.1.5 | Unrated | | | | 100 | |
| 11.3.1.6.2.0 | Claims on Other Financial Institutions | | | | | |
| 11.3.1.6.2.1 | AAA to AA- | | | | 20 | |
| 11.3.1.6.2.2 | A+ to A- | | | | 50 | |
| 11.3.1.6.2.3 | BBB+ to BB- | | | | 100 | |
| 11.3.1.6.2.4 | Below BB- | | | | 150 | |
| 11.3.1.6.2.5 | Unrated | | | | 100 | |
| 11.3.1.7.0.0 | Claims on Corporates | | | | | |
| 11.3.1.7.1.0 | AAA to AA- | | | | 20 | |
| 11.3.1.7.2.0 | A+ to A- | | | | 50 | |
| 11.3.1.7.3.0 | BBB+ to BB- | | | | 100 | |
| 11.3.1.7.4.0 | Below BB- | | | | 150 | |
| 11.3.1.7.5.0 | Unrated | | | | 100 | |
| 11.3.1.8.0.0 | Retail Claims | | | | | |
| 11.3.1.8.1.0 | Retail claims that <u>qualify</u> for regulatory capital purposes | | | | 75 | |
| 11.3.1.8.2.0 | Retail claims that <u>not qualify</u> for regulatory capital purposes | | | | 100 | |
| 11.3.1.9.0.0 | Claims Secured by Residential Property | | | | | |
| 11.3.1.9.1.0 | Claims that <u>qualify</u> for regulatory capital purposes | | | | 50 | |
| 11.3.1.9.2.0 | Claims that <u>not qualify</u> for regulatory capital purposes | | | | 100 | |
| 11.3.1.10.0.0 | Claims Secured by Commercial Real Estate | | | | 100 | |
| 11.3.1.11.0.0 | Non-Performing Assets (NPAs) | | | | | |
| 11.3.1.11.1.0 | Specific provisions are equal or more than 20% | | | | 100 | |
| 11.3.1.11.2.0 | Specific provisions are less than 20% | | | | 150 | |
| 11.3.1.12.0.0 | Non-Performing Assets Secured by Residential Property | | | | | |
| 11.3.1.12.1.0 | Specific provisions are equal or more than 20% | | | | 50 | |
| 11.3.1.12.2.0 | Specific provisions are less than 20% | | | | 100 | |

| Web-based Return Code | Item | Amount | Credit Equivalent of Off-balance Sheet Items | Total | Risk Weight % | Risk Weighted Assets Amount |
|-----------------------|---|--------|--|-------|---------------|-----------------------------|
| 11.3.1.13.0.0 | Higher-Risk Categories | | | | 150 | |
| 11.3.1.14.0.0 | Cash Items and Other Assets | | | | | |
| 11.3.1.14.1.0 | Cash Items | | | | | |
| 11.3.1.14.1.1 | Notes and Coins | | | | | |
| 11.3.1.14.1.2 | Gold Bullion held in own vault | | | | | |
| 11.3.1.14.1.3 | Cash Items in the Process of Collection | | | | 20 | |
| 11.3.1.14.2.0 | Other Assets | | | | | |
| 11.3.1.14.2.1 | Fixed Assets | | | | 100 | |
| 11.3.1.14.2.2 | Other Assets/Exposures | | | | 100 | |

Part III (b) – Credit equivalent of Off-Balance Sheet Items

(Rs.'000)

| Web-based Return Code | Description | Principal amount of Off-Balance Sheet Items | Credit Conversion Factor (%) | Credit equivalent of Off-Balance Sheet Items |
|-----------------------|--|---|------------------------------|--|
| 11.3.2.0.0.0 | Off-balance Sheet Items | | | |
| 11.3.2.1.0.0 | Direct Credit Substitutes | | | |
| 11.3.2.1.1.0 | General Guarantees of Indebtedness | | 100 | |
| 11.3.2.1.2.0 | Stand-by LCs serving as Financial Guarantees | | 100 | |
| 11.3.2.1.3.0 | Bank Acceptances | | 100 | |
| 11.3.2.1.4.0 | Others (please specify) | | 100 | |
| 11.3.2.2.0.0 | Transaction-related Contingencies | | | |
| 11.3.2.2.1.0 | Performance Bonds, Bid Bonds & Warranties | | 50 | |
| 11.3.2.2.2.0 | Stand-by LCs related to particular Transactions | | 50 | |
| 11.3.2.2.3.0 | Others (please specify) | | 50 | |
| 11.3.2.3.0.0 | Short-Term Self-Liquidating Trade-Related Contingencies | | | |
| 11.3.2.3.1.0 | Shipping Guarantees | | 20 | |
| 11.3.2.3.2.0 | Documentary Letters of Credit | | 20 | |
| 11.3.2.3.3.0 | Trade related Acceptances | | 20 | |
| 11.3.2.3.4.0 | Others (please specify) | | 20 | |

| Web-based Return Code | Description | Principal amount of Off-Balance Sheet Items | Credit Conversion Factor (%) | Credit equivalent of Off-Balance Sheet Items |
|-----------------------|--|---|------------------------------|--|
| 11.3.2.4.0.0 | Sale and Repurchase Agreements and Assets Sale with Recourse where the Credit Risk remains with the Bank | | | |
| 11.3.2.4.1.0 | Sale and Repurchase Agreements | | 100 | |
| 11.3.2.4.2.0 | Housing Loans sold with Recourse | | 100 | |
| 11.3.2.4.3.0 | Other Assets sold with Recourse | | 100 | |
| 11.3.2.4.4.0 | Forward Assets Purchase | | 100 | |
| 11.3.2.4.5.0 | Partly paid Shares/Securities | | 100 | |
| 11.3.2.4.6.0 | Others (please specify) | | 100 | |
| 11.3.2.5.0.0 | Obligations under an On-going Underwriting Agreement | | | |
| 11.3.2.5.1.0 | Underwriting of Shares/Securities Issue | | 50 | |
| 11.3.2.5.2.0 | Note Issuance Facilities and Revolving Underwriting Facilities | | 50 | |
| 11.3.2.5.3.0 | Others (please specify) | | 50 | |
| 11.3.2.6.0.0 | Commitments with an Original Maturity of up to one year or which can be unconditionally cancelled at any time | | | |
| 11.3.2.6.1.0 | Formal Stand-by Facilities and Credit Lines | | 0 | |
| 11.3.2.6.2.0 | Undrawn Term Loans | | 0 | |
| 11.3.2.6.3.0 | Undrawn Overdraft Facilities/Unused Credit Card Lines | | 0 | |
| 11.3.2.6.4.0 | Others (please specify) | | 0 | |
| 11.3.2.7.0.0 | Other Commitments with an Original Maturity up to 1 year | | | |
| 11.3.2.7.1.0 | Formal Stand-by Facilities and Credit Lines | | 20 | |
| 11.3.2.7.2.0 | Undrawn Term Loans | | 20 | |
| 11.3.2.7.3.0 | Others (please specify) | | 20 | |
| 11.3.2.8.0.0 | Other Commitments with an Original Maturity of over one year | | | |
| 11.3.2.8.1.0 | Formal Stand-by Facilities and Credit Lines | | 50 | |
| 11.3.2.8.2.0 | Undrawn Term Loans | | 50 | |
| 11.3.2.8.3.0 | Others (please specify) | | 50 | |

| Web-based Return Code | Description | Principal amount of Off-Balance Sheet Items | Credit Conversion Factor (%) | Credit equivalent of Off-Balance Sheet Items |
|-----------------------|--|---|------------------------------|--|
| 11.3.2.9.0.0 | Exchange Rate Contracts | | | |
| 11.3.2.9.1.0 | Original Maturity-less than one year | | 2 | |
| 11.3.2.9.2.0 | Original Maturity-more than one year and less than two years | | 5 | |
| 11.3.2.9.3.0 | Original Maturity-more than two years (For each additional year) | | 3 (for each year) | |
| 11.3.2.10.0.0 | Interest Rate Contracts | | | |
| 11.3.2.10.1.0 | Original Maturity-less than one year | | 0.5 | |
| 11.3.2.10.2.0 | Original Maturity-more than one year and less than two years | | 1 | |
| 11.3.2.10.3.0 | Original Maturity-more than two years (For each additional year) | | 1 (for each year) | |

Part III (c) – Exposures Recognised under Credit Risk Mitigation (CRM)

(Rs. '000)

| Web-based Return Code | CRM techniques | Principal Amount |
|-----------------------|---|------------------|
| 11.3.3.0.0.0 | Total CRM Exposure | |
| 11.3.3.1.0.0 | Collateralised Transactions | |
| 11.3.3.1.1.0 | Retail Exposure | |
| 11.3.3.1.1.1 | Cash | |
| 11.3.3.1.1.2 | Gold | |
| 11.3.3.1.1.3 | Government Securities | |
| 11.3.3.1.1.4 | Provident Fund Balances | |
| 11.3.3.1.1.5 | Debt Securities Rated by a recognised ECAIs | |
| 11.3.3.1.1.6 | Debt Securities not Rated by a recognised ECAIs | |
| 11.3.3.1.1.7 | Equities that are included in a Main Index. | |
| 11.3.3.1.2.0 | Other Exposures | |
| 11.3.3.1.2.1 | Cash | |
| 11.3.3.1.2.2 | Gold | |
| 11.3.3.1.2.4 | Provident Fund Balances | |
| 11.3.3.1.2.3 | Government Securities | |
| 11.3.3.1.2.5 | Debt Securities Rated by a recognised ECAIs | |
| 11.3.3.1.2.6 | Debt Securities not Rated by a recognised ECAIs | |
| 11.3.3.1.2.7 | Equities that are included in a Main Index. | |
| 11.3.3.2.0.0 | Other CRM Techniques | |
| 11.3.3.2.1.0 | On-balance Sheet Netting | |
| 11.3.3.2.2.0 | Guarantees | |

Part IV – Computation of Risk-weighted Amount for Market Risk

(Rs. '000)

| Web-based Return Code | Item | Capital Charge Amount |
|-----------------------|---|-----------------------|
| 11.4.1.0.0.0 | Total Capital Charge for Market Risk = (11.4.1.1.0.0+11.4.1.2.0.0+11.4.1.3.0.0) | |
| 11.4.1.1.0.0 | Capital Charge for Interest Rate = (11.4.1.1.1.0+11.4.1.1.2.0) | |
| 11.4.1.1.1.0 | General Interest Rate Risk | |
| 11.4.1.1.1.1 | i) Net Long or Short Position | |
| 11.4.1.1.1.2 | ii) Horizontal Disallowance | |
| 11.4.1.1.1.3 | iii) Vertical Disallowance | |
| 11.4.1.1.1.4 | iv) Options | |
| 11.4.1.1.2.0 | Specific Interest Rate Risk | |
| 11.4.1.2.0.0 | Capital Charge for Equity = (11.4.1.2.1.0+11.4.1.2.2.0) | |
| 11.4.1.2.1.0 | General Equity Risk | |
| 11.4.1.2.2.0 | Specific Equity Risk | |
| 11.4.1.3.0.0 | Capital Charge for Foreign Exchange & Gold | |
| 11.4.2.0.0.0 | Total Risk-weighted Amount for Market Risk = (11.4.1.0.0.0*10) | |

Part V – Computation of Risk-weighted Amount for Operational Risk

(Rs. '000)

| Web-based Return Code | Item | First Year | Second Year | Third Year | Total | Average |
|-----------------------|---|------------|-------------|------------|-------|---------|
| 11.5.1.0.0.0 | Gross Income | | | | | |
| 11.5.1.1.0.0 | Net Income | | | | | |
| 11.5.1.1.1.0 | Net Interest Income (Interest Income-Interest Expenses) | | | | | |
| 11.5.1.1.2.0 | Non-interest Income | | | | | |
| 11.5.1.2.0.0 | Less | | | | | |
| 11.5.1.2.1.0 | Realised Profits from the Sale of Securities in the Banking Book | | | | | |
| 11.5.1.2.2.0 | Extraordinary / Irregular Items of Income | | | | | |
| 11.5.2.0.0.0 | Total Capital Charge for Operational Risk = (11.5.1.0.0.0*15%) | | | | | |
| 11.5.3.0.0.0 | Total Risk-weighted Amount for Operational Risk = (11.5.2.0.0.0*10) | | | | | |

IMPLEMENTATION OF IT INFRASTRUCTURE FOR BASEL II

1. Implementation of IT Architecture and Design Principles for Basel II

Important requirements for this architecture are as follows;

- Create a robust, scalable & network friendly Basel II technology framework, which can support a regional user and is extendable to new regulatory compliance requirements as the Bank increases its presence in the emerging markets.
- Rationalise the technologies by choosing common platforms for common requirement across all Pillars and common business domain across all Pillars. This will reduce total cost of ownership, maintenance overheads and will facilitate change management for the bank.
- Adopt a robust and centralised data collection and consolidation approach for Basel II through the Banking Data Warehouse (BDW) for risk analytics and Consolidated reporting
- Reduce manual data capture methods for Basel II.
- Design for Basel II applications should cater for high availability, proper exception handling and proper backup/recovery to ensure that potential risk due to data loss during unforeseen circumstances is negligible.
- All new core banking applications and credit related applications in all geographical regions must be Basel II compliant.
- All Basel II applications must adhere to the bank's policies for infrastructure security, data security, application controls and user administration.
- All Basel II applications should demonstrate disaster recovery as a capability.

2. Requirements for a Regulatory Capital IT Solution

The following eight elements are the system level requirements that a financial services institution must meet to comply with the Basel II Accord.

2.1 Storage of Current and Historical Data in a Data Warehouse

Basel II calls for financial institutions to store a substantial quantity of data. To produce a measure of Risk Weighted Assets, the Bank for International Settlement (BIS) requires financial institutions to store a comprehensive database of operational loss incidents, financial instruments, credit losses, and general ledger data. For financial institutions that seek to calculate Pillar I capital using the Advanced IRB approach for retail or wholesale assets, seven years of default data are required to validate internal ratings models. Beyond historical data storage requirements, a Basel II compliant IT solution must also provide the ability to store and process multiple versions of data. For example, in the area of stress testing, financial institutions are required to test the assumptions of their models in a variety of economic scenarios. Given these requirements, scalable and efficient storage of current, historical, and alternative scenario data is critical.

2.2 Auditable and Flexible Risk Weighted Asset Calculations

The Basel II Capital Accord defines a large number of rules for calculating Risk Weighted Assets and minimum required capital for credit, market and operational risks. However, beyond simply performing calculations, the BIS also requires that financial institutions have the ability to easily adjust these calculations, and the categorisations on which they depend. The Accord also implicitly requires that a financial services institution be able to switch between the various Pillar I methodologies. Therefore, a regulatory capital IT solution

should not only provide all of the required calculations within the Accord, but should also allow auditors, regulators, and internal users to audit, review and revise these calculations as necessary. There are also certain areas where the Accord gives financial institutions the flexibility to optimise capital calculations such as in the case of collateral application.

2.3 Control Management with automatic workflows

The Basel II framework requires financial institutions to demonstrate that they have the appropriate procedures and controls in place to manage their risks. Therefore, a regulatory capital IT system should allow financial institutions to map controls against their risks. In such a framework, financial institutions can define automatic workflows where the system prompts employees to act based on certain defined key performance indicators (KPIs) or user-defined business events. Finally, the system should also allow financial institutions to audit and monitor their controls and procedures in order to periodically assess their risk management practices based on actual loss experience.

2.4 Sophisticated Analytical Tools

Financial institutions can implement sophisticated models to assess their risk position and optimise usage of capital. The BIS allows qualifying financial institutions to implement internal models for Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD). Therefore, a regulatory capital IT solution must allow a financial institution to implement and test any model that can properly assess its risk position. These external applications would also have the ability to write information back to a central data source.

2.5 Flexible User Driven methods

The Basel II Accord defines a vast range of calculations and options. Examples of these options include whether to use the Simple or Comprehensive approach for credit risk mitigation, to use supervisory or own-estimate haircuts, and to determine the risk weighted assets based on a top-down approach. Given the range of possibilities, users must have the flexibility to easily change the methods they use to calculate risk-weighted assets and assess the potential impact of those changes. Users should also have the flexibility to specify which specific calculation components are processed in a given job submission. For example, the system should not force the user to reprocess every single statistic if all they seek to do is recalculate a subset of the organisation's assets. Additionally, the user should have the option to generate detailed auditing output, either for a sampling of accounts or an individual transaction at their discretion.

2.6 Coordinated Process Flow

The Basel II calculations requires data that would generally originate from different processing systems, including those used to support front office, back office and risk management operations. Further, the Accord requires synchronisation of this data to perform calculations on a consistent and integrated basis. Once calculations are completed, the system may need to further process the output data through a variety of third party applications for further analysis or reporting. Given these complex data workflow requirements, a regulatory capital solution needs to consolidate each of these process flow issues without any error.

2.7 Timely reporting that meets Internal and External Requirements

Systems and data are irrelevant if they do not provide information in a timely manner. Under the Basel II regime, financial institutions need to meet highly specific and demanding external and regulatory reporting requirements. Simultaneously, internal management requires a continuous stream of information to better understand their organization's

risk profile. Therefore, it is essential that a regulatory capital solution provide a sound management reporting platform. A Basel II compliant IT solution must be able to regularly and accurately produce the necessary internal and external reports for sound risk and profitability management.

2.8 Low Cost and Low Risk

Financial services management and information systems professionals do not have the time or the budget to deal with high priced or unreliable solutions. For this reason, any regulatory capital solution must maintain a low total cost of ownership and be highly reliable. The major components of the regulatory capital IT solution should be covered through a single data source so that constant reconciliation of data is avoided. Just as important, the system needs to eliminate the constant administrative management inherent to many enterprise systems. It should not have to rely on vigilant system administrators to coordinate the functioning of different applications.

3. Data Integration and the Data Warehouse

There is a need to align the data structures that drive risk and financial data. These are:

1. **Transactional data** that covers all types of transaction and links the financial results of each transaction with the risk and financial objectives of the financial institution.
2. **Asset data** that covers all types of assets that might be linked to the transaction, the valuation of these assets and the correlation of asset behaviour.
3. **Customer data** for all counter-parties, which includes the credit risk of the counterparty and makes provisions when new information or circumstances changes that risk. Detailed data on customers are required to support product selection and pricing in addition to other relationship management decisions.

The above risk and financial data could be broadly categorised as follows:

Instrument/Account Data – These data cover basic information about every financial instrument held by the financial institution, *i.e.* Data about financial instruments such as exposure (provision/allowances, outstanding balances, credit lines, *etc.*), maturity, asset, product and industry classifications, interest rates, and so on.

Customer/Counterparty Data – This refers to the relevant data for different parties that a financial institution may deal with in a financial transaction. In addition, these data cover information such as industry classification and customer financial information that may be used in deriving PD estimates such as debt to equity ratios, current assets, net sales, retained earnings, revenues, profits, cost of goods, share price, and bond price. Financial institutions may use these data with regulatory capital data to perform customer-based profitability analysis.

Ledger Data – These data cover transaction and account balance data stored in a ledger. Ledger data are used to do business unit and product based profitability analysis. Users may analyse and report on capital for market, credit, and operational risk.

Risk Mitigation Data – These data cover information about collateral, insurance, netting agreements, credit derivatives, and guarantees. Among other attributes, these data include the mitigant type, mitigation value, maturity of the instrument, and the specific instrument to which the collateral maps. Insurance policy data information are relevant for the mitigation of operational risks.

Incident Data – Analysis of credit and operational loss incidents depends upon having granular incident data. This data covers the essential information about loss incidents such as loss amount, business unit, loss description and risk category.

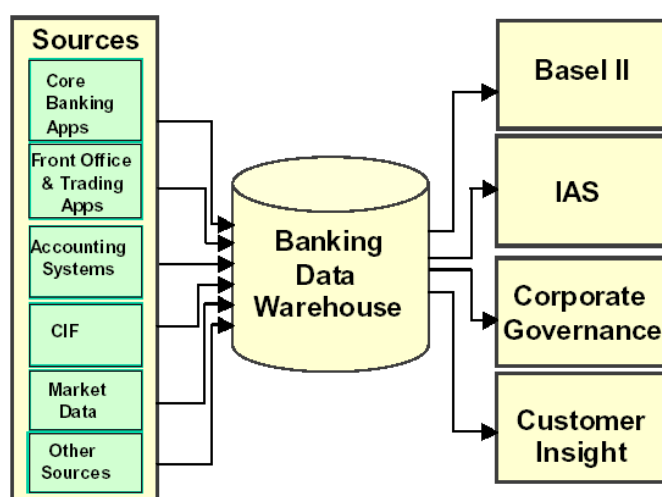
Historical Data – If financial institutions opt for the Advanced Internal Ratings based approach for credit risk and the Advance Measurement approach for operational risk, they must store a substantial volume of historical data. These data will be necessary to test historical default experiences against the forecasted values generated by predictive models. These data cover both historical credit and operational loss data.

Limits and Loss Provision Data – The Basel II requirement is that the financial institutions should limit their exposures for lending based on industries, geography, and specific customers. These data cover the exposure limits and the loan loss provisions.

Examples of some data fields:

Borrower Legal Name, Customer Basel segment, Borrower Credit Grade, Consolidated Group Turnover, Facility Currency, Limit Amount, Committed Limit Indicator, Collateral Type/Sub Type, Country of Incorporation, Guarantor Credit Grade, Facility Type External Credit Rating, Collateral Currency, Collateral Location, Negative Pledge Indicator, Maturity Date *etc.*

A typical Banking Data Warehouse for a financial institution could be as follows:



4. Data Governance & Management

4.1 Background

To achieve Basel II certification, the data used in all pillars must be effectively managed. This includes both data management and technology governance. IRBA data self-assessment requires a process to be in place for vetting inputs into internal rating systems. It should include an assessment of the *accuracy, completeness* and *appropriateness* of data. Establishment of standards and conducting relevant tests for *accuracy, completeness, timeliness and reliability* of data are essential to *assess on an ongoing basis* the risks arising from potential poor quality data and to ensure that appropriate risk mitigation measures have been undertaken.

4.2 Data Quality Management (DQM) framework

Data quality management is an ongoing process and it consists of the stakeholders, DQM process and DQM tools.

4.2.1 The Stakeholders

Data owners, system owners, data consumers and data services are the main stakeholders. Data owners are responsible for the process of updating data into the

system. They will define the data quality measurements, monitor data quality metrics, report data quality metrics to data services and resolve data quality issues. A data consumer is any stakeholder, who extracts data from another system for processing or information services. They will report data quality issues to DQ dashboard/DQ log, provide input and take part in the resolution of DQ issues and escalate DQ issues to data service in the event of non-resolution. The owner of the data management policy is Data Services. It will administer data ownership, resolve data ownership issues, administer DQ Dashboard and Issues Log, facilitate root cause analysis process and train data quality management.

4.2.2 Data Quality Management (DQM) Process

The DQM process can be elaborated under 6 steps.

Step 1 - Identification of Critical Quality Elements (CQE)

E.g., CQE for Probability of Default (PD) Drivers; Detailed Drivers – Borrower PD, Guarantor PD, PD validation; Field names – CRR, Ratings, Date of Ratings *etc.*

Step 2 – Definition of quality (CACTI)

1. Completeness – Are all the necessary data captured and present?
(E.g., Is this field mandatory?)
2. Accuracy – Do the data accurately represent reality or a verified source?
(E.g., Is there maker/checker in place?)
3. Consistency – Are the data elements consistently defined and understood?
(E.g., Is there a drop down list in the system?)
4. Timeliness – Are the data available within the required timeframe?
(E.g., What is the agreed turnaround time to complete data capture/extraction?)
5. Integrity - Is the structure of the data and the relationship between fields maintained consistently?
(E.g., Is there data verification on the field?)

Step 3 – Controls and checks

The business process that support data collection, updating and maintenance should have the appropriate quality controls and checkpoints in place. This is to ensure that data fit for the purpose is produced as close to the point of entry as possible, and avoids or reduces the possibility of data errors and the need for data cleansing. Examples of a control point include a maker checker process or mandatory fields in the system. There are 3 defined stages to this step,

- a) Document the data process flow
- b) Review control and checks using the CACTI framework
- c) Implement additional control checkpoints if required.

Step 4 – Data quality measurement

1. It will provide quantifiable evidence of an effective data management process.
2. It can be used as a toll to monitor and track the data quality level.
3. When combined with the data quality target, the measurement can be used as a trigger to commence a review of the data management process.

- The standard frequency for a data quality measurement is monthly. However, this can vary depending on the type of data or system.

$$\% \text{ Quality level} = \frac{\text{No. of records meeting requirements}}{\text{Total No. of records in universe or sample}} \times 100$$

- The data quality target level should be set at a level, which is:

- Realistic, given current knowledge of the data quality level;
- Represents the next step that the data owner wants to achieve in improving data quality given incremental improvement is achievable.

Step 5 – Monitoring

- Monitoring is critical to ensure the sustainability of any data quality management effort.
- Monitoring can be achieved through periodic data quality measurement, manual or system error reporting
- The data quality target level can be used as a tool to monitor data quality.

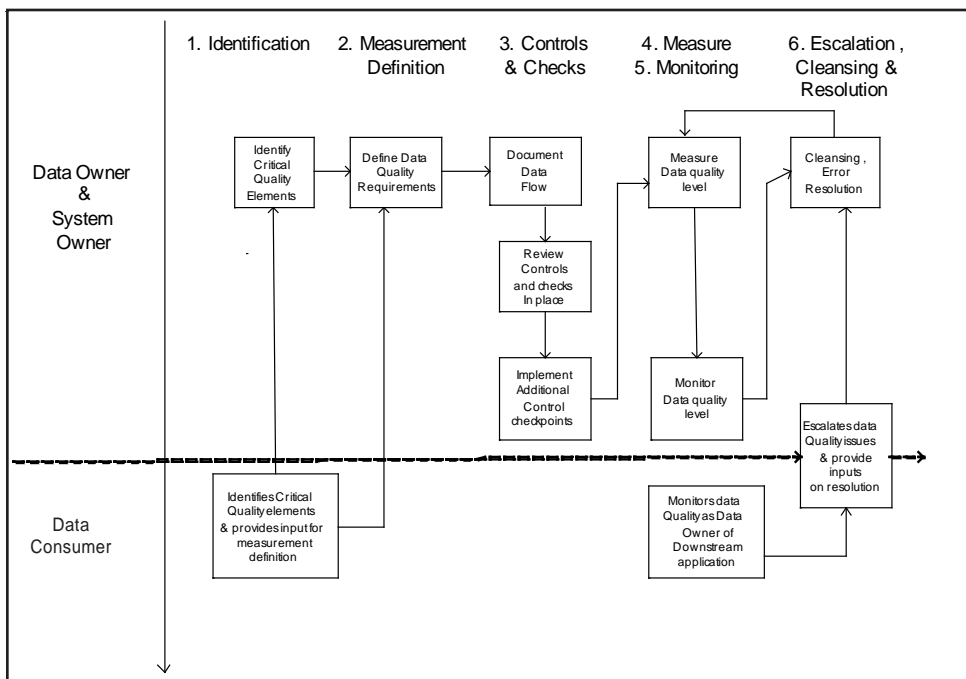
Step 6 – Data cleansing, problem resolution and Escalation

Data owners – To ensure that data cleansing and error correction is performed in a consistent, systematic and methodical manner, a documented error correction procedure is critical.

Data consumers – Data consumers may put in place a process for error correction.

Data quality escalation – Within each department, ideally, there should exist an escalation path for dealing with data quality problems. These may include escalation for inaccurate or missing information, such as to the Business Unit Officer or Business Support Unit.

Data Quality Management Process – Six broad Data Quality Management (DQM) Process steps to guide Data Owners and Consumers to perform data quality management



5. Technology Governance Framework

The following are the key requirements to consider from the Basel II Technology framework:

1. **Robustness** – Robustness is the resilience of the system, especially when under stress or when confronted with invalid inputs. It is the ability of the software system to maintain function even with changes in the internal structure or external environment.
2. **Scalability** – Scalability indicates the capability of a system to increase total throughput under increased load when resources (typically hardware) are added. A scalable system is one that can easily be altered to accommodate changes in the number of users, resources and computing entities.
3. **Security & Controls** – The management, operational, and technical controls (i.e., safeguards or countermeasures) prescribed for an information system to protect the confidentiality, integrity, and availability of the system and its information.
4. **System Availability** – Availability means the degree to which a system, sub system or equipment is operable and in a committable state at the start of a mission, when the mission is called for at an unknown, i.e., a random, time.
5. **Sustainability** – Sustainability is a systemic concept, relating to the continuity of commercial and technology aspects in this context.
6. **Reusability** – Reusability is the likelihood a technology component can be used again to add new functionalities with slight or no modification. The ability to reuse relies in an essential way on the ability to build larger things from smaller parts, and being able to identify commonalities among those parts.
7. **Testability** – An adjective meaning “the ability to be tested”
8. **Technology Adequacy** – Refers to the sufficiency of the chosen technology to address a specific business need.

The key areas to be focussed under Basel II requirements are as follows:

1. The collection of data (data source and data consolidation) –
 - There should be a consistent and qualified process to collect and consolidate data with proper metadata capture.
 - It should be well defined and automated if possible.
 - All processes involved should be traceable, accountable and auditable.
2. The storage of data and Basel II related system –
 - The storage should be on a robust data infrastructure that allows the financial institution to perform backup, restore, archive, replicate, high availability, and perform load balancing when required.
 - The application must be designed with security as the underlying core.
 - The system must comply with the financial institution’s application and operational security policies.
 - Further the system must be designed with proper error handling and a defined process under adequate control to cleanup and to recover the system to normal state.
 - Technology used should be in line with the financial institution’s architecture direction.

3. Data processing and transmission –
 - There must be control on all files that are exchanged between systems.
 - There must be proper file identification for each file that is exchanged between systems.
 - There should be a HASH total for each file that is exchanged between systems, to be confirmed, if needed, as advised by regulators and internal security standards.
4. Analytical and reporting for end-user consumption –
 - Data/report download and manual manipulation is not encouraged, unless justified by business and exception sought.
 - “Fit-for-purpose” reporting and analytical tools should be used in the technical solution.
 - There should not be any manual report distribution via email or intranet.

6. Conclusion

Banks are free to develop, choose and purchase their IT systems and software for the Basel II programme depending on their risk modelling and data warehouse requirements. However, the Basel Committee has categorically outlined the following Supervisory expectations for the use of vendor products in IRB processes in their Newsletter No. 8 (March 2006):

1. Banks must be able to document and explain the role of vendor products and the extent to which they are used within their IRB processes.
2. Banks must be able to demonstrate a thorough understanding of vendor products used in their IRB processes.
3. Vendor products must be appropriate to the bank’s exposures and risk rating methodologies and suitable for use within the IRB framework.
4. Banks must have clearly articulated strategies for regularly reviewing the performance of vendor model results and the integrity of external data used in their IRB risk quantification processes.
5. Further, the supervisors/regulators will only review and assess the acceptability of estimates based on the system behind the estimates.

Directions issued by the Monetary Board of the Central Bank of Sri Lanka under Sections 46(1) and 76(J)(1) of the Banking Act, No.30 of 1988, as amended.

Sgd. Nivard Ajith Leslie Cabraal

*Chairman of the Monetary Board and
Governor of the Central Bank of Sri Lanka*

Colombo
31 July 2013

**BANKING ACT DIRECTION NO. 5 OF 2013
SUPERVISORY REVIEW PROCESS (PILLAR 2 OF BASEL II) FOR
LICENSED COMMERCIAL BANKS AND
LICENSED SPECIALISED BANKS**

In the exercise of the powers conferred by Sections 46(1) and 76(J)(1) of the Banking Act, No. 30 of 1988, last amended by the Banking Act, No. 46 of 2006, the Monetary Board hereby issues Directions No. 5 of 2013 on the implementation of Supervisory Review Process (SRP) for Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs), respectively, in accordance with the Basel II Capital Accord “International Convergence of Capital Measurement and Capital Standards – A Revised Framework” issued by the Basel Committee on Banking Supervision of the Bank for International Settlements in June 2006.

| | |
|--|--|
| Empowerment under the Banking Act. | <p>1.1 In terms of Sections 19(7) and 76G(7) of the Banking Act, the Monetary Board is empowered to determine the capital adequacy ratio to be maintained by every LCB and LSB, respectively, as far as practicable by adopting the guidelines for capital adequacy set out by the Bank for International Settlements in Basel.</p> <p>1.2 In terms of Sections 46(1) and 76(J)(1) of the Banking Act, in order to ensure the soundness of the banking system, the Monetary Board is empowered to issue Directions to all or any LCB and LSB, respectively, regarding the manner in which any aspect of the business of such banks is to be conducted.</p> |
| Maintain Adequate Capital above the Minimum Capital Requirement. | <p>2.1 Commencing from 1 January 2014, every LCB and LSB shall, at all times, maintain adequate capital to cover its exposure to all risks, notwithstanding that it has complied with the requirements of the Banking Act, Directions No. 9 and 10 of 2007 dated 26 December 2007 issued to LCBs and LSBs, respectively.</p> <p>2.2 In determining the adequate capital referred to in Direction 2.1 above, every LCB and LSB shall consider the requirements specified in the Regulatory Framework on SRP attached hereto.</p> |
| Implement Sound Internal Capital Adequacy Assessment Process. | <p>3.1 Every LCB and LSB shall develop and implement a sound Internal Capital Adequacy Assessment Process (ICAAP) in accordance with the requirements specified in Part II of the Regulatory Framework on SRP attached hereto.</p> |

- 4.1 The Director of Bank Supervision or examiners of the Bank Supervision Department shall review and evaluate the following, in accordance with Part III of the Regulatory Framework on SRP attached hereto.
- Supervisory Review and Evaluation Process (SREP).
- (a) ICAAP;
- (b) compliance with the requirements set out in these Directions and the Regulatory Framework on SRP attached hereto; and
- (c) adequacy of capital maintained by each bank.
- 5.1 The Central Bank of Sri Lanka shall intervene at an early stage to prevent capital of a bank falling below the minimum requirement, in accordance with Part IV of the Regulatory Framework on SRP attached hereto.
- Supervisory Intervention.
- 6.1 Every LCB and LSB shall submit a Board approved ICAAP Document to the Director of Bank Supervision within six months from the end of its financial year. For the purposes of these Directions and the Regulatory Framework on SRP attached thereto, in the case of banks incorporated outside Sri Lanka, the “Board” shall mean the Head Office or the Regional Office that supervises the respective bank.
- Regulatory Reporting.
- 6.2 ICAAP Document shall be prepared in accordance with the format given in Appendix I of the Regulatory Framework on SRP attached hereto. However, this format shall be considered as the minimum requirement and ICAAP Document of every LCB and LSB shall be comprehensive and relative to its size, nature of the business and complexity of business activities.

**REGULATORY FRAMEWORK ON
SUPERVISORY REVIEW PROCESS
(PILLAR 2 OF BASEL II)**

**ATTACHMENT TO THE
BANKING ACT,
DIRECTIONS No. 5 of 2013**



CONTENTS

PART I – OVERVIEW

1. Introduction
2. Objectives of Supervisory Review Process (SRP)
3. Principles governing SRP
4. Scope and Applicability

PART II – INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

5. Developing and maintaining ICAAP
6. The Board of Directors and Senior Management Oversight
 - 6.1 Board responsibilities for ICAAP
 - 6.2 Senior management’s responsibilities for ICAAP
7. Comprehensive assessment of risks
8. Sound Capital Assessment
9. Monitoring and Reporting
10. Internal Controls and Independent review

PART III – SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP)

11. Key Components
12. Review Methodologies
13. Objectives
14. Coverage
15. Qualitative Assessment
16. Dialogue with the bank

PART IV – SUPERVISORY INTERVENTION

Appendix I

PART I – OVERVIEW

1. Introduction

- 1.1 The Basel II capital adequacy framework, seeks to harness best practices in risk management into the regulatory process, by providing a spectrum of approaches to measure capital adequacy of banks. The Basel II framework also seeks to provide regulatory capital requirements that are both more comprehensive and more sensitive to risk, and as such, more closely aligned to the risk appetite of banks.

The Basel II framework is based on three mutually reinforcing pillars:

- a. Pillar 1: Minimum capital requirements for three major components of risks that banks face: credit, market and operational risks;
 - b. Pillar 2: Supervisory Review Process (SRP): Banks' own assessments of their capital adequacy and encourage banks to develop and use better risk management techniques in monitoring and managing their risks; and
 - c. Pillar 3: Market Discipline: materially increased disclosure requirements.
- 1.2 The SRP of licensed commercial banks (LCBs) and licensed specialised banks (LSBs) (hereinafter referred to as "banks") is conducted to assess their capital adequacy and to determine whether banks should hold additional capital to cover risks that are not covered or adequately covered by the minimum capital requirements under Pillar 1 of Basel II.

2. Objectives of SRP

SRP is intended to:

- 2.1 encourage banks to utilise better risk management techniques – the level of risks a bank is exposed to, and the control environment that will determine the level of capital required to be maintained by banks;
- 2.2 enhance the risk-based supervision of banks in order to assess the capital adequacy relative to risks;
- 2.3 evaluate the bank's Internal Capital Adequacy Assessment Process (ICAAP) that determines the level of capital to be maintained against all risks and ensure that banks have adequate capital to support all risks; and
- 2.4 ensure that banks use ICAAP in more general business decisions and budgets, in more specific decisions such as allocating capital to business units and when evaluating individual credit decision process.

3. Principles governing SRP

SRP is conducted based on the following four key principles provided in the Pillar 2 of Basel II capital framework:

- a. Banks shall have a process for assessing their overall capital adequacy in relation to their risk profiles and a strategy for maintaining their capital levels (Principle 1 of Pillar 2-SRP).
- b. The Central Bank of Sri Lanka (CBSL) as the regulator will review and evaluate bank's ICAAP and strategies, as well as its ability to monitor and ensure compliance with regulatory capital ratios (Principle 2 of Pillar 2-SRP).
- c. CBSL expects banks to operate above the minimum regulatory capital ratios and requires banks to hold capital in excess of the minimum (Principle 3 of Pillar 2-SRP).

- d. CBSL will intervene at an early stage to prevent capital from falling below the minimum levels required to support the risk characteristics of a particular bank (Principle 4 of Pillar 2-SRP).

4. Scope and Applicability

This Regulatory Framework shall be applicable to banks on both standalone (“Solo”) level, as well as on the consolidated (“Group”) level.

PART II – INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

5. Developing and maintaining ICAAP

- 5.1 Every bank shall develop and maintain a rigorous and well-documented ICAAP proportional to its operations and risk profile and consistent with prudential requirements.
- 5.2 ICAAP of a bank shall include the following five main features.
 - a. Board and senior management oversight
 - b. Comprehensive assessment of risks
 - c. Sound capital assessment
 - d. Monitoring and reporting
 - e. Internal controls and independent review
- 5.3 A bank shall design its ICAAP according to the size, complexity and business strategies of the respective bank.

6. The Board of Directors and Senior Management Oversight

6.1 Board responsibilities for ICAAP

- a. The Board shall ensure that the bank has in place a strategic plan which clearly outlines its current and future capital needs, anticipated capital expenditure, desirable capital level, and external capital sources.
- b. The Board shall review and approve the target level and composition of capital, and the process for setting and monitoring such targets at least, annually.
- c. The Board shall ensure that the senior management:
 - (i) performs an analysis of the current and future capital requirements of the bank in relation to its strategic objectives;
 - (ii) establishes frameworks for assessing the categories of risks faced by the bank and develops systems related to these risks to the capital level of the bank;
 - (iii) establishes a method for monitoring compliance with internal policies on risk assessment and the processes related to risks to capital levels; and
 - (iv) establishes a strong internal control culture throughout the bank.
- d. The Board shall approve and exercise effective oversight over the bank’s stress testing processes.
- e. The Board shall review ICAAP of the bank periodically, at least annually, to:
 - (i) assess the level and trend of material risks and their effects on capital levels;
 - (ii) evaluate the sensitivity and reasonableness of key assumptions used in the capital assessment measurement system;
 - (iii) determine that the bank holds adequate capital against the various risks and is in compliance with established capital adequacy goals; and

- (iv) assess the bank's future capital requirements based on its reported risk profile and make necessary adjustments to the strategic plan, accordingly.
- f. The Board shall ensure that public disclosures are made in the bank's audited annual report/ audited financial statements, both qualitative and quantitative information, to assist in assessing the adequacy of bank's capital commensurate with all material risks the bank is exposed to in relation to its current and future activities.
- g. The Board shall approve the annual ICAAP document.

6.2 Senior management's responsibilities for ICAAP

The senior management shall:

- a. ensure the appropriateness of ICAAP on an ongoing basis;
- b. have a good understanding of the design and operation of ICAAP;
- c. be responsible for developing a risk management framework that is appropriate in light of the risk profile and business strategy of a bank and integrating ICAAP with the capital planning and management processes of the bank. In this regard, senior management shall, at a minimum:
 - (i) establish robust policies and procedures to be approved by the Board to identify, measure and report all material risks;
 - (ii) evaluate the level and trend of material risks and their effects on capital levels;
 - (iii) evaluate the sensitivity and reasonableness of key assumptions used in the capital assessment and measurement system;
 - (iv) determine if the bank holds adequate capital against the risks faced by the bank;
 - (v) assess future capital needs based on the risk profile of the bank and propose necessary adjustments to its strategic plan; and
 - (vi) ensure that ICAAP is subject to annual independent review for robustness and integrity.
- d. establish comprehensive and adequate written policies and procedures, to be approved by the Board, on its stress testing processes taking an active interest in the development and operation of stress-testing and, allocating sufficient skilled and competent resources to the modeling function.
- e. ensure regular reporting of bank's ICAAP to the Board.
- f. prepare the annual ICAAP document in accordance with the specified format given in Appendix I; and
- g. submit the Board approved annual document of ICAAP to the Director of Bank Supervision within six months from the end of the financial year of the respective bank.

7. Comprehensive assessment of risks

- 7.1 Bank's ICAAP shall identify all material risks, which are arising from both on balance sheet and off-balance sheet exposures, faced by the bank and measure these risks that can be reliably quantified under both normal and stressed conditions. ICAAP shall, therefore, address the following risks.
- a. Risks captured under Pillar 1: credit, market and operational risks;
 - b. Risks not fully captured under Pillar 1; concentration risk (credit risk), interest rate/rate of return risk in the banking book (market risk) and
 - c. Risk types not covered by Pillar 1: risks which are not specifically addressed under Pillar 1, which includes liquidity risk, concentration risk, reputational risk, compliance risk, strategic and business risk, residual risk.

- 7.2 A bank shall be able to identify other external risk factors that may arise from the regulatory, economic or business environment. In addition, adequate corporate governance and proper risk management including internal control arrangements constitute the foundation of an effective ICAAP.
- 7.3 The risk measurement systems shall be sufficiently comprehensive and rigorous to capture the nature and magnitude of the risks faced by the bank.
- 7.4 The risks that are not easily quantifiable shall be evaluated using qualitative assessment and management judgment.
- 7.5 When measuring risks, comprehensive and rigorous stress tests shall be performed to identify possible events or market changes that could have serious adverse effects or significant impact on the bank's capital and operations.
- 7.6 In assessing risks, banks shall also consider the applicable Directions issued under the Banking Act.

8 Sound Capital Assessment

Internal capital allocation and assessment process shall meet the following requirements.

- 8.1 Banks shall have an explicit Board approved capital plan which states the objectives and the time period for achieving those objectives, and in broad terms the capital planning process and the responsibilities for that process.
- 8.2 The plan shall also lay out how the bank will comply with capital requirements in the future related to the level of risk, and a general contingency plan for dealing with divergences and unexpected events such as raising additional capital, restricting business activities or using risk mitigation techniques.
- 8.3 The bank shall set capital targets which are consistent with their risk profile, stage of the business cycle in which the bank is operating, and business plans.
- 8.4 An internal strategy for maintaining capital levels which should not only reflect the desired level of risk coverage but also incorporate factors such as loan growth expectations, future sources and uses of funds, and dividend policy.
- 8.5 The amount of capital held shall reflect not only the measured amount of risks but also an additional amount to account for potential uncertainties in risk measurement.
- 8.6 In assessing capital, a bank shall also evaluate the quality and capacity of its capital to absorb losses.
- 8.7 The bank shall demonstrate to CBSL that its capital assessment approach is conceptually sound and that outputs and results are reasonable.

9 Monitoring and Reporting

- 9.1 The bank shall establish an adequate system for monitoring and reporting risk exposures and, assessing how the bank's changing risk profile affects the capital requirements.
- 9.2 The bank's Board and the senior management shall:
 - a. receive reports on the bank's risk profile and capital needs in a manner appropriate to facilitate the conduct of their responsibilities;
 - b. evaluate the level and trend of material risks and their effects on capital levels;
 - c. evaluate the sensitivity and reasonableness of key assumptions used in the capital assessment measurement system;

- d. determine that the bank holds adequate capital against the risks and is in compliance with established capital adequacy goals; and
- e. assess its future capital requirements based on the bank's reported risk profile and make necessary adjustments to the bank's strategic plan, accordingly.

10. Internal Controls and Independent Review

- 10.1 The bank's internal control structure is essential to the capital assessment process. Effective control of the capital assessment process includes an independent review, and where appropriate, with the involvement of internal or external audits.
- 10.2 The person(s) responsible for the development or implementation of ICAAP shall not be involved in the independent review.
- 10.3 The bank shall conduct periodic independent reviews of its risk management processes to ensure their integrity, accuracy, and reasonableness. Areas that shall be reviewed include:
- a. appropriateness of the bank's capital assessment process given the nature, scope and complexity of its activities;
 - b. identification of large exposures and risk concentrations;
 - c. accuracy and completeness of data inputs into the bank's assessment process;
 - d. reasonableness and validity of scenarios used in the assessment process; and
 - e. stress testing and analysis of assumptions and inputs.

PART III – SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP)

11. Key Components

SREP, which consists of the following key components, shall be carried out by the Director of Bank Supervision or examiners of the Bank Supervision Department.

- a. Review of the bank's ICAAP;
- b. Review of the bank's risk profile;
- c. Review of the levels and quality of capital held; and
- d. Communication of SREP results to the bank.

12. Review Methodologies

SREP shall involve a combination of:

- a. periodic examinations or inspections;
- b. continuous supervision;
- c. discussions with the bank management;
- d. review of work of internal and external auditors; and
- e. periodic reporting.

13. Objectives

The objective of the review is to:

- a. evaluate the adequacy of bank's internal capital adequacy assessments and strategies, as well as their ability to monitor and ensure compliance with regulatory capital ratios;
- b. ensure that the bank operates above the minimum regulatory capital ratios and composition of capital is appropriate for the nature and scale of the bank's business;
- c. identify existing or potential problems and key risks faced by the bank, deficiencies in their internal control and risk management frameworks, and the degree of reliance that can be placed on the outputs of ICAAP;
- d. intervene at an early stage to prevent capital from falling below the minimum levels required to support the risk characteristics of the bank;
- e. take appropriate supervisory action and regulatory measures if results of this process are not satisfactory.

14. Coverage

SREP will cover a quantitative review of bank's Pillar 1 inherent risk exposures and Pillar 2 inherent risk exposures.

15. Qualitative Assessment

If Pillar 2 risks are not readily quantifiable, the supervisory judgment is to be used with respect to qualitative assessments of the bank's ability to contain actual risk exposures within prudent, planned levels through effective risk governance, oversight, management and control practices.

16. Dialogue with the bank

16.1 SREP involves an active dialogue with the bank regarding ICAAP, through which CBSL seeks to:

- a. gain deeper insights into the bank's overall control and risk management framework;
- b. establish a closer understanding of how the bank approaches the risks that are not covered under the minimum capital requirements and the amount of internal capital allocated to them;
- c. understand the mechanisms the bank has maintained for identifying, measuring, monitoring, controlling, mitigating and reporting its risks; and
- d. understand whether additional capital on top of that assessed is necessary to cover the banks' existing risk exposures, as well as future planned sources of capital.

16.2 The dialogue will provide an opportunity for the bank to make appropriate changes to its ICAAP.

16.3 Communication of SREP results:

- a. After completion of the SREP, the Director of Bank Supervision may conduct discussions with the bank based on the results of the assessment, including any areas of concern which may lead to an increase in bank's minimum CAR.
- b. The Director of Bank Supervision will explain the outcome of the assessment and recommend the prompt corrective actions to address the concerns of the bank, if any. If there is a proposed increase in the capital, the bank will be notified (with the opportunity to make representations) before the decision is finalised.

PART IV – SUPERVISORY INTERVENTION

17. Based on the outcome of SREP, CBSL shall intervene at an early stage to:
 - a. prevent capital from falling below the minimum requirement of the respective bank; and
 - b. prevent potential impact to the stability of the financial system.
18. Depending on the capital level, a range of supervisory actions including the following shall be initiated.
 - a. moral suasion to encourage the bank to improve their capital positions and levels;
 - b. improve the bank's ICAAP including risk management systems and controls;
 - c. require the bank to submit a capital restoration plan;
 - d. impose restrictions on the payment of dividends, business activities, acquisitions, investments *etc.*; and
 - e. require the replacement of the Board and/or the senior management.

Appendix I**SPECIFIED FORMAT FOR THE PREPARATION OF ICAAP DOCUMENT****1. General**

- 1.1 The purpose of ICAAP document is to inform the Board/senior management and the CBSL of the ongoing assessment of the bank's risks, how the bank intends to mitigate those risks and how much current and future capital is necessary having considered other mitigating factors.
- 1.2 Annual document of ICAAP of a bank shall be prepared in accordance with the contents given in paragraph 2 below.
- 1.3 However, CBSL expects there to be a fair degree of variation in the length and format of submissions since banks' business and risk profiles differ from each other and ICAAP document should be proportional to the size, nature and complexity of a bank's business.
- 1.4 Use of this format may, therefore, make the review process more efficient for both the bank and CBSL.
- 1.5 Base period and financial data of ICAAP document shall be in accordance with the audited financial data as at the end of the preceding financial year.
- 1.6 The projected financial data of ICAAP document should be at least for three financial years.

2. Contents

- 2.1 Executive Summary
- 2.2 Background
- 2.3 Board and Senior Management Oversight
- 2.4 Risk Governance
- 2.5 Sound stress testing processes
- 2.6 Capital Planning
- 2.7 Projected financial data and assessment of capital

3. Executive summary

This section will present an overview of ICAAP methodology and results. This overview will include:

- a. The purpose of the report and the group entities which are covered by ICAAP;
- b. Financial forecasts, including the strategic position of the bank, its balance sheet strength, and future profitability;
- c. Regulatory capital management;
- d. Regulatory capital assessment - Pillar 1;
- e. Internal capital assessment - Pillar 2;
- f. Ratio management: How much and what composition of internal capital the bank considers it should hold as compared with the capital adequacy requirement under Pillar 1;
- g. Risk management processes and assessment;
- h. Descriptions of the capital and dividend plan; the manner in which the bank intends to manage capital going forward and for what purposes;
- i. Stress testing approach; and
- j. Details of the approval.

4. Background

This section will include the relevant organization structure and business lines, group structure (legal and operations) and financial data of the bank largely including the profit, dividends, equity, capital resources held and as compared with regulatory requirements, total assets, total loan and advances, total deposits, and any conclusions that can be drawn from trends in the data which may have implications for the bank's future.

5. Board and Senior Management Oversight

This section would provide the following information:

- a. Corporate governance structure;
- b. Board and senior management oversight;
- c. ICAAP governance structure;
- d. Monitoring and controls; and
- e. Internal controls and independent review.

6. Risk Governance

This section will provide the following;

- a. Risk appetite;
- b. Risk management framework;
- c. Regulatory risk assessment (Pillar 1);
 - i. Credit risk
 - ii. Market risk
 - iii. Operational risk
- d. Internal risk assessment (Pillar 2);
 - i. Concentration risk
 - ii. Interest rate risk in the banking book
 - iii. Settlement risk
 - iv. Liquidity risk
 - v. Compliance risk
 - vi. Strategic/business risk, and
 - vii. Reputation risk
 - viii. Residual Risk

7. Sound stress testing processes

This section will provide the following details of bank's stress testing practices:

- a. Overview of the stress testing process
- b. Stress scenario/types
- c. discuss the results of stress tests and its impact to the bank capital
- d. risk mitigation or contingency plans across a range of stressed conditions

8. Capital planning

This section will provide details of bank's capital planning and management processes, which, at a minimum, includes:

- a. the bank's short-term and long-term capital adequacy goals in relation to its risk profile, taking into account its strategic focus and business plan;
- b. the approved capital targets that are consistent with the bank's overall risk profile and financial position;
- c. the approach for determining the bank's overall capital adequacy in relation to its risk profile; and
- d. Conclusions.

9. Projected financial position and assessment of capital

This section will explain Pillar 1 and 2 capital requirements, in respect to;

- a. the expected changes to the business profile of the bank, the environment in which it expects to operate, its projected business plans (by appropriate lines of business), and projected financial position for the next, three to five years; and
- b. given these business plans, this section would also discuss the bank's assessment as to whether additional capital is necessary on top of that assessed to cover their existing risk exposures, as well as future planned sources of capital.

Directions issued by the Monetary Board of the Central Bank of Sri Lanka under Section 46(1) of the Banking Act, No.30 of 1988, as amended.

Sgd. B D W A Silva

*Senior Deputy Governor
Central Bank of Sri Lanka*

Colombo
31 October 2011

**BANKING ACT DIRECTIONS NO. 9 OF 2011
AMENDMENT TO DIRECTIONS ON
MAINTENANCE OF CAPITAL ADEQUACY RATIO**

The qualifying criteria for the SME exposures given in paragraph 6.4.3.1.8 (i)(d) of Schedule I in Direction 1(2) of the Banking Act, Directions No. 9 of 2007 is amended by replacing with the following paragraph:

- SME Exposures.
- i.* The maximum credit exposure of the lending bank to an SME shall not exceed Rs. 200 million.
 - ii.* The annual turnover of the SME shall not exceed Rs. 600 million.
 - iii.* The annual turnover should be based on latest available audited financial statements or certified by a Chartered Accountant or an Approved Accountant acceptable to the Department of Inland Revenue. In the case of draft financial statements, the turnover certified by a Chartered Accountant or an Approved Accountant should be obtained within the year.
 - iv.* In the case of grant of credit facilities less than Rs. 50 million, the condition *iii* above shall not be applicable and banks shall adopt their own internal mechanism to verify the SME's annual turnover.

Directions made by the Monetary Board of the Central Bank of Sri Lanka under Section 46(1) of the Banking Act, No. 30 of 1988, as amended.

Sgd. W A Wijewardena

*Senior Deputy Governor
Central Bank of Sri Lanka*

Colombo
24 April, 2009

DIRECTIONS
BANKING ACT DIRECTION NO.1 OF 2009
AMENDMENT TO DIRECTIONS ON OWNERSHIP OF ISSUED CAPITAL CARRYING
VOTING RIGHTS FOR LICENSED COMMERCIAL BANKS

In the exercise of the powers conferred by Section 46(1) of the Banking Act, No. 30 of 1988, last amended by the Banking Act, No. 46 of 2006, the Monetary Board hereby issues the following Direction amending Direction No.1 of 2007 dated 19 January 2007, issued by the Monetary Board of the Central Bank of Sri Lanka. This Direction may be cited as the Banking Act Direction No.1 of 2009.

The following new Direction shall replace Direction No. 5 of the Banking Act Direction No. 1 of 2007.

5. Nevertheless, in the case of a licensed commercial bank which requires restructuring to avoid inadequacy of capital, insolvency or potential failure, such upper limit as specified in Direction 4 above may not be imposed, and the Monetary Board may grant permission to any of the categories of shareholders specified in Sections 12(1c) and 46(1)(d) to acquire a material interest in excess of 15 per cent of the issued capital carrying voting rights in the licensed commercial bank, subject to the condition that the material interest so acquired shall be reduced to 15 per cent within a specified period as may be determined by the Monetary Board, on a case-by-case basis. Exceptions.

Directions issued by the Monetary Board under Section 46(1) of the Banking Act, No.30 of 1988, as amended.

Nivard Ajith Leslie Cabraal

Governor

Colombo
19 January 2007

DIRECTIONS
BANKING ACT DIRECTIONS NO. 1 OF 2007
OWNERSHIP OF ISSUED CAPITAL CARRYING VOTING RIGHTS

In exercise of the powers conferred by Section 46(1) of the Banking Act, No.30 of 1988, last amended by the Banking Act, No.46 of 2006, the Monetary Board hereby issues Directions as follows:

- | | |
|----------------------------------|--|
| Citation. | <p>1. These Directions may be cited as the Banking Act, Directions No.1 of 2007. The Sections referred to in these Directions will be those of the Banking Act, No.30 of 1988, last amended by the Banking Act, No.46 of 2006.</p> |
| Empowerment under Section 46(1). | <p>2. In terms of Section 46(1), in order to ensure the soundness of the banking system, the Monetary Board has been empowered to issue Directions to licensed commercial banks regarding the manner in which any aspect of the business of such banks is to be conducted, including Directions pertaining to the maximum percentage of the share capital in a licensed commercial bank incorporated in Sri Lanka—</p> <ul style="list-style-type: none"> (i) held by a company, an incorporated body, or an individual; (ii) held in the aggregate by— <ul style="list-style-type: none"> (a) a company and one or more of the following:— <ul style="list-style-type: none"> (aa) its subsidiaries (bb) its holding company; (cc) a subsidiary of its holding company; or (dd) a company in which such company or its subsidiary, or its holding company, or a subsidiary of its holding company has a substantial interest; or (b) an individual and one or more of the following:— <ul style="list-style-type: none"> (aa) his close relations; (bb) a company in which he has a substantial interest or in which his close relation has a substantial interest; (cc) the subsidiary of such company; |

- (*dd*) a holding company of such company;
- (*ee*) a subsidiary of such company's holding company;
- (*ff*) a company in which such company, or its subsidiary, or its holding company or a subsidiary of its holding company has a substantial interest; or
- (*gg*) an incorporated body other than a company in which such individual or his close relation has a substantial interest; or
- (*c*) companies in each of which an individual or company as the case may be, has either directly, indirectly or beneficially a substantial interest or significant management interest.
3. (1) In terms of Section 12(1C)(*a*), an individual, partnership or corporate body shall not, either directly or indirectly or through a nominee or acting in concert with any other individual, partnership or corporate body, acquire a "material interest" in a licensed commercial bank incorporated or established within Sri Lanka by or under any written law without the prior written approval of the Monetary Board given with the concurrence of the Minister in charge of the subject of Finance. Empowerment under Section 12(1C).
- (2) In terms of Section 12(1C)(*b*), the Monetary Board is empowered to grant such approval subject to terms and conditions it may deem fit.
- (3) A "material interest" means the holding of over 10 per cent of the issued capital of a licensed commercial bank carrying voting rights.
4. Accordingly, the Monetary Board, subject to Sections 12(1B), 12(1C) and 13 and subject to terms and conditions it may deem fit, may grant permission on a case-by-case basis to any of the categories of shareholders referred to in Section 12(1C) and 46(1)(*d*) to acquire a material interest not exceeding 15 per cent of the issued capital carrying voting rights in a licensed commercial bank. Maximum percentage of ownership of shares.
5. Nevertheless, in the case of a licensed commercial bank which requires restructuring to avoid inadequacy of capital, insolvency or potential failure, such upper limit as specified in Direction 4 above may not be imposed, and the Monetary Board may grant permission to any of the categories of shareholders specified in Sections 12(1C) and 46(1)(*d*) to acquire a material interest in excess of 15 per cent of the issued capital carrying voting rights in the licensed commercial bank subject to the condition that the material interest so acquired shall be reduced to 15 per cent within a specified period as may be determined by the Monetary Board on a case-by-case basis, provided also that such period shall not exceed five years from the date of granting permission. Exceptions.
6. (1) Any material interest previously acquired by any of the categories of shareholders referred to in Sections 12(1C) and 46(1)(*d*) in excess of 15 per cent of the issued capital carrying voting rights in a licensed commercial bank and held at the date of these Directions, shall be disposed of and/or otherwise reduced by such shareholders to a level not exceeding 15 per cent of the issued capital carrying voting rights in the licensed commercial bank. Provisions in relation to existing ownership.

- (2) Such disposal and/or reduction shall be carried out within the period as may be specified by the Monetary Board on a case-by-case basis, provided that such period shall not exceed five years from the date of stipulation.
- (3) In the event, any of the categories of shareholders referred to in Section 12(1C) and 46(1)(d) fails to comply with the directives of the Monetary Board within the stipulated period of time, the voting rights in excess of 10 per cent attributable to the ownership of shares held by the categories of shareholders subject to this Direction shall be deemed invalid with effect from the last date of the period specified by the Monetary Board to reduce the material interest.

Transitional arrangements.

- 7. (1) Within two months of the date of these Directions, each licensed commercial bank shall inform the Monetary Board of instances, if any, in its bank where the categories of shareholders referred to in Sections 12(1C) and 46(1)(d) own a material interest exceeding 15 per cent of the issued capital carrying voting rights in its bank and seek a Direction from the Monetary Board as to the period within which the disposal and/or reduction of the material interest to the level of 15 per cent shall be carried out.
- (2) Within two months of receipt of such information and request, the Monetary Board will specify the period within which the disposal and/or reduction should take place as per Direction 6(2) above and inform the licensed commercial bank accordingly.
- (3) Immediately thereafter, in terms of Section 46(3), the licensed commercial bank shall direct the shareholders who hold a material interest in its bank over the limits specified in these Directions to dispose of and/or reduce the number of shares carrying voting rights in order to comply with these Directions, within the period as stipulated by the Monetary Board.

Steps to secure compliance.

- 8. In terms of Section 12(1C)(c) and subject to Directions 6 and 7 above, a licensed commercial bank shall not enter in its register of members the name of any shareholder referred to in Sections 12(1C) and 46(1)(d) as the holder of shares of the bank, who or which has contravened the provisions of Section 12(1C) and/or these Directions.

Non-application of Directions.

- 9. Anything contained in these Directions shall not be construed to restrict the ownership of issued capital carrying voting rights in–
 - (a) the Bank of Ceylon established under the Bank of Ceylon Ordinance, No.53 of 1938;
 - (b) the People’s Bank established under the People’s Bank Act, No.29 of 1961.
 - (c) a licensed commercial bank established by a statute in which the ownership of a majority of the shares is held by the Government or a public corporation or a statutory body.

Revocation of previous Directions.

- 10.(1) The Banking Act, Directions No.1 of 1998 (Share Capital Ownership) dated 22 October 1998 and Directions No.1 of 1999 (Share Capital Ownership) dated 5 March 1999 are hereby revoked.
- (2) The effect of revocation of previous Directions shall not affect any penalty or liability incurred under those Directions prior to the revocation.

BANKING ACT

Determinations made by the Monetary Board of the Central Bank of Sri Lanka under sections 8, 19, 20, 21 and 86 of the Banking Act as amended by the determination made on 29th February, 2000.

Sgd. A. S. Jayawardena

Governor

Colombo

DETERMINATION

1. By virtue of the provisions of section 8, the Monetary Board has determined that with effect from 1st January 1989 the annual licence fee that shall be paid by a licensed commercial bank –
 - (a) carrying on domestic banking business excluding foreign exchange business be Rs.10,000.00;
 - (b) carrying on domestic banking business including foreign exchange business and off-shore, banking business be Rs.250,000.00;
 - (c) carrying on off-shore banking business only be Rs.150,000.00.
- *2. In exercise of the powers conferred by section 19(4), the Monetary Board determined that, with effect from 24 May 2002, foreign participation in the share capital of a Licensed Commercial Bank incorporated or established in Sri Lanka, is permitted upto 100 percentum of its issued share capital, subject to compliance with the provisions of section 12(1)d and the limitations on share capital ownership imposed by Direction No.1 of 1998 issued on 22, October 1998 under section 46(1)d.
3. For the purposes of the provision to section 20(1), “intangible assets” are determined to be goodwill, preliminary expenses including legal and other fees, all capitalised expenses and other items not represented by tangible assets.
4. (a) The Monetary Board has determined:
 - (i) by virtue of the provisions of section 21(1), that every licensed commercial bank shall with effect from 1st April, 1989 maintain liquid assets of an amount not less than 20% of its total liabilities, less liabilities to the Central Bank and to the share holders;
 - (ii) by virtue of section 21(3) that every licensed commercial bank which fails to maintain liquid assets as required under section 21(1) shall pay to the Central Bank a penalty at the rate of 0.1% per day calculated on the amount of the deficiency of its required liquid assets. Such penalty shall be paid not later than the last working day of the month succeeding the month in which deficiency of the liquid assets occurred.
5. The Monetary Board has determined under section 86 that inland trade bills, cash items in process of collection, balances with banks abroad and treasury bonds issued under section 21A of the Registered Stock and Securities Ordinance shall also form part of the liquid assets of a licensed commercial bank.

* Amended by the determination dated 24th May, 2002.

Our Ref. : 02/17/500/0086/001

Bank Supervision Department

07 December 2012

*To : CEOs of all Licensed Commercial Banks and
Licensed Specialised Banks*

Dear Sir / Madam,

**ICRA Lanka Limited –
Recognition as an External Credit Assessment Institution**

The Monetary Board of the Central Bank of Sri Lanka (CBSL) has approved ICRA Lanka Limited as a recognised External Credit Assessment Institution, for the purpose of all regulatory requirements of CBSL applicable to Licensed Commercial Banks and Licensed Specialised Banks.

Accordingly, Table 1 and Table 3 under the item No. 6.4.2.3.1 of the Guidelines on Computation of Capital Adequacy Ratio is revised as in Annex.

Yours faithfully,

(Mrs.) T M J Y P Fernando
Director of Bank Supervision

Encl.

Annex

Table 1
Mapping of Notations of the Credit Rating Agencies in Sri Lanka

| Fitch Rating Lanka | RAM Ratings (Lanka) Limited | Rating of ICRA Lanka Limited | Rating Scale for CAR |
|---------------------------|------------------------------------|-------------------------------------|-----------------------------|
| AAA (lka) | AAA | (SL) AAA | AAA |
| AA+ (lka) | AA+ | (SL) AA+ | AA+ |
| AA (lka) | AA | (SL) AA | AA |
| AA- (lka) | AA- | (SL) AA- | AA- |
| A+ (lka) | A+ | (SL) A+ | A+ |
| A (lka) | A | (SL) A | A |
| A- (lka) | A- | (SL) A- | A- |
| BBB+ (lka) | BBB+ | (SL) BBB+ | BBB+ |
| BBB (lka) | BBB | (SL) BBB | BBB |
| BBB- (lka) | BBB- | (SL) BBB- | BBB- |
| BB+ (lka) | BB+ | (SL) BB+ | BB+ |
| BB (lka) | BB | (SL) BB | BB |
| BB- (lka) | BB- | (SL) BB- | BB- |
| B+ (lka) | B+ | (SL) B+ | B+ |
| B (lka) | B | (SL) B | B |
| B-(lka) & Lower | B- & Lower | (SL) B- & Lower | B- & Lower |

Table 3
Mapping of Short Term Ratings

| Short term ratings | | | | | Risk Weights |
|------------------------------------|----------------------------|----------------|----------------------|---------------------------|---------------------|
| RAM Ratings (Lanka) Limited | Standard and Poor's | Moody's | Fitch Ratings | ICRA Lanka Limited | |
| P – 1 | A – 1+ / A – 1 | P – 1 | F1+ / F1 | (SL) A1+ / A1 | 20% |
| P – 2 | A – 2+ / A – 2 | P – 2 | F2 | (SL) A2+ / A2 | 50% |
| P – 3 | A – 3+ / A – 3 | P – 3 | F3 | (SL) A3+ / A3 | 100% |
| NP | Below A – 3 | NP | Below F3 | (SL) Below A3 | 150% |

Ref. No. : 02/04/003/0400/001

Bank Supervision Department
13 July 2004

To : *CEOs of all Licensed Commercial Banks*

Dear Sirs,

**CLASSIFICATION OF ADVANCES AND SPECIFIC PROVISIONS/
CRITERIA FOR SELECTION OF VALUERS UNDERTAKING THE REVALUATION OF
FIXED ASSETS FOR THE COMPUTATION OF THE CAPITAL ADEQUACY RATIO**

Licensed Commercial Banks (LCBs) are required to note the following :-

1. Current professional valuation reports referred to in the Directions dated 22 August 1997 on Classification of Advances and Specific Provisions issued under Section 46A of the Banking Act shall mean current professional valuation reports obtained from **external Independent valuers**.

2. For the Purpose of the Directions referred to in 1 above, the banks are exempted from the requirement to obtain professional valuation reports in respect of loans and advances of Rs.250,000 or below, subject to the condition that a current internal assessment of the value of properties mortgaged for such loans, signed by the Assistant General Manager or such other senior officer of the bank in charge of credit, is available.

Note : Current internal assessment is defined as an assessment that is not more than two years old.

3. Valuers referred to in the circular dated 19 April 1999 issued on "Criteria for Selection of Valuers Undertaking the Revaluation of Fixed Assets for the Computation of the Capital Adequacy Ratio" shall mean **external Independent valuers**.

Please acknowledge receipt of this circular.

Yours faithfully,

Sgd, **Director of Bank Supervision**

Ref. No. : BS/69/93

Bank Supervision Dept.
8th Floor, Renuka Building
No. 41 Janadhipathi Mawatha
Colombo 1.

19th April 1999

To : All Licensed Commercial Banks

Dear Sir/Madam,

**CRITERIA FOR SELECTION OF VALUERS UNDERTAKING
THE REVALUATION OF FIXED ASSETS FOR THE
COMPUTATION OF THE CAPITAL ADEQUACY RATIO**

All Licensed Commercial Banks are hereby informed that in the selection of Valuers to undertake the revaluation of the Bank's fixed assets for the purpose of including 50 per cent of such revaluation reserves in the computation of the Capital Adequacy Ratios, the following eligibility criteria would apply:-

The Valuer shall be :-

- (a) a Chartered Valuation Surveyor; or
- (b) a Fellow of the Institute of Valuers (Sri Lanka) with a Degree or Diploma in Valuation and work experience of 15 years; or
- (c) a Licentiate of the Institute of Valuers (Sri Lanka) with work experience of over 25 years.

Please acknowledge receipt of this letter.

Yours faithfully,

Sgd. Ms. C I Fernando
Actg. Director of Bank Supervision

Ref. No. : 02/04/002/0005/003

Bank Supervision Department
06 January 2004

*To : All Licensed Commercial Banks and
all Licensed Specialised Banks*

Dear Sir/Madam,

INTERPRETATION OF CAPITAL FUNDS

All Domestic Licensed Commercial Banks and Licensed Specialised Banks are hereby informed that the proceeds of redeemable cumulative preference shares would constitute part of Capital Funds of banks for the purpose of Banking Act, and the direction issued thereunder, relating to the basis for the computation of the Single Borrower Limit and Investments in Equity in terms of section 46 and 17A respectively and, section 76J(1) of the Banking Act.

Yours faithfully,

Sgd. Director of Bank Supervision

Ref. No. : 02/17/402/0073/002

Bank Supervision Department
29 July 2010

To : CEOs of Licensed Commercial Banks

Dear Sir/Madam,

ENHANCEMENT OF MINIMUM CAPITAL REQUIREMENT OF BANKS

We refer to our Circular No. 02/17/402/0073/001 dated 12 April 2005 on the above subject and write to inform you that as announced at the meeting held on 24 November 2009, the Monetary Board of the Central Bank of Sri Lanka has decided to require all licensed commercial banks to increase their capital as follows in the interest of a strong and sound banking system:

- (a) Rs. 3 bn by 31 December 2011
- (b) Rs. 4 bn by 31 December 2013
- (c) Rs. 5 bn by 31 December 2015

Capital for this purpose shall mean the Core Capital as defined in terms of item No. 6.2.2.2 in the Guidelines that were annexed as Schedule I to the Banking Act Direction No. 9 of 2007 dated 26 December 2007 on Maintenance of Capital Adequacy Ratio.

Yours faithfully,

Sgd, T M J Y P Fernando
Director of Bank Supervision

Ref. No. : 02/17/402/0073/002

Bank Supervision Department
01 January 2008

To : CEOs of Licensed Commercial Banks

Dear Sir/Madam,

ENHANCEMENT OF MINIMUM CAPITAL REQUIREMENT OF BANKS

Further to our circular dated April 12, 2005 on the above, informing Licensed Commercial Banks (LCBs) of the decision of the Monetary Board of the Central Bank of Sri Lanka to increase the minimum capital requirement of LCBs to Rs.2,500 million.

We write to inform you that 'capital' for the purpose of meeting the minimum capital requirement shall mean the Core Capital as defined under item No. 6.2.2.2 in the Guidelines annexed as Schedule I of the Banking Act, Direction No.9 of 2007 dated December 26, 2007 issued by the Monetary Board of the Central Bank of Sri Lanka.

Yours faithfully,

Sgd, B.D.W.A. Silva

Actg. Director of Bank Supervision

Ref. No. : 02/17/800/0002/001

Bank Supervision Department
11 December 2006

To : CEOs of All Licensed Commercial Banks

Dear Sirs,

MINIMUM CAPITAL REQUIREMENT OF LICENSED COMMERCIAL BANKS

This is to inform you that considering the difficulties faced by some Licensed Commercial Banks that are in the process of infusing fresh capital to meet the increased minimum capital requirement in terms of Circular No. 02/17/402/0073/001, dated 12 April 2005, the Monetary Board of the Central Bank of Sri Lanka has decided to grant an extension of time to such banks on a case-by-case basis to meet the said requirement, on the following basis–

- (a) till end 2008 to infuse at least 50 per cent of the shortfall
- (b) till end 2009 to meet the total capital requirement of Rs. 2,500 million

2. The banks which require an extension of time may submit their requests to the Director of Bank Supervision for consideration of the Monetary Board, along with a time-bound capital infusion plan to meet the minimum capital requirement by the new dates stipulated above. The Monetary Board may grant extensions subject to such terms and conditions as it may deem necessary.

Yours faithfully,

Sgd, Mrs. L K Gunatilake

Actg. Director of Bank Supervision

Ref. No. : 02/17/402/0073/001

Bank Supervision Department
12 April 2005

To : *The CEOs of all Licensed Commercial Banks*

Dear Sirs,

ENHANCEMENT OF MINIMUM CAPITAL REQUIREMENTS OF BANKS

As intimated to you at the meeting held on 08.04.2005, as part of its responsibility to maintain financial system stability and in the interest of a strong and sound banking system, the Monetary Board of the Central Bank of Sri Lanka has decided to require all licensed commercial banks to increase their capital to Rs.2,500 mn. For this purpose capital shall mean the Tier I capital (Core Capital) as defined by the Directions dated 22.08.1997 issued by the Monetary Board under Section 19(2) and 19(7) of the Banking Act as amended from time to time. Commercial banks that do not currently meet this requirement may enhance their capital in the following manner.

- The current capital should be enhanced by at least 50% of the deficiency by the end of 2006; and
- the balance of the deficiency should be met by the end of 2007.

All commercial banks are required to meet the enhanced capital requirements within the stipulated periods.

The Monetary Board has also determined, subject to the concurrence of the Hon. Minister of Finance, that, with immediate effect the required equity capital for a new commercial bank should be Rs.2,500 mn and that the present requirement on foreign banks to remit the sum of US \$ 2 mn under the provisions of Section 4(1) of the Banking Act should be waived.

You are kindly requested to assess the present position of your bank vis-à-vis the enhanced capital requirements based on the audited financials for the last financial year and inform me of the position by 30 June 2005, along with a time bound plan for capital augmentation in case the level of capital is below the stipulated minimum capital requirement.

Further, you are requested to be mindful of the enhanced capital requirements when deciding on declaration of dividends or repatriation of profits.

Please acknowledge receipt.

Yours faithfully,

Sgd, Director of Bank Supervision

cc – Mr. Upali De Silva
Secretary-General
Sri Lanka Bankers Association (Gte) Ltd.
Level 8, Ceylinco House
Colombo 01.

Ref. No. : 02/04/002/0018/001

Bank Supervision Department
12 August 2005

To : *The CEOs of all Licensed Commercial Banks*

Dear Sirs,

REQUEST TO MAINTAIN CAPITAL OF BANKS IN FOREIGN CURRENCY

Further to my circular dated 29 July 2005 on the above subject, informing the Licensed Commercial Banks of the decision of the Monetary Board to permit part of the new capital of banks that is brought in, to be maintained in foreign currency.

2. The operating procedure for maintaining part of the capital as a reserve with the Central Bank of Sri Lanka, for the banks that wish to exercise the option is as follows:

2.1 Deposits may be made only in the following designated currencies:

- US Dollars
- Pounds Sterling
- Euro

2.2 The amount of capital that is required to be maintained with the CBSL should be deposited with the CBSL's current accounts, depending on the currency as follows:

| <u>Currency</u> | <u>US Dollars</u> | <u>Euro</u> | <u>Pounds Sterling</u> |
|-----------------|-----------------------------------|-----------------------------------|------------------------|
| Bank Name | Federal Reserve Bank, New York | Deutsche Bundesbank, Frankfurt | HSBC plc, London |
| Account No. | SRILA 021083514 | 5040040828 | 39600144 |
| Swift Code | FRNYU33 | MARKDEFF | MIDLGB22 |

2.3 Upon transfer of funds to any of the CBSL's above accounts by the commercial banks, the bank concerned should inform the undersigned (stating the amounts and the value dates of the deposits) with copy to the Chief Accountant of the CBSL.

3. Since the deposits are linked to the capital of the respective banks, generally, no withdrawals will be permitted. Requests for any withdrawals should be submitted to the Director of Bank Supervision (DBS) for authorization. The Chief Accountant of the CBSL will not accept any withdrawals that have not been authorized by the DBS. Further, in view of the timing differences among the financial centres where CBSL maintains its reserve funds/investments, a minimum of one day's notice is required by the Chief Accountant of CBSL to effect the withdrawal. A minimum of one day's processing time is required by the DBS (Altogether two day's notice required by the CBSL).

4. Reporting procedure

4.1 The capital held in foreign currency in the Off-shore Banking Unit (OSBU) should be reported in the monthly statement of assets and liabilities of the OSBU, under internal accounts, by inserting an additional row to be named as "Capital held in Foreign Currency".

4.2 The reserve account held with the CBSL should be reported as 'deposits with the CBSL', under assets 'in Sri Lanka'.

5. The reserve account held at CBSL which represents part of the capital held in foreign currency should not be included as a liquid asset, since it is part of capital.

6. Submission of capital plans

The banks that have so far not submitted their plans for meeting the increased capital requirement are requested to do so not later than 31 August 2005.

Yours faithfully,

Sgd, **Director of Bank Supervision**

Bank Supervision Department
29 July 2005

To : *The CEOs of all Licensed Commercial Banks*

Dear Sirs,

REQUEST TO MAINTAIN CAPITAL IN FOREIGN CURRENCY

With the increase in the minimum capital requirement of banks, several licensed commercial banks incorporated abroad have requested the Central Bank (CBSL) to permit them to maintain at least part of the capital in foreign currency. In order to accommodate this request, the Monetary Board of the Central Bank has determined as follows:

To extend the following option to the licensed commercial banks incorporated abroad, that make such a request to maintain capital in foreign currency—

1. A maximum amount of 50 per cent (50%) of the new capital that is brought in to be maintained in foreign currency. The balance 50 per cent should be converted to Rupees and maintained in the Domestic Banking Unit of the bank.
2. Twenty five per cent (25%) of the new capital to be brought in (50 per cent of the above) will have to be maintained as a non-interest bearing reserve with the Central Bank.
3. Twenty five per cent (25%) of the new capital to be brought in to be retained in the Off-Shore Banking Unit (OSBU) to be utilized only for lending to BOI companies. Any amount that cannot be lent in this manner to be deposited in the reserve account with the CBSL.
4. The appreciation/depreciation in the capital maintained in foreign currency in Rupee terms, to be credited/debited to a separate account named 'Exchange Equalisation Account' which should not be included as part of capital for prudential purposes. The rupee amount of capital account should continue to be shown at the exchange rate prevailing on the day that the capital was brought in.
5. CBSL reserves the right to request the banks to convert all or part of capital in foreign currency to Rupees in order to off-set operational losses.

Please acknowledge receipt.

Yours faithfully,

Sgd, **Director of Bank Supervision**

02/04/003/0400/002

Bank Supervision Department
16 December 2004

*To : CEOs of Licensed Commercial Banks
CEOs of Licensed Specialised Banks
Panel of Approved Auditors
Secretary-General / SLBA*

Dear Sirs,

SHIPPING GUARANTEES ISSUED BY BANKS

Further to the discussion of the above subject at the Meetings of the Chief Executive Officers of Licensed Commercial Banks and Licensed Specialised Banks, the amendment to the Directions on Single Borrower Limit and Risk Weighted Capital Adequacy Ratio to enable the banks to include shipping guarantees issued at the invoice value of goods, are included herewith.

Please acknowledge receipt.

Yours faithfully,

Sgd, **Director of Bank Supervision**

Directions issued by the Monetary Board of the Central Bank of Sri Lanka under Section 46(1) of the Banking Act, No.30 of 1988, as amended.

Nivard Ajith Leslie Cabraal

Governor

Colombo

01st November 2007

DIRECTIONS

BANKING ACT DIRECTIONS NO. 7 OF 2007

MAXIMUM AMOUNT OF ACCOMMODATION

In exercise of the powers conferred by Section 46(1) of the Banking Act, No.30 of 1988, last amended by the Banking Act, No.46 of 2006, the Monetary Board hereby issues Directions as follows:

- | | |
|--|---|
| Citation. | <p>1. These Directions may be cited as the Banking Act, Direction No.7 of 2007. The Sections referred to in these Directions will be those of the Banking Act, No.30 of 1988, last amended by the Banking Act, No.46 of 2006.</p> |
| Empowerment under 46(1). | <p>2. In terms of Section 46(1), the Monetary Board has been empowered to give Directions to licensed commercial banks or to any category of licensed commercial banks regarding the manner in which any aspect of the business of such banks is to be conducted. Accordingly, the Monetary Board hereby gives Directions to licensed commercial banks pertaining to the maximum amount of accommodation as may be made by such banks—</p> <p style="margin-left: 40px;">(i) to any single company, public corporation, firm, association of persons or an individual; or</p> <p style="margin-left: 40px;">(ii) in the aggregate to—</p> <p style="margin-left: 80px;">(a) an individual, his close relations or to a company or firm in which he has a substantial interest;</p> <p style="margin-left: 80px;">(b) a company and one or more of the following:—</p> <p style="margin-left: 120px;">(aa) its subsidiaries;</p> <p style="margin-left: 120px;">(bb) its holding company;</p> <p style="margin-left: 120px;">(cc) its associate company;</p> <p style="margin-left: 120px;">(dd) a subsidiary of its holding company; or</p> <p style="margin-left: 120px;">(ee) a company in which such company or its subsidiary, or its holding company, or a subsidiary of its holding company, has a substantial interest.</p> |
| Maximum limits of accommodation to customers referred to in paragraphs 2(i) and 2(ii) above. | <p>3. The maximum amount of accommodation that may be granted by a licensed commercial bank shall not exceed the following percentage of the capital base of the licensed commercial bank subject to the Directions 7, 8 and 9.</p> <p style="margin-left: 40px;">(i) 30 per cent in respect of customers referred to in Section 2(i) above.</p> |

(ii) 33 per cent in respect of customers referred to in Section 2(ii) above.

4. (1) Notwithstanding the provisions of Direction 3(ii) above, a licensed commercial bank may grant accommodation in excess of 33 per cent of the capital base of the licensed commercial bank to customers referred to in paragraph 2(ii) above, on the basis of a sum of scores assigned for the following as determined in Direction 4(2) below.

Enhanced limits of accommodation in aggregate to customers referred to in paragraph 2(ii) above.

- (i) The Credit Rating and Capital Adequacy Ratio of the bank granting accommodation and,
- (ii) The Credit Rating of the holding company of the customers referred to in paragraph 2(ii) above. In the event the relationships within the companies in respect of whom accommodation shall be aggregated in terms of paragraph 2(ii) above do not lead to a holding company, the credit ratings of each of the companies that comprise such aggregate shall be considered and the lowest credit rating assigned to any company within such aggregate shall be deemed to be the credit rating that shall be applicable for the purpose of giving effect to this Direction.

(2) The scores referred to in Direction 4(1) above shall be assigned as follows.

| Bank's Credit Rating | Customers' Credit Rating | Bank's Capital Adequacy Ratio | Score Assigned for Each Column |
|------------------------------|---|-------------------------------|--------------------------------|
| AAA to AA- or equivalent | AAA to AA- or equivalent | > 12% | 1 |
| A+ to A- or equivalent | A+ to A- or equivalent | 11% - 12% | 2 |
| BBB+ or equivalent and below | BBB+ or equivalent and below or unrated | 10% - <11% | 3 |

(3) The maximum amount of accommodation that may be granted by a licensed commercial bank under Direction 4(1) above to customers referred to in paragraph 2(ii) above shall not exceed the following percentages of the capital base of the licensed commercial bank, based upon the sum of the scores assigned for the three columns as per the Table set out in Direction 4(2) above.

- (i) 40 per cent if the sum of scores is between 3 and 5.
- (ii) 36 per cent if the sum of scores is between 6 and 8.

5. In the case of amount of accommodations granted as at any given date to any category of customers referred to in paragraphs 2(i) and 2(ii) above excluding the Government of Sri Lanka in excess of 15 per cent of the capital base of the licensed commercial bank, the sum total of the outstanding amount of accommodation granted to such customers shall not exceed 55 per cent of the total outstanding amount of accommodation granted by the licensed commercial bank to all customers excluding the Government of Sri Lanka as at the end of the immediately preceding month.

Aggregate limit of large accommodation.

6. (1) Notwithstanding the provisions of Directions 3 and 4 above, a licensed commercial bank may grant accommodation in excess of the maximum limits specified under

Monetary Board to approve accommodation

in excess of the specified limits.

Directions 3 and 4 above to the categories of customers referred to in paragraphs 2(i) and 2(ii) above, provided that the prior approval of the Monetary Board has been sought and obtained. The Monetary Board may grant such approval on a case-by-case basis, subject to terms and conditions it may deem fit, taking into consideration, inter-alia, instances of national priorities and/or national interest and the ability of the licensed commercial bank to withstand the potential risk arising from the exposure to such enhanced accommodation, provided that the assessment of risks arising out of such accommodation to the licensed commercial bank has been analysed in detail and such analysis is furnished by the licensed commercial bank to the Monetary Board when seeking approval of the Monetary Board.

(2) Subject to Direction 6(1) above, a licensed commercial bank may grant accommodation to the categories of customers referred to in paragraphs 2(i) and 2(ii) above up to 50 per cent of the capital base of the licensed commercial bank for the purpose of direct funding of infrastructure projects referred to in Annex 1 hereto for the commencement or expansion of the projects, provided that,

- (i) the customer(s) has (have) been awarded a contract to directly engage in an infrastructure development project in Sri Lanka, and,
- (ii) such project is funded to the extent of at least 50 per cent by sources outside Sri Lanka or by a consortium of licensed banks excluding the bank providing the accommodation.

Exclusions of accommodations from maximum limits under Directions 3 and 4.

7. When computing the maximum amount of accommodation under Directions 3 and 4 above that may be granted to any category of customers referred to in paragraphs 2(i) and 2(ii) above, the following accommodations shall be excluded.

- (i) Accommodation granted against the security of cash, gold, Government Securities, Central Bank Securities, Treasury Guarantees, Central Bank Guarantees and Guarantees issued by the World Bank, the Asian Development Bank, International Development Association or any other international institution acceptable to the Director of Bank Supervision.
- (ii) Accommodation granted against the security of a guarantee or similar instrument Director of Bank Supervision issued by a bank incorporated within or outside Sri Lanka other than the bank granting accommodation, subject to the following:–
 - (a) The bank that provides the guarantee having a credit rating of AAA to A- or equivalent.
 - (b) The amount of accommodation that shall be excluded from the computation of accommodation being 80 per cent in the event the credit rating of the bank that provides the guarantee is in the rank of AAA to AA- or equivalent and 50 per cent in the event the bank's credit rating is in the rank of A+ to A- or equivalent.
 - (c) The aggregate amount of all accommodation that shall be excluded in respect of all such instances not exceeding 100 per cent of the capital base of the licensed commercial bank.
 - (d) The licensed commercial bank being satisfied that the credit rating of the bank providing the guarantee has been obtained within 15 months of providing accommodation and the accommodation be revised immediately if there is any change in such credit rating.

- 8.** The maximum limits of accommodation specified in these Directions shall not apply to the following persons / institutions.
- Persons/
Institutions
exempted from
maximum limits
under Directions
3 and 4.
- (i) The Government of Sri Lanka.
 - (ii) The Ceylon Petroleum Corporation and the Ceylon Electricity Board for a maximum period of two years from the date of these Directions.
 - (iii) Other licensed banks in respect of accommodation granted with a contractual maturity of less than two years.
- 9.** The following definitions shall be applicable for the purposes of these Directions.
- Definitions.
- (i) Accommodations: As defined and provided for in Section 86 of the Banking Act, accommodations shall mean credit exposure and investment exposure as specified below.
 - (a) Credit exposure shall include all on-balance sheet accommodations such as any loan, overdraft or advance inclusive of finance lease, hire purchase and reverse repurchase agreements against debt securities and all off-balance sheet accommodations such as any commitment to grant any loan, overdraft or advance or such other facility including a commitment to accept a contingent liability.
 - (b) Investments exposure shall include all financial investments excluding investments in equity (only ordinary shares).
 - (ii) Amount of accommodations: The amount of accommodations shall be the total of on-balance sheet accommodations and off-balance sheet accommodations.
 - (a) Amount of on-balance sheet accommodations: The amount of on-balance sheet accommodations shall mean the total of the accommodation limits prevailing at any given time or the total outstanding amount of all accommodations, whichever is higher. In the case of fully drawn term loans, the outstanding amount of accommodations shall be reckoned as the amount of accommodations.
 - (b) Amount of off-balance sheet accommodations: The amount of off-balance sheet accommodations shall mean the credit equivalent amount of total of the accommodation limits prevailing at any given time or the outstanding amount of accommodations, whichever is higher.
 - (iii) Outstanding amount of accommodations: The outstanding amount of accommodations shall be the total of outstanding on-balance sheet accommodations and outstanding off-balance sheet accommodations.
 - (a) Outstanding on-balance sheet accommodations: The outstanding amount of on-balance sheet accommodations shall be the capital outstanding.
 - (b) Outstanding off-balance sheet accommodations: The outstanding amount of off-balance sheet accommodations shall be the credit equivalent amount of the outstanding off-balance sheet accommodations.

- (iv) Credit equivalent amount of off-balance sheet accommodations: The credit equivalent amount computed using the credit conversion factors applicable to off-balance sheet accommodations in the computation of the Capital Adequacy Ratio shall be applicable.
- (v) Capital Base and Capital Adequacy Ratio: Capital Base and Capital Adequacy Ratio appearing in the computation of the Capital Adequacy Ratio shall be applicable, provided that those shall be as at end of the preceding financial year or immediately preceding quarter or other latest quarter preceding the applicable quarter, whichever is available, subject to certification by the licensed commercial bank's external auditor.
- (vi) Credit Rating: The credit rating shall be the credit rating obtained from a credit rating agency listed in the Annex 2 hereto and shall be one that has been obtained within the past 15 months of providing accommodation.

Review of
Accommodation.

- 10.** (1) In instances where the accommodation granted to a customer has to be revised due to a reduction in the applicable accommodation limit, the accommodation granted shall be reduced at the next facility review date or within six months, whichever occurs earlier.
- (2) In the event a merger or acquisition between any institutional customers results in existing accommodations exceeding the applicable maximum limits, the licensed commercial bank shall reduce such accommodations to be within the applicable maximum limits before expiry of six months from the date of such merger or acquisition.

Transitional
Arrangements.

- 11.** In the event the accommodation that has been granted to any category of customers referred to in paragraphs 2(i) and 2(ii) above as at the date of these Directions exceeds the limits, *i.e.*, maximum limits or aggregate limit, specified in these Directions, the licensed commercial bank shall reduce such accommodation to be within the respective limits before the expiry of three months from the date of these Directions.

Steps to secure
compliance with
Directions.

- 12.** Where the Monetary Board has determined that a licensed commercial bank has contravened these Directions and the determination of such contravention has been conveyed to the licensed commercial bank, such licensed commercial bank shall not pay dividends or repatriate profits until the contravention is rectified and such rectification is confirmed by the Director of Bank Supervision.

Revocation
of Previous
Directions.

- 13.** The Banking Act, Direction No.3 of 2007 dated 20 February 2007 of Maximum Amount of Accommodation is hereby revoked.

Annex 1

DIRECTIONS
BANKING ACT DIRECTIONS NO. 7 OF 2007
MAXIMUM AMOUNT OF ACCOMMODATION

Specification of Infrastructure Projects

Any project that involves in developing or operating and maintaining or developing, operating, upgrading and maintaining any infrastructure facility listed below shall qualify for the accommodation under the Direction 6(2) of the above Directions, provided that the accommodation referred to in the Direction shall be for the purpose of meeting direct cost of the project which shall not include repayment of any accommodation already granted by other banks or financial institutions or meeting the cost of purchase of a project already in operation.

- (i) a road, including toll road, a bridge or a rail system;
- (ii) a highway project including other activities being an integral part of the highway project;
- (iii) a port, airport, inland waterway or inland port;
- (iv) a water supply project, irrigation project, water treatment system, sanitation and sewerage system or solid waste management system;
- (v) telecommunication services whether basic or cellular, including radio paging, network of trunking, network and internet services;
- (vi) an industrial park or special economic zone;
- (vii) generation or generation and distribution of power;
- (viii) transmission or distribution of power by laying a network of new transmission or distribution lines;
- (ix) construction relating to projects involving agro-processing and supply of inputs to agriculture;
- (x) construction of educational institutions and hospitals;
- (xi) any other infrastructure project as may be specified by the Monetary Board from time to time.

Annex 2

DIRECTIONS
BANKING ACT DIRECTIONS NO. 7 OF 2007
MAXIMUM AMOUNT OF ACCOMMODATION

List of Credit Rating Agencies Acceptable to the Monetary Board

1. Fitch Ratings Lanka Ltd.
2. Lanka Ratings Agency Ltd.
3. Standard & Poors
4. Moody's Investors Service
5. Credit Rating Information Services of India (CRISIL)
6. Investment Information & Credit Rating Agency (ICRA)
7. Fitch Ratings India Ltd.
8. Pakistan International Credit Rating Agency
9. Rating Agency Malaysia
10. Japan Credit Rating Agency Ltd.
11. Any other credit rating agency as may be accepted by the Monetary Board from time to time.

Directions issued by the Monetary Board of the Central Bank of Sri Lanka in terms of Section 46(1) of the Banking Act, No.30 of 1988, as amended.

Nivard Ajith Leslie Cabraal
Chairman of the Monetary Board /
Governor of the Central Bank of Sri Lanka

Colombo
27 September 2010

BANKING ACT DIRECTION NO. 3 OF 2010
AMENDMENTS TO DIRECTIONS ON CLASSIFICATION OF LOANS AND ADVANCES,
INCOME RECOGNITION AND PROVISIONING FOR
LICENSED COMMERCIAL BANKS IN SRI LANKA

In the exercise of the powers conferred by Sections 46(1) and 46A of the Banking Act, No. 30 of 1988, last amended by the Banking Act, No. 46 of 2006, the Monetary Board hereby issues the following Directions replacing Directions No. 6(1)(I) of the Banking Act, Direction No.3 of 2008 dated 8 May 2008 issued by the Monetary Board.

6(1)(I) General Provisions

Banks shall maintain general provisions in the following manner:

- (i) Commencing 01 January 2012, 0.5% of total outstanding of on-balance sheet PLAs as referred to in Direction 3(4) above and total outstanding of special mention on-balance sheet credit facilities as referred to in Direction 4(6)(I) above net of interest in suspense that has been debited to the respective accounts.
- (ii) For this purpose banks shall reduce the existing general provision requirement of 1% to 0.5% at a rate of 0.1% per quarter during the five quarters commencing 01 October 2010.
- (iii) Banks are exempted from maintaining a general provision in respect of credit facilities secured by cash deposits, gold or Government Securities with the same bank. Banks shall, for this purpose, meet the following conditions to be eligible for the exemption:
 - (a) Bank shall have the right to take legal possession of such securities in the event of default, insolvency or bankruptcy of borrower.
 - (b) All documentation used in such collateralised transactions shall be binding on all parties and be legally enforceable in all relevant jurisdictions.

Directions issued by the Monetary Board of the Central Bank of Sri Lanka in terms of Section 46(1) of the Banking Act, No.30 of 1988, as amended.

Sgd. Nivard Ajith Leslie Cabraal

*Chairman of the Monetary Board /
Governor of the Central Bank of Sri Lanka*

Colombo
08 May 2008.

DIRECTIONS
BANKING ACT DIRECTION NO.3 OF 2008
CLASSIFICATION OF LOANS AND ADVANCES, INCOME RECOGNITION AND
PROVISIONING

In the exercise of the powers conferred by Sections 46(1) and 46A of the Banking Act, No.30 of 1988, last amended by the Banking Act, No.46 of 2006, the Monetary Board hereby issues Directions as follows:

- 1(1)** These Directions may be cited as the Banking Act, Direction No.3 of 2008. Citation.
The Sections referred to in these Directions will be those of the Banking Act, No.30 of 1988, last amended by the Banking Act, No.46 of 2006.
- 2(1)** In terms of Section 46(1) of the Banking Act, in order to ensure the soundness of the banking system, the Monetary Board is empowered to issue Directions to licensed commercial banks regarding the manner in which any aspect of the business of such banks is to be conducted. Empowerment under Sections 46(1) and 46A of the Banking Act.
- 2(2)** In terms of Section 46A of the Banking Act, the Monetary Board is empowered to require both general and specific provisions relating to bad and doubtful debts, to be made by licensed commercial banks.
- 3(1)** The following definitions shall be applicable for the purposes of these Directions. Definitions.
- 3(2)** Total credit facilities shall mean on-balance sheet credit facilities and off-balance sheet credit facilities as specified below:
- 3(2)(I)** On-balance sheet credit facilities:
On-balance sheet credit facilities shall mean Overdrafts, Term loans, Block loans, Packing credits, Pledge loans, Revolving loans, Bills financed, Discounting facilities, Hire purchase loans, Leasing facilities, Trust receipts, Pawning advances, Credit card facilities, Reverse repurchase facilities, Lending for debt instruments under stand by credit lines and other instruments of a similar nature.
- 3(2)(II)** Off-balance sheet credit facilities:
Off-balance sheet credit facilities shall mean a commitment to accept contingent liabilities, and include guarantees, bonds, warranties, letters of credit and acceptances.

- 3(3)** Borrower shall mean individuals, single companies, the Government of Sri Lanka, public corporations, statutory bodies, firms, associations of persons and any other institutions.
- 3(4)** Performing loans and advances (PLA) shall mean all credit facilities other than non-performing loans and advances (NPL) classified in terms of Direction 3(5).
- 3(5)** NPL shall mean bad and doubtful debts as referred to in Section 46A of the Banking Act. For this purpose, all credit facilities, excluding exempted credit facilities referred to in Direction 4(2), are classified as non-performing on the following basis:
- 3(5)(I)** Based on period
- (i) Overdrafts:
 - (a) If the outstanding balance has remained in excess of the sanctioned limit continuously for a period of 90 days or more; or
 - (b) In cases where a borrower has several current accounts with overdraft limits with the bank, the daily outstanding aggregate balance on all such accounts shall be considered as the outstanding balance for the purposes of Direction 3(5)(I)(i)(a) above.
 - (ii) Credit facilities repayable in monthly installments: when 3 consecutive installments, principal and/or interest, have not been paid.
 - (iii) Credit facilities repayable in quarterly/half yearly installments: when an installment is not paid within 90 days from the due date.
 - (iv) Credit facilities repayable in one installment at the end of a specified period or on a due date (bullet payments): when the payment is not made within 90 days from the end of the agreed period or the due date.
 - (v) Credit cards: when the minimum payment is in arrears for 90 days from the due date.
- 3(5)(II)** Based on potential risk
- In addition to the classification requirements for NPL as set out in Direction 3(5)(I), banks shall classify PLA as NPL where full recoverability in accordance with the agreed terms is in doubt due to circumstances affecting the repayment capacity.
- 3(6)** New credit facility shall mean any credit facility granted to borrowers with the involvement of cash/ fund movements. A facility granted for the capitalisation of accrued and unpaid interest or to convert an overdraft to a term loan shall not be considered as a new credit facility.
- 4(1)** Classification of performing and non-performing credit facilities:
- Banks shall classify all credit facilities granted to a borrower, for monitoring and risk mitigation purposes, into the two categories of (a) performing loans

and advances and (b) non-performing loans and advances, as specified in Directions 3(4) and 3(5) above.

4(2) Exempted credit facilities:

When classifying credit facilities as NPL under Direction 4(1) above, credit facilities secured on cash deposits shall be exempted. Banks shall, for this purpose, meet the following conditions to be eligible for the exception:

- (i) Banks shall have the right to take legal possession of such cash deposit, in the event of default, or insolvency or bankruptcy of borrower.
- (ii) All documentation used in cash collateralised transactions shall be binding on all parties and legally enforceable in all relevant jurisdictions. A duly signed lien in the bank's favour and a letter of set-off shall be available.
- (iii) Such cash deposit shall be set-off against the credit facilities within 3 months from the date on which the credit facilities would have otherwise been classified as non-performing.
- (iv) During the period referred to in Direction 4(2)(iii) above, if the outstanding exceeds the deposit, such excess shall be classified as non-performing.

4(3) The availability of security or net worth of the borrower/guarantor shall not be considered in the application of Direction 3(5) except as permitted by Direction 4(2) above.

4(4) Classification of rescheduled credit facilities:

When rescheduling occurs before a credit facility is classified as NPL, the rescheduled credit facility shall be classified as non-performing when, in aggregate, the period of time the credit facility was in arrears before rescheduling and after rescheduling exceeds the time period specified in the Direction 3(5) in respective credit facilities. In the case of capitalisation of accrued and unpaid interest, banks shall classify a credit facility created by way of capitalisation of accrued and unpaid interest as NPL in terms of Directions 3(5) and 4(5) and categorise as required by Direction 4(6).

4(5) Classification of multiple credit facilities granted to a single borrower:

- (i) Banks shall classify all credit facilities extended to a borrower as NPL, when one or more credit facilities has/have been classified as NPL in terms of Direction 3(5) and if the aggregate amount outstanding of such NPL exceeds 30% of the total credit facilities extended to such borrower. Banks are required to comply with this Direction commencing January 1, 2009.
- (ii) In the computation of the percentage threshold as specified in Direction 4(5)(i) above, banks shall exclude all accrued interest credited to an interest in suspense account from both numerator and denominator.

4(6) Categorisation of non-performing credit facilities:

Banks shall categorise NPL, which are classified in terms of Directions 3(5) and 4(5) above, into the four categories mentioned below based on (a) the period which the credit facilities have remained non-performing and (b) the potential risk of credit facilities. However, multiple credit facilities granted to a single borrower, which are classified in terms Direction 4(5), shall be categorised as follows:

- (i) Facilities classified in terms of Direction 3(5), shall be categorised as per Directions 4(6)(I) to 4(6)(IV).
- (ii) Other facilities of such borrower shall initially be categorised into the “Special Mention” category. Subsequent categorisation of such facilities shall be in terms of Directions 4(6)(I) to 4(6)(IV).

4(6)(I) “Special Mention” credit facilities:

- (i) The period which the credit facilities have remained non-performing.

| Facility Type | Determinant |
|--|--|
| Overdrafts | Exceeds the sanctioned limit for a continuous period of 90 days or more but less than 180 days. |
| Credit facilities, repayable in monthly installments | 3 installments or more but less than 6 installments, principal and/or interest are due and unpaid. |
| Credit Cards | The minimum payment is in arrears for 90 days or more but less than 120 days from the due date. |
| Other credit facilities | The payments are in arrears for 90 days or more but less than 180 days from the due date. |

4(6)(II) Sub-standard credit facilities:

- (i) The period which the credit facilities have remained non-performing.

| Facility Type | Determinant |
|--|---|
| Overdrafts | Exceeds the sanctioned limit for a continuous period of 180 days or more but less than 360 days. |
| Credit facilities, repayable in monthly installments | 6 installments or more but less than 12 installments, principal and/or interest are due and unpaid. |
| Credit Cards | The minimum payment is in arrears for 120 days or more but less than 180 days from the due date. |
| Other credit facilities | The payments are in arrears for 180 days or more but less than 360 days from the due date. |

(ii) The potential risk of credit facilities:

Where the situation of the borrower makes it uncertain that part or the entirety of the facility will be repaid and involves more than normal risk of loss due to unsatisfactory debt servicing record or financial condition of the borrower, insufficiency of collateral or any other factors which give rise to some doubts as to the ability of the borrower to comply with the present repayment terms.

4(6)(III) Doubtful credit facilities:

(i) The period which the credit facilities have remained non-performing.

| Facility Type | Determinant |
|--|--|
| Overdrafts | Exceeds the sanctioned limit for a continuous period of 360 days or more but less than 540 days. |
| Credit facilities, repayable in monthly installments | 12 installments or more but less than 18 installments, principal and/or interest are due and unpaid. |
| Credit Cards | The minimum payment is in arrears for 180 days or more but less than 240 days from the due date. |
| Other credit facilities | The payments are in arrears for 360 days or more but less than 540 days from the due date. |

(ii) The potential risk of credit facilities:

Where there is a high risk of partial default or where full collection is improbable and there is a high risk of default.

4(6)(IV) Loss credit facilities:

(i) The period which the credit facilities have remained non-performing.

| Facility Type | Determinant |
|--|---|
| Overdrafts | Exceeds the sanctioned limit for a continuous period of 540 days or more. |
| Credit facilities, repayable in monthly installments | 18 installments or more principal and/or interest are due and unpaid. |
| Credit Cards | The minimum payment is in arrears for 240 days or more. |
| Other credit facilities | The payments are in arrears for 540 days or more. |

(ii) The potential risk of credit facilities:

Where the situation of the borrower makes it virtually certain that the facility will not be repaid, as in the following circumstances:

- (a) The customer is in a weak financial position or the ability of the customer to earn income is low, which indicates that the customer may not be able to service the debt.
- (b) The business of the customer has become uncertain or the customer has used the funds obtained for purposes other than for which they were meant.
- (c) The customer is deceased and there are no assets to repay the debt.
- (d) The customer has ceased or dissolved his business and is in debt to other creditors with preferential rights over the whole of the customer's assets, where the said creditors' total claims exceed the value of the customer's assets.
- (e) The customer's business is under liquidation.
- (f) The bank has filed a bankruptcy suit against the customer or has applied for participation in property with other creditors who have filed for bankruptcy, where the parties have agreed to restructure the debt with approval from the Court.
- (g) The bank has applied for participation in property with other creditors who have sued the debtor.
- (h) The bank is unable to contact or find the borrower.

4(7) Reclassification of credit facilities:

4(7)(I) Re-classification of NPL as PLA:

Banks shall reclassify NPL as PLA, if interest and principal in arrears are paid by the borrower in relation to classified NPLs.

4(7)(II) Re-classification of rescheduled NPL as PLA:

The NPL accounts which have been subjected to rescheduling, whether in respect of principal installment or interest amount, would be eligible to be upgraded to the PLA category only after the specified periods in respect of following category, subject to satisfactory performance during such period.

| Rescheduled NPL in | Upgrade to the PLA |
|--------------------------------------|--|
| Special mention category | Period of 90 days after the date when first payment of interest or of principal, whichever is earlier, falls due under the rescheduled terms. |
| Sub-standard and Doubtful categories | Period of 180 days after the date when first payment of interest or of principal, whichever is earlier, falls due under the rescheduled terms. |
| Loss category | Period of 360 days after the date when first payment of interest or of principal, whichever is earlier, falls due under the rescheduled terms. |

The amount of specific provision made earlier, in respect of rescheduled NPL of above categories, could also be reversed after the period specified above.

4(8) Granting of new credit facilities:

Banks shall not grant new credit facilities for repayment of NPL in the name of the same borrower or any party, unless the credit facility so created is also classified as NPL and categorised into the same category of the repaid NPL had been categorized under Direction 4(6). The reclassification of such NPL as PLA shall be subject to Directions (4)(7)(I) and 4(7)(II).

5(1) Banks shall recognise interest on an account which has been classified as NPL as income, as and when the interest is collected by the bank, if it is collected on a cash basis. Recognition of Interest on NPL.

5(2) Banks shall suspense all interest accrued but uncollected from the date a credit facility is classified as NPL and credit such accrued interest to the "Interest in Suspense Account" and debit such accrued interest to the "Interest Receivable Account-NPL".

5(3) Banks shall continue the present practice of debiting the overdraft/credit card facilities classified as NPL with interest receivable and crediting to Interest in Suspense Account.

5(4) At the time of classifying the credit facilities as NPL, bank shall reverse the accrued interest and credit the same to Interest in Suspense Account. The reversal of unearned income identified after the close of a financial year could be accounted for in the financial year in which the advances were identified as NPL.

6(1) Banks shall maintain (a) General provisions and (b) Specific provisions, for credit risk mitigation purposes. Provisions for credit facilities.

6(1)(I) General Provisions

Banks shall maintain general provisions in the following manner:

- (i) 1% of total outstanding of on-balance sheet PLAs as referred to in Direction 3(4) above and total outstanding of special mention on-balance sheet credit facilities as referred to in Direction 4(6)(I) above, net of interest in suspense that has been debited to the respective accounts.
- (ii) Banks shall have a general provision of 0.7 per cent of total credit facilities as specified in Direction 6(1)(I)(i) above by 30.06.2008 and, thereafter, make an incremental provision of 0.1 per cent every quarter till 31.03.2009. In effect, banks shall meet the total requirement of 1 per cent not later than 31.03.2009.
- (iii) Banks are exempted from maintaining a general provision in respect of credit facilities secured by cash deposits, gold or Government Securities with the same bank. Banks shall, for this purpose, meet the following conditions to be eligible for the exemption:

- (a) Bank shall have the right to take legal possession of such securities, in the event of default, insolvency or bankruptcy of borrower.
- (b) All documentation used in such collateralised transactions shall be binding on all parties and be legally enforceable in all relevant jurisdictions.

6(1)(II) Specific Provisions

Banks shall maintain specific provisions, as per the credit facilities categorised in accordance with Direction 4(6), on the amount outstanding, net of realisable security value as specified in Direction 7(1) and interest suspended in the event of such interest being debited to the credit facility as per the following:

| Categories of Non-performing Credit Facilities | Minimum Specific Provisioning Requirement |
|---|--|
| Substandard | |
| Credit card | 25% |
| Others | 20% |
| Doubtful | 50% |
| Loss | 100% |

- 6(2)** In respect of any credit facilities falling within the ambit of Direction 4(8), banks shall maintain specific provisions as follows:
- (i) Where credit facilities are applied for the repayment of the capital sum outstanding, provisions shall be maintained at a level not less than what would have been required to be maintained under Direction 6(1)(II) at the time of repayment of the NPL.
 - (ii) Where credit facilities are applied for the repayment of interest, provision shall be maintained at 100% of the outstanding facility.
 - (iii) Where credit facilities are applied for the repayment of capital and interest (*e.g.*, in the case of an overdraft), provisions for capital and interest shall be provided for in accordance with Directions 6(2)(i) and 6(2)(ii).

Valuation of Security.

- 7(1)** Valuation of security for provisioning purposes shall be as specified below.

7(1)(I) Primary Mortgage over Immovable Property

- (i) The value of security is based on progressive discounts on the forced sale value (FSV) of immovable property and on a current valuation report as specified below.

(ii) The progressive discounts shall be as follows:

| Item | % of FSV of immovable property that can be considered as the value of security | |
|--------------------------------------|--|--------------------|
| | Freehold Property | Leasehold Property |
| At the first time of Provisioning | 75 | 60 |
| Period in the Loss Section | | |
| Less than 12 months | 75 | 60 |
| More than 12 but less than 24 months | 60 | 50 |
| More than 24 but less than 36 months | 50 | 40 |
| More than 36 but less than 48 months | 40 | 30 |
| More than 48 months | Property should be reviewed on a regular basis, and discounted further at the discretion of the bank's management. | Nil |

(iii) Current external professional valuation report:

The valuation report shall meet the following conditions.

- (a) Banks shall obtain a current external professional valuation report in respect of a facility/ies where the capital outstanding amount is equal to or more than Rs.5,000,000/- or 0.1% of the bank's capital base, whichever is less. Capital base shall be the same as that appearing in the computation of the Capital Adequacy Ratio subject to certification by the bank's External Auditor.
- (b) Such report shall be from an External Independent Valuer.
An External Independent Valuer shall be:
 - (aa) A Chartered Valuation Surveyor; or
 - (ab) A Fellow of the Institute of Valuers of Sri Lanka (IVSL) with 5 years experience
 - (ac) A Graduate member of IVSL with 10 years experience
 - (ad) An Associate member of IVSL with 20 years experience.
- (c) The period of the valuation report shall be:
 - (aa) In respect of credit facilities granted against residential property which is occupied by the borrower for residential purposes: a report that is not more than four years old.

(ab) In respect of credit facilities granted for all other purposes: a report that is not more than three years old.

(iv) Current internal valuation report:

The valuation report shall meet the following conditions.

- (a) Banks shall obtain a current internal valuation report in respect of a credit facility/ies where the capital outstanding amount is less than Rs.5,000,000/- or 0.1% of the bank's capital base, whichever is less.
- (b) It shall be a current internal assessment of the value of properties mortgaged for such credit facilities, carried out by an independent officer who has not been involved in the credit decision and signed by a senior officer of the bank.
- (c) A current internal assessment is defined as an assessment that is not more than two years old.

7(1)(II) Mortgages other than Primary Mortgages

Mortgages other than primary mortgages over immovable property will qualify for the above purpose subject to complying with the conditions in Direction 7(1)(I) above and if such property is mortgaged to the same bank.

7(1)(III) Deposit of Title Deeds of Property with an Undertaking to Mortgage

No value shall be assigned until a property mortgage is executed in favour of the bank.

7(1)(IV) Assignment over Life Insurance Policies

90 per cent of the surrender value shall be considered as value of security, provided confirmation of surrender value from the insurer is available and the assignment in favour of the bank is duly registered.

7(1)(V) Secured on Gold

The market price of gold, subject to an adequate insurance cover.

7(1)(VI) Assignment of Shares

(i) Quoted

- (a) 90 percent of the latest market price
- (b) If trading has been suspended (other than temporary suspension), the net realisable tangible asset value, as per the latest audited financial statements (not more than 18 months old), is to be used, provided an auditor's certificate evidencing the value per share is available. No value shall be given if appropriate financial statements/certificates are not available and if sales are temporarily suspended.

(ii) Unquoted

Value may be given, provided the shares are marketable. Appropriate value may be determined on the basis of 75 per cent of the net tangible asset value per share as certified by the company's auditors.

7(1)(VII) Mortgage over Plant, Machinery and Equipment

Value based on an external valuation report or, in the absence of such valuation, the net book value calculated by using a 20 per cent depreciation rate on the straight-line basis taking into account the date of acquisition and the acquisition price shall be applicable.

7(1)(VIII) Mortgage over Motor Vehicles

Based on an external valuation report or, in the absence of such valuation, the net book value calculated by using a 25 per cent depreciation rate on the straight line basis taking into account the date of original registration and the acquisition price on that date, would be applicable.

7(1)(IX) Pledge over Stocks/Goods under the Bank's Control

50 per cent of the market value determined on a case-by-case basis may be applicable.

7(1)(X) Hypothecation of Stock-in-Trade

30 per cent of the current value of stocks provided that the level of stock-in-trade is closely monitored by the bank.

7(1)(XI) Quoted Debentures

- (i) 90 per cent of the latest market price
- (ii) If trading has been suspended (other than temporary suspension), the net realisable tangible asset value, as per the latest audited financial statements (not more than 18 months old), is to be used, provided an auditor's certificate evidencing the value per share is available. No value shall be given if appropriate financial statements/certificates are not available and if sales are temporarily suspended.

7(1)(XII) Guarantees

- (i) Licensed Banks – incorporated locally or outside Sri Lanka

Eligible value of guarantee is based on a rating given by an eligible credit rating agency recognition under the Direction issued on maintenance of capital adequacy ratio (Basel II), as follows:

| Bank's credit rating | Value of security |
|-----------------------------|--------------------------|
| AAA to AA- or equivalent | 80% |
| A+ to A- or equivalent | 50% |

(ii) Government Guarantee

Full value.

7(1)(XIII) Other Types of Security

As specifically approved by the Director of Bank Supervision on a case-by-case basis.

Write Off/Write down of non-performing credit facilities.

8(1) Banks incorporated or established within Sri Lanka shall have a well-designed write-off/write down policy established by the Board of Directors, delineating the approach, authority, accountability for negligence and inappropriate follow-up, independent review and audit, continuous monitoring, reporting, *etc.* This policy should aim at recovering maximum salvage value through enforcement of collateral / guarantees, *etc.*

Banks, incorporated outside Sri Lanka, are required to follow write-off/write down policy duly laid down by their head office.

Segregation of non-performing credit facilities.

9(1) Banks shall segregate all credit facilities (a) classified as non-performing (b) rescheduled (c) written off/written down from other credit facilities to facilitate close follow-up action and to monitor recoveries.

Reporting Requirement.

10(1) Banks shall submit the information on classification of loans and advances to the Central Bank of Sri Lanka on a monthly basis, in accordance with reporting format and instructions at Annex attached hereto. The returns for a given period should be submitted to the Central Bank on or before the 15th day of the month following the month to which the information relates.

Revocation of Previous Directions and Circulars.

11(1) The following Directions and Circulars issued to licensed commercial banks are hereby revoked:

- (i) Directions on Suspension of interest on non-performing advances and classification of bad and doubtful advances for provisioning purposes (Schedule I) and valuation of securities for provisioning purposes (Schedule II) dated 22 August 1997, issued under Section 46A of the Banking Act, as amended.
- (ii) Circular letter dated 15 August 2003 amending Direction 11(1)(i) above.
- (iii) Circular letter dated 13 July 2004 on criteria for selection of Valuers.
- (iv) Circular letter dated 8 September 2004 on classification of bad and doubtful advances for provisioning purposes (classification of medium and long-term project loans).
- (v) Amendment to Direction 11(1)(i) dated 15 December 2004 on valuation of securities for provisioning purposes relating to the requirement to obtain a current professional valuation report.
- (vi) Circular letter dated 29 March 2006 on reversal of unearned income and classification of advances as non-performing.
- (vii) Direction dated 6 December 2006 on the requirement to maintain a general provision for advances.

Annex

Licensed Commercial Banks
Banking Act Direction No. 3 of 2008
Classification of Loans and Advances, Income Recognition and Provisioning
Reporting Format

Name of Bank:

As at: DD/MM/YYYY

Amount in '000

| Credit Facilities | Performing Loans and Advances (PLA) | Categorisation of Non-performing Loans and Advances (NPL) | | | | Total NPLs | Total Credit Facilities |
|--|-------------------------------------|---|--------------|----------|------|------------|-------------------------|
| | | Special Mention | Sub-standard | Doubtful | Loss | | |
| On-balance Sheet Credit Facilities | | | | | | | |
| Cheques purchased | | | | | | | |
| Import bills | | | | | | | |
| Export bills | | | | | | | |
| Overdrafts | | | | | | | |
| Credit card | | | | | | | |
| Short-term loans | | | | | | | |
| Medium and long-term loans | | | | | | | |
| Housing loans | | | | | | | |
| Staff loans | | | | | | | |
| Re-scheduled loans | | | | | | | |
| Lease rentals (net) | | | | | | | |
| Loans against debt securities | | | | | | | |
| Pawning advances | | | | | | | |
| Loans to Banks and Financial Institutions | | | | | | | |
| Other credit exposures | | | | | | | |
| Interest receivables | | | | | | | |
| Loans and Advances (gross) | | | | | | | |
| Suspended Interest (-) | | | | | | | |
| Specific provisions (-) | | | | | | | |
| General provisions (-) | | | | | | | |
| Loans and Advances (net) | | | | | | | |
| Value of Security | | | | | | | |
| Off-balance Sheet Credit Facilities | | | | | | | |
| Guarantees | | | | | | | |
| Bonds | | | | | | | |
| Letters of Credit | | | | | | | |
| Acceptances | | | | | | | |
| Interest Receivables | | | | | | | |
| Loans and Advances (gross) | | | | | | | |
| Suspended Interest (-) | | | | | | | |
| Specific provisions (-) | | | | | | | |
| General provisions (-) | | | | | | | |
| Loans and Advances (net) | | | | | | | |
| Value of Security | | | | | | | |

Directions issued by the Monetary Board of the Central Bank of Sri Lanka under Sections 46(1) and 76(J)(1) of the Banking Act, No.30 of 1988, as amended.

Sgd. Nivard Ajith Leslie Cabraal

*Chairman of the Monetary Board and
Governor of the Central Bank of Sri Lanka*

Colombo
04 April 2013

**BANKING ACT DIRECTION NO. 1 OF 2013
EXPOSURE TO THE STOCK MARKET BY
LICENSED COMMERCIAL BANKS AND
LICENSED SPECIALISED BANKS**

In the exercise of the powers conferred by Sections 46(1) and 76J(1) of the Banking Act, No. 30 of 1988, last amended by the Banking (Amendment) Act, No. 46 of 2006, the Monetary Board hereby issues the following Directions on Exposure to Stock Market by Licensed Commercial Banks and Licensed Specialised Banks (hereinafter referred to as Licensed Banks), having reviewed the exposures of Licensed Banks to the stock market and decided to require Licensed Banks to adopt appropriate risk management standards to mitigate any potential risks at prudent levels with a view to promoting the safety and soundness of the banking system.

- | | |
|--|---|
| Citation. | 1. These Directions may be cited as the Banking Act, Directions No. 1 of 2013. |
| Internal limits on Margin trading on Shares. | <p>2. A Licensed Bank may extend margin trading facilities on shares to customers/ investors, provided that:</p> <p>(i) the Licensed Bank shall have internal limits in respect of:</p> <p>(a) individual customer/investor margin trading exposure based on the market value of such customer's/investor's share portfolio subject to any statutory limits in place; and</p> <p>(b) aggregate margin trading exposures based on the total outstanding amount of loans and advances granted by a licensed bank.</p> <p>(ii) all shares purchased from margin trading facility shall be under pledge to the Licensed Bank providing margin trading facility.</p> |
| Limit on issue of guarantees for purchase of shares. | <p>3.1 A Licensed Bank may issue guarantees for the purpose of purchase of shares from Initial Public Offerings not exceeding fifty percent of the value of such Initial Public Offering.</p> <p>3.2 The guarantees issued against cash deposits shall be exempted from the above limit, provided that:</p> <p>(i) the cash deposit is not less than the value of the guarantee;</p> <p>(ii) the cash deposit is not financed from any loans from the bank; and</p> |

- (iii) the Licensed Bank has the right to take possession of such cash deposits in the event of default of commitments by the customer.
4. The Board of Directors of Licensed Banks incorporated in Sri Lanka and the Head Office/Regional Office of the branches of banks incorporated outside Sri Lanka shall formulate a Board/Head Office/Regional Office approved risk management policy, guidelines and internal controls on their exposures to stock market activities including prudential limits for margin trading as per 2(i) above and assess risk exposures, such as credit, liquidity and concentration with appropriate risk management information on an on-going basis. Role of Board of Directors.
 5. Every Licensed Bank shall spread margin trading facilities among a reasonable number of customers with diversified portfolios of shares to mitigate risky concentrations. Control on Concentrations.
 6. Every Licensed Bank shall report to the Director of Bank Supervision details of exposure to the stock market in accordance with the reporting format at Annex A on or before the 15th day of the month following each quarter. Reporting.
 7. The following Banking Act Directions are hereby revoked: Revocation of Directions.
 - (i) Banking Act Direction No. 5 of 2011, dated 26 August 2011 on Exposure to Stock Market and Banking Act, Direction No. 11 of 2011, dated 16 December 2011 on Amendments to Direction on Exposure to Stock Market issued to Licensed Commercial Banks;
 - (ii) Banking Act Direction No. 6 of 2011, dated 26 August 2011 on Exposure to Stock Market and Banking Act, Direction 12 of 2011, dated 16 December 2011 on Amendments to Direction on Exposure to Stock Market issued to Licensed Specialised Banks.

Annex A

To : Director of Bank Supervision, Central Bank of Sri Lanka

Name of Licensed Bank :

Quarter ended :

Quarterly Statement of Exposure to the Stock Market

A. Exposure to the Stock Market

| Item | On Balance Sheet Exposure | | | Off Balance Sheet Exposure | | | Total Exposure (h) = (d + g) |
|--|----------------------------------|--|------------------------------|--------------------------------|---|--|---------------------------------|
| | Margin Trading Facilities (a) | Other loans granted for purchase of listed shares (b) | Others ⁽ⁱ⁾ (c) | Sub Total (d) = (a + b + c) | Total value of guarantees issued (e) | Under-writing and other commitments, credit lines, etc. (f) |  | Sub Total (g) = (e + f) |
| Amount outstanding (Rs. mn) | | | | | | | |
| As a % of outstanding amount of total loans and advances | | | | | | | |

B. Guarantees issued for purchase of shares at IPO

| Name of IPO (i) | Size of IPO (j) | Fully cash backed guarantees (Rs. Mn) (k) | Guarantees issued without cash deposits (Rs. mn) (l) | Total value of guarantees issued (Rs. mn) (m) = (k + l) |
|-----------------|-----------------|--|---|---|
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| Total | | | | |

Note : (i) if any, please provide details separately.

This statement should be submitted to the Bank Supervision Department by the 15th day of the month following end of each quarter. Please e-mail to banksup@cbsl.lk or fax to 2477711

BANKING ACT

Determinations made by the Monetary Board of the Central Bank of Sri Lanka under section 17A(1)(a) and (1)(b) of the Banking Act, No.30 of 1988 as amended by the Banking (Amendment) Act, No.33 of 1995.

Sgd. A. S. Jayawardena

Governor

Colombo
22 August 1997

DETERMINATION

By virtue of the provisions of section 17A(1)(a) and (1)(b) of the Banking Act, No.30 of 1988 as amended by Banking (Amendment) Act, No.33 of 1995, the Monetary Board has determined that a licensed commercial bank shall not acquire or hold shares in any company other than a listed public company, and

- (i) shareholding acquired by such bank in any such listed public company shall not be in excess of ten percent of its capital funds :

Provided that such acquisition or holding of shares shall not exceed twenty percent of the paid up capital of such listed public company.

- (ii) the aggregate amount invested in the shares of listed public companies excluding companies which are subsidiaries of the bank, shall not exceed thirty percent of its capital funds.

BANKING ACT

Determination made by the Monetary Board of the Central Bank of Sri Lanka under Section 47(3), (4), (5) and (6) of the Banking Act, No.30 of 1988 as amended by the Banking (Amendment) Act, No.2 of 2005.

Sgd. Sunil Mendis

Governor

Colombo

11 February 2005.

DETERMINATION

1. The Monetary Board, by virtue of the provisions of section 47(3), (4), (5) and (6) of the Banking Act, has approved the following as security to be obtained by a licensed commercial bank in granting accommodation to a director or to a close relation of such director or to any concern in which director has a substantial interest, as the case may be:
 - (a) Sir Lanka Government Guarantees;
 - (b) Bank Guarantees;
 - (c) Guarantees of International Financial Institutions; such as the World Bank, IMF, IFC, ADB, USAID *etc.*

In the case of accommodation secured by items (a), (b) or (c) above, the accommodation granted should not exceed 100 per cent of the guarantee.

- (d) Government or Central Bank Securities provided that the accommodation granted would not exceed 90 per cent of the face value or market value, whichever is lower of such securities;
- (e) Cash Deposits in any commercial bank held under lien to the order of the lending bank provided that the accommodation granted would not exceed 90 per cent of such cash deposits;
- (f) Life Insurance Policies issued in Sri Lanka and assigned to the lending bank provided that the accommodation granted would not exceed 75 per cent of the surrender value of such policy;
- (g) Immovable property held on a freehold basis and on which a primary mortgage has been taken by the lending bank provided that the accommodation granted would not exceed 60 per cent of the value of such property.
- (h) Immovable property held on a leasehold basis provided that –
 - (i) the lease has been granted by a statutory body;
 - (ii) the unexpired period of lease is at least 50 years;
 - (iii) there is no prohibition on the mortgage of the leasehold rights contained in the Deed of Lease, or if the Deed of Lease requires the prior approval of the Lessor for the mortgage of the leasehold rights such approval has been obtained from the Lessor;
 - (iv) a primary mortgage has been taken on the leasehold rights by the lending bank;and provided further that the accommodation granted does not exceed 60 per cent of the value of such property.
- (i) Shares of Public Companies quoted on the Colombo Securities Exchange provided that the accommodation granted would not exceed 50 per cent of the market value of such shares;

- (j) Mortgage of Stock-in-Trade provided that the accommodation granted would not exceed 30 per cent of the market value of such Stock-in-Trade.
 - (k) In the case of a concern where a substantial interest is held by a Banking Institution as defined in section 127 of the Monetary Law Act, other than a licensed commercial bank, immovable property held on a freehold basis and on which a secondary mortgage has been taken by a lending bank, provided that the total accommodation granted on the primary mortgage and the secondary mortgage does not exceed 60 per cent of the value of such property; and
 - (l) Pledge of non-perishable goods of a commercial nature which are readily marketable, excluding all manufactured foods and other items with a limited shelf life, provided that the accommodations granted would not exceed 40 per cent of the market value of such goods.
2. For the purposes of Section 47(5), in respect of accommodation granted by a licensed commercial bank to a concern in which a director of such bank has a substantial interest, where the substantial interest held in the concern by such director –
- (i) exceeds one million rupees but does not exceed 10 per cent of its paid up capital or is the existence of a guarantee or indemnity for a sum less than 10 per cent of that capital, where the concern is a company.
 - (ii) Is the existence of a guarantee or indemnity for a sum less than 10 per cent of the total capital subscribed by all its partners, where the concern is a firm.

Such security as the licensed commercial bank considers adequate having regard to the creditworthiness of such concern should be obtained. Such accommodation should be reported to the Director, Bank Supervision, within one week of disbursement of such accommodation.

Order published under Section 47(4) of the Banking Act, No. 30 of 1988 as amended by Banking (Amendment) Act, No. 2 of 2005

In terms of Section 47(4) of the Banking Act, No.30 of 1988 as amended by Banking (Amendment) Act, No.2 of 2005, the Monetary Board of the Central Bank of Sri Lanka has approved the following limits in respect of accommodation granted by a licensed commercial bank to a director or to a close relation of such director with effect from 11th February, 2005.

- (a) In the case of accommodation secured by cash or near cash collateral [items (a) to (e) of the Determination issued by the Monetary Board in terms of Section 47(3) of the Banking Act, No.30 of 1988 as amended by Banking (Amendment) Act, No.2 of 2005, upto the limit of the security permitted in terms of the said Determination.
- (b) In the case of accommodation secured by other types of approved securities, upto Rupees Five Hundred Thousand (Rs.500,000/-).
- (c) In the case of accommodation by way of issue of a credit card, upto Rupees Five Hundred Thousand (Rs.500,000/-), provided that such accommodation is on the same terms and condition as for other customers of the respective bank.

Sgd. Sunil Mendis

Governor

Colombo
11 February 2005.

Determinations made by the Monetary Board of the Central Bank of Sri Lanka under Section 47(3), (4), (5) and (6) of the Banking Act, as amended.

Sgd. Nivard Ajith Leslie Cabraal

*Chairman of the Monetary Board /
Governor of the Central Bank of Sri Lanka*

Colombo
02 September 2009.

**BANKING ACT, DETERMINATION NO.3 OF 2009
LEASE-BACKED TRUST CERTIFICATES/LEASE RECEIVABLES
AS APPROVED SECURITY FOR ACCOMMODATION TO ANY DIRECTOR OR
CLOSE RELATION OF A DIRECTOR OR TO ANY CONCERN
IN WHICH THE DIRECTOR HAS SUBSTANTIAL INTEREST**

- | | |
|---|--|
| <p>1. This Determination may be cited as the Banking Act, Determination No. 3 of 2009. The Sections referred to in this Determination will be those of the Banking Act, No. 30 of 1988, last amended by the Banking Act, No. 46 of 2006.</p> | <p>Citation.</p> |
| <p>2. In terms of Section 47(3), (4), (5) and (6) of the Banking Act the Monetary Board shall approve any security to be given by any director, or a close relation of a director or to any concern in which the director has substantial interest, in the grant of accommodation to such parties by a licensed commercial bank.</p> | <p>Empowerment under Sections 47(3), (4), (5) and (6).</p> |
| <p>3. The following new Determination will be inserted immediately after 1(l) of the Determination issued in terms of Section 47(3), (4), (5) and (6) dated 11 February 2005.</p> | <p>Approved Security.</p> |
- 1(m) Lease-backed trust certificates/lease receivables provided that–
- (i) The total accommodation granted on the lease-backed trust certificates/lease receivables shall not exceed 50 per cent of the value of such lease backed trust certificates/lease receivables.
 - (ii) The total accommodation granted on the lease-backed trust certificates/lease receivables shall not exceed 50 per cent of the aggregate amount of the total outstanding accommodation granted to the individual company.
 - (iii) Lease-backed trust certificates/lease receivables shall be based on the un-encumbered (performing) lease portfolio.
 - (iv) Lease-backed trust certificates/lease receivables shall be mortgaged to the lending bank.
 - (v) The lending bank should be a registered establishment under the Finance Leasing Act, No. 56 of 2000.

Bank Supervision Department
31 December 2004

*To : All Licensed Commercial Banks
Licensed Specialised Banks;
Approved Auditors*

Dear Sirs,

**ACCOUNTING FOR PROPERTIES ACQUIRED BY FORECLOSURE OF
COLLATERAL / PART SETTLEMENT OF DEBT**

It has been observed that the accounting treatment adopted by some banks with respect to immovable property acquired by foreclosure of collateral from defaulting customers or which have devolved on the banks as part settlement of debt, leads to a misrepresentation of the bank's assets and the level of non performing advances of the bank.

2. In order to create a uniform practice among the banks in accounting for such assets, and to avoid misrepresentation of the level of non performing advances, all banks are hereby informed to adhere to the following procedure in accounting for such property;

2.1 Immovable property acquired by foreclosure of collateral from defaulting customers, or which have devolved on the banks as part settlement of debt should not be accounted for as investment property or as part of the assets of the bank. Such property should be recorded on a memorandum basis.

2.2 The related facility should remain classified in the books of the bank until such property is disposed of and the proceeds realized by the bank.

3. Your attention is drawn to section 48A of the Banking Act, No.30 of 1988, as amended by Act, No.33 of 1995, which requires banks to dispose of property acquired by foreclosure of collateral from defaulting customers or which have devolved on the banks as part settlement of debt, at the earliest opportunity.

Yours faithfully,

Sgd, **Director of Bank Supervision**

Ref. No. : 02/17/800/008/001

Bank Supervision Department

05 January 2009

To : Chief Executive Officers of all State Banks

**ESTABLISHMENT OF A REVOLVING FUND TO GRANT LOANS TO
ACQUIRE PROPERTY TO THE STATE SECTOR EMPLOYEES**

His Excellency the President, at the discussions held on 21 October 2008 with the state sector employees union, has directed the Central Bank to inform all state banks to establish a Revolving Fund for the purpose of granting loans to acquire property, to state sector employees. Accordingly, we request all state banks to accede to the above.

B D W A Silva

Director of Bank Supervision

Ref. No. : 02/17/600/0026/001

Bank Supervision Department

12 June, 2013

To : The CEOs of all Licensed Commercial Banks

FINANCIAL ACCOMMODATION TO FINANCE COMPANIES

We write to inform you that the applicability of the Circular issued under Ref. No. BS/13/89 dated 20 March 1989 on the above subject is hereby revoked.

Yours faithfully,

(Mrs.) T M J Y P Fernando

Director of Bank Supervision

Ref. No. : 02/17/800/0006/01

11 March 2010

**Directions to Licensed Commercial Banks
appointed as Authorised Dealers**

Dear Sir/Madam,

PREPAYMENT OF IMPORT BILLS

Licensed commercial banks appointed as authorised dealers are hereby informed that the Operating Instructions issued under Ref. No.02/17/800/0006/01 dated 31/10/2008 on the above subject are hereby withdrawn.

Yours faithfully,

Controller of Exchange

Director of Bank Supervision

Ref. No. : 02/17/800/0006/01

31 October 2008

**Instructions to Licensed Commercial Banks
Appointed as Authorised Dealers**

Dear Sirs,

PREPAYMENT OF IMPORT BILLS

The licensed commercial banks who are authorised dealers are informed that until further notice, they should not effect pre-payment of import bills and that such bills should be honoured as agreed to in the contract entered into with the supplier at the time of placing the import order.

Yours faithfully,

Controller of Exchange

Director of Bank Supervision

Ref. No. : 02/04/004/0009/001

Bank Supervision Department
8th Floor, Renuka Building
41, Janadhipathi Mawatha
Colombo 1.

17th August, 2001

*To : All Licensed Commercial Banks who are
Authorized Dealers in Foreign Exchange*

Dear Sirs,

PREPAYMENT OF IMPORT BILLS

We refer to our circular dated 29th January 2001 on the above subject, in terms of which licensed commercial banks who are Authorized Dealers were informed that they should not effect pre-payment of import bills and that such bills should be honoured on the date of maturity as agreed to in the contract entered into with the supplier at the time of placing the import order.

Commercial banks who are Authorized Dealers are hereby informed that this requirement is withdrawn with effect from Monday, 20th August 2001. However, a commercial bank/Authorized Dealer may use his discretion for prudential reasons to reject any prepayment of an import bill, without referring to us.

Yours faithfully,

Controller of Exchange

Director of Bank Supervision

Ref. No. : 02/05/009/0100/001

Bank Supervision Department
8th Floor, Renuka Building
41, Janadhipathi Mawatha
Colombo 1.

05 September, 2001

To : All Licensed Commercial Banks

RECOVERY OF ACCOMMODATION TO EXPORTERS

We refer to our circulars dated 22nd January, 2001, 29th January, 2001, 16th February, 2001 and 30th March, 2001 on the above subject.

As agreed at the Bank Managers' meeting held on 23rd August, 2001, licensed commercial banks may use their judgment and discretion to extend the credit period granted to exporters who experienced delays in dispatching their documents due to interruption of flights in July by a maximum of 7 days.

Sgd, P.T. Sirisena

Director of Bank Supervision

Ref. No. : 02/05/009/0100/001

Bank Supervision Department
8th Floor, Renuka Building
41, Janadhipathi Mawatha
Colombo 1.

30th March, 2001

To : All Licensed Commercial Banks

RECOVERY OF ACCOMMODATION TO EXPORTERS

We refer to our circulars 01/01/002/0034/001 dated 22nd January, 2001 and 02/05/009/0100/001 dated 29th January, 2001 and 16th February, 2001 on the above subject.

Some licensed commercial banks have sought further clarifications on the contents of the above circulars. Accordingly, we furnish the following clarifications;

1. Circulars will apply to credit granted to finance all types of export orders irrespective of the terms of payments which can be on sight, on deferred payment terms supported with letters of credit or other terms inclusive of bills on collection or on consignment basis. All such export credit should be recovered only out of export proceeds, and enhanced rates of interest should apply, if there is any delay in recovery of credit beyond the periods specified in the previous circulars.
2. There may be instances where export credit requested may not be identified with a particular export order with specific terms of payments. Also, some customers may negotiate for credit to finance imports of raw materials or other needs which are directly connected with export business, although it may be difficult to identify such credit with specific export orders. In such cases, banks are requested to apportion such credit among export orders or shipments of the particular exporter and enhanced rates of interest should apply if there is any delay in recovery of the apportioned credit beyond the periods specified in the previous circulars.
3. Certain instances have also been reported where some customers repay their export credit out of rupee funds on the grounds that export proceeds are brought and kept in their foreign currency accounts with banks. However, this would not conform to the method of recovery of export credit stipulated in our circulars. Banks are requested to recover export credit only out of export proceeds, which should be surrendered to banks in sufficient amounts to settle in full the export credit.

All banks are requested to refer queries, if any, to Director, Bank Supervision Department, for any further clarifications on the contents of these circulars.

Sgd. J M T B Jayasundara
Actg. Director of Bank Supervision

Ref. No. : 02/05/009/0100/001

Bank Supervision Department
8th Floor, Renuka Building
41, Janadhipathi Mawatha
Colombo 1.

16th February, 2001

To : *All Licensed Commercial Banks*

RECOVERY OF ACCOMMODATION TO EXPORTERS

I refer to our Circulars 01/01/002/0034/001 dated 22nd January, 2001 and 02/05/009/0100/001 dated 29th January, 2001, in which procedures agreed on the above subject were conveyed by us. Since then, some banks and exporters have requested an extension of the maximum period of 90 days granted from the date of shipment to settle export credit out of export proceeds, without being subjected to enhanced interest rates, on the ground that it is customary for certain exports to be made on 120 days deferred payment terms. They have cited, as an example, tea exports to Russia where, in the normal course of business, a period exceeding 90 days would be necessary for settlement of export credits.

2. Having considered these representations, it has now been decided that licensed commercial banks may use their judgement and discretion to enhance the period granted to settle export credit out of export proceeds up to 120 days from the date of shipment in respect of exports where it is customary to grant 120 days deferred payment terms to buyers. Accordingly, enhanced rates of interest applicable on accommodation in respect of such exports will be as follows.

- (i) 1,000 basis points *per annum*, where there is a delay of not more than 30 days beyond the 120 days or lesser period decided by the banks from the date of shipment; and
- (ii) an additional 200 basis points *per annum* for every 30 days delay thereafter.

This will come into effect from Monday 19th February, 2001.

3. The following clarifications on the contents of the two Circulars referred to above are also made for your information.

- (i) In the event the agreed payment period of the export bill/order connected with the accommodation exceeds 90 days or the period decided by the banks under the paragraph 2 above, enhanced interest rates would apply for the period beyond 90 days or the period decided by the banks, as the case may be, from the date of shipment.
- (ii) Where export credits are not recovered within 90 days or the period decided by banks under the paragraph 2 above, enhanced interest rates would apply to all accommodation granted to such exporters by way of purchasing/discounting bills, pre-shipment/post-shipment credit as well as other loans and overdraft facilities. In the event credit facilities such as overdrafts cannot be identified with a specific export bill/order, such credit facilities may be apportioned among export bills/orders of the customer concerned for the purpose of applying enhanced interest rates.
- (iii) Enhanced interest rates would apply to export credit facilities in rupees as well as in foreign currencies granted by both Domestic Banking Units and Foreign Currency Banking Units.
- (iv) Enhanced interest rates would not apply to credit facilities granted against export bills negotiated prior to 22nd January, 2001. However, enhanced interest rates would apply to

such credit facilities if they are not recovered out of export proceeds within the agreed payment period of the export bill/order.

- (v) The banks may permit exemption from enhanced interest rates in respect of credit facilities which will be granted against export bills which have been supported by Letters of Credit opened prior to 22nd January, 2001. However, enhanced interest rates would apply if such export credits are not recovered within the agreed period out of export proceeds.

4. The reporting format has now been changed as given in Annex. Please use the new format to report to the Bank Supervision Department monthly the details of accommodation and enhanced interest. In particular, please note that the credit settlement period of the normal 90 days or the enhanced 120 days should be indicated in column 2 of the Annex.

Sgd, P.T. Sirisena

Director of Bank Supervision

Ref. No. : 02/05/009/0100/001

Bank Supervision Department
8th Floor, Renuka Building
41, Janadhipathi Mawatha
Colombo 1

29th January, 2001

To : *All Licensed Commercial Banks*

RECOVERY OF ACCOMMODATION TO EXPORTERS

At the meeting of Bank Managers held on 26 January 2001 the Bank Managers sought clarifications with regard to the contents of the Circular No. 01/01/002/0034/001 of 22nd January 2001 on the above subject. The agreements reached at the meeting are set out below.

(A) Settlement of Export Credit out of Export proceeds

The Bank Managers raised the issue as to whether in all instances export credit should be settled out of proceeds of the relevant exports. It is agreed that export credit (including overdraft granted for export purposes) is granted on the basis that repayment would be made out of export proceeds and that, therefore, the enhanced interest rates specified in the circular would apply where there is failure to settle the export credit out of export proceeds within 90 days of the shipment of goods under the export order.

(B) Applicability of the Circular to Off-shore Banking Units

The Bank Managers also raised the issue as to whether the requirements of the circular would apply to off-shore banking units as well. It was agreed that the rationale underlying the requirements of the circular would apply equally to credit granted by both domestic units and off-shore units of banks which are part of a single licensed commercial bank and that, therefore, its requirements would apply to settlement of export credit granted by both such units.

(C) Applicability of the Circular to Overdrafts

The Bank Managers raised the question of the settlement of overdrafts out of export proceeds. It was agreed that the overdraft facilities granted for export purposes should be settled out of export proceeds within 90 days of the shipment of goods and the failure to do so would attract the enhanced interest rates specified in the circular.

Licensed commercial banks are required to abide by the agreements reached at the Bank Managers' meeting.

Director of Bank Supervision

Ref. No. : 01/01/002/0034/001

Department of Bank Supervision

22nd January, 2001

To : All Licensed Commercial Banks

RECOVERY OF ACCOMMODATION TO EXPORTERS

As discussed at the Bank Managers' meetings of 22nd December 2000 and 18th January 2001 and the meeting of Sri Lanka Forex Dealers' Association on 24th November 2000, it has been agreed that the delays in the settlement of accommodation granted by licensed commercial banks for financing export orders, can cause problems for the prudential management of the banks and that there is a need to adopt a uniform practice in this regard by all the banks.

2. Therefore, with a view to securing the early settlement of financial accommodation granted to exporters on the basis of export orders, licensed commercial banks are required to observe the following procedures with effect from 23 January 2001.

- (a) Licensed commercial banks should make every endeavour to ensure the repatriation of export proceeds in time against export orders made through them.
- (b) In doing so, licensed commercial banks should ensure that their borrowers settle in full the accommodation granted to finance export orders out of export proceeds within a period of 90 days from the date of shipment of goods in respect of which the accommodation has been granted.
- (c) In order to achieve the above objectives, the rate of interest applicable on such accommodation, where the borrower does not repay export proceeds in time, shall be enhanced as follows:
 - (i) 1,000 basis points *per annum*, where there is a delay of not more than 30 days beyond the 90 days from the date of shipment; and
 - (ii) an additional 200 basis points *per annum* for every 30 days delay thereafter.

3. Licensed commercial banks are hereby requested to submit monthly reports to the Director of Bank Supervision (DBS) on the details of such accommodation which has not been settled within the specified period in the format given in the Annexure.

4. Each monthly report should be submitted to DBS on or before the end of the second week of the subsequent month. Accordingly, the first report providing the aforementioned details in respect of January 2001 should reach DBS on or before 16th February 2001.

Chief Accountant

Director of Bank Supervision

Ref. No. : 02/17/600/0002/001

Bank Supervision Department

30 January 2009

*To : All Licensed Commercial Banks and
Licensed Specialised Banks*

Dear Sir/Madam,

CONCESSIONS GRANTED TO TOURISM INDUSTRY

In view of the major setback in global economic activities and their impact on the tourism industry, the Monetary Board has requested all licensed commercial banks and licensed specialised banks to grant the following concessions to those institutions in the tourism industry, that wish to avail themselves of such concessions:

- (i) Grant a moratorium of 6 months from January 2009 to June 2009, in respect of outstanding credit facilities to tourist hotel companies and the holding companies of such hotel companies, provided that the hotel companies concerned retain their employees at levels prevailing as at December 2008.
- (ii) Recover the capital and interest falling due during the moratorium period, from January 2010 onwards in thirty-six equal installments and a concessionary rate of interest be charged for this facility.
- (iii) Waive the penal interest imposed on any defaulted credit facilities taken by the tourist hotel companies, and the holding companies of such hotel companies.
- (iv) Continue to maintain any non-performing loans in the same category for provisioning purposes, during the six-month moratorium period.

Yours faithfully,

B D W A Silva

Director of Bank Supervision

Ref. No. : 02/17/600/0002/001

Bank Supervision Department

02 March 2009

*To : Chief Executive Officers of
all Licensed Commercial Banks*

Dear Sir/Madam,

RELIEF PACKAGE FOR THE TEA SECTOR

The Ministry of Finance and Planning by its Circular Letter dated 12 January 2009 has informed licensed commercial banks (LCBs) of a relief package for the tea sector. In this regard, the Government will provide a 100 percent Treasury Guarantee, subject to conditions including that such loans are secured on existing mortgages or any other security available with the respective banks.

In the event an LCB grants accommodation to a director of the bank or a close relation of such director or any concern in which a director has a substantial interest, the Banking Act requires the LCB to obtain securities approved by the Monetary Board.

In view of the above, the Monetary Board approved of the following in relation to security to be obtained by an LCB in granting accommodation to a director of the bank or a close relation of such director or any concern in which a director has a substantial interest, under the relief package for the tea sector:

The unexpired period of lease of immovable property held on leasehold basis referred to in paragraph 1(h)(ii) of the Determination dated 11 February 2005, issued in terms of Section 47(3), (4), (5) and (6) of the Banking Act be reduced to a period of at least 25 years for this purpose.

Yours faithfully

B D W A Silva
Director of Bank Supervision

Ref. No. : 02/17/800/007/001

Bank Supervision Department

03 March 2009

*To : CEOs of Licensed Commercial Banks and
Licensed Specialised Banks*

Dear Sir/Madam,

GRANTING CREDIT FACILITIES TO PRIVATE SECTOR

It has been brought to our notice that some banks have informed their customers that the Central Bank has required banks to curtail credit to their customers.

The recent trends show that growth in credit to the private sector has decelerated significantly. Inflation and inflation expectations are also moderating. In view of these developments and to mitigate the negative consequences of the global financial turmoil on the domestic economy, the Central Bank has also taken several measures to ease conditions in the domestic financial markets.

Accordingly, you may take appropriate measures to expand credit to the private sector, based on the evaluation of credit risk of the customers.

Yours faithfully,

B D W A Silva

Director of Bank Supervision

Order made by the Monetary Board of the Central Bank of Sri Lanka under Section 101(1) of the Monetary Law Act, No. 58 of 1949, as amended.

Sgd. Nivard Ajith Leslie Cabraal

*Chairman of the Monetary Board and
Governor of the Central Bank of Sri Lanka*

Colombo
12 March 2012.

**MONETARY LAW ACT, ORDER NO. 1 OF 2012
CEILING ON CREDIT GROWTH OF LICENSED BANKS**

In view of the higher than desired increase in credit extended by licensed banks and its impact on the monetary aggregates and inflation, the Monetary Board in the exercise of powers conferred by Section 101(1) of the Monetary Law Act, No. 58 of 1949, as amended, hereby issues Orders No. 1 of 2012 as follows:

1. The credit growth of a licensed bank in the year 2012 shall not exceed 18 per cent of the total outstanding of credit as at end of year 2011 or Rs. 800 million, whichever is higher. Provided however, that a licensed bank may grant credit in the year 2012 in excess of 18 per cent or Rs. 800 million, up to 23 per cent of the total outstanding of credit as at end of year 2011 or Rs. 1,000 million, whichever is higher, where corresponding funds are raised from overseas sources. Credit growth limits.

2. The following definitions shall be applicable for the purposes of this Order. Definitions.
 - i.* "Credit" shall mean all on-balance sheet rupee credit facilities such as any loan, overdraft or advance inclusive of finance leases, hire purchase and trade finance.
 - ii.* "Outstanding amount of credit" shall mean:
 - a.* In the case of overdrafts and credit card receivables, the total of outstanding amount after deducting all accrued interest of all non-performing overdrafts and credit card receivables.
 - b.* In the case of other loan and advances (other than overdrafts and credit card receivables), the total of capital outstanding amount after deducting all accrued interest on performing and non-performing loans and advances.

Ref. No. : 02/04/004/0005/001

Central Bank of Sri Lanka
Bank Supervision Department

To : *All Licensed Commercial Banks and
all Licensed Specialised Banks*

GUIDELINES ON THE GRANT OF FACILITIES FOR THE ISSUE OF COMMERCIAL PAPER AND OTHER FORMS OF PROMISSORY NOTES

All Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs) are hereby required to observe the following guidelines when they provide accommodation for the issue of Commercial Paper and other forms of Promissory Notes (CP/PN) by their corporate customers by accepting, endorsing, guaranteeing, underwriting or purchasing such CP/PN, or where they support the issue of such instruments by acting as issuing/paying agents, dealers, or by authenticating signatures of the issuers.

- 1. Form of Commercial Paper/Promissory Notes** – CP/PN shall take the form of a usance promissory note negotiable by delivery or endorsement and delivery, in accordance with the Bills of Exchange Ordinance.
- 2. Eligibility Criteria** – The LCBs and LSBs shall observe the following criteria when supporting the issue of CP/PN referred to above:
 - 2.1 The issuing corporate customers should not be LCBs, LSBs or Finance Companies.
 - 2.2 All existing credit facilities enjoyed by the issuing company with any LCB/LSB should be “current” in terms of the Central Bank’s Directions on Non-Performing Advances issued under Section 46A and Section 76J(I) of the Banking Act for LCBs and LSBs, respectively.
 - 2.3 In the case of providing accommodation, the issuing company should have an approved stand-by credit line from the LCB/LSB supporting the issue, to the full redemption value, which should be specifically reserved for the purposes of redemption of such CP/PN. Such credit line should be for a period longer than the maturity date of CP/PN.

OR

An ‘investment grade rating’ by a Rating Agency approved by the Central Bank of Sri Lanka.

“full redemption value” refers to the amount of the principal, interest and any other charges which is payable upon redemption of such CP/PN.

- 3. Procedures** – A LCB's/LSB's support for the issue of CP/PN does not require the prior approval of the Central Bank of Sri Lanka. However, in supporting the issue of these instruments, LCBs/LSBs shall ensure that:
 - 3.1 The company intending to issue such CP/PN submits to LCBs/LSBs –
 - (a) A written request indicating the nature of support applied for in respect of each issue of CP/PN;
 - (b) Comprehensive financial information which would include company profiles and financial data including a projected cash flow statement;
 - (c) The value of CP/PN already issued and outstanding;
 - (d) Board resolution for the issue of CP/PN concerned.

- 3.2 The LCBs/LSBs should also ensure that the company profiles and financial data are made available to investors upon request.
- 3.3 An adequate appraisal of the financial condition of the issuer is carried out and due caution is exercised before lending the support of the LCB/LSB. For this purpose, the LCB/LSB should, among other things, obtain a report from the Credit Information Bureau (CRIB).
- 3.4 The CP/PN are printed on good quality security paper incorporating adequate security features, that necessary precautions have been taken to keep documents in safe custody, preventing access by unauthorised persons.
- 3.5 The issue of CP/PN is completed within a period of 14 calendar days from the date of issue. Thus, any unsold portion of the issue after the 14 day cannot be issued.
- 3.6 Each single issue of CP/PN should have the same maturity date.
- 3.7 The issuing company should discharge the obligations on the CP/PN on the date of maturity. No grace period shall be given to the issuer in this regard.
- 3.8 The CP/PN shall contain the following minimum information/features:
 - (a) The description of debt instrument should be clearly printed on it;
 - (b) Name of the issuing company;
 - (c) Serial number;
 - (d) Place of payment (of interest and principal);
 - (e) Date of issue;
 - (f) Amount (in words and figures);
 - (g) Date of maturity;
 - (h) Names of the issuing and paying agents;
 - (i) If the repayment of principal and payment of interest are guaranteed, name of the guarantor;
 - (j) Signatures of authorised signatories of the issuing company
 - (k) Where the LCB/LSB does not accept any obligation for the payment on the CP/PN, as when it only authenticates the signature, such fact should be conspicuously stated on the CP/PN;
 - (l) The counterfoil of CP/PN should also contain the information at (a) to (k). In the case of (j), the signature/initials of the respective signatories.
 - (m) Adequate space should be provided for endorsements on the reverse of the CP/PN.
- 3.9
 - (a) The LCB's/LSB's accounts in respect of CP/PN should be in conformity with applicable/accepted accounting practices and non fund based support for CP/PN should be recorded and reported as off-balance sheet items.
 - (b) The LCB's/LSB's obligations/commitments on CP/PN shall be reported in the statutory returns submitted to the Central Bank of Sri Lanka.
 - (c) Details of the LCB/LSB support for the issue of CP/PN outstanding monthly, shall be reported to the Director of Bank Supervision in a monthly statement as in the annexed format. This statement shall be submitted by the 15th of the following month, duly certifying that the obligations of the LCB/LSB under the different categories of issue, as recorded in the General Ledger, are correctly reflected in the statement. A 'nil' statement should be sent if there are no outstanding balances.

3.10 The LCBs/LSBs supporting the issue of CP/PN should conform to all legal requirements.

3.11 Roll-over of CP/PN should be considered as a new issue.

4. Prudential Requirements of the Central Bank

4.1 All credit facilities extended, and commitments made, by LCBs/LSBs relating to the issue of CP/PN will be treated as accommodation granted to the issuing company and shall be subject to directions issued from time to time under the Banking Act and to all prudential guidelines issued by the Central Bank.

5. These Guidelines shall be effective from 05 January 2001.

6. Guidelines to Licensed Commercial Banks in Sri Lanka on the grant of facilities for the issue of Commercial Paper dated 05.06.1995 are hereby rescinded.

7. Any clarifications/queries with regard to these Guidelines should be addressed to the Director of Bank Supervision.

Sgd. P. T. Sirisena

Director of Bank Supervision

05 January 2001

| Monthly Statement of Commercial Paper / Promissory Notes | | | | | | | | |
|--|--|--|---|--------------------------|---------------------------------|------------------------------------|-----------------------------|--------------------------|
| As at in terms of Guidelines dated 5 January 2001 | | | | | | | | |
| (Amounts in Rupees Thousands) | | | | | | | | |
| Name of Issuing Company (1) | Legal Status of Issuing Company (2) | Type of Promissory Notes Issued (3) | Amount of the Issue (Face Value) (4) | Amount Subscribed (5) | Date of Issue (YY/MM/DD) (6) | Date of Maturity (YY/MM/DD) (7) | Rate of Interest (%) (8) | Nature of Support (9) |
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |

Instructions :*** Column (2)**

Please indicate using the following Codes :

Private Company – PR
 Public Unquoted Company – PU
 Public Quoted Company – PQ
 Peoples Company – PC

*** Column (3) :** Please indicate whether Commercial Paper (CP), Promissory Notes (PN), or any other form (Please specify)

* This statement should reach the Director, Bank Supervision Department on or before the 15th of the following month.

* A 'nil' statement should be submitted if there are no outstanding amounts.

We hereby certify that this statement reflects the value of support extended to the Bank's customers and that the statement figures tally with the General Ledger Balances as at the end of the month.

Date :

Name of Bank :

Authorised Officer :

*** Column (9)**

Please indicate using the following

Codes :

Nature of Support Code

Accepting AC
 Endorsing EN
 Guaranteeing GT
 Underwriting UN
 Purchasing PR
 Issuing Agent IA
 Paying Agent PA
 Dealer DE
 Authenticating AU

Ref. No. : 02/17/500/0540/001

Bank Supervision Department

05 April, 2013

To : The CEOs of all Licensed Commercial Banks

**DEFINITION OF LIQUID ASSETS UNDER SECTION 86 OF THE
BANKING ACT, NO. 30 OF 1988, AS AMENDED**

The Monetary Board has determined that investments in Gilt Unit Trusts (GUTs) by LCBs shall be treated as liquid assets in terms of item (g) of the definition of “liquid assets” under Section 86 of the Banking Act, No. 30 of 1988, subject to the following conditions.

- (a) GUTs should be open ended mutual funds.
- (b) Underlying investment portfolio of GUTs should always be Sri Lanka Government Securities (Treasury bills and Treasury Bonds).
- (c) Only 90% of investments in GUTs should be treated as liquid assets.

Licensed Commercial Banks are further informed that, the eligible value of the investments in GUTs be reported under code number 4.1.2.4.0.0 of the monthly web based return on Statutory Liquid Assets Ratio for Domestic Banking Unit (BSD-MF-04-LD).

Yours faithfully,

(Mrs.) T M J Y P Fernando
Director of Bank Supervision

Ref. No. : 02/17/500/0540/001

Bank Supervision Department

26 October, 2012

To : The CEOs of all Licensed Commercial Banks

**DEFINITION OF LIQUID ASSETS UNDER SECTION 86 OF THE
BANKING ACT, NO. 30 OF 1988, AS AMENDED**

We refer to the Circular No. 02/04/002/005/002 dated 31 January 2001 on the above subject and write to clarify the following with respect to the requirement therein for Commercial Paper/Promissory Notes to be backed by an approved standby credit line from a licensed commercial bank/licensed specialised bank.

A licensed commercial bank could consider 50% of its investments in Commercial Paper/Promissory Notes as liquid assets only if such Commercial Paper/Promissory Notes are backed by an approved standby credit line supporting the issue to the full redemption value from another licensed commercial bank/licensed specialised bank.

Yours faithfully,

(Mrs.) T M J Y P Fernando
Director of Bank Supervision

Ref. No. : 02/17/500/0540/001

Bank Supervision Department

15 October, 2012

To : The CEOs of all Licensed Commercial Banks

**DEFINITION OF LIQUID ASSETS UNDER SECTION 86 OF THE
BANKING ACT, NO. 30 OF 1988, AS AMENDED**

The Monetary Board has determined that Reverse Repurchase Agreements in Treasury bills and Treasury bonds shall be treated as liquid assets in terms of item (g) of the definition of “liquid assets” under Section 86 of the Banking Act, No. 30 of 1988.

Licensed commercial banks may, therefore, take into account the daily outstanding amount of the Reverse Repurchase Agreements or the market value of the underlying securities held under Reverse Repurchase Agreements, whichever is less, in computing their liquid assets ratio.

Licensed commercial banks are further informed that, the eligible value of the Reverse Repurchase Agreements in Treasury bills and Treasury bonds should be reported under code number 4.1.2.4.0.0 and 4.1.2.13.0.0, respectively, of the monthly web based return on Statutory Liquid Assets Ratio for Domestic Banking Unit (BSD-MF-04-LD).

Yours faithfully,

(Mrs.) T M J Y P Fernando

Director of Bank Supervision

My. No. : 02/17/800/0005/01

Bank Supervision Department

20 August 2008

To : CEOs of all Licensed Commercial Banks

Dear Sirs,

**DEFINITION OF LIQUID ASSETS – UNDER SECTION 86 OF THE
BANKING ACT, No. 30 OF 1988, AS AMENDED**

The Monetary Board has determined that investment in the International Sovereign Bonds issued in 2007 by the Government of Sri Lanka shall be treated as liquid assets in terms of item (g) of the definition of “liquid assets” under Section 86 of the Banking Act, No.30 of 1988.

Licensed commercial banks may, therefore, take into account the daily market value of their investment in the International Sovereign Bonds in computing their liquid assets ratio for the purpose of complying with the provisions of Section 21 of the Banking Act.

Yours faithfully,

B D W A Silva

Director of Bank Supervision

Ref. No. : 02/04/002/0106/001

Bank Supervision Department

15th August 2002

To : *All Licensed Commercial Banks*

**DEFINITION OF LIQUID ASSETS – UNDER SECTION 86 OF THE
BANKING ACT NO: 30 OF 1988**

In exercise of the powers conferred by paragraph (g) of the definition of “liquid assets” in Section 86 of the Banking Act, No.30 of 1988 as amended by Banking (Amendment) Act, No.33 of 1995, the Monetary Board has determined that Sri Lanka Development Bonds (SLDBs) issued under the Foreign Loans Act, No.29 of 1957 shall be liquid assets.

Licensed Commercial Banks may, therefore, take into account the daily market value of their investment in SLDBs for the purpose of complying with the provisions of Section 21 of the Banking Act, relating to maintaining liquid assets.

Yours faithfully,

Sgd. **Director of Bank Supervision**

Ref. No. : 02/04/002/0005/002

Bank Supervision Department
Central Bank of Sri Lanka
8th Floor, Renuka Building
41, Janadhipathi Mawatha
Colombo 1

31st January 2001

To : All Licensed Commercial Banks

Dear Sir/Madam,

**DEFINITION OF LIQUID ASSETS – UNDER SECTION 86 OF THE
BANKING ACT No. 30 OF 1988**

In exercise of the powers conferred by Item (g) of the definition of “liquid assets” in Section 86 of the Banking Act, No.30 of 1988, the Monetary Board has determined that 50% of the investments in Commercial Paper/Promissory Notes, which are backed by an approved standby credit line from a Licensed Commercial Bank/Licensed Specialised Bank supporting the issue to the full redemption value or an investment grade rating by a Rating Agency approved by the Central Bank of Sri Lanka, and has a remaining maturity of less than 1 year be considered as liquid assets.

Kindly acknowledge receipt of this letter.

Yours faithfully,

Sgd. P. T. Sirisena
Director of Bank Supervision

Ref. No. : BS/35/97

Bank Supervision Department
Central Bank of Sri Lanka
8th Floor – Renuka Building
41 Janadhipathi Mawatha
Colombo 1.

15th May 1998.

To : All Licensed Commercial Banks

Dear Sir,

**DEFINITION OF LIQUID ASSETS – UNDER SECTION 86 OF THE
BANKING ACT NO. 30 OF 1988**

In exercise of the powers conferred by paragraph (g) of the definition of “liquid assets” in section 86 of the Banking Act, the Monetary Board has determined that Treasury Bonds issued under section 21A of the Registered Stock and Securities Ordinance shall be liquid assets.

The commercial banks may, therefore, take into account the Treasury Bonds they hold on their account for the purpose of complying with the provisions of section 21 of the Banking Act relating to their obligation to maintain the required amount in liquid assets.

Yours faithfully,

Sgd. Y. A. Piyatissa
Director of Bank Supervision

Ref. No. : BS/14/88 Vol. IV

24th March, 1997

Sent to : All 26 Commercial Banks

Dear Sir,

MONTHLY STATEMENT OF LIQUID ASSETS

Your attention is drawn to our letter No. BS/14/88 of Vol. II dated 10th April, 1989 on the above subject.

We wish to inform you that the Monetary Board of the Central Bank of Sri Lanka has approved of the reporting of the re-discountable value of Treasury Bills held instead of the purchase prices of such Bills by commercial banks as part of their liquid assets in the monthly liquid assets statements furnished to the Central Bank.

The re-discountable value referred to above means the value of Treasury Bills arrived at on the basis of re-discounting prices determined by the Chief Accountant of the Central Bank of Sri Lanka.

Please acknowledge receipt of the letter.

Yours faithfully,

Sgd. Y. A. Piyatissa
Director of Bank Supervision

Ref. No. : BS/14/88 Vol. III

10th April, 1989

Dear Sir,

BANKING ACT NO. 30 OF 1988
MONTHLY STATEMENT OF LIQUID ASSETS

All licensed commercial banks are required, in terms of section 21(2) of the Banking Act, No.30 of 1988, to submit a monthly return certifying the total liabilities and the volume of liquid assets required to be maintained, substantially in the form shown in Appendix I of this notice. Such statement should be forwarded before the 15th day of the month following the month to which the statement relates.

In view of the fact that the Monetary Board has decided that maintenance of Liquid Assets, in accordance with the determination made by the Monetary Board as set out in Paragraph 5 of the notice dated 1st March, 1989, would come into operation with effect from 1st April, 1989, the first return (*i.e.* the return for the month of April) should be forwarded before 15th May, 1989.

Yours faithfully,

Sgd. **P. T. Sirisena**

Director of Bank Supervision

APPENDIX I

From :

To : Director of Bank Supervision
Central Bank of Sri Lanka**STATUTORY LIQUID ASSETS**

(Return in terms of section 21(2) of the Banking Act, No. 30 of 1988)

Sri Lanka Rs. ('000)

| | |
|---|-------|
| A. 1. Total liabilities excluding contingent liabilities as at the beginning of the first working day of the month of (base date) | ..... |
| <i>Less :</i> | |
| (a) Liabilities to the shareholders | ..... |
| (b) Liabilities to the Central Bank | ..... |
| B. Average statutory liquid assets for the Month of (maintenance period) | ..... |
| 1. Cash | ..... |
| 2. Balances with licensed commercial banks | ..... |
| 3. Money at call in Sri Lanka | ..... |
| 4. Treasury Bills and Securities issued or guaranteed by the Govt. of Sri Lanka which have a maturity not exceeding one year | ..... |
| 5. Goods Receipts | ..... |
| 6. Import Bills | ..... |
| 7. Export Bills | ..... |
| 8. Inland Bills | ..... |
| 9. Cash Items in process of collection | ..... |
| 10. Balances with banks abroad | ..... |
| 11. Treasury bonds issued under section 21A of the Registered Stock and Securities Ordinance | ..... |
| Total Liquid Assets | ..... |
| C. Liquid Assets Ratio (B as a % of A) | ..... |

We / I hereby certify that the above statement is correct and is in accordance with the books of this bank.

.....
Authorised Official Signature

Date :

Note : The base date is the first working day of the month preceding the maintenance period.

e.g. Liquid assets for April will be based on Liabilities on March 1st.

The required liquid assets should be maintained for a period (maintenance period) commencing on the 1st working day and ending on the last working day of the calendar month following the month in which the base date occurs.

Ref. No : 02/04/002/0005/003

Bank Supervision Department

20 May 2004

To : All Licensed Commercial Banks

Dear Sir/Madam,

**MONTHLY STATEMENT OF LIQUID ASSETS
FOR THE DOMESTIC BANKING UNIT (DBU) AND
OFF-SHORE BANKING UNIT (OBU)**

Reference the Determination dated 24.12.2002 and Directions dated 21.01.2003 and 08.10.2003 on the above subject.

All licensed commercial banks are required to note that they should maintain Statutory Liquid Assets of an amount not less than 20% of total liabilities, less liabilities to the Central Bank and to the share holders, in respect of the DBU in Rupees and in respect of the OBU in US dollars, for each month commencing May 2004.

Any deficiency in Statutory Liquid Assets in the DBU or in the OBU will be subject to the provisions of Section 21(3) of the Banking Act, No.30 of 1988 as amended by the Banking (Amendment) Act, No.33 of 1995, and the penalty involved will be payable in Rupees in the case of the DBU and in US dollars in the case of the OBU.

Please acknowledge receipt of this letter.

Yours faithfully,

Director of Bank Supervision

Bank Supervision Department

8th October 2003

To : All Licensed Commercial Banks

Dear Sir/Madam,

**MONTHLY STATEMENT OF LIQUID ASSETS
FOR THE OFF-SHORE BANKING UNIT**

Further to our letter dated 21 January 2003, and the discussion on the above subject at the Meeting of the Chief Executive Officers of Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs), all LCBs are informed as follows:

1. **Monthly Return on Liquid Assets** – Since the liabilities of the Off-shore Banking Unit (OSBU) are in foreign currency, the liquid assets for meeting the Statutory Liquid Assets Ratio (SLAR) shall also be in foreign currency. A separate return indicating the SLAR for the OSBU in respect of each month, computed on the same basis as for the DBU shall be submitted each month.
2. **Placements of the Domestic Banking Unit (DBU) with own OSBU** – In computing the liquid assets ratio of the Domestic Banking Unit, placements of the DBU of a LCB with its own OSBU will be limited to 20%. The full amount of the placements should be included in the liability base of the OSBU.
3. **Liquid Assets of the OSBU** – Banks are required to ensure that the liquid assets included in the computation fall within the meaning of defined liquid assets. In this regard, the following could be considered:
 - a. Securities/Bonds issued by Foreign Governments maturing within 1 year
 - b. Other debt securities and Bonds, maturing within 1 year, which are traded on an exchange, or have an investment grade rating, or are backed by a standby credit facility from a banking institution.

Such investments, which are not already defined as liquid assets, could be included with the prior approval of the Central Bank of Sri Lanka.

Yours faithfully,

Director of Bank Supervision

Ref. No. : 02/04/002/0005/003

Bank Supervision Department

21st January 2003

To : All Licensed Commercial Banks

Dear Sir/Madam,

BANKING ACT NO. 30 OF 1988
MONTHLY STATEMENT OF LIQUID ASSETS FOR THE OFF-SHORE BANKING UNIT

Reference the Circular dated 24 December 2002, regarding the application of the provisions under Section 21(2) of the Banking Act, No.30 of 1988 to the off shore banking business of Licensed Commercial Banks, with effect from January 2003.

In terms of the provisions of the above Section, all Licensed Commercial Banks are required to submit a separate monthly return in respect of their off-shore banking business, indicating the total liabilities and the volume of liquid assets maintained by the Off-shore Banking Unit. Your attention is invited to the need to maintain the liquid asset in respect of the off-shore banking business in foreign currency. The return should be denominated in US dollars, whilst the liquid asset components and the format of the return would be the same as for the Domestic Banking Unit. In view of the fact that the determination would come into operation with effect from 31 January 2003, the first return for the month of January 2003, should be forwarded to the undersigned by 15 February 2003.

You are hereby informed that the penalty for any shortfall in the Statutory Liquid Assets Ratio in terms of Section 21(3) would also be payable in foreign currency.

Yours faithfully,

Director of Bank Supervision

**APPLICATION OF PRUDENTIAL REGULATIONS ON
OFF-SHORE BANKING UNITS**

Determination dated 10 April 1989 on Statutory Liquid Assets Ratio issued under Section 21(2) of the Banking Act:

The above Determination shall be applicable to all licensed commercial banks in respect of both the domestic banking business and the off-shore banking business on a consolidated basis, with effect from 01 January 2003.

Sgd. A. S. Jayawardena
Governor

Colombo
24 December 2002

BANKING ACT

Directions made by the Monetary Board of the Central Bank of Sri Lanka under Section 46(1) of the Banking Act, No.30 of 1988 as amended by the Banking (Amendment) Act, No.33 of 1995 and Act, No.2 of 2005.

Sgd. Sunil Mendis

Governor

Colombo
01-03-2006.

DIRECTION ON THE PRUDENTIAL NORMS FOR CLASSIFICATION, VALUATION AND OPERATION OF THE BANK'S INVESTMENT PORTFOLIO

1. With effect from 31 March 2006, all Licensed Commercial Banks are required to classify their investment portfolio under two categories: *i.e.*, the Investment Account and the Trading Account. All banks are required to maintain two separate books of accounts for this purpose.
2. Banks should decide on the category of investment at the time of acquisition and the decision should be documented. Classification is not a free choice but is based on facts and the management's intent at the date of purchase. Transfers between categories after initial recognition are restricted.
3. The criteria for classifying and valuation of the bank's investment portfolio are as provided below:

A. Investment Account

- (a) All securities acquired with the *positive intent* and *ability to hold till maturity* shall be classified under the Investment Account.
 - (i) Positive intent *cannot* be demonstrated if:
 - the bank has the intent to hold the securities for only an undefined period; or
 - the bank stands ready to sell the securities in response to changes in market interest rates or risks, liquidity needs, changes in the availability of the yield on alternative investments, changes in financing sources or terms, or changes in foreign currency risk; or
 - the issuer has a right to settle the securities at an amount significantly below its amortised cost.
 - (ii) The ability to hold the securities to maturity *cannot* be demonstrated if:
 - the bank does not have the financial resources available to continue to finance the investment until maturity; or
 - the bank is subject to legal or other constraints that could frustrate its intention to hold the securities to maturity.
 - (iii) When a bank's actions cast doubt on its intent or ability to hold investments to maturity, the Central Bank of Sri Lanka shall retain the right to reclassify all or part of the Investment Account as Trading and require appropriate provisioning.

- (b) All unlisted securities (*eg.*: shares, debentures) should generally be classified under the Investment Account. However, government securities will have to be classified based on the rules specified under point A(a) above.
- (c) Securities in the Investment Account may be used for repurchase transactions.
- (d) Securities in the Investment Account shall be carried and reported at acquisition cost over the period of redemption.
- (i) Carrying values of interest bearing securities in the Investment Account may be adjusted to account for the accretion of discount (or depletion of premium). The adjustments should be amortised annually on a straight-line basis over the period to maturity.
- (ii) All other securities should be maintained at cost. Any impairment in value which is considered to be permanent should be fully provided for in the Profit & Loss Account immediately. The following conditions should be taken into consideration in deciding on whether there is an impairment of value.
- Track record of dividends/returns – Non-receipt of dividends/returns for a consecutive period of three years, should be considered as an impairment and the investment should be classified as non-performing.
 - Market prices – A continuously declining trend in market prices, with the investment value being below cost for over three years should be considered as an impairment in value.
- (iii) The Central Bank of Sri Lanka will retain the flexibility to consider specific requests/exceptions in this regard.
- (iv) Any impairment in value or losses on the sale of investments held in the Investment Account should be taken to the Profit & Loss Account.
- (e) Sale of securities classified under the Investment Account should only be an insignificant amount of the investment portfolio and should be limited to circumstances that do not taint the rest of the portfolio. These circumstances are:
- if the investment was close enough to maturity or call date so that changes in the market rate of interest could not have a significant effect on the investment's market value;
 - the sale is made after the entity has collected substantially all of the investment's original principal through scheduled payments or prepayments;
 - the sale was due to an isolated event that was beyond the entity's control, non-recurring and could not have been reasonably anticipated.

B. Trading Account

- (a) All securities acquired for the specific purpose of trading on a regular basis (at least every quarter), to take advantage of the short-term changes in market prices and yields, shall be classified under the Trading Account. The classification of Trading assets is based on original intention and these are not transferred to the Investment category because intention subsequently changes.
- (b) Securities held in the Trading Account must be revalued or marked to market on a daily basis. In the case of securities for which daily prices are not available, banks are advised to

mark to market at least on a weekly basis. Where two-way quotes are published (*eg.*: Rates for government securities), the middle rate should be adopted.

- (c) Any gains or losses on the sale of investments held in the Trading Account should be taken to the Profit & Loss Account.

C. Transfer of Securities

The transfer of securities between portfolios will generally not be permitted, except under specified circumstances. This is to limit the opportunities to manipulate the recognition of gains or losses or to mask changes in market value.

- (a) Transfer of securities between the Trading Account and the Investment Account must be justifiable, documented and authorised.
- (b) Portfolio transfers to or from the Investment Account shall only be undertaken rarely (preferably at the beginning of the accounting year), with the approval of the Board of Directors, the Assets and Liability Committee or the Investment Committee. The circumstances justifying such transfers are given below:
 - (i) A change in the statutory and regulatory requirements.
 - (ii) A significant increase in the capital requirements that may oblige the Bank to reduce its investment holdings.
 - (iii) A major business occurrence that necessitates the transfer of securities to maintain the Bank's risk profile.
 - (iv) Exceptional circumstances such as tight liquidity conditions and extremely volatility.
- (c) The carrying value of securities transferred from the Trading Account into the Investment Account shall be marked to market prior to the transfer. Therefore, any gains or losses due to revaluation would have been recognised in earnings prior to the transfer. The market value of the securities at the point of transfer into the Investment Account then becomes the 'acquisition cost' for accounting purposes.
- (d) A statement on portfolio transfers, if any, shall be signed by the Chief Executive Officer of the Bank and submitted to the Bank Supervision Department of the Central Bank of Sri Lanka, on a quarterly basis.
- (e) The Central Bank of Sri Lanka will retain the right to review the statement of portfolio transfers and require the bank to make provisions if considered necessary.

Directions issued by the Monetary Board of the Central Bank of Sri Lanka under Section 46(1) of the Banking Act, No. 30 of 1988, as amended.

Nivard Ajith Leslie Cabraal

*Chairman of the Monetary Board /
Governor of the Central Bank of Sri Lanka*

Colombo
01 September 2009.

BANKING ACT, DIRECTION NO.3 OF 2009
DIRECTIONS ON RISK MANAGEMENT RELATING TO
FOREIGN EXCHANGE BUSINESS OF LICENSED COMMERCIAL BANKS

In the exercise of the powers conferred by Section 46 of the Banking Act, No. 30 of 1988, last amended by the Banking (Amendment) Act, No. 46 of 2006, the Monetary Board hereby issues these Directions under provisions of Section 46(1) of the Act in respect of risk management relating to foreign exchange business of licensed commercial banks.

1. Introduction

- 1.1 The purpose of these Directions is to standardise and strengthen foreign exchange risk management systems in Licensed Commercial Banks (LCBs) and increase their soundness, thereby strengthening financial system stability.
- 1.2 In the case of financial derivatives, detailed operational guidelines and effective foreign exchange risk management practices have been already set out in the “Directions on Financial Derivative Products” issued by the Director International Operations and the Controller of Exchange, on 31 July 2009. These Directions shall therefore, be read in conjunction with the above mentioned Directions.
- 1.3 These Directions shall be effective from 01 September 2009.
- 1.4 All LCBs shall fully comply with the provisions as set out in this Directions No. 3, on or before 31 March 2010.

2. Foreign Exchange Risk Management Policy

- 2.1 LCBs shall ensure that policies, procedures, controls and limits are established to identify, measure, monitor and control foreign exchange risks. These policies, procedures and controls in relation to foreign exchange risk management shall be:
 - (i) approved by the Board of Directors;
 - (ii) properly documented and drawn up after consideration of the foreign exchange risks associated with different types of products and processes;
 - (iii) circulated among staff of all relevant departments and units;
 - (iv) reviewed by the Board of Directors on a regular basis, at least annually, to ensure that such policies, procedures and controls remain relevant, appropriate and timely.

- 2.2 The design of foreign exchange risk management policies, procedures, controls and limits, shall at least cover:
- (i) responsibilities of the Board, senior management and all other staff involved;
 - (ii) risk monitoring and control;
 - (iii) approved products;
 - (iv) internal and external limits, including system-wide and trading limits;
 - (v) risk measurement and reporting;
 - (vi) stress testing mechanisms;
 - (vii) valuation of foreign currency positions;
 - (viii) internal controls and audit;
 - (ix) fit and proper criteria for persons engaged in foreign exchange business;
 - (x) procedure for the introduction of new products, services and activities; and
 - (xi) contingency planning.
- 2.3 The foreign exchange risk management policies and procedures shall be supplemented with ethical rules and standards, such as a comprehensive Code of Conduct, for adherence by the employees engaged in foreign exchange activities.

3. Responsibilities of the Board and Senior Management and all other staff involved

- 3.1 The Board/senior management shall, take measures to strengthen the foreign exchange risk management systems and their soundness through the following:
- (i) put in place Board approved prudent foreign exchange risk management policies and connected procedures and oversee the implementation of the same;
 - (ii) duly document related internal control procedures in the form of procedure manuals;
 - (iii) review the policies on a regular basis, at least annually, in an appropriate manner;
 - (iv) establish an Asset and Liability Management Committee (ALCO) for, inter alia, the management of foreign currency denominated assets and liabilities within the risk parameters approved by the Board;
 - (v) establish, inter alia, a mechanism such as a Middle office, to monitor the foreign exchange risk, on an on going basis, and report the same to the ALCO;
 - (vi) ensure the establishment of appropriate risk parameters for the ALCO and/or senior management in the management of the foreign exchange risk;
 - (vii) review the results of periodic stress tests to assess the potential impact of various shocks and evaluate the bank's capacity to withstand stressed situations in terms of profitability, liquidity and capital adequacy;
 - (viii) formulate an efficient Management Information System for reporting foreign exchange related activities, with facilities to escalate all exceptional transactions to the Board or the senior management as the case may be;
 - (ix) ensure that the Board and senior management fully understand the risks involved;

- (x) formulate procedures to seek and obtain separate independent professional advice where necessary, in order to assist the Board of Directors to discharge its duties in this regard;
- (xi) approve the introduction of all new products, services and activities.

3.2 LCBs shall adhere to the rules applicable to Integrated Risk Management Committees as per the rules set out in Direction No. 11 of 2007 on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka', since such rules have a general application with regard to the responsibilities of the Board and senior management.

4. Risk Monitoring and Control

4.1 LCBs shall:

- (i) document the procedures and internal controls to be performed by Front Office, Middle Office and Back Office;
- (ii) establish a system to monitor their foreign exchange risks on an ongoing basis;
- (iii) report such risks on an ongoing basis to the ALCO;
- (iv) ensure the effective segregation of duties and responsibilities on trading, risk management, measurement, monitoring, settlement, accounting, auditing and legal functions through:
 - (a) the physical and functional separation of the Front Office/Trading Room and the Middle/Back Office functions;
 - (b) the establishment of a clear understanding of responsibilities and reporting obligations to the operating staff;
 - (c) the restriction of access to the trading room and each of the identified functional areas to authorised personnel only;
 - (d) the prevention of the application of undue influence by the Front Office on the Middle/Back Office operations;
- (v) approve a list of acceptable instruments, approved brokers, authorised counterparties and their limits. A proper system should be in place for the establishment of treasury dealing limits for counter parties and regular reviews of such limits;
- (vi) establish a procedure for delegating authority to dealers;
- (vii) ensure that the prior approval of the Board of Directors/senior management is obtained for transactions in excess of delegated limits;
- (viii) ensure the maintenance of deal blotters and regular independent reconciliation of positions of Traders/Front Office with the General Ledger;
- (ix) establish a mechanism to ensure raising of a deal ticket for each and every deal conversation, including cancelled deals, time stamp all deals, voice record, through a well functioning real time and secured voice recording system, all conversations at the dealing room;
- (x) ensure that the Back Office confirms all dealing transactions prior to issuance of settlement instructions to the counterparties;
- (xi) monitor, on a real time basis, the foreign exchange transactions and positions independent of dealing and trading negotiations and implement a mechanism for timely reporting of all exceptions, violation of limits to the Board/senior management;

- (xii) ensure that all transactions are executed at current market rates and that off-market or historical rate rollover transactions are not permitted;
- (xiii) ensure that any irregularities in transactions, such as a large number of offsetting transactions, long outstanding suspense balances, as identified by an independent risk monitoring division, are reported promptly to the Board/senior management;
- (xiv) regularly marking-to-market of foreign exchange positions through a division independent of Front Office and also independently verify revaluation rates and yield curves;
- (xv) ensure that compensation for traders is in line with the policy of the LCB and market rates, and that such compensation levels are designed so as to avoid providing incentives for excessive risk taking or recklessness;
- (xvi) strictly enforce an uninterrupted leave policy and ensure that traders on leave are prohibited from engaging in any trading or having remote access during this period;
- (xvii) establish a suitable succession plan;
- (xviii) implement restrictive dealing after-hours or off-premises rules for designated dealers.

5. Framework of Limits

- 5.1 LCBs shall establish a comprehensive framework of fixing foreign exchange related limits, including institution, dealer and transactions level to effectively manage foreign exchange risk exposures, at different levels of seniority.
- 5.2 These limits shall be:
- (i) properly documented and approved by the Board of Directors;
 - (ii) reasonable, and based on need after considering the funding, scale of business, risk tolerance policy, the degree of market proficiency and the experience and position of the dealer;
 - (iii) reviewed at least annually or more frequently as appropriate, considering the overall risk tolerance levels, relative excess volatility in foreign currencies, counterparty risk rating or market conditions.
- 5.3 The respective limits structure recommended for foreign exchange operations shall include the following:
- (i) open position limits on the aggregate of all currencies, both intra-day and overnight;
 - (ii) open position limits for individual currencies to which banks have material exposures, both intra-day and overnight;
 - (iii) limits for personnel involved in foreign exchange dealings, based on their experience and expertise;
 - (iv) limits for all counterparties covering the settlement and credit risks;
 - (v) stop loss and/or management action trigger limits;
 - (vi) country limits;
 - (vii) forward foreign exchange mismatch limits;
 - (viii) separate limits for the operations of the domestic banking unit and the off-shore banking unit;
 - (ix) maturity mismatch gap limits, under different time buckets, against all major currencies.

6. Risk Measurement and Reporting

- 6.1 LCBs shall ensure the following with respect to the measurement and reporting of foreign exchange risk.
- (i) Regular reporting to Board/senior management/group or parent companies, where necessary.
 - (ii) Ensuring senior management's active involvement and responsibility for foreign exchange risk reporting.
 - (iii) Linking the foreign exchange risk reporting system to the bank's core systems and ensuring the reconciliation thereafter with the core data.
 - (iv) Ensuring that reports are clear and unambiguous, highlight key information and in particular set out breaches or exceptions.
- 6.2 LCBs shall also ensure that the risk measurement and reporting systems have the ability to:
- (i) independently assess and evaluate all foreign exchange risk by maturity, on both gross and net basis, arising from all assets and liabilities and off-balance sheet positions, including foreign exchange options, preferably by the Middle Office;
 - (ii) apply generally accepted financial models or methods for measuring risks and the conduct of regular stress testing and scenario analysis;
 - (iii) maintain accurate and timely data on current positions;
 - (iv) monitor the foreign exchange counterparty credit risk and settlement risk on a real time basis to ensure that limits are not exceeded;
 - (v) document the assumptions, parameters and limitations on which the measurement systems are based, with any material changes to the assumptions being documented, well supported and approved by Board/senior management;
 - (vi) maintain an accurate, reliable, informative and timely Management Information System which includes indicators on market risk as well as operational risks arising from foreign exchange operations.

7. Stress Testing

- 7.1 LCBs shall measure their vulnerability to losses arising from foreign exchange operations by conducting regular stress tests. Banks shall evaluate their capacity to withstand market or bank specific stressed situations in terms of profitability, liquidity and capital adequacy.
- 7.2 The stress tests shall cover the major currencies to which the bank is exposed to and take into account the effect of any possible large exchange rate or interest rate movements.
- 7.3 The stress tests shall be commensurate with the nature of the bank's portfolio and risks involved.

8. Valuation of Foreign Currency Positions

- 8.1 LCBs shall have systems in place to independently value their foreign currency positions on a regular basis. In this regard, the following practices shall be adopted.
- (i) Net Open Position arising from customer and other trading activities shall be calculated on an ongoing basis. In the calculation of Net Open Position the following should be noted.
 - All unsettled spot transactions should be included.
 - All outstanding forward transactions should also be included.

- Net foreign exchange position in other foreign exchange contracts, such as currency options, futures etc. should also be included separately.
 - Exposure indicated against each currency should be considered ignoring signs to arrive at gross exposure.
 - The Net Open Positions of domestic banking unit and the off-shore banking unit should be calculated separately.
- (ii) Account for revaluation profit and loss on their foreign exchange position on a regular basis or at least on a monthly basis.
- (iii) Clearly document the policy on exchange rates for valuation. Preferably, day end closing mid market rates should be used. Ideally, these rates should be obtained, by staff other than authorised dealing personnel, or, as a minimum, independently verified.
- (iv) Revalue forward transactions at the prevailing mid-market rate for the outstanding period to settlement.
- (v) Revalue other appropriate foreign exchange related contracts through the Middle Office/Back Office on a “mark to market” basis.
- (vi) Not depend upon valuations provided by their counterparties.

9. Internal Controls and Independent Audit

- 9.1 LCBs shall ensure that the Internal Audit Departments of LCBs conduct periodic reviews, at least annually, of internal controls and risk management processes on foreign exchange business to ensure their integrity, accuracy and reasonableness, as well as compliance with the prescribed processes. The reviews shall ensure effective control over foreign exchange positions, including the accuracy and completeness of recording transactions; effective segregation of duties; accurate reporting of excesses of limits and other exceptions; compensation; all relevant internal controls are in place; and all established procedures are adhered to.
- 9.2 The audit of the operations shall be carried out on a risk evaluation/assessment basis. All high risk areas shall be audited by the internal auditors on a regular basis. The audit shall ensure that the operating procedures are adequate to minimize settlement risk.
- 9.3 The audit shall ensure the adequacy and accuracy of management information reports regarding the foreign exchange risk management activities.
- 9.4 LCBs shall respond promptly to any findings relating to violations of established procedures and ensure that recommendations by the internal or external auditors are effectively implemented.
- 9.5 Internal audit and other risk control units shall be adequately staffed and possess sufficient expertise and authority for reviewing the foreign exchange trading business.

10. Criteria to Assess the Fitness and Propriety of Persons Engaged in Foreign Exchange Business

- 10.1 In order that a person qualifies to be considered fit and proper to be attached to a Front Office, Middle Office or Back Office of an LCB in relation to the foreign exchange business of LCBs, the following criteria must be fulfilled. For purposes of this Direction, such persons are described as “persons engaged in foreign exchange business”. Non-compliance with any one of the criteria as set out herein, shall disqualify a person from being appointed/assigned or continuing in foreign exchange business in any capacity.

10.2 The following criteria shall apply to determine the fitness and propriety.

- (i) A person engaged in foreign exchange business shall possess the following professional qualification/s:
 - (A) *In the case of a Dealer;*
 - (a) The Dealing Certificate offered by the Financial Market Association (Association Cambiste Internationale – ACI), or
 - (b) A Certificate in respect of a foreign exchange dealing course conducted by the Center for Banking Studies of the Central Bank of Sri Lanka, or
 - (c) Any other professional qualification acquired or possessed in respect of foreign exchange dealing acceptable to the Monetary Board. The Monetary Board may grant such approval on a case-by-case basis.
 - (B) *In the case of others engaged in Middle/Back Office work;*
 - (a) The Operations Certificate offered by the Financial Market Association (Association Cambiste Internationale – ACI), or
 - (b) A Certificate in respect of a foreign exchange dealing/operations course conducted by the Center for Banking Studies of the Central Bank of Sri Lanka, or
 - (c) Any other professional qualification acquired or possessed in respect of foreign exchange operations acceptable to the Monetary Board. The Monetary Board may grant such approval on a case-by-case basis.
- (ii) A person engaged in foreign exchange business as at 01 September 2009, (the day on which these Directions come into force) will be required to obtain the relevant qualifications as specified in 10(2)(i) above, on or before 31 August 2012.
- (iii) A person engaged in foreign exchange business, shall undergo continuous training through participation in training programmes that are appropriate and sufficient for the functions or activities they are involved in/are expected to be involved in, and conducted by appropriate professional, academic or educational institutions.
- (iv) A person engaged in foreign exchange business shall not have been found guilty by any regulatory authority or supervisory authority, professional association, any Commission of Inquiry, tribunal or other body established by law in Sri Lanka or abroad, to the effect that such person has committed or been connected with the commission of, any act which involves fraud, deceit, dishonesty or any other improper conduct.
- (v) A person engaged in foreign exchange business shall not have been found guilty, after being subject to an investigation or inquiry consequent upon being served with notice of a charge involving fraud, deceit, dishonesty, any other similar criminal activity or improper conduct by any regulatory authority or supervisory authority, professional association, any Commission of Inquiry, tribunal or other body established by law, in Sri Lanka or abroad.
- (vi) A person engaged in foreign exchange business shall not have been convicted by any Court in Sri Lanka or abroad in respect of a crime committed in connection with financial management or of any offence involving moral turpitude.
- (vii) A person engaged in foreign exchange business shall not be an undischarged insolvent nor have been declared a bankrupt in Sri Lanka or abroad.

- (viii) A person engaged in foreign exchange business shall not have failed to satisfy any judgment or order of any Court whether in Sri Lanka or abroad, or to repay a debt.
- (ix) A person engaged in foreign exchange business shall not have been declared to be of unsound mind by a Court of competent jurisdiction in Sri Lanka or abroad.
- (x) A person engaged in foreign exchange business shall not have been removed or suspended by an order of a regulatory or supervisory authority from serving in a licensed bank or any other financial institution in Sri Lanka or abroad.

10.3 All persons engaged in foreign exchange business shall submit a Declaration to the Director of Bank Supervision, through the Chief Executive Officers of the respective banks, certifying that all criteria set out in 10.2 above are complied with.

11. Introduction of New Products, Services and Activities

- 11.1 LCBs shall ensure that a clear policy is in place in relation to the introduction of new foreign exchange products, services and activities.
- 11.2 The introduction of all new products/services/activities shall be recommended by the ALCO and approved by the Board.
- 11.3 The procedure in introducing new products and services shall be in writing and approved by the Board. The review notes to the Board seeking approval must be duly signed by relevant officials of Treasury, Front Office, Middle Office, Back Office, Legal and Accounts, which clearly specifies and identifies the trading process, evaluation of inherent risks and returns, valuation, legal implications, recording and reporting formats. Special attention must also be given to the compatibility of the new service/product with the bank's core activities, risk profile and expertise.

12. Contingency Planning

- 12.1 LCBs shall have a contingency plan in place to ensure continuity of the foreign exchange settlement operations, as part of the overall business continuity plan of the bank, in the event the main site becomes unusable.
- 12.2 Such contingency plan shall be:
- (i) in line with the BCP Guidelines No. 01 of 2006 issued by the Payments and Settlements Department of the Central Bank of Sri Lanka on 29 March 2006;
 - (ii) documented and approved by the Board;
 - (iii) tested and reviewed at least annually.
- 12.3 LCBs shall ensure that a system is in place to ensure timely access to key information on payments made, received or payments in process.

13. Other Requirements

- 13.1 LCBs shall ensure the availability of job descriptions duly signed and accepted by each dealer and his superior.
- 13.2 All foreign exchange dealers shall accept and be guided by the Model Code of the Association Cambiste Internationale (ACI Model Code). In the event of any ambiguity or conflict, the terms of these Directions shall prevail over the ACI Model Code.

Directions issued by the Monetary Board of the Central Bank of Sri Lanka under Section 46(1) of the Banking Act, No.30 of 1988, as amended.

Sgd. Nivard Ajith Leslie Cabraal

*Chairman of the Monetary Board and
Governor of the Central Bank of Sri Lanka*

Colombo
18 September 2012

**BANKING ACT DIRECTION NO. 1 OF 2012
FOREIGN EXCHANGE TRADING ACTIVITIES OF
LICENSED COMMERCIAL BANKS IN SRI LANKA**

In the exercise of the powers conferred by Section 46(1) of the Banking Act, No. 30 of 1988, last amended by the Banking Act, No. 46 of 2006, the Monetary Board hereby issues the following Directions on Foreign Exchange Trading Activities of Licensed Commercial Banks.

- | | |
|---|--|
| Citation. | 1(1) These Directions may be cited as the Banking Act, Direction No. 1 of 2012. |
| Scope and Applicability. | <p>2(1) These Directions shall be applicable to:</p> <ul style="list-style-type: none"> (i) Licensed commercial banks authorised to engage in foreign exchange trading activities. (ii) “Authorised Persons”, who are: <ul style="list-style-type: none"> (a) Persons described as “persons engaged in foreign exchange business” as per the Banking Act, Directions No. 3 of 2009 on Risk Management Relating to Foreign Exchange Business of Licensed Commercial Banks dated September 1, 2009; and (b) Persons determined as Officers Performing Executive Functions in licensed commercial banks and who are involved in foreign exchange trading activities, in terms of Determination No. 3 of 2010 made by the Monetary Board on Assessment of Fitness and Propriety of Officers Performing Executive Functions in Licensed Commercial Banks dated November 24, 2010. (iii) All rupee/foreign currency trading activities in the market for CASH, TOM, SPOT, FORWARD, SWAPS and other permitted foreign exchange derivative transactions. |
| Market practices and procedures to be followed. | <p>3(1) In order to maintain the smooth functioning and integrity of the market, all licensed commercial banks and/or Authorised Persons shall:</p> <ul style="list-style-type: none"> (i) Undertake foreign exchange trading activities that are based on underlying transactions only. For the purpose of these Directions, an underlying transaction shall mean a current account transaction or a permitted capital account transaction, in terms of the Exchange Control Act, No. 24 of 1953, effected on the following basis: |

- (a) Purchase of foreign currency from non-commercial bank customers such as exporters, foreign currency account holders, and persons sending inward foreign currency remittances;
 - (b) Sale of foreign currency to non-commercial bank customers such as importers and persons who are permitted by law to make outward remittances in foreign exchange for approved purposes;
 - (ii) Purchase and/or sell foreign currency subject to the limit of the respective net open positions of the licensed commercial bank;
 - (iii) Adhere to the net open position at the end of each day, and also be within the intra-day net open position limit specified from time to time by the Director of International Operations Department;
 - (iv) Use clear and precise market terminology which is understood by all counterparties, at all times;
 - (v) Determine any annual performance-linked remunerations of the Authorised Persons engaged in foreign exchange trading activities, with the annual performance assessment;
 - (vi) Establish claw back arrangements for pay-outs of performance-linked remunerations;
 - (vii) Ensure all remuneration payments are based on a documented remuneration policy and avoid making any *ad-hoc* payments outside the pre-determined remuneration structures.
- 3(2) In order to maintain the smooth functioning and integrity of the market, any licensed commercial bank and Authorised Person shall not:
- (i) Undertake any transaction for the purpose of concealing foreign exchange positions including transferring profits and losses, which may undermine the integrity of the foreign exchange market;
 - (ii) Engage in manipulative or deceptive conduct, or any other form of conduct which would give other users of the foreign exchange market, a false or misleading impression as to the prevailing market conditions, including price, supply or demand;
 - (iii) Pressurise any other licensed commercial bank or Authorised Person by duress, inducement, threat or promise, for information or action.
- 3(3) When quoting price/rates in the foreign exchange market, all licensed commercial banks and Authorised Persons shall:
- (i) Ensure a clear distinction between firm and indicative quoted prices;
 - (ii) Set the relevant rates in a Foreign Exchange Swap transaction based on the prevailing market rates.
- 3(4) When quoting price/rates in the foreign exchange market, any licensed commercial bank and Authorised Person shall not:
- (i) Make quotes with the intention of distorting the exchange rates;

- (ii) Make quotes where the licensed commercial bank or Authorised Person has no intention of honouring, and merely to mislead market participants.
- 3(5) When making transactions, all licensed commercial banks and Authorised Persons shall:
 - (i) Transact directly through the electronic platform, telephone, e-mail, facsimile or through a money market broker recognised by the Central Bank of Sri Lanka;
 - (ii) Maintain records of the foreign exchange trading activities so as to ensure a clear audit trail;
 - (iii) Update interbank foreign exchange transactions in the on-line system of the Central Bank of Sri Lanka, within the time prescribed by the Director of International Operations Department of the Central Bank of Sri Lanka;
 - (iv) Maintain and preserve documentary evidence, electronically or otherwise, of the underlying transactions of customers on all foreign exchange trading activities for a period of six years, and forward such documents to the International Operations Department of the Central Bank of Sri Lanka, as and when required;
 - (v) Disclose the profit generated through interbank foreign exchange transactions separately in the audited financial statements.
- 3(6) When making transactions, any licensed commercial bank and Authorised Person shall not enter in to transactions with the intention of manipulating the market.
- 3(7) In respect of foreign exchange derivative transactions, in addition to these Directions, licensed commercial banks and Authorised Persons shall comply with the Directions on Financial Derivative Products issued on August 1, 2009.
- 3(8) In settlement of foreign exchange transactions, licensed commercial banks shall:
 - (i) Use the Society for World-wide Inter-bank Financial Telecommunications (SWIFT) System;
 - (ii) Ensure the minimizing of operational errors while preventing any gridlock in the Real Time Gross Settlement (RTGS);
 - (iii) Effect such transactions through NOSTRO Accounts only.
- 3(9) If and when an interbank transaction is to be cancelled, such cancellation may be carried out only in exceptional circumstances and where all institutions to the trade agree to such cancellation. Provided, however, that:
 - (i) Both licensed commercial banks shall act in a reasonable manner in such a situation;

- (ii) Both licensed commercial banks shall separately report full details of such cancelled interbank transaction, on the date of such cancellation, to the Director of International Operations Department of the Central Bank of Sri Lanka.
- 3(10) Licensed commercial banks shall engage in foreign exchange trading activities within the specified premises during the normal working hours (8.00 a.m. to 5.00 p.m.) on bank working days subject to Direction 3(11) hereof.
- 3(11) Foreign exchange trading activities after hours and/or off-premises, if undertaken, shall be undertaken in accordance with the formulated policy as established by the licensed commercial bank, which policy shall set out, the procedure for such foreign exchange trading activities, which shall include:
- (i) Names of Authorised Persons permitted to engage in such foreign exchange trading activities;
 - (ii) Transaction limits;
 - (iii) Establishment of the internal control system to ensure prompt recording and confirmation of all after-hours and off-premises foreign exchange trading activities.
- 4(1) In order to preserve the integrity of the market, Authorised Persons shall:
- (i) Exercise skill, care and diligence, and act in good faith;
 - (ii) Exercise due care when in possession of non-public price sensitive information;
 - (iii) Preserve confidentiality as required by Section 77 of the Banking Act;
 - (iv) Comply with the Directions and established procedures when routinely sharing information with other counterparties.
- 4(2) In order to preserve the integrity of the market, any Authorised Person shall not:
- (i) Deal on his own account, or on the account of the licensed commercial bank which he represent, or induce another party to deal on the basis of such information, when in possession of non-public price sensitive information;
 - (ii) Enter in to any transaction which may lead to conflict of interest, or insider trading, or front running;
 - (iii) Willfully spread rumors or disseminate false or misleading information.
- 4(3) Authorised Persons shall adhere to any Code of Ethical Conduct issued by their institution so as to conduct themselves with integrity and uphold the highest standard of professionalism.
- 4(4) Licensed commercial banks shall implement internal policies and procedures in order to prohibit any form of market misconduct.

Ethics, standards of conduct to be followed and practised, and the knowledge levels that need to be maintained.

- 4(5) Licensed commercial banks and Authorised Persons shall, wherever not specifically mentioned in these Directions, be governed by the International Code of Conduct and Practice for the Financial Markets (ACI Model Code) issued and revised from time to time by ACI – The Financial Market Association.
- 4(6) In order to ensure that the Authorised Persons are properly equipped to handle their responsibilities, licensed commercial banks shall:
- (i) Ensure that a high level of awareness and understanding of market practices and conduct is provided to Authorised Persons in their institutions;
 - (ii) Ensure that the professional knowledge of the Authorised Persons in their institutions is maintained and systematically updated and upgraded;
 - (iii) Ensure that Authorised Persons in their institutions obtain the necessary qualifications as set out in Direction 10.2 of the Banking Act, Direction No. 3 of 2009 on Risk Management Relating to Foreign Exchange Business of Licensed Commercial Banks, issued on September 1, 2009.
- 4(7) In the effort to control the practices of entertainment, granting of gifts and favours, licensed commercial banks shall:
- (i) Formulate policies which protect against the receipt of unacceptable entertainment, gifts or favours by any of the Authorised Persons in their institutions, or persons connected to such Authorised Persons;
 - (ii) Establish internal value thresholds for acceptance or grant of gifts and/or entertainment, the acceptable frequency and a system whereby Authorised Persons in their institutions are required to disclose all such gifts, favours and entertainment, as and when it exceeds the applicable established internal thresholds;
 - (iii) Ensure that Authorised Persons in their institutions do not solicit gifts of any kind, and are under compulsion to immediately notify the management of the licensed commercial bank, if any unusual favours are offered to them by any other institution or person;
 - (iv) Ensure that Authorised Persons in their institutions do not make or arrange bets or indulge in gambling of any kind, in relation to foreign exchange transactions with any person.
- 4(8) In order to ensure recording of telephone conversations, licensed commercial banks shall:
- (i) Establish internal policies with regard to the appropriate data and tape recording of trading conversations and the retention of such discussions, and ensure compliance thereof;
 - (ii) Adopt appropriate policies to restrict the usage of mobile phones in the dealing rooms, so as to ensure that mobile phones are not used to circumvent the telephone recording system;

- (iii) Ensure that access to tapes in use or in store, is strictly controlled and are not tampered with.
- 5(1) In the event any licensed commercial bank and/or Authorised Person fails to comply with these Directions, the Monetary Board may, after an investigation carried out, take any one or more of actions as it may consider necessary, including:
- (i) Reprimanding any Authorised Person who has been in non-compliance with these Directions.
- (ii) Directing the licensed commercial bank to remove any Authorised Person, who has been in non-compliance with these Directions, from performing any function in relation to foreign exchange trading activities in the respective licensed commercial bank.
- (iii) Reducing the Net Open Foreign Exchange Position limits of the non-compliant licensed commercial bank.
- 5(2) In the event any licensed commercial bank and/or Authorised Person fails to comply with these Directions, and the Director of Bank Supervision of the Central Bank of Sri Lanka after a preliminary investigation, is of the view that the provisions of the Exchange Control Act, No. 24 of 1953, may have been violated, such licensed commercial bank and/or Authorised Person shall be reported to the Controller of Exchange for further investigation and action by the Controller of Exchange.
- 6(1) All licensed commercial banks shall fully comply with these Directions with effect from 19 September 2012 except in the case of Directions 3(1)(v), (vi) and (vii), 3(11), 4(5), 4(7) and 4(8) which will be effective from 1 November 2012.

Sanctions on non-compliance with these Directions.

Transitional Provision.

(Refer Explanatory Note 2/2012 – Foreign Exchange Trading Activities / FAQ)

Ref. No. : 02/17/600/0035/001

Bank Supervision Department

19 September, 2012

To : The CEOs of all Licensed Commercial Banks

ADOPTION OF THE ACI MODEL CODE BY SRI LANKA

Chief Executive Officers of Licensed Commercial Banks are hereby informed that the applicability of the Circular issued under Ref. No. 105/09/002/0024/001 dated 11 August 2006 for Commercial Banks on the above subject is revoked with effect from 19 September 2012.

Yours faithfully,

(Mrs.) T M J Y P Fernando

Director of Bank Supervision

Ref. No. : 02/17/600/0014/003

14 May 2010

To : Chief Executive Officers of Licensed Commercial Banks

**DECLARATION TO BE SUBMITTED BY
PERSONS ENGAGED IN FOREIGN EXCHANGE BUSINESS**

As announced at the monthly meeting of the Chief Executive Officers held on 29 April 2010, it is observed that the Declarations of persons engaged in foreign exchange business furnished by certain licensed commercial banks are not complete and consistent with the requirements of Direction No. 3 of 2009, on Risk Management relating to Foreign Exchange Business. We, therefore, attach herewith a format of the Declaration to be submitted by persons engaged in foreign exchange business. Banks which have already submitted Declarations largely in line with this format are not required to re-submit Declarations.

Yours faithfully,

Sgd. (Mrs.) T M J Y P Fernando

Director of Bank Supervision

Encl.

Copy to : The Secretary-General
Sri Lanka Banks' Association (Guarantee) Ltd.

To: Director of Bank Supervision

Name of Bank :

**Declaration to be submitted by the Persons engaged in Foreign Exchange Business
in terms of Banking Act, Direction No. 3 of 2009
on Risk Management relating to Foreign Exchange Business of
Licensed Commercial Banks**

I, (*full name*)
holder of National Identity Card No. / Passport No. of.....
..... (*address*)
being a (Buddhist / Hindu do hereby solemnly, sincerely and truly declare and affirm / Christian /
Catholic / Muslim make oath and state) as follows :

1. I am the (*designation*) of..... (*name of bank*) which is a licensed commercial bank under the Banking Act, No. 30 of 1988.
2. I possess the following academic and/or professional qualification / s in terms of 10.2 (i) of the Banking Act, Direction No.3 of 2009 on risk management relating to foreign exchange business of licensed commercial banks: / [I engaged in foreign exchange business as at 01 September 2009 and will obtain the relevant qualifications as specified in 10(2)(i) of the aforementioned Banking Act, Direction on or before 31 August 2012.]
3. I am in possession of the following qualification / s in addition to (2) above:
.....
.....
4. The effective experience that I possess in banking, finance, business or administration or of any other relevant discipline is as follows:
.....
.....
5. I shall undergo continuous training through participation in training programmes that are appropriate and sufficient for the functions or activities they are involved in / are expected to be involved in, and conducted by appropriate professional, academic or educational institutions.
6. I have not been found guilty by any regulatory or supervisory authority, professional association, any Commission of Inquiry, tribunal or other body established by law in Sri Lanka or abroad, to the effect that I have committed or have been connected with the commission of, any act which involves fraud, deceit, dishonesty or any other improper conduct.

7. I have not been found guilty, after being subject to an investigation or inquiry consequent upon being served with notice of a charge involving fraud, deceit, dishonesty or other similar criminal activity or improper conduct, by any regulatory authority, supervisory authority, professional association, any Commission of Inquiry, tribunal or other body established by law, in Sri Lanka or abroad.
8. I have not been convicted by any Court in Sri Lanka or abroad in respect of a crime committed in connection with financial management or of any offence involving moral turpitude.
9. I am not an undischarged insolvent nor have I been declared a bankrupt in Sri Lanka or abroad.
10. I have not failed, to satisfy any judgment or order of any Court whether in Sri Lanka or abroad, or to repay a debt.
11. I have not been declared to be of unsound mind by a Court of competent jurisdiction in Sri Lanka or abroad.
12. I have not been removed or suspended by an order of a regulatory or supervisory authority from serving in a licensed bank or any other financial institution in Sri Lanka or abroad.

**DECLARATION TO BE FILLED BY THE PERSON ENGAGED IN
FOREIGN EXCHANGE BUSINESS**

I am the [affirmant / deponent] above named and I confirm that the information contained herein are to the best of my knowledge and belief, true and complete and also I undertake to inform of any change of any of the above information, within a period not exceeding one week from such change.

Date :

Signature

Name :

TO BE FILLED BY THE CHIEF EXECUTIVE OFFICER

Any other explanation / information in regard to the information furnished above and other information considered relevant for assessing the suitability of the person engaged in the foreign exchange business.

Date :

Signature of Chief Executive Officer

Name :

Ref. No. : 02/17/800/0006/01

25 May 2009

*To : Instructions to Licensed Commercial Banks
Appointed as Authorised Dealers*

FORWARD SALES AND PURCHASE OF FOREIGN EXCHANGE

Authorised Dealers are hereby informed that the operating instructions issued under Ref. No. 02/17/800/0006/01 dated 31/10/2008 and 19/03/2009 on the above subject are withdrawn with effect from 25.05.2009.

Yours faithfully,

Controller of Exchange

Director of Bank Supervision

Ref. No. : 02/04/004/0009/001

Bank Supervision Department
8th Floor, Renuka Building
41, Janadhipathi Mawatha
Colombo 1.

16th July, 2001

*Instructions to Licensed Commercial Banks
Appointed as Authorized Dealers in Foreign Exchange*

Dear Sirs,

FORWARD SALES AND PURCHASES OF FOREIGN EXCHANGE

Further to our Operating Instructions dated 29.01.2001 and 19.03.2001 and the clarifications contained in our Operating Instructions dated 14.02.2001 on the above subject.

The requirement that a margin of not less than 25 *per cent* should be obtained from customers when entering into a forward contract for the sale of foreign exchange is withdrawn, with effect from 16th July, 2001.

However, for prudential reasons, banks may continue to obtain deposits from customers for forward sales of foreign exchange, based on their assessment of customer risk.

Contracts for forward sales and/or purchases will continue to be for a maximum of 180 days and only for the purpose of payments and receipts in foreign exchange in respect of trade in goods and services.

Yours faithfully,

Controller of Exchange

Director of Bank Supervision

Ref. No. : 02/04/004/0009/001

Bank Supervision Department
8th Floor, Renuka Building
41, Janadhipathi Mawatha
Colombo 1.

19th March, 2001

*Instructions to Licensed Commercial Banks
Appointed as Authorized Dealers in Foreign Exchange*

Dear Sirs,

FORWARD SALES AND PURCHASES OF FOREIGN EXCHANGE

Further to our Instructions dated 29.01.2001 and the clarifications contained in our Operating Instructions dated 14.02.2001 on the above subject.

We wish to inform you that the 50% deposit referred to in sub-item (iii) of item (3) of the above mentioned Instructions dated 29.01.2001 has been reduced with immediate effect to 25% of the value of the contract in Sri Lanka Rupees in respect of forward contracts to be entered into with customers for the sale of foreign exchange.

Yours faithfully,

Controller of Exchange

Director of Bank Supervision

Ref. No. : 02/04/004/0009/001

Bank Supervision Department
8th Floor, Renuka Building
41, Janadhipathi Mawatha
Colombo 1

14th February, 2001

*Operating Instructions to Licensed Commercial Banks
Appointed as Authorized Dealers in Foreign Exchange*

Dear Sirs,

FORWARD SALES AND PURCHASES OF FOREIGN EXCHANGE

We have received inquiries from banks seeking clarifications on the contents of our Operating Instructions dated 29th January 2001, on the above subject. Accordingly, the following clarifications are made for your information.

1. The Operating Instructions will not apply to
 - (i) Inter-bank forward contracts (local and foreign),
 - (ii) Forward contracts where a foreign currency is purchased with another foreign currency,
 - (iii) Purchases of foreign exchange in respect of share trading transactions specified in the item 3 in the Operating Instructions No. EC/74/92(C&F) dated 28/07/1992 issued by the Controller of Exchange.
2. Subject to 1(iii) above, forward contracts with customers should be permitted only in respect of trade in goods and services. Forward contracts in respect of capital transactions should not be permitted.
3. In the case of renewal or extension of a contract, the maximum period of forward contract should be 180 days inclusive of the period that has already elapsed. In cases where the period exceeds 180 days, a fresh contract should be entered into which requires a 50 per cent of deposit in case of a forward contract for the sale of foreign exchange.
4. In case of an importer, the margin already obtained in respect of Letters of Credit, if any, should not be treated as the deposit required for a forward contract for the sale of foreign exchange and, therefore, a fresh deposit of 50% of the value of the contract in Sri Lanka rupees is required for the forward contract.
5. The banks may pay interest on the 50% margin as a deposit.
6. The attached format should be used in future to report details regarding daily position of forward transactions to the Bank Supervision Department.

Yours faithfully,

Controller of Exchange

Director of Bank Supervision

Annex**FORWARD TRANSACTIONS IN FOREIGN CURRENCY**

Name of the Authorised Dealer :

Date:

| | Outstanding Balance at the beginning of the day (Rs. Mn.) | New Contracts Entered during the day (Rs. Mn.) | Total Margin Deposit Accepted (Rs. Mn.) | Total Contracts Matured during the day (Rs. Mn.) | Outstanding position at the end of the day (Rs. Mn.) |
|-------------------------------|--|---|--|---|---|
| Total Forward Sales | | | | | |
| Total Forward Purchases | | | Not applicable | | |

I certify that information given above is correct.

Date:

.....
Signature of the Authorised Dealer

*Instructions to Licensed Commercial Banks Appointed as
Authorized Dealers in Foreign Exchange*

January 29, 2001

Dear Sirs,

FORWARD SALES AND PURCHASES OF FOREIGN EXCHANGE

The Central Bank is concerned that in view of the weaknesses of the forward market in foreign exchange in Sri Lanka, licensed commercial banks that are Authorised Dealers under the Exchange Control Act (Authorised Dealers) could be undertaking heavy risks by engaging in forward transactions in foreign exchange which are unrelated to trade transactions, which would be detrimental to the interests of the depositors of such banks and to the economy. Therefore, in the interest of the depositors and to stabilise the foreign exchange market, it is considered necessary to streamline the operations in the forward market in foreign exchange, pending the development of an efficient forward market. Hence, both from a prudential standpoint and from considerations relating to the stability of the foreign exchange market, it is desirable that forward foreign exchange contracts by banks with their customers should, for the time being, be in respect of transactions concerning payments and receipts in foreign exchange relating to trade in goods and services and for a period reasonably adequate to meet the needs of trade transactions.

2. In view of the foregoing, Authorised Dealers are hereby informed that the authority conferred on them to enter into forward contracts for the sale and/or purchase of foreign exchange for a period up to 360 days irrespective of the purpose by paragraph B(ii)(a) of Operating Instructions No.EC/41/93(D) of 29.03.1993 issued by the Controller of Exchange is hereby withdrawn with immediate effect.

3. Therefore, without prejudice to the permission granted to Authorised Dealers for the release of foreign exchange for all current (non-capital) international transactions by Operating Instructions No.EC/06/94 of 18.03.1994 of the Controller of Exchange, and pending the development of an efficient forward market in foreign exchange in Sri Lanka, Authorised Dealers shall, with immediate effect, comply with the following conditions when entering into forward contracts in foreign exchange (including renewal of existing contracts) with their customers, until further notice;

- (i) forward contracts for the sale and/or purchase of foreign exchange should only be for a period up to 180 days and only for the purpose of payments and receipts in foreign exchange in respect of trade in goods and services;
- (ii) an Authorised Dealer entering into a forward foreign exchange contract should satisfy himself that the transaction relates to a genuine commercial contract involving trade in goods and services;
- (iii) an Authorised Dealer who enters into a forward contract for the sale of foreign exchange with a customer should obtain at the time the contract is entered into, a deposit of not less than 50% of the value of the contract in Sri Lanka rupees, which should be retained until the date of performance of the contract;
- (iv) the date of performance of the forward foreign exchange contract should not be beyond the date of payment or receipt in foreign exchange, as the case may be, in terms of the relevant commercial contract underlying the forward exchange contract; and
- (v) as at present, any cancellation of a forward foreign exchange contract by the customer should be subject to a penalty, at least to fully compensate the loss arising therefrom to the Authorised Dealer.

4. Details relating to forward transactions in foreign exchange on any day should be reported at the end of the same day (not later than 6.00 p.m.) to the Director of Bank Supervision on fax No.325824 in the form set out in the Annex hereto. Please contact Mr. P. Samarasiri, Deputy Director of Bank Supervision on telephone number 344838 for any clarification.

Yours faithfully

Controller of Exchange

Director of Bank Supervision

Annex

FORWARD TRANSACTIONS IN FOREIGN CURRENCY

Name of the Authorised Dealer:

Date:

| | Outstanding Balances at the beginning of the Day (US dollar equivalent Mn) | Total Transactions during the day (US dollar equivalent Mn) | Total Margin Deposit Accepted (SL Rs. Mn) | Outstanding position at the end of the day (US dollar equivalent Mn) |
|----------------------------|---|--|--|---|
| A. Total Forward Sales | | | | |
| B. Total Forward Purchases | | | Not applicable | |

I certify that information given above is correct.

Date:

.....
Signature of the Authorised Officer

Explanatory Note: 2/2012

Direction No.1 of 2012 on Foreign Exchange Trading Activities**Frequently Asked Questions (FAQs)**

These Frequently Asked Questions (FAQs) have been developed to assist the licensed commercial banks (LCBs) in complying with the Direction No. 1 of 2012 on Foreign Exchange Trading Activities of LCBs issued on 19 September 2012 and to clarify the provisions and the potential queries relating to these Directions.

Q1 Is there a real need for another regulation on Foreign Exchange Trading Activities as CBSL issued detailed Directions dated 1 September 2009 and agreed to observe ACI model code as per circular dated 11 August 2006?

A1 The purpose of the Direction No. 3 of 2009 dated 1 September 2009, is to standardise and strengthen the foreign exchange risk management in LCBs. The applicability of the circular dated 11 August 2006 for commercial banks is revoked with effect from 19 September 2012.

Q2 Does this Direction apply only for non-commercial bank customer transactions or can an authorized person carry out inter-bank trading for his own needs? [Direction No. 3(1)(i) and (ii)].

A2 LCBs are allowed to carry out inter-bank trading for their own needs, within the NOP limit.

Q3 What is the underlying transaction for SWAPs as those are commonly used for funding balance sheet mismatches and short term liquidity deficits? Can an Authorised Person buy foreign currency from the market to cover a usance bill due for settlement in the future? [Direction No. 3(1)(i) and (ii)].

A3 LCBs are allowed to carry out foreign currency trading activities for market making, future settlements of usance bills and SWAPs transactions for funding balance sheet mismatches and short term liquidity deficits as these transactions constitute underlying transactions.

Q4 Will enforcing this Direction significantly reduces market depth and liquidity and the ability to quote competitive prices to customers? Does this preclude market making or two-way price without underlying transactions? [Direction No. 3(1)(i)(a)].

A4 This Direction imposes clarity that will lead to further development in the market and facilitate market making activities. It will not reduce market depth and liquidity.

Q5 How and when will CBSL determine Net Open Position (NOP) limits? [Direction No. 3(1)(iii)].

A5 Banks should comply with the existing NOP limits. However, the Director of International Operations Department of CBSL will determine the NOP limits from time to time considering the developments in the foreign exchange market.

Q6 How and when CBSL determine intra-day position limits and whether the intra-day limit will be sufficiently large enough to accommodate large customer transactions for international trade and equity/ fixed income investment? [Direction No. 3(1)(iii)].

A6 The Director of International Operations Department of CBSL will determine the intra-day position limits from time to time considering the size and the behavior of the transactions.

Q7 Is it not discriminatory to make claw back arrangements applicable only to dealers? Shouldn't it be established for pay-outs of performance based, unvested and deferred awards rather than for remuneration and rewards paid out in cash? [Direction No. 3(1)(vi)].

A7 LCBs may develop remuneration policies for the bank covering the basis, scope, acceptable vesting period and the coverage of the claw back arrangements.

Q8 Are the following provisions of the Directions relating to the smooth functioning and the integrity of the market vague and ambiguous as they cover routine functions? [Direction No. 3(2)(i), (ii) and (iii)].

- (a) Undertake any transaction for the purpose of concealing foreign exchange positions including transferring profits and losses, which may undermine the integrity of the foreign exchange market;
- (b) Engage in manipulative or deceptive conduct, or any other form of conduct which would give other users of the foreign exchange market, a false or misleading impression as to prevailing market conditions, including price, supply or demand;
- (c) Pressurise any other licensed commercial bank or Authorised Person by duress, inducement, threat or promise, for information or action.

A8 This Regulation is aimed at further improving the smooth functioning and integrity of the foreign exchange trading activities in Sri Lanka.

Q9 Some times dealers quote wide bid/offer rate to avoid inter-bank transactions. Would this be construed to be a distortion of market rates? If so, this will lead to loss of market making activity and liquidity in the market. [Direction No. 3(4)(i) and (ii)].

A9 Yes. Quoting wide bid/offer rate to avoid inter-bank transactions will distort the market rates. Hence, off market rates cannot be accepted.

Q10 Does CBSL maintain a list of approved brokers? [Direction No. 3(5)(i)].

A10 CBSL has disclosed in its web site a list of Money Brokering Institutions recognised by CBSL.

Q11 “When making transactions, LCBs and Authorised Persons shall not enter into transactions with the intention of manipulating the market”. Would there be a time limit for making these claims or can they be applied retrospectively without a time bar? [Direction No. 3(6)].

A11 Claims can be applied without a time bar.

Q12 Under what circumstances does the CBSL envisage the requirement for cancellation of a deal? Does this lead to more relaxed attitude and a practice of cancelling deals at will? [Direction No. 3(9)].

A12 CBSL does not encourage cancellation of deals. However, only in exceptional circumstances a deal can be cancelled provided that both licensed commercial banks to the trade agree to such cancellation.

Q13 Although CBSL requires adopting appropriate policies to restrict the usage of mobile phones in the dealing rooms, so as to ensure that mobile phones are not used to circumvent the telephone recording system, it is difficult to entirely fool-proof usage of mobile to circumvent the recording system. [Direction No. 4(8)(ii)].

A13 Banks should have a mechanism to ensure that all the deal conversations are recorded.

Issued on 26 September 2012.

Directions issued by the Monetary Board of the Central Bank of Sri Lanka under Section 46(1) and 76(J)(1) of the Banking Act, No.30 of 1988, as amended.

Sgd. Nivard Ajith Leslie Cabraal

*Chairman of the Monetary Board and
Governor of the Central Bank of Sri Lanka*

Colombo
21 December 2012

**BANKING ACT DIRECTION NO. 2 OF 2012
OUTSOURCING OF BUSINESS OPERATIONS OF
A LICENSED COMMERCIAL BANK AND
A LICENSED SPECIALISED BANK**

In the exercise of the powers conferred by Sections 46(1) and 76(J)(1) of the Banking Act, No. 30 of 1988, last amended by the Banking (Amendment) Act, No. 46 of 2006, the Monetary Board hereby issues the following Directions on Outsourcing of Business Operations of a Licensed Commercial Bank and a Licensed Specialised Bank, respectively (hereinafter referred to as a Licensed Bank).

- | | |
|---|---|
| 1(1) These Directions may be cited as the Banking Act, Directions No. 2 of 2012. | Citation. |
| 2(1) An ‘outsourcing arrangement’ is an agreement between a licensed bank and a third party ‘service provider’, whereby the service provider performs an activity, function or process connected with the operations of a licensed bank. | Outsourcing – definition and applicability. |
| 2(2) ‘Service provider’ includes the Head Office, parent institution, another branch or related company of a Licensed Bank, or an unrelated institution, whether located in Sri Lanka or elsewhere. | |
| 2(3) These Directions shall not apply to outsourced arrangements that are not directly related to the provision of financial services such as Mail, Courier services, Catering of staff, Housekeeping and janitorial services, Security of premises, Printing services (<i>e.g.</i> , Application forms, brochures <i>etc.</i>), Recruitments on contract and temporary basis and Communication services. | |
| 2(4) Outsourcing arrangements shall be entered into only with service providers who have specialised resources and skills to perform the related activities. | |
| 2(5) Outsourcing arrangements shall not be entered into with a service provider of which the majority of the ownership is held by employees and/or close relatives of an employee of the respective licensed bank. | |
| 2(6) Every Licensed Bank that decides to outsource its functions/operations shall comply with Directions 3 to 9 below. | |
| 3(1) A Licensed Bank may outsource its functions/operations other than the following functions/operations or activities: | Functions or activities that can be outsourced. |

- (i) Services associated with acceptance of deposits and withdrawals excluding the agency arrangements approved under the provisions of section 12(1)(b) of the Banking Act.
- (ii) Assets and Liabilities management
- (iii) Compliance function
- (iv) Customer due diligence and Know Your Customer (KYC) procedures
- (v) Treasury functions, foreign exchange trading and management
- (vi) Risk Management
- (vii) Strategic planning and decision-making
- (viii) Sanctioning of loans except where the basis of approval has been previously approved by the Board
- (ix) Internal Audit Function subject to Directions 3(2) and 3(3) below
- (x) Information Technology (IT) related services subject to Directions 3(4) and 3(5) below.

Outsourcing of
Internal Audit.

- 3(2) A Licensed Bank shall not outsource its Internal Audit Function other than in keeping with the following:
- (i) A Licensed Bank may outsource its Internal Audit Function, where the size of the bank and the extent of the risks do not justify the internal audit function to operate with a full time internal audit staff.
 - (ii) A Licensed Bank may outsource certain activities or specialised areas of its internal audit function such as branch and/or department audits, Information System (IS) audits, where the bank is in a position to justify the cost savings, improved efficiency and better management of resource constraints.
- 3(3) The outsourcing of the internal audit function or activities as per 3(2)(i) and 3(2)(ii) above shall be subject to the following conditions:
- (i) The responsibility and control of the outsourced audit assignments in the case of 3(2)(ii) above shall continue to be with the Head of Internal Audit.
 - (ii) The selection of audit firms or staff shall be made from the panel of external auditors approved by the Central Bank of Sri Lanka (CBSL) other than the bank's own external auditor.
 - (iii) Any such appointment as per 3(3)(ii) above shall be made after a "cooling off" period of 2 years if such audit firm or staff had been previously engaged in the external audit assignment of the bank.
 - (iv) The internal audit service provider shall not perform any management function or act, directly or indirectly, in a capacity equivalent to that of a member of management or an employee of the bank.

- (v) The internal audit service provider shall not provide consultancy services to a function or activity of the bank it is expected to audit or *vice versa* within a period of 2 years.
 - (vi) The Head of Internal Audit shall ensure that, whenever practicable, one or more members of the bank's internal audit staff are also involved in the bank's internal audit related work of the internal audit service provider with the view to gather the relevant knowledge to perform such work by themselves in the future.
 - (vii) The Licensed Bank shall be able to provide the internal audit plan, follow-ups, reports and related working papers, *etc.*, to CBSL as and when required.
- 3(4) A Licensed Bank may outsource the following IT and business processing functions:
- (i) Application/Systems development, testing, maintenance and support
 - (ii) Technology infrastructure management, maintenance and support, Help Desks
 - (iii) Maintenance and support to data centre operations
 - (iv) Network administration
 - (v) Disaster recovery support services
 - (vi) Data entry operations
 - (vii) Database maintenance and support
 - (viii) Data warehousing
 - (ix) Statements printing
 - (x) Electronic banking systems (*e.g.*, Internet banking, Mobile banking and Tele-banking) development, maintenance and support
 - (xi) Web hosting and maintenance
 - (xii) Credit/Debit/ATM card printing.
- 3(5) A Licensed Bank shall ensure in its security policies, procedures and controls that a service provider exercises a high standard of care and diligence to protect the confidentiality and security of banks' sensitive information especially relating to customers, hardware, operating systems and application software.
- 4(1) A Licensed Bank shall have a comprehensive policy to guide the assessment as to how its operations are to be outsourced. The policy shall contain at least the following:
- (i) The placing of overall responsibility on the Board of Directors or the Audit Committee and senior management for the outsourcing of activities and for the formulation of policy therefor.

Outsourcing
of Information
Technology.

Outsourcing
Policy.

- (ii) A framework for identification and effective management of risks that could arise from outsourcing of activities.
- (iii) Cost-benefit analysis on each activity or function or process to be outsourced.
- (iv) Tender procedures to be followed for the procurement of outsourced services.
- (v) Setting up of a monitoring and control unit in the event of having several outsourcing arrangements.
- (vi) A framework to conduct KYC and due diligence process on the service provider.
- (vii) A procedure to assess the service provider's capacity, capability and mode/basis of payment to perform the obligations under the outsourcing arrangement.
- (viii) A format of the legally binding contract/agreement for outsourcing arrangement which should include at least the following:
 - (a) Service standards,
 - (b) Rights, responsibilities and expectations of all parties,
 - (c) Dispute resolution mechanism,
 - (d) Confidentiality and security of information,
 - (e) Termination of contract,
 - (f) Subcontracting, if involved, and
 - (g) Business continuity management.
- (ix) A specific contingency plan to bring the outsourced activity back in-house in an emergency situation which could arise due to service provider's inability to provide, and the costs, time and resources that would be involved.
- (x) A framework for cross-border outsourcing, taking into account the differences in country environments.
- (xi) Limits on maximum exposure to a single service provider both in terms of value and the number of contracts.

Business
Continuity
Management.

- 5(1) A Licensed Bank shall ensure that the bank's Business Continuity Plan (BCP) contains all relevant operations including outsourcing arrangements.
- 5(2) A Licensed Bank shall ensure that the service provider has a satisfactory BCP and performs regular tests on its BCP.

Monitoring &
Control.

- 6(1) A Licensed Bank shall have a specifically designated unit/division at the Head Office to handle all outsourcing arrangements. A Licensed Bank incorporated outside Sri Lanka shall have the designated unit/division at the local Head Office.

- 6(2) The monitoring unit shall handle complaints, maintain records of such complaints and carry out periodic supervision over outsourced activities.
- 6(3) A Licensed Bank shall establish an effective management information system that would on a regular basis provide information such as the type of outsourced service activity, costs, volume, deliverables and expiry or renewal dates of the contracts, the complaints, and the financial and operational conditions of the service providers.
- 7(1) A Licensed Bank shall be responsible for submitting transactions reports and suspicious transactions reports to the Financial Intelligence Unit (FIU) in respect of its customer transaction activities, even if such activities are under outsourced arrangements. Reporting to FIU.
- 8(1) A Licensed Bank shall ensure that marketing and recovery personnel employed by the service providers are properly trained to handle their responsibilities with care and prudence. Outsourcing arrangements relating to Marketing & Recovery.
- 9(1) A Licensed Bank shall inform the proposed outsourcing arrangements during a particular calendar year to CBSL by 31 January of that year for concurrence. Reporting Requirements.
- 9(2) A Licensed Bank shall use the format annexed to this Direction for its reporting requirements at 9(1) above to CBSL.
- 10(1) The Banking Act Directions No. 7 of 2010 on Outsourcing of Business Operations of Licensed Commercial Banks and the Banking Act Directions No. 8 of 2010 on Outsourcing of Business Operations of Licensed Specialised Banks, issued on 02 November 2010 are hereby revoked. Revocation of previous Directions

Ref. No. : 02/04/004/0012/001

08 October 2008

To CEOs of all Licensed Banks

**USE OF BANKING SYSTEM BY INSTITUTIONS AND PERSONS
NOT AUTHORISED TO ACCEPT DEPOSITS**

A number of institutions and persons, that are not authorised to accept deposits from the public, are mobilising funds from the public in the guise of offering investment products/schemes. We find that such institutions and persons have used the banking system for their operations and that some banks have accommodated these transactions without identifying the legality of these transactions or the potential risks.

As you are aware, permitting these institutions and persons to use the banking system to resort to such practices can tarnish the image of your institution and thereby weaken public confidence in the banking system.

In this regard, we wish to draw your attention to the Circulars on Customer Due Diligence dated 3 December 2001 and Know Your Customer Procedures dated 19 January 2007 issued by the Director Bank Supervision and Know your Customer and Customer Due Diligence Rules issued by the Director, Financial Intelligence Unit dated 18 May 2007. We wish to emphasise that special attention should be paid to strengthen Customer Due Diligence and Know Your Customer Procedures and to comply with such Circulars/Rules to ensure that sources of income and movement of funds are monitored, as required in these instructions.

Yours faithfully,

H A Karunaratne

Director of Financial Intelligence Unit

B D W A Silva

Director of Bank Supervision

Ref. No. : 02/17/800/0007/01

Bank Supervision Department

06 November 2008

**To: The CEOs of All Licensed Commercial Banks and
Licensed Specialised Banks**

Dear Sirs,

**REGULATIONS MADE UNDER THE PUBLIC SECURITY ORDINANCE
PROSCRIPTION OF TAMIL REHABILITATION ORGANISATION**

We write to inform you that His Excellency the President has promulgated Emergency (Proscription of Tamil Rehabilitation Organisation) Regulations, No. 9 of 2007 on December 26, 2007 proscribing the Tamil Rehabilitation Organisation in Sri Lanka. A copy of the relevant *Extraordinary Gazette* No.1529/13 dated December 26, 2007 is attached herewith for your information.

In this regard, we wish to draw your special attention to Regulation 3 of these Regulations and advise you to refrain from carrying out any transactions with the above proscribed organisation.

Yours faithfully,

Actg. Director of Bank Supervision

Encl:

cc: Secretary-General / SLBA

ශ්‍රී ලංකා ප්‍රජාතාන්ත්‍රික සමාජවාදී ජනරජයේ ගැසට් පත්‍රය
අති විශේෂ

The Gazette of the Democratic Socialist Republic of Sri Lanka
EXTRAORDINARY

අංක 1529/13 - 2007 දෙසැම්බර් 26 වැනි බදාදා - 2007.12.26
No. 1529/13 - WEDNESDAY, DECEMBER 26, 2007

(Published by Authority)

PART I : SECTION (I) – GENERAL

Government Notifications

CF 1/64

THE PUBLIC SECURITY ORDINANCE (CHAPTER 40)

REGULATIONS made by the President under Section 5 of the Public Security Ordinance (Chapter 40).

MAHINDA RAJAPAKSA,
President.

Colombo,
26th December, 2007.

REGULATIONS

1. These regulations may be cited as the Emergency (Proscription of Tamil Rehabilitation Organization) Regulations, No.9 of 2007.
2. For the purposes of ensuring public security, for the preservation of public order and for upholding the Rule of Law, the Organization styled as the “Tamil Rehabilitation Organization” is hereby proscribed.
3. From and after the date of the coming into operation of these regulations, any person who,—
 - (a) wears any uniform, dress, symbol or other emblem, which signifies or indicates any association with, or membership of, or adherence to the “Tamil Rehabilitation Organization” (hereinafter referred to as the “proscribed organization”) ; or
 - (b) summons or attends any meeting of the proscribed organization or participates or engages in any activity of, or any activity connected with or related to the said proscribed organization ;
or

- (c) supports the proscribed organization, by inviting or exhorting persons to be enrolled as members, or by contributing or collecting funds, or by furnishing information or securing any other assistance to the said proscribed organization ; or
- (d) harbours, conceals or in any other manner assists any member of the proscribed organization, with intention thereby to prevent, hinder or interfere with the apprehension, trial or punishment of such member ; or
- (e) makes, prints, distributes or is in any way connected with or concerned in the making, printing, distribution or publication of any written or printed matter, which is or which purports to be printed, by or on behalf of the proscribed organization or by any member thereof ; or
- (f) communicates or attempts to communicate to any other person in any manner whatsoever, any order, decision, declaration or exhortation made or purported to have been made by the proscribed organization or by any member thereof, or any information relating thereto, for the purpose of advancing the objectives of the said proscribed organization,

shall be guilty of an offence and shall on conviction be liable to imprisonment for a period not exceeding fifteen years.

4. (1) Where the Minister is satisfied, after such inquiry as he thinks fit, that any person has custody of any money, securities or credits which are being used or which are intended to be used, for the purposes of the proscribed organization, the Minister may by order in writing declare that such moneys, securities, and credits as are in the custody of such person, or any such moneys, securities and credits which may come into his custody after the making of such order and any other movable or immovable property belonging to the said proscribed organization, shall be forfeited to the State.
- (2) The decision of the Minister under paragraph (1) shall be conclusive and shall not be called in question in any court by way of writ or otherwise.

Ref. No. : 02/04/004/0012/001

Bank Supervision Department

23rd July 2003

*To : All Licensed Commercial Banks and
Licensed Specialised Banks*

Dear Sir/Madam,

ACCEPTANCE OF CERTIFICATES OF DEPOSIT (CDs)

Further to our even numbered letters dated 12 June and 16 June 2003 on the above subject, and the discussions at the monthly meeting of the Chief Executive Officers of Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs).

All LCBs and LSBs are hereby informed that the requirement to maintain details pertaining to customer identification of persons encashing CDs shall not apply in respect of CDs issued before 30 June 2003.

Yours faithfully,

Director of Bank Supervision

Ref. No. : 02/04/004/0012/001

Bank Supervision Department

16th June 2003

*To : All Licensed Commercial Banks and
all Licensed Specialised Banks*

Dear Sir/Madam,

ACCEPTANCE OF CERTIFICATES OF DEPOSIT

Further to our letter No. 02/04/004/0012/001 dated June 12, 2003 on the above subject, all licensed commercial banks and licensed specialised banks are hereby informed that they should satisfy themselves with KYC in respect of customers who invest in CDs with banks, and maintain records of adequate details pertaining to customer identification of the persons making investment in CDs with the banks, and of persons encashing the CDs from the banks at the date of maturity. The banks are requested to refrain from advertising the issue of CDs with anonymity.

The operating instructions BD/13/93 dated 5/10/1993 issued by the Central Bank on the Scheme of Certificates of Deposit will remain effective.

Yours faithfully,

Actg. Director of Bank Supervision

Ref. No. : 02/04/004/0012/001

Bank Supervision Department

12th June 2003

*To : All Licensed Commercial Banks and
all Licensed Specialised Banks*

Dear Sir/Madam,

ACCEPTANCE OF CERTIFICATES OF DEPOSIT

We refer to the discussions held at the Bank Managers' meetings on the above subject and the need to adhere to Know-Your-Customer rules (KYC) in respect of acceptance of certificates of deposits (CDs).

All licensed commercial banks and licensed specialised banks are hereby informed that they may satisfy themselves with KYC in respect of customers who invest in CDs with banks, and maintain records of adequate details pertaining to customer identification of the persons making investment in CDs with the banks, and of persons encashing the CDs from the banks at the date of maturity. The banks are requested to refrain from advertising the issue of CDs with anonymity.

The operating instructions BD/13/93 dated 5/10/1993 issued by the Central Bank on the Scheme of Certificates of Deposit will remain effective.

Yours faithfully,

Actg. Director of Bank Supervision

Operating Instruction : BD/13/93

Banking Department
Central Bank of Sri Lanka
P O Box 590
Colombo 1

October 05, 1993

To : *All Commercial Banks*

**SCHEME OF CERTIFICATES OF DEPOSIT WITH MATURITY PERIODS
OF NOT LESS THAN FOUR YEARS**

Commercial banks are hereby informed that they may issue Certificates of Deposits with a maturity period of not less than four years subject to the following terms and conditions : –

- (a) The face value of each Certificate of Deposit should not be less than Rupees One Hundred Thousand (Rs. 100,000/-).
 - (b) The funds mobilized through the Certificates of Deposit should be channelled only for long-term lending for capital investment such as purchase of machinery and equipment and construction.
 - (c) Separate accounts should be maintained in respect of funds mobilized through the Certificates of Deposit, long-term lending for capital investment utilizing such funds, and interest earned on such lending.
2. For the purpose of maintaining statutory reserves, the paid-up value of each deposit accepted against a Certificate of Deposit should be treated –
 - (i) as a Time Deposit from the date of receipt of funds up to and including the day before the date on which the deposit becomes payable/encashable whether the day before the date of redemption/encashment is a bank holiday or not, and –
 - (ii) as a Demand Deposit on and after the date on which the deposit becomes payable until a certificate of Deposit is redeemed by the Bank.
 3. Certificates of Deposit issued for periods of not less than four years, which are not encashed prior to their maturity dates, are exempted from stamp duty in terms of the Stamp Duty Act as amended by the Stamp Duty (Amendment) Act, No. 29 of 1993
 4. Certificates of Deposit issued for periods of not less than four years, but encashed prior to their dates of maturity, are subject to the payment of stamp duty at the point of encashment. The commercial banks are required to ensure that stamp duty at the prevailing rate is deducted and remitted to the Commissioner-General of Inland Revenue in the event of such premature encashment.
 5. Interest accruing to banks on lendings under paragraph 1(b) will be exempted from Turnover Tax.
 6. Any commercial bank which wishes to issue Certificates of Deposit under this Scheme is required to inform the Chief Accountant of the Central Bank of Sri Lanka and obtain the approval of the Central Bank.

M. B. Dissanayake
Chief Accountant

Bank Supervision Department

16 June 2006

To : CEOs of All Licensed Banks

Dear Sirs,

**CONDUCT OF NON-GOVERNMENT ORGANIZATIONS (NGOs) ACCOUNTS
BY LICENSED BANKS**

Further to our circular dated 31 May, 2006 on the above subject, the attention of all licensed banks is drawn to the following:

- In order to scrutinize the legitimacy of financial transactions undertaken by NGOs who receive funding assistance from external sources, the Ministry of Finance & Planning has requested the relevant line Ministries to establish a proper monitoring procedure and ascertain the work undertaken by them.
- Accordingly all licensed banks are requested to obtain a clearance letter from the relevant line Ministry and External Resources Department before releasing such funds to the respective NGOs, where it is evident that such NGO is operating outside its scope of activity. Copy of clearance letter may be forwarded to Central Bank of Sri Lanka.

Yours faithfully,

Sgd, Director of Bank Supervision

Bank Supervision Department

31 May 2006

To : All Licensed Banks

Dear Sirs,

**CONDUCT OF NON-GOVERNMENT ORGANIZATIONS (NGO) ACCOUNTS BY
LICENSED BANKS**

The immediate attention of all licensed banks is drawn to the need to observe strict due diligence and the “Know Your Customer” (KYC) Rules with regard to inward remittances and outward transfers or withdrawal of funds from accounts operated by NGOs.

In this regard the attention of all licensed banks is drawn to the provisions of Section 15 subsection (2) of the Financial Transactions Reporting Act, No.6 of 2006 and Section 3 of the Convention on the Suppression of Terrorist Financing Act, No.25 of 2005 which are annexed for ease of reference.

Yours faithfully,

Sgd, **Director of Bank Supervision**

Encl.

Section 15 subsection (2) of the Financial Transactions Reporting Act, No. 6 of 2006 reads as follows:–

15 (2) Where the Financial Intelligence Unit has reasonable grounds to suspect that a transaction or attempted transaction may—

- (a) involve the proceeds, which are attributable to any unlawful activity ; or
- (b) be connected to the commission of the money laundering offence under the Money Laundering Act, No.5 of 2006; or
- (c) be preparatory to the commission of an offence under the Convention on the Suppression of Terrorist Financing Act, No.25 of 2005,

it may direct the Institution in writing or by telephone to be confirmed in writing within twenty-four hours, not to proceed with the carrying out of that transaction or attempted transaction or any other transaction in respect of the funds affected by that transaction or attempted transaction for a period to be determined by the Financial Intelligence Unit, which may not be more than seven days, in order to allow the Financial Intelligence Unit —

- (i) to make any necessary inquiries concerning the transaction or attempted transaction; and
 - (ii) if the Financial Intelligence Unit deems it appropriate, to consult or advise the relevant law enforcement agency in the inquiries.
- (3) The Financial Intelligence Unit may make an *ex-parte* application to the High Court of the Western Province, holden in Colombo, for an extension of the period of time stipulated in subsection (2) setting out the grounds for such application.

For the purposes of subsection 15 (2) (a) quote above “*unlawful activity*” interalia includes: –

- (a) .
- (b) any law or regulation for the time being in force relating to the prevention and suppression of terrorism

Hence, in view of the above provisions of law, if there is adequate proof that funds transferred from a company to an individual would finance terrorism, it is possible for the FIU to inform the Bank concerned which holds the funds for the company which proposes to release such funds to an individual to carry out any act of terrorism, to suspend the account for a period of 7 days. Before the expiry of 7 days, the FIU should apply to the High Court of Colombo for an extension of the time if the time is insufficient to take in appropriate action to seize the funds in the account.

Further, Section 3 of the Convention on the Suppression of Terrorist Financing Act, No.25 of 2005 reads as follows:–

3. (1) Any person who, by any means, directly or indirectly, unlawfully and willfully provides or collects funds, with the intention that such funds should be used, or in the knowledge that they are to be used or having reason to believe that they are likely to be used, in full or in part, in order to commit, –

- (a) an act which constitutes an offence within the scope of, or within the definition of any one of the Treaties specified in Schedule I hereto;
- (b) any other act, intended to cause death or serious bodily injury, to civilians or to any other person not taking an active part in the hostilities, in a situation of armed conflict, and the purpose of such act, by its nature or context is to intimidate a population or to compel a government or an international organization, to do or to abstain from doing any act,

shall be guilty of the offence of financing of terrorists or terrorist organizations:

Provided that, for an act to constitute the offence set out above, it shall not be necessary to show that the funds collected were actually used in the commission of an offence.

- (2) Any person who—
- (a) Attempts to commit;
 - (b) Aids or abets the commission of; or
 - (c) Acting with a common purpose with another person or a group of persons, contributes to the commission of,

the offence of financing of terrorists or terrorist organizations, shall be guilty of an offence under this Act.

In this subsection “*abet*” has the same meaning as in sections 100 and 101 of the Penal Code.

- (3) Where an offence specified in subsection (1) or subsection (2) of this section is committed by a body of persons, then, every member, Director, Manager, Secretary, officer or servant of such body of persons shall be guilty of such offence, unless it can be proved that the offence was committed without their knowledge or that they exercised all due diligence to prevent the commission of such offence.
 - (4) A person guilty of an offence under subsection (1) or subsection (2) of this section, shall on conviction after trial on indictment by the High Court, be punished with imprisonment for a term not less than fifteen years and not exceeding twenty years, and also be liable to a fine.
4. (1) On indictment of any person in the High Court, for an offence under this Act, all funds collected in contravention of the provisions of section 3, shall, with effect from the date of filing of such indictment –
- (a) if such funds are lying in an account with any Bank, be subject to an order of freezing; or
 - (b) if such funds are in the possession or control of any person be liable to seizure;
- (2) The freezing or seizure of funds in terms of subsection (1) shall be in force until the conclusion of the trial.
 - (3) On the filing of indictment, the Attorney-General shall notify the Central Bank of the freezing or seizure as the case may be.
 - (4) The Central Bank shall thereupon take steps to give adequate publicity to the order of freezing or seizure as the case may be, as it shall think fit.

My No. : 02/04/004/0012/001

Your No. :

Bank Supervision Department

19 January 2007

*To : All Licensed Commercial Banks and
all Licensed Specialised Banks*

Dear Sirs,

CUSTOMER DUE DILIGENCE – ‘KNOW YOUR CUSTOMER’ PROCEDURES

In view of the potential risks on the banking and financial system stability that may arise from cross-border financial transactions, all licensed banks shall conduct due diligence on all customers involved in cross-border financial transactions and ensure that all requirements under the relevant statutes including Prevention of Money Laundering Act, No.5 of 2006, financial Transactions Reporting Act, No.6 of 2006 and Convention on the Suppression of Terrorist Finance Act, No.25 of 2005 and the Exchange Control Act, No.24 of 1953 are complied with.

Accordingly, the licensed banks shall report any transaction of suspicious nature to the relevant authorities in terms of the above statutes immediately.

Yours faithfully,

Sgd, P. Samarasiri
Director of Bank Supervision

Bank Supervision Department
Central Bank of Sri Lanka

3rd December, 2001

*To : All Licensed Commercial Banks and
Licensed Specialised Banks*

**CUSTOMER DUE DILIGENCE –
‘KNOW YOUR CUSTOMER’ PROCEDURES**

Your attention is drawn to the discussion on the above subject at the Bank Managers’ Meetings held in the months of October and November 2001. Please find enclosed a Guideline on Customer Due Diligence - ‘Know Your Customer’ procedures, which set out the minimum criteria to be adopted by banks.

These guidelines will be effective immediately.

Yours faithfully,

Director of Bank Supervision

Ref. No. : 02/04/004/0012/001

Bank Supervision Department
Central Bank of Sri Lanka

3rd December, 2001

To : All Licensed Commercial Banks and
Licensed Specialised Banks

GUIDELINES ON CUSTOMER DUE DILIGENCE – 'KNOW YOUR CUSTOMER' PROCEDURES

In order to prevent the unchecked use of the financial system for money laundering and transactions related to terrorism and subversive activities, it is recommended that all banks follow these guidelines on customer identification at the time of opening an account for a prospective customer, or before establishing a business relationship with a prospective customer, or thereafter when there is a material change in the way an account is operated. In addition to minimising the risk of use of the banking system for illicit activities, the adoption of these guidelines will provide protection against possible frauds, and enable the timely recognition of suspicious transactions and protect the bank from reputational, legal and financial risks.

1. All banks are encouraged to document their policies on customer acceptance, customer identification/risk management and monitoring of high risk accounts.
2. In order to '*know their customers*' the banks are expected to:
 - (i) Have sufficient information on the identity of the customer.
 - (ii) Be satisfied that a *prospective customer is who he/she claims to be*. If the customer is acting on behalf of another, sufficient evidence on the identity of both parties should be obtained.
 - (iii) Ensure that information obtained in respect of a customer in the normal course of business is used effectively for the prevention of money laundering/terrorism funding.

3. Customer Identification

3.1 Personal Accounts

The following information should be obtained from all prospective personal customers:

- Customer's name from an original of a document issued by an official authority, preferably bearing a photograph of the customer, such as the national identity card, passport or the driving license. The reference number of such document should be recorded by the bank.
- Customer's permanent mailing address and supporting evidence which should be confirmed through correspondence.
- The authenticity and integrity of an introducer and his own identity should be established to the satisfaction of the bank.
- Independent verification of introducer's address should be made and filed with the mandate.

3.2 Corporate Customers

The following documents should be obtained:

- Certificate of Incorporation, Memorandum and Articles of Association or Partnership Agreement, as appropriate, to establish the legal status of the customer

- Resolution by the Board of Directors
- Duly completed application form containing authorised specimen signatures
- The identity of each director and those authorised to operate the account, should be established.
- For companies, businesses or partnerships registered outside Sri Lanka, similar documents should be obtained, taking into consideration any soft regulatory system in the country of origin.

3.3 In the case of accounts operated by:

- A Power of Attorney
- Joint account holders
- Partnerships
- Trust accounts/Fiduciary accounts

The identity should be established in respect of each signatory to the account.

3.4 More stringent customer identification policies should be established in the following circumstances:

- Accounts opened by post or in any other circumstances where there is no face to face contact with the customer.
- In the case of one-off transactions for non-account holders of the bank, in particular where such transactions involve large amounts of cash, or the receipt of unusually large foreign remittances, the customer should be asked to produce documentary evidence of identity, and copies of such documents should be retained by the bank.
- Where safe custody facilities are made available to non-account holders, identification procedure for non-account holders, as above, should be followed.
- In accommodating requests for remittances of funds between accounts using electronic payment systems, where such transactions are of a large size, the bank should establish the identity of the sender and ascertain the identity of the recipient.

4. In instances where the bank cannot establish the true identity of the customer to its satisfaction, it should not commence any business relationship with such customer.

5. Other Recommendations

- 5.1 In respect of all types of accounts, returned letters and statements should be followed-up.
- 5.2 Where after opening an account, the features of the transactions, as known at the time of opening of the account changes significantly, causing grounds for suspicion of criminal activity, inquiries should be made with regard to the changes in the financial position and nature of activities, which should be recorded.
- 5.3 Retention of records: All evidence of identification as set out above should be maintained for a minimum period of five (05) years even after an account is closed.
- 5.4 Where the officer handling the account opening has reasons to believe that a new relationship may expose the bank to significant reputational risk, he may refer such request to an officer of higher authority before opening the account.
- 5.5 The internal controller/auditor may be required to ensure compliance with the bank's policies on customer acceptance and identification.

P. T. Sirisena

Director of Bank Supervision

Ref. No. : BS/7/87

Bank Supervision Department
Central Bank of Sri Lanka
Renuka Building
41, Janadhipathi Mawatha
Colombo 1.

25 March 1997

To : All Commercial Banks

Dear Sir/Madam,

DISHONoured CHEQUES

I wish to draw your attention to the high incidence of cheque returns which has become a serious matter of concern, in view of the impact it would have on the integrity and efficiency of the payment system.

The commercial banks are therefore requested to :

- (a) draw the attention of their customers to the legal consequences that may be encountered in the event of a cheque return,
- (b) Screen the prospective customers before opening current accounts, by calling for information from other banks about their status.

Yours faithfully,

Sgd. Y. A. Piyatissa
Director of Bank Supervision

Bank Supervision Department

20th October 2003

To : All Foreign Bank Branches

Dear Sir,

INTERNAL AUDIT FUNCTION

The Basel Committee on Banking Supervision has continuously emphasised the importance of the internal audit function as a vital component of an efficient internal control mechanism in banks. Internal auditing is defined as an “independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systemic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes”.

An effective internal audit function within a bank would be a valuable source of information for bank management and supervisors, as it would indicate the quality of the internal control system of the bank.

In the light of the foregoing, I am directed by the Monetary Board to ensure that all banks have an effective internal audit function in place. Accordingly, all branches of Foreign Banks operating in Sri Lanka are hereby requested to ensure that an Internal Audit Unit of their own is established, or in the absence of the same the Head Office or the Regional Office of such bank carries out an audit of the branch at least annually.

Yours faithfully,

Director of Bank Supervision

Bank Supervision Department

13 June 2006

To : CEOs of All Licensed Banks

Dear Sirs,

PREVENTION OF FRAUDS USING ELECTRONIC CARDS

Recent reports have highlighted the use of credit cards and ATM cards for fraudulently withdrawing large sums of money from banks in many countries, especially in the South East Asian region.

The Presidential Secretariat, by its letter dated 06 June 2006 has drawn the attention of the Central Bank to the need to take precautionary measures to avert the possibility of such attempts being made even in Sri Lanka, considering the particular danger of terrorist groups using them as a means of creating a sense of insecurity in a vital sector of the economy.

Accordingly, Licensed Banks that issue electronic cards to customers should, as soon as is practicable take steps to:

1. Introduce security features such as tamper-proof micro chips for electronic cards, and in the interim-
2. Take appropriate steps to educate their customers with regard to the safety of their electronic cards and remind them at regular intervals the steps that should be taken by them, in order to avoid being victims of fraudulent use of such cards.
3. Ensure that adequate provision is made annually for the necessary investment in technology.

The banks are also encouraged to introduce other relevant security measures in respect of ATM cards/machines. It is suggested that CCTV cameras be installed at all ATM outlets in order to enhance the surveillance at ATM outlets.

Your views on this matter are welcome for discussion at the forthcoming monthly meeting of CEOs on the 22 June 2006.

Yours faithfully,

Director of Bank Supervision



ජනාධිපති කාර්යාලය
சனாதிபதி செயலகம்
THE PRESIDENTIAL SECRETARIAT

මගේ අංකය }
எனது இல. } SP
My No }

 உமது இல. }
Your No }

 කොට්ඨාස 1.
கொழும்பு 1.
Colombo 1.

June 6, 2006

Deshamanya Sunil Mendis
Governor
Central Bank of Sri Lanka

The recently reported ATM scams in Singapore (Divaina – 25.05.2006) as well as other countries such as New Zealand, indicate the likelihood of such practices spreading across the world.

It seems prudent to take precautionary measures to avert the possibility of such attempts being made even in Sri Lanka, considering the particular danger of terrorist groups using them as means of creating a sense of insecurity in a vital sector of the economy.

Accordingly, it may be worth taking early action to request the banks in the country to take the following measures and any other, if they have so far not taken any initiatives in this regard.

1. Expedite the process of introducing tamper-proof micro chip Bank cards (being done in many countries now).
2. Keep the customers reminded at regular intervals the steps they should take in order to avoid being victims of ATM robberies.

We hope you would understand that our observations and suggestions are guided by the fact that it is vital to reduce the risk of any form of instability that would affect the Banks, their customers or the country.

Sincerely,

Sgd. Lalith Weeratunga
Secretary to the President

Ref. No. : 02/19/40110072/001

Bank Supervision Department

07 March 2006

To : CEOs of all Licensed Commercial Banks

Dear Sir,

**REPORTING OF POST-TSUNAMI REMITTANCES RECEIVED THROUGH
NGOS AND NON-NGOS TO THE CENTRAL BANK OF SRI LANKA**

We refer to our circular dated 13 May, 2005 on the above subject and hereby revise the format for reporting of the information relating to the above remittances with effect from March 1, 2006.

In terms of the revised format, the banks are required to furnish the data in two tables attached hereto (Table 1 & 2). The new table (Table 2) should contain details of NGOs, respective donors/remitters, withdrawals and outstanding account balances on a monthly basis from March 2006 by the 10th of the month following the reporting month. The banks are also requested to furnish the information in Table 2 for the months of January and February, 2006 on or before 24 March, 2006.

The banks are requested to adhere strictly to the 'Know Your Customer Guidelines' and implement adequate systems and controls to monitor all such remittances to ensure that customer due diligence on transactions relating to such remittances is carried out. This is an imperative in the context of the Anti-money Laundering legislation that has just been passed by Parliament and which will soon be operative.

Your continued co-operation in this regard will be greatly appreciated.

Yours faithfully,

Controller of Exchange

Director of Bank Supervision

Table 1

Donations received by Government, Non-Governmental Organisations (NGOs) and Others (Non-NGOs)

Name of Commercial Bank:-

For the Period:- 26th December 2004 to

| Item | Tsunami | | | Non-Tsunami | |
|---|-------------------------------|--|---------------------------------------|-------------------------------|-------------------|
| | Foreign Donations | | Local Donations: Sri Lankan Rs. | Foreign Currency Amount | Rs. Equivalent |
| | Foreign Currency Amount | Equivalent Amount of Sri Lankan Rs. | | | |
| Donation Received by the Government | | | | | |
| Donations Received by Non-Governmental Organisations (NGOs) (a) | | | | | |
| Donations Received by Others (Non-NGOs) | | | | | |
| Total | | | | | |

(a) Please provide detailed information as requested in Form 2

Directions issued by the Monetary Board of the Central Bank of Sri Lanka under Section 46(1) of the Banking Act, No.30 of 1988, as amended.

Sgd. Nivard Ajith Leslie Cabraal
Governor

Colombo
26 December 2007

DIRECTIONS
BANKING ACT DIRECTION NO. 11 OF 2007
Corporate Governance for Licensed Commercial Banks in Sri Lanka

In the exercise of the powers conferred by Section 46(1) of the Banking Act, No.30 of 1988, last amended by the Banking Act, No.46 of 2006, the Monetary Board hereby issues the following Directions on Corporate Governance for Licensed Commercial Banks in Sri Lanka. These Directions may be cited as the Banking Act, Direction No.11 of 2007. The Sections referred to in these Directions will be those of the Banking Act, No. 30 of 1988, last amended by the Banking Act, No.46 of 2006.

1. Responsibilities and Empowerment under the Banking Act and the Monetary Law Act

- 1(1)** In terms of Section 46(1) of the Banking Act, No.30 of 1988 last amended by No.46 of 2006, in order to ensure the soundness of the banking system, the Monetary Board has been empowered to issue Directions to licensed commercial banks, regarding the manner in which any aspect of the business of such banks is to be conducted.
- 1(2)** In terms of Section 5 of the Monetary Law Act, No.58 of 1949, the Central Bank of Sri Lanka is charged with the duty of securing, as far as possible by action authorised by such Act, the two objectives, namely, (a) economic and price stability and (b) financial system stability.
- 1(3)** In terms of Section 10(c) of the Monetary Law Act, the Monetary Board, in the exercise of its powers, duties, functions and responsibilities, is empowered to make such rules and regulations as the Monetary Board may consider necessary, in relation to any matter affecting or connected with or incidental to the exercise, discharge, or performance of the powers, functions, and duties of the Central Bank of Sri Lanka.
- 1(4)** Under the provisions of the Monetary Law Act, No.58 of 1949, the supervision of banks has been made a duty of the Central Bank on account of specific reasons as stated in John Exter's Report on the Monetary Law Act which states, inter-alia, as follows: "*Banking is an economic activity which affects the public welfare to an unusual degree; it touches in one way or another, almost every phase of a country's economic life. Sound banking is essential to healthy and vigorous economic development. Supervision of banks helps to protect the public against mismanagement, bank failures, and loss of confidence in the banking system. It helps to protect depositors and stock-holders against loss and frequently enables bank directors and officers to manage the affairs of their banks more wisely and intelligently.*"
- 1(5)** Accordingly, in order to enhance the overall banking sector stability which is the fundamental to financial system stability, the Monetary Board, hereby issues Directions under Section 46(1) of the Banking Act, No.30 of 1988 to improve and sustain the corporate governance processes and practices of the licensed commercial banks in Sri Lanka.

- 1(6)** For purposes of this Direction, Corporate Governance processes and practices shall be deemed to be the management framework that facilitates the conduct of the banking business in a responsible and accountable manner so as to promote the safety and soundness of the individual banks, thereby leading to the stability of the overall banking sector.
- 1(7)** The rules of corporate governance as contained in Direction 3 of these Directions have, therefore, been developed on the basis of certain fundamental principles as set out in Direction 2 of these Directions with a view to facilitating the underlying supervisory responsibilities of the Central Bank and to promote safety and soundness of the banking system.
- 2. The Principles upon which the rules of Corporate Governance have been based upon and developed are the following:**

The principles set out in this Direction 2 should be referred to for explanatory purposes and/or for clarification purposes only, so as to understand the rationale for the rules as contained in Direction 3 hereof. Hence, strict compliance under these Directions shall only be in respect of the rules that are set out under Direction 3.

2(1) Principle: The Responsibilities of the Board

- 2(1)(i)** The board of directors should assume the overall responsibility and accountability in respect of: (a) the management of the affairs of the bank, *i.e.*, conduct of business and maintenance of prudent risk management mechanisms; and (b) the safety and soundness of the bank.
- 2(1)(ii)** Towards this end, the board should: (a) determine the structure of the management of affairs of the bank; (b) delegate business operations to key management personnel led by the chief executive officer designated by the board; (c) assume policy making and risk management for the business; and (d) ensure the effective role of the key management personnel. Key management personnel shall mean such key executives of the bank as defined in the International Accounting Standards.
- 2(1)(iii)** The overall responsibility of the board should not be construed as an obligation to undertake the inspection of day-to-day activities, but should rather be understood as an obligation to oversee and ensure that the key management personnel are carrying out the day-to-day activities of the bank in a safe and sound manner in accordance with the policies set by the board.
- 2(1)(iv)** Directors should understand the business and risk management mechanism of the bank and take objective decisions in the interest of the bank's depositors, creditors, shareholders and other stakeholders. Further, they should ensure that the bank does not act in a manner that is detrimental or prejudicial to the interests of, and obligations to, depositors and creditors.
- 2(1)(v)** The board should take the responsibility for compliance with accepted rules of corporate governance. They should also ensure compliance with all regulatory and supervisory requirements. Further, they should ensure that an effective combination of professionals with practical experience in relevant subjects such as banking, finance, economics, business management, human resource management, law, marketing, information technology or any other discipline relevant or complementary to banking operations, is available in the bank to undertake its operations and discharge its responsibilities.
- 2(1)(vi)** The directors should be aware of potential civil and criminal liabilities that may arise from their failure to discharge their duties diligently. They should also understand that they should act with due care and prudence. In addition, the directors of state owned banks should be aware of the additional liabilities that arise from the status of such banks being state enterprises and consequently being accountable to the public. It is, therefore, necessary that directors commit sufficient time and energy to fulfilling the board's responsibilities in managing the affairs of the bank in a prudent manner.

2(2) Principle: The Board's composition

- 2(2)(i)** The board should be composed of a healthy mix of executive directors and non-executive directors. Some of the non-executive directors should also be independent so that there is strong independent element brought into the decision-making process.
- 2(2)(ii)** The board's composition should ensure a balance of skills and experience as may be deemed appropriate and desirable for the requirements of the bank.
- 2(2)(iii)** The banking industry worldwide is making tremendous progress and undergoing rapid change with new innovations, instruments, technologies, products, systems and processes being introduced regularly. It is vital therefore, that the directors should be persons who would: (a) be able to keep abreast with these changes, and (b) provide continuous contribution and guidance to the board decision-making process.
- 2(2)(iv)** There should be a gradual infusion of new ideas into the board. There should also be assurance that the relationships between the directors amongst themselves as well as between the directors and the key management personnel is at a level that does not suggest the existence of excessive familiarity, undue influence or coercion. In this context, it should be noted that very long-standing relationships could sometimes impair the high sense of values, independence and objectivity that is needed in the discharge of the duties of a director of a bank.

2(3) Principle: Criteria to assess the Fitness and Propriety of Directors

- 2(3)(i)** In addition to the principles under the board's composition in Direction 2(2) above, directors should be fit and proper persons in order to be eligible to hold office as directors of a bank and no person should serve as a director unless such person is a fit and proper person.
- 2(3)(ii)** There is strong need for commitment and effective contribution to the prudent management of the affairs of the bank. It is very likely that the effectiveness of such commitment and contribution would tend to decrease with advanced age of directors and more particularly, if the age of such director is well beyond the normal age of retirement, as generally accepted in the country.

2(4) Principle: Management functions delegated by the Board

- 2(4)(i)** The board should have a formal schedule of matters specifically reserved to it for decision. The board should also give clear directions to key management personnel, as to the matters that should be approved by the board before decisions are made by key management personnel, on behalf of the bank.

2(5) Principle: The Chairman and the Chief Executive Officer

- 2(5)(i)** There are two key aspects of the management of every bank, viz., (a) the overall governance by the board, and (b) the day-to-day management of the bank's business by the CEO, in line with board approved strategic objectives, corporate values, overall risk policy and risk management procedures.
- 2(5)(ii)** There should be a clear division of these responsibilities at the board level and the executive management level to ensure a greater balance of power and authority, so that powers are not concentrated in any one individual.
- 2(5)(iii)** The board should appoint a chairman as well as a chief executive officer. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

2(6) Principle: Board appointed Committees

- 2(6)(i)** The board should appoint separate board committees for audit, selection, remuneration, integrated risk management and such other subjects as determined by the Board to ensure its oversight and control over the affairs of the bank.
- 2(6)(ii)** Where the board appoints a committee, it should set out the authority of the committee, and in particular, whether the committee has the authority to act on behalf of the board or simply has the authority to examine a particular issue and report back to the board with recommendations.
- 2(6)(iii)** Each committee should be chaired by a non-executive director who has some expertise in the relevant subject, and who preferably should be independent too. The majority of the members of the board committee should consist of non-executive directors with at least one independent director in the committee. If a need arises, professionals from outside may be invited or hired to serve in a committee. Bank staff may be present at the board committees for advice or special assignments, on invitation.

2(7) Principle: Related party transactions

- 2(7)(i)** The board should ensure that the bank does not engage in transactions with “related parties” in a manner that would grant such parties “more favourable treatment” than that accorded to other constituents of the bank carrying on the same business.

2(8) Principle: Disclosures

- 2(8)(i)** The objective of disclosure is the transparency of information relating to affairs and risk management of banks which would help to promote market discipline of the respective banks.
- 2(8)(ii)** Since market disclosure is the focus of the Pillar III of the risk management based capital standard known as Basel II recommended by the Basel Committee on Banking Supervision at the Bank for International Settlements, (which is the globally accepted body on introducing international standards on Bank Supervision), the extent of disclosures should be commensurate with the size, ownership structure, systemic importance, risk profile and the business model of the bank. Accordingly, it should be noted that the adequate and timely public disclosure of relevant information by banks would facilitate enhanced market discipline and lead to better and more effective corporate governance.
- 2(8)(iii)** Disclosures by banks should generally include disclosures relating to capital adequacy, key performance indicators, business concentrations, transactions with related parties, corporate governance statements, financial statements, *etc.*, and should be consistent with accounting standards, regulatory requirements as well as with any other information disclosed on voluntary basis.

3. The following rules of Corporate Governance shall be complied by all licensed commercial banks in Sri Lanka and such compliance shall be as provided for in Direction 3(9)(i) hereof.**3(1) The Responsibilities of the Board**

- 3(1)(i)** The board shall strengthen the safety and soundness of the bank by ensuring the implementation of the following:
- a) Approve and oversee the bank’s strategic objectives and corporate values and ensure that these are communicated throughout the bank;
 - b) Approve the overall business strategy of the bank, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least the next three years;

- c) Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently;
 - d) Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, share-holders and borrowers;
 - e) Review the adequacy and the integrity of the bank's internal control systems and management information systems;
 - f) Identify and designate key management personnel, as defined in the International Accounting Standards, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management;
 - g) Define the areas of authority and key responsibilities for the board directors themselves and for the key management personnel;
 - h) Ensure that there is appropriate oversight of the affairs of the bank by key management personnel, that is consistent with board policy;
 - i) Periodically assess the effectiveness of the board directors' own governance practices, including: (i) the selection, nomination and election of directors and key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary;
 - j) Ensure that the bank has an appropriate succession plan for key management personnel;
 - k) Meet regularly, on a needs basis, with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives;
 - l) Understand the regulatory environment and ensure that the bank maintains an effective relationship with regulators;
 - m) Exercise due diligence in the hiring and oversight of external auditors.
- 3(1)(ii)** The board shall appoint the chairman and the chief executive officer and define and approve the functions and responsibilities of the chairman and the chief executive officer in line with Direction 3(5) of these Directions.
- 3(1)(iii)** The board shall meet regularly and board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular board meetings shall normally involve active participation in person of a majority of directors entitled to be present. Obtaining the board's consent through the circulation of written resolutions/papers shall be avoided as far as possible.
- 3(1)(iv)** The board shall ensure that arrangements are in place to enable all directors to include matters and proposals in the agenda for regular board meetings where such matters and proposals relate to the promotion of business and the management of risks of the bank.
- 3(1)(v)** The board procedures shall ensure that notice of at least 7 days is given of a regular board meeting to provide all directors an opportunity to attend. For all other board meetings, reasonable notice may be given.
- 3(1)(vi)** The board procedures shall ensure that a director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a director. Participation at the directors' meetings through an alternate director shall, however, be acceptable as attendance.
- 3(1)(vii)** The board shall appoint a company secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, whose primary responsibilities shall be to handle the secretariat services to the board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.

- 3(1)(viii)** All directors shall have access to advice and services of the company secretary with a view to ensuring that board procedures and all applicable rules and regulations are followed.
- 3(1)(ix)** The company secretary shall maintain the minutes of board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any director.
- 3(1)(x)** Minutes of board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the board acted with due care and prudence in performing its duties. The minutes shall also serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the board meetings. Therefore, the minutes of a board meeting shall clearly contain or refer to the following: (a) a summary of data and information used by the board in its deliberations; (b) the matters considered by the board; (c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the board was carrying out its duties with due care and prudence; (d) the testimonies and confirmations of relevant executives which indicate compliance with the board's strategies and policies and adherence to relevant laws and regulations; (e) the board's knowledge and understanding of the risks to which the bank is exposed and an overview of the risk management measures adopted; and (f) the decisions and board resolutions.
- 3(1)(xi)** There shall be a procedure agreed by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the bank's expense. The board shall resolve to provide separate independent professional advice to directors to assist the relevant director or directors to discharge his/her/their duties to the bank.
- 3(1)(xii)** Directors shall avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with, and commitments to, other organisations or related parties. If a director has a conflict of interest in a matter to be considered by the board, which the board has determined to be material, the matter should be dealt with at a board meeting, where independent non-executive directors [refer to Direction 3(2)(iv) of these Directions] who have no material interest in the transaction, are present. Further, a director shall abstain from voting on any board resolution in relation to which he/she or any of his/her close relation or a concern in which a director has substantial interest, is interested and he/she shall not be counted in the quorum for the relevant agenda item at the board meeting.
- 3(1)(xiii)** The board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the bank is firmly under its authority.
- 3(1)(xiv)** The board shall, if it considers that the bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Bank Supervision of the situation of the bank prior to taking any decision or action.
- 3(1)(xv)** The board shall ensure that the bank is capitalised at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds.
- 3(1)(xvi)** The board shall publish in the bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.
- 3(1)(xvii)** The board shall adopt a scheme of self-assessment to be undertaken by each director annually, and maintain records of such assessments.

3(2) The Board's Composition

- 3(2)(i)** The number of directors on the board shall not be less than 7 and not more than 13.
- 3(2)(ii)** (A) The total period of service of a director other than a director who holds the position of chief executive officer shall not exceed nine years, and such period in office shall be inclusive of the total period of service served by such director up to 01 January 2008.

(B) In this context, the following transitional provisions shall apply:

- a) In the event that there is only one director on the board who has served more than nine years as at 01 January 2008, he/she shall be deemed to have vacated the office as a director as at 31 December 2008.
- b) In the event that there are two or more directors on the board who have served more than nine years as at 01 January 2008, the following provisions shall apply:
 - I. Of those directors whose period of service has exceeded nine years, the longest serving director, shall be deemed to have vacated office as a Director on 31 December 2008.
 - II. Thereafter, at the end of each succeeding year, the remaining directors shall be deemed to have vacated office in sequence, at least one director each year, (on the basis of the longest to the shortest length of service as a director), until all directors who have served a period in excess of nine years as at 01 January 2008, have been deemed to have vacated office. Provided also, that all directors of the bank who have served more than nine years as at 01 January 2008 shall be deemed to have vacated their office by or before 31 December 2011.
- c) In the event there are any directors who are due to complete nine years of service between 01 January 2008 and 31 December 2010, such directors shall also be deemed to have vacated office, in sequence, at least one director each year, (on the basis of the longest to the shortest length of service as a director), after the directors as set out in Direction 3(2)(ii)(B)(b) have vacated their office as directors. Provided, however, that all such directors covered by this sub-direction (c) shall also be deemed to have vacated their office by or before 31 December 2011.

3(2)(iii) An employee of a bank may be appointed, elected or nominated as a director of the bank (hereinafter referred to as an “executive director”) provided that the number of executive directors shall not exceed one-third of the number of directors of the board. In such an event, one of the executive directors shall be the chief executive officer of the bank.

3(2)(iv) The board shall have at least three independent non-executive directors or one third of the total number of directors, whichever is higher. This sub-direction shall be applicable from 01 January 2010 onwards.

A non-executive director shall not be considered independent if he/she:

- a) has direct and indirect shareholdings of more than 1 per cent of the bank;
- b) currently has or had during the period of two years immediately preceding his/her appointment as director, any business transactions with the bank as described in Direction 3(7) hereof, exceeding 10 per cent of the regulatory capital of the bank.
- c) has been employed by the bank during the two year period immediately preceding the appointment as director;
- d) has a close relation who is a director or chief executive officer or a member of key management personnel or a material shareholder of the bank or another bank. For this purpose, a “close relation” shall mean the spouse or a financially dependant child;
- e) represents a specific stakeholder of the bank;
- f) is an employee or a director or a material shareholder in a company or business organization:
 - I. which currently has a transaction with the bank as defined in Direction 3(7) of these Directions, exceeding 10 per cent of the regulatory capital of the bank, or

- II. in which any of the other directors of the bank are employed or are directors or are material shareholders; or
- III. in which any of the other directors of the bank have a transaction as defined in Direction 3(7) of these Directions, exceeding 10 per cent of regulatory capital in the bank;

- 3(2)(v)** In the event an alternate director is appointed to represent an independent director, the person so appointed shall also meet the criteria that applies to the independent director.
- 3(2)(vi)** Non-executive directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources.
- 3(2)(vii)** A meeting of the board shall not be duly constituted, although the number of directors required to constitute the quorum at such meeting is present, unless more than one half of the number of directors present at such meeting are non-executive directors. This sub-direction shall be applicable from 01 January 2010 onwards.
- 3(2)(viii)** The independent non-executive directors shall be expressly identified as such in all corporate communications that disclose the names of directors of the bank. The bank shall disclose the composition of the board, by category of directors, including the names of the chairman, executive directors, non-executive directors and independent non-executive directors in the annual corporate governance report.
- 3(2)(ix)** There shall be a formal, considered and transparent procedure for the appointment of new directors to the board. There shall also be procedures in place for the orderly succession of appointments to the board.
- 3(2)(x)** All directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.
- 3(2)(xi)** If a director resigns or is removed from office, the board shall: (a) announce the director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant director's disagreement with the bank, if any; and (b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.
- 3(2)(xii)** A director or an employee of a bank shall not be appointed, elected or nominated as a director of another bank except where such bank is a subsidiary company or an associate company of the first mentioned bank.

3(3) Criteria to assess the fitness and propriety of directors

In addition to provisions of Section 42 of the Banking Act, No.30 of 1988, the criteria set out below shall apply to determine the fitness and propriety of a person who serves or wishes to serve as a director of a bank. Non-compliance with any one of the criteria as set out herein shall disqualify a person to be appointed, elected or nominated as a director or to continue as a director.

- 3(3)(i)** The age of a person who serves as director shall not exceed 70 years.
- (A) Where a director who is currently serving at a bank is over 70 years of age as at 01 January 2008, the following transitional provisions shall apply, subject however to the provisions as set out in Direction 3(2)(ii) hereof.
- a) If a director is over 75 years of age as at 01 January 2008, such director may continue to serve as a director for a further period that shall not extend beyond

31 December 2008, and shall be deemed to have vacated office on 31 December 2008;

- b) If a director is between 70 and 75 years of age as at 01 January 2008, such director may continue to serve as a director for a further period that shall not extend beyond 31 December 2009, and shall be deemed to have vacated office on 31 December 2009.

(B) Where a director who is currently serving at a bank reaches the age of 70 years, between 01 January 2008 and 31 December 2009, such director may, subject to the provisions as set out in Direction 3(2)(ii) hereof, continue to serve as a director for a further period that shall not extend beyond 31 December 2010 and shall be deemed to have vacated office on 31 December 2010.

3(3)(ii) A person shall not hold office as a director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the bank. Of such 20 companies/entities/institutions, not more than 10 companies shall be those classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995.

3(4) Management functions delegated by the Board

3(4)(i) The directors shall carefully study and clearly understand the delegation arrangements in place.

3(4)(ii) The board shall not delegate any matters to a board committee, chief executive officer, executive directors or key management personnel, to an extent that such delegation would significantly hinder or reduce the ability of the board as a whole to discharge its functions.

3(4)(iii) The board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the bank.

3(5) The Chairman and Chief Executive Officer

3(5)(i) The roles of chairman and chief executive officer shall be separate and shall not be performed by the same individual.

3(5)(ii) The chairman shall be a non-executive director and preferably an independent director as well. In the case where the chairman is not an independent director, the board shall designate an independent director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the bank's Annual Report.

3(5)(iii) The board shall disclose in its corporate governance report, which shall be an integral part of its Annual Report, the identity of the chairman and the chief executive officer and the nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the chairman and the chief executive officer and the relationships among members of the board.

3(5)(iv) The chairman shall: (a) provide leadership to the board; (b) ensure that the board works effectively and discharges its responsibilities; and (c) ensure that all key and appropriate issues are discussed by the board in a timely manner.

3(5)(v) The chairman shall be primarily responsible for drawing up and approving the agenda for each board meeting, taking into account where appropriate, any matters proposed by the other directors for inclusion in the agenda. The chairman may delegate the drawing up of the agenda to the company secretary.

3(5)(vi) The chairman shall ensure that all directors are properly briefed on issues arising at board meetings and also ensure that directors receive adequate information in a timely manner.

- 3(5)(vii)** The chairman shall encourage all directors to make a full and active contribution to the board's affairs and take the lead to ensure that the board acts in the best interests of the bank.
- 3(5)(viii)** The chairman shall facilitate the effective contribution of non-executive directors in particular and ensure constructive relations between executive and non-executive directors.
- 3(5)(ix)** The chairman, shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.
- 3(5)(x)** The chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the board.
- 3(5)(xi)** The chief executive officer shall function as the apex executive-in-charge of the day-to-day management of the bank's operations and business.

3(6) Board appointed Committees

- 3(6)(i)** Each bank shall have at least four board committees as set out in Directions 3(6)(ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) of these Directions. Each committee shall report directly to the board. All committees shall appoint a secretary to arrange the meetings and maintain minutes, records, *etc.*, under the supervision of the chairman of the committee. The board shall present a report of the performance on each committee, on their duties and roles at the annual general meeting.
- 3(6)(ii)** The following rules shall apply in relation to the Audit Committee:
- a) The chairman of the committee shall be an independent non-executive director who possesses qualifications and experience in accountancy and/or audit.
 - b) All members of the committee shall be non-executive directors.
 - c) The committee shall make recommendations on matters in connection with: (i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.
 - d) The committee shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.
 - e) The committee shall develop and implement a policy on the engagement of an external auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the committee shall ensure that the provision by an external auditor of non-audit services does not impair the external auditor's independence or objectivity. When assessing the external auditor's independence or objectivity in relation to the provision of non-audit services, the committee shall consider:
 - I. whether the skills and experience of the audit firm make it a suitable provider of the non-audit services;
 - II. whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the external auditor; and

- III. whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm, pose any threat to the objectivity and/or independence of the external auditor.
- f) The committee shall, before the audit commences, discuss and finalise with the external auditors the nature and scope of the audit, including: (i) an assessment of the bank's compliance with the relevant Directions in relation to corporate governance and the management's internal controls over financial reporting; (ii) the preparation of financial statements for external purposes in accordance with relevant accounting principles and reporting obligations; and (iii) the co-ordination between firms where more than one audit firm is involved.
- g) The committee shall review the financial information of the bank, in order to monitor the integrity of the financial statements of the bank, its annual report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the bank's annual report and accounts and quarterly reports before submission to the board, the committee shall focus particularly on: (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements.
- h) The committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of key management personnel, if necessary.
- i) The committee shall review the external auditor's management letter and the management's response thereto.
- j) The committee shall take the following steps with regard to the internal audit function of the bank:
- I. Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;
 - II. Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;
 - III. Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;
 - IV. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;
 - V. Ensure that the committee is appraised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;
 - VI. Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care;
- k) The committee shall consider the major findings of internal investigations and management's responses thereto;
- l) The chief finance officer, the chief internal auditor and a representative of the external auditors may normally attend meetings. Other board members and the chief executive officer may also attend meetings upon the invitation of the committee. However, at least twice a year, the committee shall meet with the external auditors without the executive directors being present.

- m) The committee shall have: (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.
- n) The committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.
- o) The board shall disclose in an informative way, (i) details of the activities of the audit committee; (ii) the number of audit committee meetings held in the year; and (iii) details of attendance of each individual director at such meetings.
- p) The secretary of the committee (who may be the company secretary or the head of the internal audit function) shall record and keep detailed minutes of the committee meetings.
- q) The committee shall review arrangements by which employees of the bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the bank's relations with the external auditor.

3(6)(iii) The following rules shall apply in relation to the Human Resources and Remuneration Committee:

- a) The committee shall determine the remuneration policy (salaries, allowances and other financial payments) relating to directors, Chief Executive Officer (CEO) and key management personnel of the bank.
- b) The committee shall set goals and targets for the directors, CEO and the key management personnel.
- c) The committee shall evaluate the performance of the CEO and key management personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.
- d) The CEO shall be present at all meetings of the committee, except when matters relating to the CEO are being discussed.

3(6)(iv) The following rules shall apply in relation to the Nomination Committee:

- a) The committee shall implement a procedure to select/appoint new directors, CEO and key management personnel.
- b) The committee shall consider and recommend (or not recommend) the re-election of current directors, taking into account the performance and contribution made by the director concerned towards the overall discharge of the board's responsibilities.
- c) The committee shall set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the key management positions.
- d) The committee shall ensure that directors, CEO and key management personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Statutes.
- e) The committee shall consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring directors and key management personnel.
- f) The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at meetings by invitation.

- 3(6)(v)** The following rules shall apply in relation to the Integrated Risk Management Committee:
- a) The committee shall consist of at least three non-executive directors, chief executive officer and key management personnel supervising broad risk categories, *i.e.*, credit, market, liquidity, operational and strategic risks. The committee shall work with key management personnel very closely and make decisions on behalf of the board within the framework of the authority and responsibility assigned to the committee.
 - b) The committee shall assess all risks, *i.e.*, credit, market, liquidity, operational and strategic risks to the bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a bank basis and group basis.
 - c) The committee shall review the adequacy and effectiveness of all management level committees such as the credit committee and the asset-liability committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee.
 - d) The committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the committee on the basis of the bank's policies and regulatory and supervisory requirements.
 - e) The committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.
 - f) The committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/or as directed by the Director of Bank Supervision.
 - g) The committee shall submit a risk assessment report within a week of each meeting to the board seeking the board's views, concurrence and/or specific directions.
 - h) The committee shall establish a compliance function to assess the bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the committee periodically.

3(7) Related party transactions

- 3(7)(i)** The board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the bank with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction:
- a) Any of the bank's subsidiary companies;
 - b) Any of the bank's associate companies;
 - c) Any of the directors of the bank;
 - d) Any of the bank's key management personnel;
 - e) A close relation of any of the bank's directors or key management personnel;
 - f) A shareholder owning a material interest in the bank;
 - g) A concern in which any of the bank's directors or a close relation of any of the bank's directors or any of its material shareholders has a substantial interest.
- 3(7)(ii)** The type of transactions with related parties that shall be covered by this Direction shall include the following:
- a) The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation,

- b) The creation of any liabilities of the bank in the form of deposits, borrowings and investments,
- c) The provision of any services of a financial or non-financial nature provided to the bank or received from the bank,
- d) The creation or maintenance of reporting lines and information flows between the bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.

3(7)(iii) The board shall ensure that the bank does not engage in transactions with related parties as defined in Direction 3(7)(i) above, in a manner that would grant such parties “more favourable treatment” than that accorded to other constituents of the bank carrying on the same business. In this context, “more favourable treatment” shall mean and include treatment, including the:

- a) Granting of “total net accommodation” to related parties, exceeding a prudent percentage of the bank’s regulatory capital, as determined by the board. For purposes of this sub-direction:
 - I. “Accommodation” shall mean accommodation as defined in the Banking Act Directions, No.7 of 2007 on Maximum Amount of Accommodation.
 - II. The “total net accommodation” shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the bank’s share capital and debt instruments with a maturity of 5 years or more.
- b) Charging of a lower rate of interest than the bank’s best lending rate or paying more than the bank’s deposit rate for a comparable transaction with an unrelated comparable counterparty;
- c) Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;
- d) Providing services to or receiving services from a related-party without an evaluation procedure;
- e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.

3(7)(iv) A bank shall not grant any accommodation to any of its directors or to a close relation of such director unless such accommodation is sanctioned at a meeting of its board of directors, with not less than two-thirds of the number of directors other than the director concerned, voting in favour of such accommodation. This accommodation shall be secured by such security as may from time to time be determined by the Monetary Board as well.

3(7)(v)

- a) Where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a director of the bank, steps shall be taken by the bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a director.
- b) Where such security is not provided by the period as provided in Direction 3(7)(v) (a) above, the bank shall take steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such director, whichever is earlier.

- c) Any director who fails to comply with the above sub-directions shall be deemed to have vacated the office of director and the bank shall disclose such fact to the public.
- d) This sub-direction, however, shall not apply to a director who at the time of the grant of the accommodation was an employee of the bank and the accommodation was granted under a scheme applicable to all employees of such bank.

3(7)(vi) A bank shall not grant any accommodation or “more favourable treatment” relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3(7)(v) above.

3(7)(vii) No accommodation granted by a bank under Direction 3(7)(v) and 3(7)(vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect.

3(8) Disclosures

3(8)(i) The board shall ensure that: (a) annual audited financial statements and quarterly financial statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that (b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.

3(8)(ii) The board shall ensure that the following minimum disclosures are made in the Annual Report:

- a) A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.
- b) A report by the board on the bank’s internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.
- c) The external auditor’s certification on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii)(b) above, in respect of any statements prepared or published after 31 December 2008.
- d) Details of directors, including names, fitness and propriety, transactions with the bank and the total of fees/remuneration paid by the bank.
- e) Total net accommodation as defined in 3(7)(iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the bank’s regulatory capital.
- f) The aggregate values of remuneration paid by the bank to its key management personnel and the aggregate values of the transactions of the bank with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the bank.
- g) The external auditor’s certification of the compliance with these Directions in the annual corporate governance reports published after 01 January 2010.
- h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances.

- i) A statement of the regulatory and supervisory concerns on lapses in the bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the bank to address such concerns.

3(9) Transitional and other general provisions

- 3(9)(i)** Compliance with this Direction shall commence from 01 January 2008 onwards and all licensed commercial banks shall fully comply with the provisions of this Direction by or before 01 January 2009 except where extended compliance dates have been specifically provided for in this Direction.
- 3(9)(ii)** In respect of the banks that have been incorporated by specific statutes in Sri Lanka, the boards as specified in such statutes shall continue to function in terms of the provisions of the respective statutes, provided they take steps to comply with all provisions of this Direction that are not inconsistent with the provisions of the respective statutes.
- 3(9)(iii)** This Direction shall apply to the branches of the foreign banks operating in Sri Lanka to the extent that it is not inconsistent with the regulations and laws applicable in such bank's country of incorporation. The branch of a foreign bank shall also publish its parent bank's annual corporate governance report together with its annual report and accounts of the branch operations in Sri Lanka.
- 3(9)(iv)** In the event of a conflict between any of the provisions of this Direction and the Articles of Association (or Internal Rules) pertaining to any bank, the provisions of this Direction shall prevail. However, if the Articles of Association of an individual bank set a more stringent standard than that specified in this Direction, such provisions in the Articles of Association may be followed.

Directions issued by the Monetary Board of the Central Bank of Sri Lanka under Section 46(1) of the Banking Act, No.30 of 1988 as amended.

Sgd. Nivard Ajith Leslie Cabraal

*Chairman of the Monetary Board and
Governor of the Central Bank of Sri Lanka*

Colombo
15 August 2008.

DIRECTIONS
BANKING ACT DIRECTION NO. 5 OF 2008
AMENDMENTS TO DIRECTIONS ON CORPORATE GOVERNANCE FOR
LICENSED COMMERCIAL BANKS IN SRI LANKA

In the exercise of the powers conferred by Section 46(1) of the Banking Act, No.30 of 1988, last amended by the Banking Act, No.46 of 2006 and in terms of the Supreme Court order delivered on July 8, 2008, the Monetary Board hereby issues the following Directions in lieu of Direction No.1 of 2008 dated April 23, 2008, issued by the Monetary Board of the Central Bank of Sri Lanka. These Directions may be cited as the Banking Act, Direction No.5 of 2008.

1. The Banking Act Direction No. 1 of 2008 dated April 23, 2008 described as “Provisions regarding executive directors and transitional provisions for founding directors, incumbent chairmen and executive directors”, is hereby revoked.
2. The following new Direction shall replace the present Direction 3(2)(ii) (B) of the Banking Act, Direction No.11 of 2007.

3(2)(ii) (B) In this context, the following general exemption shall apply:

A director who has completed nine years as at January 1, 2008, or who completes such term at any time prior to December 31, 2008, may continue for a further maximum period of 3 years commencing January 1, 2009.

3. The following new Direction shall replace Directions 3(3)(i)(A) and 3(3)(i)(B) of the Banking Act, Direction No.11 of 2007.

3(3)(i) (A) In this context, the following general exemption shall apply:

A director who has reached the age of 70 years as at January 1, 2008 or who would reach the age of 70 years prior to December 31, 2008 may continue in office for a further maximum period of 3 years commencing January 1, 2009.

4. The following new Direction shall be included immediately after Direction 3(3)(ii) of the Banking Act, Direction No.11 of 2007.

3(3)(ii) (A) In this context, the following general exemption shall apply:

If any person holds posts in excess of the limitation as above, such person shall within a maximum period of three years from 1 January 2009 comply with the above-mentioned limitation and notify the Monetary Board accordingly.

5. The following new Direction shall be included immediately after Direction 3(9)(iv) of the Banking Act, Direction No.11 of 2007.

3(9)(v) If for any reason such as ill health or other incapacity, the Monetary Board considers that exemptions referred to in Directions 3(2)(ii)B, 3(3)(i)A and 3(3)(ii)A should not be availed of, such ground may be notified to the person by the Monetary Board, and after a hearing, the Monetary Board may limit the period of exemption.

Directions issued by the Monetary Board of the Central Bank of Sri Lanka under Section 46(1) of the Banking Act, No.30 of 1988, as amended.

Sgd. Nivard Ajith Leslie Cabraal

*Chairman of the Monetary Board and
Governor of the Central Bank of Sri Lanka*

Colombo
24 October 2008

DIRECTIONS
BANKING ACT DIRECTION NO. 7 OF 2008
AMENDMENTS TO DIRECTIONS ON CORPORATE GOVERNANCE FOR
LICENSED COMMERCIAL BANKS IN SRI LANKA

In the exercise of the powers conferred by Section 46(1) of the Banking Act, No. 30 of 1988, last amended by the Banking Act, No. 46 of 2006 and in terms of the Supreme Court order delivered on September 1, 2008, the Monetary Board hereby issues the following Direction amending Direction No. 5 of 2008 dated August 15, 2008, issued by the Monetary Board of the Central Bank of Sri Lanka. This Direction may be cited as the Banking Act, Direction No. 7 of 2008.

1. The following new Direction shall replace Direction No. 5 of the Banking Act, Direction No. 5 of 2008, dated August 15, 2008.
 - 3(9)(v)** If for any reason such as ill health or any incapacity as provided in the Banking Act, the Monetary Board considers that exemptions referred to in Directions 3(2)(ii)B, 3(3)(i) A and 3(3)(ii)A should not be availed of, such ground may be notified to the person by the Monetary Board, and after a hearing, the Monetary Board may limit the period of exemption.

Directions issued by the Monetary Board of the Central Bank of Sri Lanka under Section 46(1) of the Banking Act, No.30 of 1988, as amended.

Sgd. Nivard Ajith Leslie Cabraal

*Chairman of the Monetary Board and
Governor of the Central Bank of Sri Lanka*

Colombo
12 April 2013

**BANKING ACT DIRECTION NO. 3 OF 2013
AMENDMENTS TO DIRECTIONS ON
CORPORATE GOVERNANCE ISSUED TO
LICENSED COMMERCIAL BANKS IN SRI LANKA**

In the exercise of the powers conferred by Section 46(1) of the Banking Act, No. 30 of 1988, last amended by the Banking (Amendment) Act, No. 46 of 2006, the Monetary Board hereby issues the following Directions amending Direction 3(3)(ii) of the Banking Act, Direction No. 11 of 2007, dated 26 December 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka.

1. This Direction may be cited as the Banking Act, Direction No. 3 of 2013.
2. The following new Direction shall replace Direction 3(3)(ii) of the Banking Act, Direction No. 11 of 2007, dated 26 December 2007.

‘3(3)(ii) A person shall not hold office as a director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the bank.’

Directions issued by the Monetary Board of the Central Bank of Sri Lanka in terms of Sections 46(1) and 76(J)(1) of the Banking Act, No.30 of 1988, as amended.

Sgd. Nivard Ajith Leslie Cabraal

*Chairman of the Monetary Board and
Governor of the Central Bank of Sri Lanka*

Colombo
05 October 2011

**BANKING ACT DIRECTION NO. 7 OF 2011
INTEGRATED RISK MANAGEMENT FRAMEWORK FOR
LICENSED BANKS**

In order to ensure the soundness of the banking system, Sections 46(1) and 76(J)(1) of the Banking Act, No. 30 of 1988, last amended by the Banking Act, No. 46 of 2006, empowers the Monetary Board to issue Directions to licensed banks regarding the manner in which any aspect of the business of such banks is to be conducted. Accordingly, the Monetary Board issues this Direction to all licensed banks on integrated risk management as management of risks on banking business operations in an integrated manner would promote the soundness of banks and the banking system.

- | | |
|-------------------------------|---|
| Requirement of the Framework. | 1. All licensed banks shall adopt a specific Integrated Risk Management (IRM) framework in compliance with guidelines annexed to this Direction in addition to risk management principles and rules required in regulatory and supervisory procedures and other market best practices of bank risk management. |
| Nature of the Framework. | 2. The IRM framework which shall be documented shall cover various potential risks, possible sources of such risks, mechanism of management information and reporting to identify and monitor such risks, effective measures to control and mitigate risks at prudent levels and relevant officers and committees responsible for such control and mitigation. |
| Oversight of the Board. | 3. The IRM framework shall be approved by the Board of Directors (BOD) and reviewed and updated at least annually. 4. Through the IRM framework, the BOD shall assess the integrated risk profile of the bank and its management at least quarterly and be responsible for overall oversight of the orderly implementation of the IRM framework. |
| Steps to secure Compliance. | 5. All banks shall implement the IRM framework within 6 months from the date of this Direction. 6. In the event of any material lapses in the IRM framework in the opinion of the Director of Bank Supervision, the fitness and propriety of those who are found to be responsible for such lapses will be re-assessed under the relevant provisions of the Banking Act. |

Annexure

INTEGRATED RISK MANAGEMENT SYSTEMS IN BANKS**A. Integrated Risk Management****1. Introduction**

- 1.1 Banks are exposed to various risks during their business operations. Under the Basel II framework, the major categories of risks are credit, market and operational risks. However, the banks are also facing other risks such as liquidity, interest rate, foreign exchange rate, legal, regulatory, reputational *etc.* All these risks are highly interdependent.
- 1.2 Risk management is a complex function, which requires specialised skills and expertise. Internationally, banks have been moving towards the use of sophisticated models for measuring and managing risks in an integrated manner with a view to ensuring a comprehensive Internal Capital Adequacy Assessment Process (ICAAP) under Pillar 2 of the Basel II framework.
- 1.3 The capital adequacy ratio prescribed by the Central Bank of Sri Lanka (CBSL) under the Pillar – I of the Basel II framework is the regulatory minimum level, which addresses only credit, market and operational risks on an average basis. Thus, the need for banks to have their own assessment of various integrated risk exposures and maintain adequate capital as a cushion for such risks has become an urgent necessity.
- 1.4 The objective of these guidelines is to encourage banks to develop integrated risk management techniques for monitoring and managing their risks and to assure CBSL that adequate capital is held to meet various risks to which they are exposed.

2. Integrated Risk Management oversight

- 2.1 **Board and Senior Management** – The responsibility of understanding the risks assumed by the bank and ensuring that the risks are appropriately managed should be vested with the Board of Directors (BOD). The Board should:
 - (a) Ensure that the bank has established a robust and pervasive risk culture and clear policies that define risk management as the responsibility of each bank's senior management, subject to the oversight of the Board.
 - (b) Establish risk limits based on risk appetite of the bank.
 - (c) Ensure that the Senior Management of the bank:
 - i. establishes an integrated framework in order to assess and appropriately manage various risk exposures of the bank;
 - ii. develops a system to monitor the bank's risk exposures and to relate them to the bank's capital;
 - iii. establishes a method to monitor the bank's compliance with internal policies, particularly with regard to risk management; and
 - iv. effectively communicates all relevant policies and procedures throughout the bank.
 - (d) Adopt and support strong internal controls.
- 2.2 **Integrated Risk Management Committee (IRMC)** – The overall risk management should be assigned to an independent Integrated Risk Management Committee (IRMC) of the BOD, established as per Rules 3(6)(v) of the Banking Act Directions Nos. 11 & 12 of 2007 on Corporate Governance for Licensed Banks in Sri Lanka with the responsibilities stated therein.
- 2.3 **Internal Audit** – Integrated risk management policies and procedures as well as the functionalities at various levels of the risk management function should be reviewed by

the internal audit function of banks on an on-going basis while the external audit makes an independent review at least on an annual basis.

- 2.4 **Operational Level** – Risk management in operational areas *viz.* front office, loan origination function *etc.* should be confined to the operational procedures and guidelines set forth by the BOD and the Senior Management.

3. Integrated Risk management framework priorities and processes

- 3.1 Given the diversity of balance sheet profile of banks in Sri Lanka, it is neither prudent nor desirable to adopt a uniform framework for management of risks. The architecture of an integrated risk management function should be bank-specific, dictated by the size, complexity of functions, operating environment and technical expertise of staff.
- 3.2 All relevant factors that present a material source of risk should be incorporated in a well-developed integrated risk management system.
- 3.3 All measurements of risk incorporate both quantitative and qualitative elements, but to the extent possible, a quantitative approach should form the foundation of a bank's measurement framework.
- 3.4 Quantitative tools can include the use of large historical databases; when data are scarcer, a bank may choose to rely more heavily on the use of stress testing and scenario analyses.
- 3.5 Banks should understand when measuring risks that measurement error always exists, and in many cases the error itself is difficult to quantify. In general, an increase in uncertainty related to modelling and business complexity should result in a larger capital cushion.
- 3.6 Quantitative approaches that focus on most likely outcomes for budgeting, forecasting, or performance measurement purposes may not be fully applicable for capital adequacy because the ICAAP under Pillar 2 of the Basel II framework should also take less likely events into account.
- 3.7 Stress testing and scenario analysis can be effective in gauging the consequences of outcomes that have low probability of occurrence but would have a considerable impact on safety and soundness of the banks.
- 3.8 To the extent that risks cannot be reliably measured with quantitative tools – for example, where measurements of risk are based on scarce data or unproven quantitative methods – qualitative tools, including experience and judgment, may be more heavily utilised.
- 3.9 Banks should be cognisant that qualitative approaches have their own inherent biases and assumptions that affect risk assessment; accordingly, banks should recognise the biases and assumptions embedded in, and the limitations of the qualitative approaches used.

4. Risk aggregation and diversification effects

- 4.1 An effective risk management system should assess risks across the entire bank. A bank choosing to conduct risk aggregation among various risk types or business lines should understand the challenges in such aggregation.
- 4.2 In addition, when aggregating risks, banks should ensure that any potential concentrations across more than one risk dimension are addressed, recognizing that losses could arise in several risk dimensions at the same time, stemming from the same event or a common set of factors.
- 4.3 In considering the possible effects of diversification, management should be systematic and rigorous in documenting decisions, and in identifying assumptions used in each level of risk aggregation.

- 4.4 Assumptions about diversification should be supported by analysis and evidence. The bank should have systems capable of aggregating risks based on the bank's selected framework. For example, a bank calculating correlations within or among risk types should consider data quality and consistency, and the volatility of correlations over time and under stressed market conditions.

5. Disclosure

CBSL strongly considers that the market discipline could play an important role in maintaining financial system stability. However, market discipline could be achieved only through meaningful disclosures by licensed banks which would also provide a more meaningful picture of the extent and nature of various risks that banks are exposed to and of the efficiency of banks' risk management practices.

B. Credit Risk Management

1. Management Oversight

The BOD should put in place and periodically review the credit risk strategy and significant credit risk policies of the bank.

1.1 The strategy shall include:

- (a) a statement of the bank's willingness to grant loans based on the type;
- (b) identification of target markets and business sectors;
- (c) preferred levels of diversification and concentration;
- (d) the cost of capital in granting credit and bad debts; and
- (e) the cyclical aspects and the resulting shifts in the composition and quality of the loan portfolio. This strategy should be viable in the long run and across business cycles.

1.2 The credit risk policies and procedures shall be consisted with following elements, at a minimum.

- (a) Written policies that define target markets, risk acceptance criteria, credit approval authority, credit origination and maintenance procedures and guidelines for portfolio management and remedial management.
- (b) Proactive credit risk management practices such as annual/half yearly industry studies and single borrower reviews, periodic credit calls and customer visits that are documented, and carry out at least quarterly management reviews of troubled exposures/ weak credits.
- (c) Vesting accountability with the business managers for managing risk and, in conjunction with the credit risk management framework, for establishing and maintaining appropriate risk limits and risks arrangement procedures.
- (d) Delegation of lending powers to individual credit officers based upon a consistent set of standards of experience, judgment and ability.
- (e) Requirement for higher level of authority to approve credit limits as risk ratings worsen.
- (f) Requirement for every extension of credit, other than small value consumer/retail loans to be approved by at least two authorized credit officers, one of whom must be an officer from business and another invariably from an independent Credit Risk Management Department (CRMD).

- (g) Requirement for every obligor and facility to be assigned a risk rating.
 - (h) Consistent standards for the origination, documentation and maintenance of documents for extensions of credit.
 - (i) Consistent approach towards early problem recognition, classification of problem exposures, and remedial action.
 - (j) Emphasis on maintaining a diversified portfolio of risk assets in line with the capital desired to support such a portfolio.
 - (k) Credit risk limits by obligor, concentration, industry or geography.
 - (l) Responsibility of the credit function to report the comprehensive set of credit risk data into the independent risk system.
- 1.3 The credit risk strategy and policy should be approved and periodically reviewed by the BOD. These documents should be effectively disseminated throughout the banking organisation. All relevant personnel should clearly understand the bank's approach to granting credit and should be held accountable for complying with established policies and procedures.

2. Risk Management

- 2.1 **Structure** – In a well functioning integrated risk management framework, credit risk management is vested with an independent unit and each bank should, depending on the size of the organisation or loan book, constitute a high level Credit Policy Committee (CPC) also called Credit Risk Management Committee or Credit Control Committee with the following responsibilities:
- (a) The committee should be headed by the Chief Executive Officer (CEO)/General Manager (GM) and should comprise Heads of Credit Departments, including Consumer Banking, Treasury and CRMD.
 - (b) The committee should, *inter alia*, formulate clear credit policies including standards on presentation of credit proposals, financial covenants, rating standards and benchmarks, delegation of credit approving powers, prudent limits on large credit exposures, assets concentrations and lending to related parties, standards for loan collateral, portfolio management, loan review mechanism, risk concentrations, risk monitoring and evaluation, pricing of loans, provisioning, regulatory/legal compliance, *etc.* for BOD's approval.
 - (c) The committee will be responsible for the setting up of CRMD which should lay down risk assessment systems, monitor quality of loan portfolio and prudential limits set by CPC, identify problems and correct deficiencies, develop management Information System (MIS) and undertake loan review/audit.
- 2.2 **Prudential Limits** – Credit risk can be mitigated to a great extent by stipulating prudential risk limits on various risk parameters. Banks should consider stipulating:
- (a) Benchmark financial ratios, with flexibility for deviation in deserving cases. The conditions subject to which deviations are permitted and the authority for permitting such deviations should be clearly spelt out in the Credit Policy.
 - (b) Single/related party borrower limits, which could even be more stringent than the limits prescribed by CBSL, to provide a filtering mechanism.
 - (c) Substantial exposure limit, *i.e.*, aggregate of large exposures should not exceed a percentage of the Tier – II capital of the banks, depending upon the degree of concentration risk the bank is exposed to.
 - (d) Maximum exposure limits to industry, regions, country, *etc.* There must also be systems in place to evaluate the exposure at reasonable intervals and the limits should be adjusted especially when a particular sector or industry faces a slowdown or other specific problem.

- (e) Maturity and currency profile of the loan book, keeping in mind the market risk inherent in the balance sheet, risk management capability, liquidity *etc.*
- 2.3 **Risk Rating** – Banks should develop a robust internal credit-risk grading system that serves as a single point indicator of diverse risk factors of counterparty and for taking credit decisions in a consistent manner while communicating the default risk associated with an exposure. The risk rating, in short, should:
- (a) reflect the underlying credit risk of the loan book ; and
- (b) be drawn up in a structured manner, incorporating both quantitative (financial ratios) and qualitative standards (industry, payment history, credit reports, management, purpose of the loan, quality of financial information, facility characteristics *etc.*).
- 2.4 **Risk Pricing** – Risk pricing is a fundamental tenet of credit risk management. Thus, banks should:
- (a) evolve scientific systems to price the credit risk, which should have a bearing on the expected Probability of Default (PD); and
- (b) establish the maximum expected loss in each product line and linking the capital to this loss, thus making it possible to compare products of different risk levels.
- 2.5 **Portfolio Management** – The need for credit portfolio management emanates from the potential adverse impact of concentration of exposures and necessity to optimise the benefits associated with diversification. In this regard, banks should consider the following measures to maintain the portfolio quality:
- (a) Stipulate quantitative ceilings on aggregate exposure in specified rating categories, *i.e.*, certain percentage of total advances in the rating category 1 to 4 or to 6 *etc.*
- (b) Evaluate the rating-wise distribution of borrowers in various industries, business, personal segments, *etc.*
- (c) Exposure to one industry/sector should be evaluated on the basis of overall rating distribution of borrowers within the sector/group. In cases where portfolio exposure to a single industry/segment is performing badly or the concentration of borrowers is in the lower notches of ratings, the bank may increase the quality standards for the specific industry or group.
- (d) Target rating-wise volume of loans, probable defaults and provisioning requirements as a prudent planning exercise. For any deviation/s from the expected parameters, an exercise for restructuring the portfolio may immediately be undertaken and if necessary, the entry-level criteria could prudently be enhanced to insulate the portfolio from further deterioration.
- (e) Undertake rapid portfolio reviews, stress tests and scenario analyses when the external environment undergoes rapid changes (rise in oil prices, global/country specific slowdowns, international/market risk events, extreme liquidity conditions, war situation *etc.*).
- (f) Introduce discriminatory time schedules for review/renewal of borrower exposures. Lower rated borrowers whose financials show signs of weakness should be subject to renewal control twice/thrice a year.
- 2.6 **Risk models** – Credit risk models offer banks a framework for quantifying, aggregating and managing risk across geographical and product lines in a timely manner. Therefore, banks should evaluate the utility of various models with suitable modifications to the environment in Sri Lanka and build up adequate internal expertise and databases to facilitate the models utilisation.

- 2.7 **Loan Review Mechanism (LRM)** – LRM is an effective tool for constantly evaluating the quality of the loan book and bringing about qualitative improvements in credit administration. In this regard, banks should formulate a loan review policy under the review of BOD, annually. The policy should, *inter alia*, address:
- (a) **Qualification and Independence** – Loan Review Officers should be independent in reporting to the BOD and have sound knowledge of the credit appraisal, lending practices and loan policies of the bank.
 - (b) **Frequency and Scope of Reviews** – Reviews of high value loans should be undertaken usually within three months of sanction/renewal, or more frequently when factors indicate a potential for deterioration in the credit quality. The scope of the review should cover all performing loans above a cut-off limit. At least 30% – 40% of the loan portfolio should be subjected to LRM each year to provide reasonable assurance that all major credit risks embedded in the balance sheet have been tracked.
 - (c) **Depth of Reviews** – Loan reviews should focus on: the approval process, accuracy and timeliness of credit ratings assigned by loan officers, adherence to internal policies and procedures, and applicable laws/regulations, compliance with loan covenants, post-sanction follow-up, sufficiency of documentation, portfolio quality and recommendations for improving portfolio quality.
- 2.8 **Risk in Investment banking** – A significant degree of credit risk, in addition to market risk, is inherent in investment banking. Therefore, banks should stipulate entry level minimum ratings/quality standards, industry, maturity, duration, issuer-wise, *etc.* limits in investment proposals as well, to mitigate the adverse impacts of concentration and risk of illiquidity.
- 2.9 **Inter-Bank Exposure** – A suitable framework should be evolved to provide a centralised overview on the aggregate exposure to other banks. Bank-wise exposure limits could be set on the basis of external or internal ratings.
- 2.10 **Risk in Off-balance sheet exposure** – Mechanics involved in the assessment of non-funded lines should be similar to the assessment of funded lines. Utmost care must be taken whilst extending these facilities. Banks should, therefore, evolve adequate frameworks for managing their exposure in off-balance sheet products such as Forex forward contracts, forward rate agreements, swaps, options, futures *etc.* as a part of credit appraisal, limits and monitoring procedures.

C. Market Risk Management

1. Management Oversight

The BOD should clearly articulate market risk management policies, procedures, prudential risk limits, review mechanisms and reporting and auditing systems.

1.1 policies should address the following:

- (a) assessment of bank's exposure on a consolidated basis, considering issues related to interest rate, currency, equity price and liquidity risks; and
- (b) risk measurement systems capture all material sources of market risk and assess the effects on bank's capital.

1.2 The BOD should ensure that bank's overall market risk exposure is maintained at prudent levels and consistent with the available capital. The operating prudential limits and the accountability of line management should also be clearly defined.

2. Risk Management

2.1 **Structure** – Each bank should establish an organizational set up for market risk management, including the following:

- (a) **Asset-Liability Management Committee (ALCO)** – The ALCO, consisting of the bank’s senior management, including the CEO/GM must function as the top-end operational unit for managing the balance sheet within the performance/risk parameters laid down by the BOD. The ALCO should also articulate the bank’s view on various market variables and base its decisions for future business strategy.
 - (b) **Middle Office** – The banks should set up an independent Middle Office to track the magnitude of market risk on a real time basis. The Middle Office should:
 - i. consist of experts in market risk management, economists, statisticians and general bankers and may be functionally placed directly under the ALCO; and
 - ii. be separated from the Treasury Department and should not be involved in the day-to-day management of the treasury;
 - iii. apprise the top management/ALCO/Treasury about adherence to prudential/risk parameters and also aggregate the total market risk exposures assumed by the bank at any point of time.
- 2.2 **Foreign Exchange (Forex) Risk** – Forex risk could be mitigated through fixing appropriate limits on open positions, gaps, adopting risk measurement methods and monitoring exposures. In this regard, the banks are encouraged to adopt the following measures:
- (a) Fix appropriate limits (even less than the limits set by CBSL) depending upon the capital position, overall risk profile and risk management capabilities.
 - (b) Fix appropriate limits on individual and aggregate gaps on major currencies, linked to capital.
 - (c) Adopt the Value at Risk (VaR) technique to measure the risk associated with exposures.
 - (d) Monitor Forex risk exposures with the preparation of the statement of Maturity of Assets and Liabilities (MAL) (Attachment -1), statement of Sensitivity of Assets and Liabilities (SAL) (Attachment – 2) and statement of Forex Position (FXP) (Attachment – 3).
 - (e) Ensure clear-cut and well-defined division of responsibility between front, middle and back offices.
- 2.3 **Foreign Currency Liquidity Risk Management** – In running multi currency balance sheets, and particularly when domestic currency assets are funded with foreign currency liabilities, banks are exposed to another layer of complexity to liquidity management. Banks should, therefore, be vigilant in creating understandable currency mismatches to avoid liquidity crises.

D. Operational Risk Management

1. Management Oversight

An effective operational risk management strategy requires that BOD should recognise that operational risk is distinct and controllable, and should put in place appropriate risk management policies, procedures and practices and an independent audit and review mechanism.

- 1.1 BOD should put in place well defined policies on operational risk management. These policies and procedures should be based on common elements across business lines or risks. The policy should address:
- (a) product review processes;
 - (b) business involved;
 - (c) risk management; and
 - (d) internal control functions.

2. Risk Management

2.1 **Structure** – Taking into account institution-specific factors, banks should consider establishing an independent bank-wide Operational Risk Committee or Unit under Integrated Risk Management Committee (IRMC) or Chief Risk Officer, with the following responsibilities:

- (a) Establish consistent definitions for operational risk across business units.
- (b) Develop policies, procedures and practices.
- (c) Report and review risk exposures.
- (d) Oversee and ensure the integrity of risk management procedures.
- (e) Allocate and maintain economic capital.
- (f) Develop strategies for risk mitigation techniques.

2.2 **Risk Measurement** – Since, there is no uniformity of approach in measuring operational risk in the banking system, and a number of breakdowns in internal controls and corporate governance evidenced lately, need for more advanced techniques for allocating capital in this regard has become an important issue. Therefore, during the measurement of operational risks, banks should:

- (a) Consider both internal factors (such as complexity of structure, nature of activities, quality of personnel, organisational changes and employee turnover) and external factors (such as fluctuating economic conditions, changes in the industry and technological advances) that could adversely affect the banks' stated objectives.
- (b) Make clear distinction between controllable and uncontrollable operational risk events.
- (c) Assess their operational activities against a menu of operational risk events (*i.e.*, internal and external frauds, employment practices and work place safety, clients, products and business practices, damage to physical assets, business distribution and system failures, execution, delivery and process management, *etc.*).
- (d) Review key risk indicators such as failed trades, staff turnover rates, frequency and/or severity of errors and omission to track the magnitude of risk concerns, with thresholds or limits set on key risk indicators.
- (e) Develop simple benchmarks based on an aggregate measure of business activity such as gross revenue, fee income, operating costs, total assets adjusted for off-balance sheet exposures or a combination of these variables, in the event the bank does not have so far evolved any scientific methods for quantifying the risk.
- (f) Carry out Business Impact Analysis (BIA) with its Recovery Time Objectives (RTO) under the proposed Business Continuity and Disaster Recovery Plan.

2.3 **Risk Monitoring** – The operational risk monitoring system should:

- (a) Focus on operational performance measures such as volume, turnover, settlement facts, delays and errors.
- (b) Monitor operational loss directly with an analysis of each occurrence and description of the nature and causes of the loss.
- (c) Integrate internal controls into the bank's operations and produce regular reports to the Senior Management.
- (d) Undertake compliance reviews by the Internal Audit and the Risk Management Department, separately.

2.4 **Internal Control** – Banks should adopt well-established internal control systems, which include segregation of duties, clear management reporting lines and adequate operating procedures in order to mitigate operational risks. As per Directions Nos. 3(8)(ii)(b)&(c) of the Banking Act, Direction Nos. 11 & 12 of 2007 on Corporate Governance for licensed banks:

- (a) a report by the Board should be included in the Annual Report on the bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements; and
- (b) the external auditor's certification on the effectiveness of the internal control mechanism referred to in (a) above, in respect of any statements prepared or published.

A proper internal control system should:

- (a) promote effective and efficient operation;
- (b) provide reliable financial information;
- (c) safeguard assets;
- (d) minimise the operating risk of loss from irregularities, fraud and errors;
- (e) ensure effective risk management systems; and
- (f) ensure compliance with relevant laws, regulations and internal policies.

2.5 **Risk Mitigation Techniques** – Risk mitigation techniques or tools should be used to contain the severity of operational risk events. Investment in appropriate information technology under Business Continuity and Disaster Recovery Plan is also important for risk mitigation.

2.6 **Insurance Policies** – Innovative insurance policies could be used to externalise the risk of 'low frequency and high severity losses', which may occur as a result of events such as errors and omissions, physical loss of securities, frauds and natural disasters.

2.7 **Outsourcing** – Banks should establish sound policies for managing risks associated with outsourcing activities in line with the Banking Act, Directions Nos. 7 & 8 of 2010 on Outsourcing of Business Operations.

2.8 **Contingency Plan** – An enterprise-wide contingency plan should be in place to handle failures and switch to alternative service providers at short notice.

E. Liquidity Risk Management

1. Management Oversight

- (a) Managing liquidity is no longer purely the responsibility of the treasury function. Effective oversight by the BOD and the Senior Management is a critical element of the liquidity risk management process.
- (b) The ALCO should be mandated to execute liquidity management policies, procedures and practices approved by the BOD, effectively.
- (c) The BOD should, however, periodically monitor the liquidity profile to assess the liquidity risk more frequently where significant funding concentrations have been observed.

2. Risk Management

2.1 **Structure** – Liquidity risk management could either be centralized or decentralized, or a combination of the two. The structure should be commensurate with the size and complexity of

the bank's operations. It should be flexible while ensuring that the liquidity strategy approved by the BOD can be effectively implemented.

2.2 **Liquidity Measurement** – Liquidity measurement is a difficult task and can be measured through stock or flow approaches.

(a) **Stock Approach** – Under the stock approach, liquidity is measured in terms of key ratios which portray the liquidity stored in the balance sheet. Banks should calculate and analyse following ratios during their risk management process:

- i. Net loans to total assets
- ii. Loans to customer deposits
- iii. Liquid assets to short-term liabilities
- iv. Large liabilities (minus) temporary investments to earning assets (minus) temporary investments, where large liabilities represent wholesale deposits which are market sensitive *and* temporary investments which are those maturing within one year and those investments which are held in the trading book and are readily sold in the market.
- v. Purchased funds to total assets, where purchased funds include the entire inter-bank and other money market borrowings, including certificates of deposits and institutional deposits.
- vi. Commitments to total loans, where the commitment in the nature of Letter of Credits (LCs), guarantees and acceptances.

(b) **Flow approach** – Banks should prepare a statement of Maturities of Assets and Liabilities (MAL) placing all cash inflows and outflows in the time bands according to the residual time to maturity. A format for the MAL is attached. (Attachment – 1). The time bands may be distributed as under:

- i. Up to one month
- ii. Over one month and up to 3 months
- iii. Over 3 months and up to 6 months
- iv. Over 6 months and up to 9 months
- v. Over 9 months and up to 1 year
- vi. Over 1 year and up to 3 years
- vii. Over 3 years and up to 5 years
- viii. Over 5 years

(Assumptions to be made – Some of the assets and liability items like overdraft, savings and current deposits *etc.*, lack any definite contractual maturity. Similarly, a part of time deposits are also rolled over on maturity while the consumer loans are topped-up at frequent intervals. Thus, while determining the likely cash inflows/outflows, banks should make a number of assumptions according to the behaviour of assets and liabilities. At least, assumptions should be validated, bi-annually. Such assumptions may be fine-tuned, over a period, to facilitate near reality predictions about future behaviour of on/off-balance sheet positions).

(c) **Net funding requirement** –

- i. The difference between cash inflows and outflows in each time band, the excess or deficit of funds, becomes a starting point for a measure of a bank's future liquidity surplus or deficit, at a series of points in time.

- ii. While the mismatches up to one year would be relevant as these provide early warning signals of impending liquidity problems, the main focus should be on mismatches up to three months.
- iii. Banks, however, are expected to fix prudential mismatch limits appropriate to the size, complexity and financial conditions across all time bands.
- iv. The liquidity position should be measured in all major currencies in which banks deal at both individual and aggregate levels. Banks which are reliant on short-term funding should, however, concentrate primarily on managing their liquidity in the very short-term horizons and preferably on a day-to-day basis.

(d) Alternate Scenarios –

- i. Banks should evaluate liquidity profile under different stress situations, *viz.* normal situation, bank specific crisis and market crisis scenarios.
- ii. Under each scenario, banks should account for any significant positive or negative liquidity swings that could occur on account of factors that are both internal (bank specific) and external (market-related).
- iii. In this regard, banks must assign the timing of cash flows for each type of asset and liability by assessing the probability of the behaviour of those cash flows under alternative scenarios.
- iv. For each funding source, banks would have to decide whether a liability would be (a) repaid in full at maturity, (b) gradually run off over the next few weeks or (c) virtually certain to be rolled over or available, if tapped.

(e) Contingency Plan –

- i. Banks should prepare liquidity contingency plans to measure their ability to withstand bank-specific or market crisis scenarios.
- ii. The blue-print for assets sales, market access, capacity to restructure the maturity and composition of assets and liabilities should be clearly documented and alternative options of funding in the event of the bank's failure to raise liquidity from existing sources should be clearly articulated.
- iii. Liquidity from CBSL, as the lender of last resort, should not be reckoned for contingency plans.
- iv. Availability of back-up liquidity support in the form of committed lines of credit, reciprocal arrangements, liquidity support from other external sources, liquidity of assets etc. should also be clearly established.

F. Interest Rate Risk Management

1. Management Oversight

Management of interest rate risk should be one of the critical components of market risk management of banks. The BOD should clearly articulate interest rate risk management policies, procedures, review mechanisms and reporting systems.

Policies and prudential limits should include the following.

- (a) Clear policies with regard to volume, maximum maturity, holding period, duration, position limits, stop loss, rating standards, *etc.* for classifying securities in the trading book.

- (b) Bank-wide VaR exposure limits to the trading portfolio (including Forex derivatives and commodities, if any, *etc.*).
- (c) Loss making tolerance limits for trading book.

2. Risk Management

2.1 **Forms of Risk** – The Net Interest Income (NII) or Net Interest Margin (NIM) of banks are dependent on the movements of interest rates. Any mismatches in the cash flows (fixed rate assets or liabilities) or re-pricing dates (floating rate assets or liabilities) expose banks' NII or NIM to variations. As financial intermediaries, banks encounter interest rate risk in many forms:

- (a) Gap or Mismatch Risk
- (b) Basis Risk
- (c) Embedded Option Risk
- (d) Yield Curve Risk
- (e) Price Risk
- (f) Reinvestment Risk
- (g) Net Interest Position Risk

2.2 **Measuring Risk** – Before the interest rate risk (IRR) is to be managed, same should be identified and quantified. In this regard, banks need to adopt an IRR measurement system which should:

- (a) Address all material sources of interest rate risk including gap or mismatch, basis, embedded option, yield curve, price, reinvestment and net interest position risks, exposures associated with assets, liabilities and off-balance sheet positions.
- (b) Take into account the specific characteristics of each individual interest rate sensitive position.
- (c) Capture the full range of potential movements in interest rates, in detail.
- (d) Use different techniques, ranging from the traditional maturity Gap Analysis (to measure the interest rate sensitivity of earnings), Duration (to measure interest rate sensitivity of capital), Simulation and VaR.
- (e) Match on a daily basis the potential loss in Present Value Basis Points (PVBP) *vis-à-vis* prudential limits for trading book.
- (f) Undertake scenario analysis with specific possible stress situations by linking hypothetical, simultaneous and related changes in multiple risk factors present in the trading portfolio to determine the impact of moves on the rest of the portfolio.
- (g) Adopt VaR as an analytical tool for measuring and managing currency risk in the Banking Book.

2.3 **Measuring Techniques** –

- (a) **Maturity Gap Analysis** – The simplest analytical technique for calculating IRR exposure begins with Maturity Gap analysis that distributes interest rate sensitive assets, liabilities and off-balance sheet positions into a number of pre-defined time-bands according to their residual term to maturity (fixed rate) or residual term for their next re-pricing (floating rate). Gaps may be identified in the following time bands:
 - i. Up to one month
 - ii. Over one month and up to 3 months

- iii. Over 3 months and up to 6 months
- iv. Over 6 months and up to 1 year
- v. Over 1 year and up to 2 years
- vi. Over 2 years and up to 3 years
- vii. Over 3 years and up to 4 years
- viii. Over 4 years and up to 5 years
- ix. Over 5 years and up to 7 years
- x. Over 7 years and up to 10 years
- xi. Over 10 years and up to 15 years
- xii. Over 15 years and up to 20 years
- xiii. Over 20 years
- xiv. Non-sensitive

Various items of rate sensitive assets and liabilities and off-balance sheet positions may be classified in line with their sensitivity to interest rates. A reporting format for Sensitivity of Assets and Liabilities (SAL) for interest rate sensitive assets and liabilities is also attached (Attachment – 2).

- (b) **Duration Gap Analysis** – Matching the duration of assets and liabilities, instead of matching the maturity or re-pricing dates, is a more effective way to protect the economic values of banks from exposure to IRR than the simple gap model.
- (c) **Simulation** – Simulation is a popular tool among banks to gauge the effect of market interest rate variations on reported earnings/economic values over different time zones. Simulation techniques attempt to overcome the limitation of gap analysis and duration approach by computer modelling the bank's interest rate sensitivity.

G. Stress Testing

1. Management Oversight

- (a) BOD or a committee formed under the Board with delegated authority should put in place a 'Stress Testing Framework' as a part of integrated risk management system with approved 'Stress Testing Policy', procedures to be followed and the methodology to be adopted.
- (b) BOD and the Senior Management should regularly review the results of stress tests, including major assumptions that underpin them.
- (c) BOD and Senior Management should put in place appropriate fall-back mechanisms for mitigating tail-end risks, considering an organised approach to manage extreme systemic risks.

1.1 Stress Testing Policy should include the following aspects:

- (a) Frequency and procedure for identifying the principal risk factors, which affect the bank's portfolio and required to be stressed.
- (b) Methodology for constructing stress tests.
- (c) Procedure for setting the stress tolerance limits.
- (d) Process of monitoring the stress loss limits.
- (e) Necessary remedial/trigger actions to be taken at various risk levels as revealed by the stress tests.
- (f) Delegation of authority to ensure timely execution of remedial/trigger action.

- 1.2 Roles and responsibilities of the persons involved in the exercise must be defined by well constituted organisational structure and they should be independent.
- 1.3 An effective Management Information System (MIS) is necessary to ensure flow of information to take necessary measures to avoid certain difficult conditions by the Senior Management.

2. Frequency of Stress Testing

Banks may apply stress tests at varying frequencies dictated by their respective business requirements, relevance and cost. In general, stress tests on market-sensitive portfolios should be run more frequently (*eg.*: daily, weekly). These may include trading portfolios in marketable securities, foreign exchange and interest rate exposures. Other portfolios which are less volatile in nature could be stress-tested at longer intervals (*eg.*: monthly, quarterly). Further, *ad-hoc* stress tests may be warranted when there are any special circumstances.

3. Scope of Stress Tests

Stress testing can and should be applied to the full range of material risks that a bank runs both at business unit level and on an aggregated group basis. Stress testing can be commonly used for interest rate, equity, liquidity, foreign exchange, credit and market instruments. Further, it is also important to introduce stress testing for operational risk. There are three different hypothetical scenarios that can be used in stress testing:

- (a) Major Level Shocks: It involves large shocks to all the risk factors and is also defined for separately for each risk factor.
- (b) Moderate Level Shocks: It involves medium level shocks and the level is defined for each risk factor separately.
- (c) Minor Level Shocks: It involves small shocks to risk factors.

4. Methodology and Calibration of Shocks

4.1 Credit Risk

Stress test for credit risk assesses the impact of increase in the level of non-performing loans of the bank on Capital Adequacy Ratio (CAR). This involves three types of shocks, namely;

- (a) Type One deals with the increase in the Non-Performing Loans (NPLs) and the respective provisioning.
- (b) Type Two deals with the negative shift in the NPL categories and hence the increase in respective provisioning.
- (c) Type Three deals with the fall in the Forced Sale Value (FSV) of mortgaged collateral.

4.2 Liquidity Risk

Stress test for liquidity risk evaluates the resilience of the banks towards the fall in liquid liabilities. The ratio “liquid assets to liquid liabilities” should be calculated before and after the shocks by dividing the liquid assets with liquid liabilities. They include cash and balances with banks, call money lending, lending under repo and investment in government securities. Liquid liabilities include deposits and borrowings.

4.3 Equity Price Shock

Stress test for equity price risk assesses the impact of the fall in the stock market index. The impact of resultant loss should be calculated after shocks on current market value of all the on-balance sheet and off-balance sheet securities listed on stock exchanges including shares, mutual funds, etc. and it should be calibrated in terms of the CAR.

4.4 Exchange Rate Risk

Stress test for exchange rate assesses the impact of change in exchange rate on the value of equity. To model direct foreign exchange risk, only, the overall Net Open Position (NOP) of the bank including the on-balance sheet and off-balance sheet exposures should be given adverse shocks. The overall NOP is measured by aggregating the sum of net short positions or the sum of net long positions, whichever is greater regardless of sign. The impact of the respective shocks should be calibrated in terms of the CAR. The revised CAR should be calculated after adjusting total loss from the risk-weighted assets of the bank.

4.5 Interest Rate Risk

Interest rate risk is the potential that the value of the on-balance sheet and the off-balance sheet positions of the bank would be negatively affected with the change in the interest rates. The vulnerability of an institution towards the adverse movements of the interest rate can be gauged by using duration gap analysis. Banks should follow the under mentioned steps in carrying out the interest rate stress tests.

- (a) Estimate the market value of all on-balance sheet rate sensitive assets and liabilities of the bank to arrive at market value of equity.
- (b) Calculate the durations of each class of asset and the liability of the on-balance sheet portfolio.
- (c) Arrive at the aggregate weighted average duration of assets and liabilities.
- (d) Calculate the duration gap by subtracting aggregate duration of liabilities from that of assets.
- (e) Estimate the changes in the economic value of equity due to change in interest rates on on-balance sheet positions along the three interest rate changes.
- (f) Calculate surplus/(deficit) on off-balance sheet items under the assumption of three different interest rate changes, *i.e.*, 1%, 2%, and 5%.
- (g) Estimate the impact of the net change (both for on-balance sheet and off-balance sheet) in the market value of equity on the CAR.
- (h) Market value of the assets or liabilities should be assessed, by calculating its present value discounted at the prevailing interest rate. The outstanding balances of assets and liabilities should be taken along with their respective maturity or reprising period, whichever is earlier.

4.6 Interpretation of Stress Testing Results

- (a) Before interpretation of stress testing results, it is important to the banks to be aware of its limitations as stress testing is influenced by the judgment and experience of the risk managers designing the stress tests. Therefore, the effectiveness of the stress tests will depend upon whether banks have identified their major risks and they have chosen the right level of stress/stress scenarios.
- (b) Senior Management should review the results of the various stress tests and report to the Board. It is important to document the results of each of the sensitivity tests and scenario analysis undertaken and should also document, as part of the details of those tests and analyses, the key assumptions including the aggregation of the results. These should be preserved for a considerable period as mentioned in the policy document.

4.7 Review & Update

- (a) Regular review and updating is important to ensure effectiveness of the stress testing programme of the bank.

- (b) Such review should be done at least once a year or more frequently if the portfolio or the environment changes are significant. Following should be covered in the review process.
- i. The integrity of the management information system.
 - ii. Completeness and accuracy of the data used.
 - iii. Consistency, timeliness and reliability of data sources.
 - iv. The approval process for the stress testing programme.
 - v. Integration of stress testing into risk management.
 - vi. Interpretation of stress testing results.

H. Disclosure Requirements

1. Principles

- 1.1 Banks should adopt a formal disclosure policy approved by the BOD that addresses the bank's approach for determining what disclosures to be made and internal controls over the disclosure process.
- 1.2 Banks should implement a process for assessing the appropriateness of their disclosures, including validation and frequency of them.
- 1.3 In order to enhance the role of market discipline, banks should take into account the following norms to improve their disclosure practices.
 - (a) A balance between quantitative and qualitative disclosures - Disclosures should be consistent with banks' own risk management practices.
 - (b) Banks should endeavour to disclose information about inter-period exposures – particularly in the form of high, median and low observations – which could provide a more meaningful view of licensed banks' risk profile than period end data alone.
- 1.4 Banks should decide relevant disclosures based on the materiality concept.
- 1.5 Qualitative disclosures such as bank's risk management objectives and policies, reporting systems and definitions set out here should be made at least bi-annually.

2. Disclosure Requirements

2.1 Risk Exposure and Assessment

(a) General Qualitative Disclosure Requirement

For each separate risk area *viz.* credit, market, operational, liquidity *etc.* Licensed banks should describe their risk management objectives and policies, including:

- strategies and policies;
- structure and nature of the relevant risk management function;
- scope and nature of risk reporting and/or management system;
- policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges / mitigants.

Table - 1**Credit Risk – General Disclosures**

| | |
|--------------------------|---|
| Qualitative Disclosures | <p>(a) Definition of past due and impaired (for LKAS 32 & 39 purposes).</p> <p>(b) Description of approaches followed for specific and general loan loss provisioning and statistical methods.</p> <p>(c) Discussion of the bank’s credit risk management policy.</p> <p>(d) Policies and processes for, and an indication of the extent to which the bank makes use of, on-balance sheet and off-balance sheet netting.</p> <p>(e) Policies and processes for collateral valuation and management.</p> <p>(f) A description of the main types of collateral taken by the bank.</p> <p>(g) Main types of guarantor/credit derivative counterparty and their creditworthiness.</p> <p>(h) Information about (market or credit) risk concentrations within the mitigation taken.</p> |
| Quantitative Disclosures | <p>(a) Total gross credit risk exposures, plus average gross exposure over the period broken down by major types of credit exposure.</p> <p>(b) Geographic distribution of exposures, broken down in significant areas by types of credit exposure.</p> <p>(c) Industry or counter-party type distribution of exposures, broken down by major types of credit exposure.</p> <p>(d) Residual contractual maturity breakdown of the whole credit portfolio, by major types of credit exposure.</p> <p>(e) By major industry or counterparty types:</p> <ul style="list-style-type: none"> – Amount of past due loans and if available impaired loans, provided separately, – Specific and general loan loss provisioning, and – Charges for specific loan loss provisions and charges-offs during the reporting period. <p>(f) Amount of past due loans and, if available, impaired loans provided separately broken down by significant geographic area including the amount of specific and general loan loss provisions related to each geographical area.</p> <p>(g) Reconciliation of changes in the provisions for loan losses/impairment.</p> |

Table - 2**Market Risk – General Disclosures**

| | |
|--------------------------|---|
| Qualitative Disclosures | <p>(a) The general qualitative disclosure requirement described in Para 2.1(a) above.</p> <p>(b) Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons.</p> <p>(c) Discussion of important policies covering the valuation and accounting of equity holdings in the Banking Book. This includes the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation as well as significant changes in these practices.</p> |
| Quantitative Disclosures | <p>(a) Interest rate risk, including Interest Rate Sensitivity Gap Analysis of local and foreign currency denominated assets and liabilities in the format given in Attachment – 1&2.</p> <p>(b) Equity position risk –</p> <ul style="list-style-type: none"> • Value disclosed in the balance sheet of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share value where the share price is materially different from fair value. • Types and nature of investments, including the amount that can be classified as: <ul style="list-style-type: none"> – Publicly traded; and – Privately held. • The cumulative realised gains (losses) arising from sales and liquidations in the reporting period. • Total unrealised gains (losses). • Total latent revaluation gains (losses). • Any amounts of the above included in Tier 1 and/or Tier 2 capital. <p>(c) Foreign exchange risk, including statements of foreign exchange position (Attachment – 3), Maturity Gap Analysis of foreign currency denominated assets and liabilities.</p> <p>(d) Commodity risk.</p> |

Table - 3**Operational Risk – General Disclosures**

| | |
|--------------------------|--|
| Qualitative Disclosures | <p>(a) The general qualitative disclosure requirement described in Para 2.1(a) above.</p> <p>(b) Description of the use of insurance for the purpose of mitigating operational risk.</p> <p>(c) Details of activities that have been outsourced together with parties and basis for payment for such services.</p> <p>(d) Details of investment in appropriate information technology, if any, and other risk mitigation techniques taken during the reporting period.</p> <p>(e) Details of due diligence tests of third party service providers.</p> <p>(f) Details of a contingency plan in place to handle failure situations.</p> |
| Quantitative Disclosures | <p>(a) Major operational <i>viz.</i> system or human, failures and financial losses incurred by the bank due to such failures during the reporting period.</p> |

Table - 4**Liquidity Risk – General Disclosures**

| | |
|--------------------------|--|
| Qualitative Disclosures | <p>(a) The general qualitative disclosure requirement described in Para 2.1(a) above.</p> <p>(b) Details of a liquidity contingency plan in place to bridge unforeseen liquidity difficulties.</p> |
| Quantitative Disclosures | <p>(a) Trends in the following indicators:</p> <ul style="list-style-type: none"> • Net loans to total assets • Loans to customer deposits • Liquid assets to short term liabilities • Large liabilities (minus) temporary investments to earning assets (minus) temporary investments • Purchased funds to total assets. • Commitments to total loans. (Please refer to Section 1.4 of Appendix for definitions) <p>(b) Maturities of Assets and Liabilities (MAL) in the format given in Attachment-1.</p> |

Attachment 1

Maturities of Assets and Liabilities (MAL)
(Currency)*

(..... Million)

| Sr. | Heads of Accounts Item | Inflows | | | | | | | Over 5 years |
|-----------------|---|-----------------|------------|------------|------------|-------------|-----------|-----------|--------------|
| | | Upto 1 month | 1-3 months | 3-6 months | 6-9 months | 9-12 months | 1-3 years | 3-5 years | |
| A | | | | | | | | | |
| 1. | Cash on hand | | | | | | | | |
| 2. | Deposits with CBSL | | | | | | | | |
| 3. | Balances due from Head Office, Affiliates and Own Branches | | | | | | | | |
| 4. | Balances due from Other Banks | | | | | | | | |
| 5. | Investments (Net of provisions) | | | | | | | | |
| 6. | Bills of Exchange | | | | | | | | |
| 7. | Overdraft | | | | | | | | |
| 8. | Loans and Advances | | | | | | | | |
| 9. | NPLs | | | | | | | | |
| 10. | Net Inter-Branch Transactions | | | | | | | | |
| 11. | Other Assets | | | | | | | | |
| 12. | Lines of credit committed from institutions | | | | | | | | |
| 13. | Other – Please Specify , | | | | | | | | |
| | Total (a) | xx | xx | xx | xx | xx | xx | xx | xx |
| B | | | | | | | | | |
| Outflows | | | | | | | | | |
| 1. | Demand Deposits | | | | | | | | |
| 2. | Savings Deposits | | | | | | | | |
| 3. | Balances due to Head Office / Affiliates / Own Branches | | | | | | | | |
| 4. | Balances due from Other Banks | | | | | | | | |
| 5. | Time Deposits | | | | | | | | |
| 6. | Certificates of Deposits, Borrowings and Bonds | | | | | | | | |
| 7. | Net Inter-branch Transactions | | | | | | | | |
| 8. | Bills Payable | | | | | | | | |
| 9. | Interest Payable | | | | | | | | |
| 10. | Provisions other than for loan losses and depreciation in the value of investment portfolio | | | | | | | | |
| 11. | Other Liabilities | | | | | | | | |
| 12. | Lines of credit committed to institutions | | | | | | | | |
| 13. | Unutilized portion of Overdraft, Loans and Advances | | | | | | | | |
| 14. | Letters of Credit / Guarantees / Acceptances | | | | | | | | |
| 15. | Repo / Bills Rediscouted / Swaps / Forward contracts | | | | | | | | |
| 16. | Other – Please Specify | | | | | | | | |
| | Total (b) | xx | xx | xx | xx | xx | xx | xx | xx |
| | Gap = (a) - (b) | xx | xx | xx | xx | xx | xx | xx | xx |
| | Cumulative Gap | xx | xx | xx | xx | xx | xx | xx | xx |
| | Cumulative Liabilities | xx | xx | xx | xx | xx | xx | xx | xx |
| | Cumulative gap as a % of cumulative liabilities | x% | x% | x% | x% | x% | x% | x% | x% |

* Separate returns for LKR, US\$ and all other major currencies should be prepared.

Attachment 1 (A)

Maturities of Assets and Liabilities
Guidelines on Classification of Assets and Liabilities into Time Bands

| Sr. | Heads of Accounts | Details sought |
|----------|---|--|
| A | Inflows | |
| 1. | Cash on Hand | Up to one-month time band. |
| 2. | Deposits with CBSL | While the excess balance in the Clearing Account over the required statutory reserves could be placed under the 'up to one-month' time band, the statutory reserve against deposit should be distributed amongst various time bands, corresponding to the behavioral maturity profile of deposits. |
| 3. | Balances due from the Head Office, Affiliates and own branches | Demand balances may be placed under the 'up to one-month' time band, all other balances should be distributed across the time bands as per the respective residual maturities. |
| 4. | Balances due from Other Banks | Respective maturity time bands. |
| 5. | Investments (Net of provisions) | Respective residual maturities. Investment 'held-for-trading' may be placed in the first three time bands, on the basis of liquidity profile of the instruments, irrespective of their residual maturities. |
| 6. | Advances (performing) (a) Bills of Exchange and promissory notes | (a) Respective residual maturities bands. |
| 7. | (b) Overdraft | (b) 7.5% each of the outstanding should be distributed under one-month, 1-3 months, 3-6 months, 6-9 months, and 9-12 months time bands, respectively and the balance 62.5%, being the core component, should be shown equally under 1-3 years, 3-years and over 5 years time bands, respectively. |
| 8. | (c) Loans and Advances | (c) Respective residual maturities. However, 50% of the consumer loans, including credit cards, should be shown under over 5 years time band. The balance amount of 50% should be shown under respective time bands, on the basis of residual maturities. |
| 9. | NPLs | 25% and 75% of the balances, net of reserved interest and specific loan loss provisions should be shown in the 9-12 months and over five years time bands, respectively. |
| 10. | Net Inter-Branch Transactions | Up to one-month time band. |
| 11. | Other Assets | As per pattern of cash flows. However, intangible assets and assets not representing cash receivables should be shown in over five years time band. |

| Sr. | Heads of Accounts | Details sought |
|----------|--|--|
| B | Outflows | |
| 1. | Demand Deposits | 75% of the balances in demand deposits should be distributed under the first five time bands, at the rate of 20%, 20%, 15%, 10% and 10%, respectively and the balance of 25% in over 5 years time band. |
| 2. | Savings Deposits | 25% of the saving deposits should be distributed equally under one-month, 1-3 months, 3-6 months, 6-9 months, and 9-12 months, respectively, and the balance of 75%, being the core component, should be shown equally under 1-3 years, 3-5 years and over 5 years time bands, respectively. |
| 3. | Balances due to Head Office/ Affiliates/Own Branches | Respective residual maturity time bands. |
| 4. | Balances due to other Banks | Respective residual maturity time bands. |
| 5. | Time Deposits | 30% of the time deposits from individual depositors and pension funds, irrespective of their residual maturities, should be shown under over 5 years time band. The balance amount of 70% should be shown under respective time bands, on the basis of residual maturities. |
| 6. | Certificates of Deposits, borrowings and Bonds (including subordinated debts) | Respective residual time bands. Where call/put options are built into the issue structure of any instrument/s, the call/put date/s should be reckoned as the residual maturity date/s and the balance should be shown in the respective residual maturity time bands. |
| 7. | Net Inter-branch Transactions | Up to one month time band. |
| 8. | Bills Payable | Up to one month time band. |
| 9. | Interest Payable | Respective residual maturity time bands. |
| 10. | Provisions other than for loan losses and depreciation in the value of investment portfolio | Respective residual maturity time bands depending on the purpose. |
| 11. | Other Liabilities | Respective maturity time bands. Items not representing cash payables (<i>i.e.</i> , income received in advance <i>etc.</i>) should be placed over 5 years time band. |

| Sr. | Heads of Accounts | Details sought |
|-----|--|--|
| C | Contingent Liabilities/Lines of credit committed/available and other in-flows & out-flows | |
| 12. | Lines of Credit Committed to institutions and other borrowers | Up to one month time band |
| 13. | Unutilized portion of Overdraft, Loans and Advances | Probable disbursements should be shown in the respective time bands on the basis of historical databases. |
| 14. | Letters of credit /guarantees / acceptances | Probable funding obligations should be shown in the respective time band on the basis of past experiences. |
| 15. | Repo / Bills Rediscounted / Swaps / Forward contracts (LKR against Other Currencies) | Respective maturity bands. |

Attachment 2

Sensitivity of Assets and Liabilities (SAL)
(Currency*)

Name of Bank :
 Period Ended : (..... Million)

| No. | Assets and OBS | Up to 1 month | 1 - 3 months | 3 - 6 months | 6 - 12 months | 1 - 2 years | 2 - 3 years | 3 - 4 years | 4 - 5 years | 5 - 7 years | 7 - 10 Years | 10 - 15 years | 15 - 20 years | Over 20 years | Non Sensitive | Total |
|-----|--|---------------|--------------|--------------|---------------|-------------|-------------|-------------|-------------|-------------|--------------|---------------|---------------|---------------|---------------|-------|
| 1. | Cash on Hand | | | | | | | | | | | | | | | |
| 2. | Deposits with CBO | | | | | | | | | | | | | | | |
| 3. | Balances due from HO / Affiliates / Branches | | | | | | | | | | | | | | | |
| 4. | Balances due from Other Banks | | | | | | | | | | | | | | | |
| 5. | Investments | | | | | | | | | | | | | | | |
| 6. | Bills of Exchange and Promissory Notes | | | | | | | | | | | | | | | |
| 7. | Overdrafts | | | | | | | | | | | | | | | |
| 8. | Loans and Advances | | | | | | | | | | | | | | | |
| 9. | Non Performing Loans | | | | | | | | | | | | | | | |
| 10. | Fixed Assets | | | | | | | | | | | | | | | |
| 11. | Net Inter-branch Transactions | | | | | | | | | | | | | | | |
| 12. | Accrued Interest | | | | | | | | | | | | | | | |
| 13. | Other Assets | | | | | | | | | | | | | | | |
| 14. | Reverse Repos | | | | | | | | | | | | | | | |
| 15. | FRAs | | | | | | | | | | | | | | | |
| 16. | Swaps | | | | | | | | | | | | | | | |
| 17. | Futures | | | | | | | | | | | | | | | |
| 18. | Options | | | | | | | | | | | | | | | |
| 19. | Others (Specify) | | | | | | | | | | | | | | | |
| | Total | | | | | | | | | | | | | | | |
| | Liabilities and OBS | | | | | | | | | | | | | | | |
| 1. | Demand Deposits | | | | | | | | | | | | | | | |
| 2. | Savings Deposits | | | | | | | | | | | | | | | |
| 3. | Time Deposits | | | | | | | | | | | | | | | |
| 4. | Other Deposits | | | | | | | | | | | | | | | |
| 5. | Balances due to HO / Affiliates / Branches | | | | | | | | | | | | | | | |
| 6. | Balance due to other Banks | | | | | | | | | | | | | | | |
| 7. | Certificate of Deposits | | | | | | | | | | | | | | | |
| 8. | Other Borrowings | | | | | | | | | | | | | | | |
| 9. | Net Inter-branch Transactions | | | | | | | | | | | | | | | |
| 10. | Bills Payable | | | | | | | | | | | | | | | |
| 11. | Interest Payable | | | | | | | | | | | | | | | |
| 12. | Provisions (others) | | | | | | | | | | | | | | | |
| 13. | Capital | | | | | | | | | | | | | | | |
| 14. | Reserves | | | | | | | | | | | | | | | |
| 15. | Retained Earnings | | | | | | | | | | | | | | | |
| 16. | Subordinated Debts | | | | | | | | | | | | | | | |
| 17. | Other (Specify) | | | | | | | | | | | | | | | |
| 18. | Repos | | | | | | | | | | | | | | | |
| 19. | FRAs | | | | | | | | | | | | | | | |
| 20. | Futures | | | | | | | | | | | | | | | |
| 21. | Swaps | | | | | | | | | | | | | | | |
| 22. | Options | | | | | | | | | | | | | | | |
| | Total | | | | | | | | | | | | | | | |
| | Gap | | | | | | | | | | | | | | | |

* Separate returns for LKR, US\$ and all other major currencies should be prepared.

Attachment 2(A)

Sensitivity of Assets and Liabilities
Guidelines on Classification of Assets and Liabilities into Time Bands

| Sr. | Heads of Accounts | Rate Sensitivity and Time Band |
|----------|--|--|
| A | Inflows | |
| 1. | Cash on Hand | Non-sensitive |
| 2. | Deposits with CBSL | Non-sensitive |
| 3. | Balances due from head office, Affiliates and Own branches | Interest payable portion is sensitive and should be shown under the time band corresponding to the remaining term to maturity or repricing. The non-interest paying portion is non-sensitive. |
| 4. | Balances due from Other Banks | Interest payable portion is sensitive and should be shown under the time band corresponding to the remaining term to maturity or repricing. The non-interest paying portion is non-sensitive. |
| 5. | Investments (Net of provisions) (a) Fixed rate/Zero coupons. (b) Floating rate (c) Shares and investments in units | (a) Sensitive and should be shown under the time band corresponding to residual term to maturity. (b) Sensitive and should be shown under the time band corresponding to residual term to maturity. (c) Non-sensitive. |
| 6. | Advances (performing) (a) Bills of Exchange and prom-issory notes | (a) Sensitive on maturity. |
| 7. | (b) Overdraft/loans (Fixed rates) | (b) Sensitive and should be shown under the time bands corresponding to the interim and final cash flows. |
| 8. | (c) Overdraft/ Loans and Advances (Floating rates) | (c) Sensitive and should be shown under the time band corresponding to the interim and final cash flows. |
| 9. | NPLs (a) Special mentioned (b) Substandard (c) Doubtful (d) Loss | (a) Over 1-2 years time band (b) Over 3-5 years time bands (c) Over 5 years time band (d) Non-sensitive |
| 10. | Fixed Assets | Non-sensitive |
| 11. | Net Inter-Branch Transactions | Non-sensitive |
| 12. | Accrued interest | Non-sensitive |
| 13. | Other Assets (a) Leased assets (b) Other | (a) Sensitive on interim and final cash flows. The amount should be distributed to the respective maturity bands corresponding to the cash flows. (b) Non-sensitive |
| 14. | Reverse repos, Swaps, (Buy/sell), and bills discounted | Sensitive on maturity. |

| | |
|--|--|
| <p>15. FRAs 16. Futures 17. Options</p> | <p>These instruments should be treated as a combination of loan (assets) and short (liabilities) positions. The maturity of a Future or a FRA will be the period until delivery or exercise of the contract. The corresponding positions should undergo changes with passage of time.</p> <p>Swaps should be treated as two notional positions with relevant maturities. For <i>e.g.</i> an interest rate swap under which a bank is receiving floating rate of interest and paying fixed will be treated as long floating rate position of maturity equivalent to the period until the next interest fixing and a short position of maturity equivalent to the residual life of the swap.</p> <p>The notional underlying of the given option should be placed under the respective time band.</p> |
|--|--|

| Sr. | Heads of Accounts | Rate Sensitivity and Time Band |
|----------------|--|---|
| 1. | Demand Deposits | Non-sensitive |
| 2. | Savings Deposits | Sensitive and reprices when interest rate is reset. |
| 3. 4. 7. | Time Deposits, Certificate of Deposits, and Other Deposits | Sensitive and reprices on maturity. The amounts should be distributed to different time bands on the basis of remaining term to maturity. However, in case of floating rate term deposits, the amounts should be shown under the time band when deposits contractually become due for repricing. |
| 5. | Balances due to Head Office / Affiliates/Own Branches | Interest payable portion is sensitive and should be shown under the time band corresponding to the remaining term to maturity or repricing. The non-interest paying portion is non-sensitive. |
| 6. | Balances due to other Banks | Interest payable portion is sensitive and should be shown under the time band corresponding to the remaining term to maturity or repricing. The non-interest paying portion is non-sensitive. |
| 8. | Borrowings (a) Fixed rate borrowings (b) Floating rate borrowings (c) Zero Coupon borrowings (d) Borrowings from CBSL | (a) Sensitive and reprices on maturity. The amounts should be distributed to different time bands on the basis of remaining term to maturity. (b) Sensitive and reprices when interest rate is reset. The amounts should be distributed to the appropriate time bands, coinciding with the contracted repricing date. (c) Sensitive and reprices on maturity. The amounts should be distributed to the respective maturity bands. (d) Up to one month time band. |
| 9. | Net-inter branch transactions | Non-sensitive |
| 10. | Bills Payable | Non-sensitive |

| | | |
|-----|---|---|
| 11. | Interest Payable | Non-sensitive |
| 12. | Provisions | Non-sensitive |
| 13. | Capital | Non-sensitive |
| 14. | Reserves | Non-sensitive |
| 15. | Retained earnings | Non-sensitive |
| 16. | Sub-ordinated debts | Please refer to Item (8) above. |
| 17. | Reverse Repos, and other derivatives instruments | Reprices only on maturity and should be distributed to respective maturity bands. |

| Sr. | Heads of Accounts | Details sought |
|------------|---|--|
| C | Contingent Liabilities / Lines of credit committed / available and other inflows & out flows | |
| 3. | Lines of Credit Committed to institutions and other borrowers | Up to one month time band. |
| 4. | Unutilized portion of Overdraft, Loans and Advances. | Probable disbursements should be shown in the respective time bands on the basis of historical databases. |
| 5. | Letters of credit / guarantees / acceptances | Probable funding obligations should be shown in the respective time band on the basis of past experiences. |
| 6. | Repo / Bills Rediscounted / Swaps / Forward Contracts (LKR against other currencies) | Respective maturity bands. |

Attachment 3

Foreign Exchange Position

Bank :
 As at end of :

| Currency (1) | Spot | | | Forward ^(a) | | | Net Open Position (8) | Net position in other exchange contracts ^(b) (9) | Overall exposure in respec- tive foreign currency (10) | Overall exposure in Sri Lankan rupees ^(d) (11) |
|--|---------------|--------------------|---------------------------|------------------------|--------------------|---------------------------|--------------------------------|---|---|---|
| | Assets (2) | Liabilities (3) | Net (4) = (2) - (3) | Assets (5) | Liabilities (6) | Net (7) = (5) - (6) | | | | |
| | | | | | | | | | | |
| US Dollars | | | | | | | | | | |
| Pound Sterling | | | | | | | | | | |
| Euro | | | | | | | | | | |
| Japanese Yen | | | | | | | | | | |
| Indian Rupee | | | | | | | | | | |
| Australian Dollar | | | | | | | | | | |
| Canadian Dollar | | | | | | | | | | |
| Other currencies ^(c) | | | | | | | | | | |
| Total Exposure ^(e) | | | | | | | | | | |
| Total capital funds as per the latest audited financial statements | | | | | | | | | | |
| Total exposure as a % of total capital funds as per the latest audited financial statements (should not exceed 30%) | | | | | | | | | | X% |

- (a) Unsettled tom and spot transactions also should be included under forward operations
 (b) Report the net foreign exchange position in other foreign exchange contracts such as currency options, futures etc.
 (c) The Sri Lankan rupee equivalent of other currencies should be shown under column 11.
 (d) Column 11 should show the Sri Lankan rupee equivalent of column 10.
 (e) The exposure indicated against each currency in column 11 should be added ignoring signs to arrive at exposure under (e).

Determinations made by the Monetary Board of the Central Bank of Sri Lanka under Section 44A of the Banking Act, No.30 of 1988, as amended.

Sgd. Nivard Ajith Leslie Cabraal

*Chairman of the Monetary Board and
Governor of the Central Bank of Sri Lanka*

Colombo
24 November 2010

**BANKING ACT, DETERMINATION NO. 3 OF 2010
ASSESSMENT OF FITNESS AND PROPRIETY OF
OFFICERS PERFORMING EXECUTIVE FUNCTIONS IN
LICENSED COMMERCIAL BANKS**

- | | | |
|-----|---|---|
| 1. | This Determination may be cited as the Banking Act, Determination No.3 of 2010. The Sections referred to in this Determination will be those of the Banking Act, No. 30 of 1988, as amended. | Citation. |
| 2.1 | In terms of Section 44A of the Banking Act, officers of a licensed commercial bank performing executive functions as may be determined by the Monetary Board shall be fit and proper persons. Section 42(2) of the Act shall apply in determining whether officers performing executive functions are fit and proper persons. | Empowerment. |
| 2.2 | In addition, criteria set out in the Direction No.11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka will also be applicable. | |
| 3. | Officers holding following designations / positions are determined as officers performing executive functions in a licensed commercial bank: | Officers Performing Executive Functions. |
| | (i) Additional General Manager | |
| | (ii) Senior Deputy General Manager | |
| | (iii) Deputy General Manager | |
| | (iv) Assistant General Manager | |
| | (v) Chief Operating Officer | |
| | (vi) Chief Risk Officer | |
| | (vii) Chief Accountant | |
| | (viii) Chief Financial Officer | |
| | (ix) Chief Internal Auditor | |
| | (x) Compliance Officer | |
| | (xi) Head of Treasury | |
| | (xii) Head of Legal | |
| | (xiii) Head of Information Technology | |
| | (xiv) Board Secretary | |

- (xv) Officers serving as consultants / advisor to the Board or bank
- (xvi) Any other officers falling under the definition of section 3(1)(i)(f) of the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka.

Procedure to be followed in assessing the fitness and propriety.

- 4.1 Fitness and propriety of such officers performing executive functions shall be assessed and decided by the Director of Bank Supervision as has been provided for in the Banking Act and be applicable to those officers:
 - (i) currently in office,
 - (ii) at the time of appointment on a permanent or contract basis,
 - (iii) at the time of renewal of employment contracts, and
 - (iv) at any other time where there are supervisory concerns in respect of any officer as may be determined by the Director of Bank Supervision.
- 4.2 Each bank shall obtain from the respective officers an affidavit and a declaration as in Annex I and Annex II, respectively, and submit to the Director of Bank Supervision.
- 4.3 In addition, at the time of first appointment of an officer, a letter from the former employer immediately preceding the appointment (if the former employer is not a licensed bank in Sri Lanka) regarding the level of performance of duties assigned to him / her in the particular institution should be submitted to the Director of Bank Supervision.
- 4.4 In the case of expatriate officers appointed to branches of banks incorporated outside Sri Lanka (foreign banks), a letter obtained from the home country regulator with regard to any supervisory concerns on the suitability of such officers should be submitted.
- 4.5 With respect to officers, currently performing executive functions, banks shall obtain and submit affidavits and declarations to Director of Bank Supervision before 31 December 2010.

Annex I

Name of Bank :

Affidavit to be submitted by officers performing executive functions in Licensed Commercial Banks in terms of Section 44A of the Banking Act

I, (*full name*)
holder of National Identity Card No. / Passport No. of
..... (*address*)
being a (Buddhist / Hindu do hereby solemnly, sincerely and truly declare and affirm / Christian / Catholic / Muslim make oath and state) as follows :

1. I am the [affirmant / deponent] above named and I am the (*designation*)
of
..... (*name of bank*) which is a commercial bank licensed under the Banking Act, No. 30 of 1988.
2. I [affirm / state] that I possess the following academic and / or professional qualification / s:
.....
.....
3. I [affirm / state] that the effective experience that I possess in banking, finance, business or administration or of any other relevant discipline is as follows:
.....
.....
4. I [affirm / state] that there is no finding of any regulatory or supervisory authority, professional association, any Commission of Inquiry, tribunal or other body established by law in Sri Lanka or abroad, to the effect that I have committed or have been connected with the commission of, any act which involves fraud, deceit, dishonesty or any other improper conduct.
5. I [affirm / state] that I am not subject to an investigation or inquiry consequent upon being served with notice of a charge involving fraud, deceit, dishonesty or other similar criminal activity, by any regulatory authority, supervisory authority, professional association, any Commission of Inquiry, tribunal or other body established by law, in Sri Lanka or abroad.
6. I [affirm / state] that I have not been convicted by any Court in Sri Lanka or abroad in respect of a crime committed in connection with financial management or of any offence involving moral turpitude.
7. I [affirm / state] that I am not an undischarged insolvent nor have I been declared a bankrupt in Sri Lanka or abroad.

- 8. I [affirm / state] that I have not failed, to satisfy any judgment or order of any Court whether in Sri Lanka or abroad, or to repay a debt.
- 9. I [affirm / state] that I have not been declared by a Court of competent jurisdiction in Sri Lanka or abroad, to be of unsound mind.
- 10. I [affirm / state] that I have not been removed or suspended by an order of a regulatory or supervisory authority from serving in a licensed bank or any other financial institution or corporate body, in Sri Lanka or abroad.
- 11. I [affirm / state] that I have not been a Director, Chief Executive Officer or held any other position of authority in any bank or financial institution –
 - (i) Whose license has been suspended or cancelled; or
 - (ii) Which has been wound up or is being wound up, or which is being compulsorily liquidated; whether in Sri Lanka or abroad.
- 12. I [affirm / state] that to the best of my knowledge I am a fit and proper person to hold office as (*designation*) of a licensed commercial bank in terms of the provisions of section 44A of the Banking Act.

The averments contained herein were read over to the [affirmant/deponent] who having understood the contents hereof and having accepted same as true, affirmed/swore to and placed his/her signature at Colombo on this day of



*Affix Stamps
as applicable*

Before me

JUSTICE OF THE PEACE

Annex II

Name of Bank:

**Declaration to be submitted by officers performing executive functions
in Licensed Commercial Banks in terms of the Banking Act
(with enclosures as appropriate as of)**

1. Personal Details

- 1.1 Full name:
- 1.2 NIC / Passport number:
- 1.3 Date of birth :
- 1.4 Permanent address :
- 1.5 Present address :

2. Appointment to the Bank

- 2.1 Date of appointment to the present position:
(please attach a certified copy of the appointment letter)
- 2.2 Designation :
- 2.3 Local or expatriate :

3. Personal Details of Close Relations in terms of Section 86 of the Banking Act

- 3.1 Full name of spouse :
- 3.2 NIC / Passport number :
- 3.3 Names of dependant children :

| | <i>Full name</i> | <i>NIC/ Passport number</i> |
|-------|------------------|-----------------------------|
| 3.3.1 | | |
| 3.3.2 | | |
| 3.3.3 | | |
| 3.3.4 | | |

4. Background and Experience

Name/s of licensed bank/s, its subsidiaries in terms of the Banking Act and associates if any, in which he / she is or has been employed as an officer performing executive functions:

| <i>Name of the institution</i> | <i>Period of office</i> | <i>Designation</i> |
|--------------------------------|-------------------------|--------------------|
| | | |
| | | |
| | | |
| | | |
| | | |

5. Shareholdings in Banks and their Related Companies

Share ownerships in licensed banks, their subsidiaries and associates if any, presently held:

| <i>Name of the institution</i> | <i>No. of shares</i> | <i>Percentage holding</i> |
|--------------------------------|----------------------|---------------------------|
| | | |
| | | |
| | | |
| | | |
| | | |

6. Business Transactions^{1/}

Any business transaction the officer performing executive functions presently has with the bank and its subsidiaries and associates if any.

| <i>Name of the institution</i> | <i>Date of transaction</i> | <i>Amount as at</i> <i>(Rs. mn)</i> | | <i>Classification (performing/ non-performing)</i> | <i>Type and value of collateral (Rs. mn)</i> | <i>% of Bank's regulatory capital</i> |
|--------------------------------|----------------------------|---|---------------------|--|--|---------------------------------------|
| | | <i>Limit</i> | <i>Out-standing</i> | | | |
| Accommodations | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| Investments | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| Deposits | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |

7. Appointment, Shareholdings and Business Transactions of Close Relations

7.1 Any close relations presently employed as officers performing executive functions in licensed banks their subsidiaries and associates if any.

| <i>Name of the bank</i> | <i>Full name of the close relation</i> | <i>Position held</i> |
|-------------------------|--|----------------------|
| | | |
| | | |
| | | |
| | | |

^{1/} "Business transaction" shall mean any accommodations, borrowings, investments and deposits.

- 7.2 Direct or indirect share ownership in the bank, its subsidiaries and associates if any, presently held by any close relation.

| <i>Full name of the close relation</i> | <i>No. of Shares</i> | | <i>Percentage holding</i> | |
|--|----------------------|-----------------|---------------------------|-----------------|
| | <i>Direct</i> | <i>Indirect</i> | <i>Direct</i> | <i>Indirect</i> |
| | | | | |
| | | | | |
| | | | | |

- 7.3 Any business transaction, the close relation currently has with the bank, its subsidiaries and associates if any.

| <i>Full name of the close relation</i> | <i>Nature of business transaction</i> | <i>Date of transaction</i> | <i>Limit as at</i> <i>(Rs. mn)</i> | <i>Out-standing as at</i> <i>(Rs. mn)</i> | <i>Type and value of collateral</i> <i>(Rs. mn)</i> | <i>% of Bank's regulatory capital</i> |
|--|---------------------------------------|----------------------------|--|---|--|---------------------------------------|
| | | | | | | |
| | | | | | | |
| | | | | | | |

8. Any other explanation/information in regard to the information furnished above and other information considered relevant for assessing the suitability of the officer performing executive functions in the bank.

DECLARATION:

I confirm that the above information is to the best of my knowledge and belief true and complete. I undertake to keep the bank fully informed, as soon as possible, of all events, which take place subsequently, which is relevant to the information provided above.

I state that I am not prevented by any Statute from being appointed to the above post.

Date :

Signature of Officer Performing Executive Functions in the Bank

TO BE FILLED BY THE CHIEF EXECUTIVE OFFICER

1. Any other explanation / information in regard to the information furnished above and other information considered relevant for assessing the suitability of the person performing executive functions in the bank.

2. I confirm that, in terms of Section 44A of the Banking Act, the officer referred to above is fit and proper to carry out executive functions of the bank.

Date :

*Signature of Chief Executive Officer
and the official stamp*

Our Ref. : 02/17/600/0036/001

Bank Supervision Department

17 July 2012

*To : Chief Executive Officers of
all locally incorporated licensed banks*

Dear Sir / Madam,

SPECIAL PAYMENTS/BENEFITS TO DIRECTORS AT THEIR RETIREMENT

Having observed that exorbitant special payments / benefits have been made in the form of gratuity to retiring directors of some banks and that such payments / benefits are not prudent in terms of good governance, the Monetary Board has decided to require licensed banks to obtain prior approval of shareholders for any special payments / benefits made to bank directors at their retirement in addition to normal remuneration.

Accordingly, all locally incorporated licensed banks are requested to:

- (1) incorporate such special payments / benefits to its directors at their retirement to the remuneration policy;
- (2) obtain prior approval of the shareholders for any special payments / benefits made to directors at their retirement in addition to normal remuneration;
- (3) ensure that all special payments / benefits are extended on arm's length basis; and
- (4) disclose separately the aggregate value of total special payments / benefits made to retiring directors during the respective financial year in the Annual Report.

Yours faithfully,

(Mrs.) T M J Y P Fernando
Director of Bank Supervision

Cc : Chairmen of all locally incorporated licensed banks

Ref. No. : 02/17/550/002/003

Bank Supervision Department

29 March 2012

To : *CEOs of all Licensed Banks and
Panel of Qualified Auditors*

Dear Sir/Madam,

**DISCLOSURES IN ANNUAL REPORTS
BANKING ACT DIRECTIONS ON CORPORATE GOVERNANCE**

We write to inform you that, the Monetary Board has approved of accepting the following as substitutes for compliance with the Directions 3(8)(ii)(c) and 3(8)(ii)(g) of the Banking Act, Directions No. 11 and 12 of 2007.

| Direction | Disclosure Requirements | Substitute Disclosure Requirements |
|------------------|---|---|
| 3(8)(ii)(c) | The external auditor's certification on the effectiveness of the internal control mechanism reported by the board of directors | The Assurance Report issued by the auditors under "Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Reports for Banks on Directors' Statements on Internal Control". |
| 3(8)(ii)(g) | The external auditor's certification of the compliance with Corporate Governance Directions in the annual corporate governance reports published in the annual report | A confirmation by the Board of Directors in its Annual Corporate Governance Report that all the findings of the "Factual Findings Reports" of auditors issued under "Sri Lanka Related Services Practice Statement 4750" have been incorporated in the Annual Corporate Governance Report, provided that auditors confirm to the Director of Bank Supervision to this effect. |

Accordingly, you are required to adhere to the above requirements.

Yours faithfully,

(Mrs.) T M J Y P Fernando
Director of Bank Supervision

Ref. No. : 02/17/600/0017/001

Bank Supervision Department

27 August 2010

To : CEOs of all Licensed Banks;

Dear Sir/Madam,

APPOINTMENT OF DIRECTORS

Reference our letter No. 02/04/002/0012/002 dated 31 March 2005 on the above subject.

We enclose herewith a revised declaration, which incorporates additional information, to enable the licensed banks to ascertain compliance with the provisions of the Direction on Corporate Governance by Directors of banks.

Please replace Annex 2 of the letter under reference with the revised declaration effective from 01.09.2010.

Yours faithfully,

Sgd, (Mrs.)T M J Y P Fernando
Director of Bank Supervision

Encl.

c.c. - Mr. Upali De Silva
Secretary General – Sri Lanka Banks' Association
Level 8, Ceylinco House
No. 69, Janadhipathi Mawatha
Colombo 01.

Annex 2

Name of Bank:

**Declaration to be submitted in terms of Section 42 of the Banking Act
by persons proposed to be appointed / elected / nominated as a Director of
a Licensed Bank
(with enclosures as appropriate as of)**

1. Personal Details

- 1.1 Full name:
- 1.2 NIC / Passport number:
- 1.3 Date of birth :
- 1.4 Age :
- 1.5 Permanent address :
- 1.6 Present address :
- 1.7 Occupation :

2. Appointment as a Director of the Bank

- 2.1 Date of initial appointment as a Director to the Board of Directors of the bank :.....
- 2.2 Nature of the appointment (Executive Director / Independent Director / Non-independent Director /Non-executive Director / Alternate Director). :

3. Personal Details of Close Relations^{1/} in terms of Section 86 of the Banking Act

- 3.1 Full name of spouse :
- 3.2 NIC / Passport number :
- 3.3 Names of dependant children :

| | <i>Full name</i> | <i>NIC/ Passport number</i> |
|-------|------------------|-----------------------------|
| 3.3.1 | | |
| 3.3.2 | | |
| 3.3.3 | | |
| 3.3.4 | | |

4. Background and Experience

- 4.1 Name/s of Licensed Bank/s, its subsidiaries^{2/} in terms of the Banking Act and associates if any, in which he / she is or has been a member of the Board of Directors:

| <i>Name of the institution</i> | <i>Period of office</i> |
|--------------------------------|-------------------------|
| | |
| | |
| | |
| | |

1/ “Close relation” shall mean the spouse or financially dependant children.

2/ “Subsidiary” as defined by Section 17(3) of the Banking Act.

4.2 Names of entities in which he/she presently is a Director:

4.2.1 Names of specified business entities in terms of the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995.

| |
|-----|
| (a) |
| (b) |
| (c) |
| (d) |

4.2.2 Names of other institutions / entities

| |
|-----|
| (a) |
| (b) |
| (c) |
| (d) |

4.3 Name/s of Licensed Bank/s, its subsidiaries^{2/} and associates if any, in which he / she is or has been employed as an officer performing executive functions:

| <i>Name of the institution</i> | <i>Position / Designation</i> | <i>Period of office</i> |
|--------------------------------|-------------------------------|-------------------------|
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |

5. Shareholdings in Banks and their Related Companies

5.1 Direct or indirect share ownerships in licensed banks, their subsidiaries^{2/} and associates if any, presently held:

| <i>Name of the institution</i> | <i>No. of Shares</i> | | <i>Percentage holding</i> | |
|--------------------------------|----------------------|-----------------|---------------------------|-----------------|
| | <i>Direct</i> | <i>Indirect</i> | <i>Direct</i> | <i>Indirect</i> |
| | | | | |
| | | | | |
| | | | | |
| | | | | |

^{2/} "Subsidiary" as defined by Section 17(3) of the Banking Act.

6. Business Transactions^{3/}

6.1 Any business transaction the Director / proposed Director currently has / had with the licensed banks, their subsidiaries^{2/} and associates if any, and finance and leasing companies registered with Central Bank of Sri Lanka during the last two years immediately preceding the appointment as Director.

| Name of the institution | Date of transaction | Amount as at | | Classification (performing/ non-performing) | Type and value of collateral (Rs. mn) | % of Bank's regulatory capital |
|-------------------------|---------------------|--------------------|-------------|---|---------------------------------------|--------------------------------|
| | | Limit | Outstanding | | | |
| Accommodations | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| Borrowings | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| Investments | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| Deposits | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |

6.2 Any business transaction the Director / proposed Director currently has / had during the last two years immediately preceding the appointment as Director, with “related parties” as defined by Section 3(7)(i) of the Banking Act, Direction No.11 and 12 of 2007 on Corporate Governance for Licensed Banks in Sri Lanka.

| Name of the institution | Date of transaction | Amount as at | | Classification (performing/ non-performing) | Type and value of collateral (Rs. mn) | % of Bank's regulatory capital |
|-------------------------|---------------------|--------------------|-------------|---|---------------------------------------|--------------------------------|
| | | Limit | Outstanding | | | |
| Accommodations | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| Borrowings | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| Investments | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| Deposits | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |

^{3/} “Business transaction” shall mean any accommodations, borrowings, investments and deposits.

7. Appointment, Shareholdings and Business Transactions of Close Relations

- 7.1 Any close relation presently appointed as a Director or Chief Executive Officer or a member of the key management of licensed bank/s their subsidiaries and associates if any.

| <i>Name of the bank</i> | <i>Full name of the close relation</i> | <i>Position held</i> |
|-------------------------|--|----------------------|
| | | |
| | | |
| | | |
| | | |

- 7.2 Direct or indirect share ownership in licensed banks, its subsidiaries and associates if any, presently held by any close relation.

| <i>Name of the institution</i> | <i>Full name of the close relation</i> | <i>No. of Shares</i> | | <i>Percentage holding</i> | |
|--------------------------------|--|----------------------|-----------------|---------------------------|-----------------|
| | | <i>Direct</i> | <i>Indirect</i> | <i>Direct</i> | <i>Indirect</i> |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

- 7.3 Any business transaction, the close relation currently has or had with licensed banks its subsidiaries and associates if any during the last two years immediately preceding the appointment as Director.

| <i>Name of the institution</i> | <i>Full name of the close relation</i> | <i>Nature of business transaction</i> | <i>Date of transaction</i> | <i>Limit as at</i> <i>(Rs. mn)</i> | <i>Outstanding as at</i> <i>(Rs. mn)</i> | <i>Type and value of collateral</i> <i>(Rs. mn)</i> | <i>% of Bank's regulatory capital</i> |
|--------------------------------|--|---------------------------------------|----------------------------|--|--|--|---------------------------------------|
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |

8. Any other explanation / information in regard to the information furnished above and other information considered relevant for assessing the suitability of the Director / proposed Director.

Declaration:

I confirm that the above information is to the best of my knowledge and belief true and complete. I undertake to keep the bank fully informed, as soon as possible, of all events, which take place subsequently, which is relevant to the information provided above.

I state that I am not prevented by the Articles of Association of the Company and or by any other Statute from being appointed to the above post.

Date :

.....

*Signature of Director / Proposed Director***To be filled by the Company Secretary**

1. Any other explanation / information in regard to the information furnished above and other information considered relevant for assessing the suitability of the Director / proposed Director

2. Submitted to the Board of Directors of the Bank.

Date :

.....

*Signature of Company Secretary
and the official stamp*

Ref. No. : 02/04/0012/002

Bank Supervision Department

12 April 2005

*To : CEOs of all Licensed Commercial Banks and
all Licensed Specialised Banks;*

Dear Sirs,

APPOINTMENT OF DIRECTORS OF BANKS

I refer to my letter of 31 March 2005 on the above subject, enclosing the affidavit and the declaration to be submitted in respect of directors of banks.

Enclosed please find a fresh affidavit which incorporates the Committee stage amendments to the Banking (Amendment) Bill. Please replace the affidavit attached to the above letter with this version.

Yours faithfully,

Sgd, **Director of Bank Supervision**

- (h) I [affirm/state] that I have not failed, to satisfy any judgment or order of any court whether in Sri Lanka or abroad, or to repay a debt;
- (i) I [affirm/state] that I have not been declared by a court of competent jurisdiction in Sri Lanka or abroad, to be of unsound mind;
- (j) I [affirm/state] that I have not been removed or suspended by an order of a regulatory or supervisory authority from serving as a director, Chief Executive Officer or other officer in any bank or financial institution or corporate body, in Sri Lanka or abroad;
- (k) I [affirm/state] that I have not been a director, Chief Executive Officer or held any other position of authority in any bank or financial institution –
 - (i) whose license has been suspended or cancelled; or
 - (ii) which has been wound up or is being wound up, or which is being compulsorily liquidated;
 whether in Sri Lanka or abroad.
- (l) I [affirm/state] that to the best of my knowledge I am a fit and proper person [to hold office as a director / to be appointed, nominated or elected as a director] of a licensed commercial bank / licensed specialised bank in terms of the provisions of Section 42 of the Banking Act as amended by Banking (Amendment) Act, No. 2 of 2005.

The averments contained herein]
 were read over to the [affirmant/deponent]
 who having understood the contents]
 hereof and having accepted same as] Before me
 true, affirmed/swore to and placed]
 his / her signature at Colombo]
 on this day]
 of]

JUSTICE OF THE PEACE

Ref. No. : 02/04/002/0012/002

Bank Supervision Department

31 March 2005

*To : The CEOs of all Licensed Commercial Banks (Domestic) and
all Licensed Specialised Banks*

Dear Sirs,

**APPOINTMENT OF DIRECTORS OF BANKS
(SECTION 42 OF THE BANKING ACT, NO.30 OF 1988 AS AMENDED)**

In terms of Section 42(1) of the Banking Act a person who is to be appointed, elected or nominated as a director of a licensed commercial bank or who continues as a director of such bank must be a fit and proper person to hold such office and should not be prevented from doing so by the provisions of the Banking Act or by any other written law. The Act also sets out specific matters to be taken into consideration in determining whether a person is fit and proper.

Further, in terms of Section 42(4) of the Act, all banks are required to notify the Director of Bank Supervision, details of proposed/appointed/elected/nominated directors for approval under Section 42(5). Boards of licensed commercial banks should ensure that adequate information relating to any person who is to be appointed, elected or nominated to the Board of Directors is made available to the Board before such appointment, election or nomination takes place. Furthermore, it is necessary that relevant information in respect of current directors should also be available to the Board of Directors.

For this purpose we annex hereto a draft affidavit to be obtained from all directors and persons nominated for election or appointment as directors of the bank or to be nominated to the Board. In addition to the affidavit, a declaration may also be obtained from such person to enable the bank to ascertain compliance by directors of the bank with other provisions of the Act. For this purpose a draft declaration as in Annex 2 may be used. The Secretary of each bank shall submit a copy of the affidavit and the declaration in respect of each such person to be appointed, to the Director of Bank Supervision, together with the information specified in sub-section (4) of Section 42, by the bank when approval for appointment, election or nomination of a director is sought.

With respect to current directors, the declaration and affidavit should be obtained and copies furnished to the Central Bank in respect of each director holding office, by 30 April 2005. Thereafter, the declaration and affidavit should be obtained and copies furnished to the Central Bank annually, before the Annual General Meeting of the respective bank in respect of every continuing director.

Yours faithfully,

Sgd, Director of Bank Supervision

cc – Mr. Upali De Silva
Secretary-General – Sri Lanka Bankers' Association
Level 8, Ceylinco House, 69, Janadhipathi Mawatha
Colombo 01.

- (g) I [affirm / state] that I am not an undischarged insolvent nor have I been declared a bankrupt in Sri Lanka or abroad;
- (h) I [affirm / state] that I have not failed, to satisfy any judgment or order of any court whether in Sri Lanka or elsewhere, or to repay a debt;
- (i) I [affirm / state] that I have not been declared by a competent court in Sri Lanka or abroad, to be of unsound mind;
- (j) I [affirm / state] that I have not been removed or suspended by an order of a regulatory or supervisory authority from serving as a director, Chief Executive Officer or other officer in any bank or financial institution or corporate body, in Sri Lanka or abroad;
- (k) I [affirm / state] that I have not been a director, Chief Executive Officer or held any other position of authority in any bank or financial institution –
 - (i) whose license has been suspended; or
 - (ii) which has been wound up or is being wound up, or which is being compulsorily liquidated; whether in Sri Lanka or elsewhere.
- (l) I [affirm / state] that to the best of my knowledge I am a fit and proper person [to hold office as a director/ to be appointed, nominated or elected as a director] of a licensed commercial bank / licensed specialised bank in terms of the provisions of Section 42 of the Banking Act as amended by Banking (Amendment) Act, No. 2 of 2005.

The averments contained herein]
 were read over to the [affirmant/deponent]
 who having understood the contents]
 hereof and having accepted same as] Before me
 true, swore to and placed his/her signature]
 at Colombo on this day]
 of]

JUSTICE OF THE PEACE

Annex 2

Name of Bank:

**Declaration to be submitted in terms of Section 42 of the Banking Act
by persons proposed to be / appointed / elected / nominated as a Director of a Licensed Bank
(with enclosures as appropriate as of)**

1. Personal Details

1.1 Full name:

1.2 NIC No. / Passport No.:

1.3 Permanent Address:

1.4 Present Address:

1.5 Occupation:

2. List of close relations in terms of Section 86 of the Banking Act:

2.1 Name in full of spouse:

NIC No./Passport No. :

2.2 Names of dependent children:

| <i>Full Name</i> | <i>NIC No. / Passport No.</i> |
|------------------|-------------------------------|
| 1. | |
| 2. | |
| 3. | |
| 4. | |

3. List of entities in which director / prospective director has a substantial interest in terms of Section 86 of the Banking Act

4. Name/s of Licensed Bank/s in which he / she is or has been a member of the Board of Directors (give details of period during which such office was held)

5. Accommodation, if any, presently availed by him / her or by his close relations at 2 above, and by entities at 3 above from the bank, and collateral

Declaration:

I confirm that the above information is to the best of my knowledge and belief true and complete. I undertake to keep the bank fully informed, as soon as possible, of all events which take place subsequently which are relevant to the information provided above.

Signature:

Date:

Any other explanation / information in regard to the information furnished above and other information considered relevant for assessing the suitability of the proposed / appointed director.

Remarks of Board of Directors of the Bank

Date:

Signature of Company Secretary

Ref. No. : 02/17/550/002/002

Bank Supervision Department

03 January 2011

*To : Chief Executive Officers of
Branches of Foreign Banks*

Dear Sir,

**DISCLOSURES IN TERMS OF THE
BANKING ACT DIRECTION ON CORPORATE GOVERNANCE**

All branches of foreign banks are requested to adhere to the following with respect to Directions 3(8) and 3(9) of the Banking Act Direction No. 11 of 2007 on Corporate Governance:

- (i) Direction 3(8)(ii) – All disclosures except on Direction 3(8)(ii)(d) are required to be submitted along with annual audited financial statement to the Director of Bank Supervision.
 - (a) Directions 3(8)(ii)(b) and (h) – The required reports shall be prepared by the Board of Directors or the Head of the Office supervising Sri Lankan operations.
 - (b) Direction 3(8)(ii)(g) – The bank shall submit a copy of the parent bank's annual corporate governance report to the Director of Bank Supervision.
- (ii) Direction 3(9)(iii) – A summary of the parent bank's annual corporate governance report shall be published in the press in Sinhala, Tamil and English along with the publication of annual audited financial statements.

We hereby withdraw the Circular dated 29 December 2010 issued on the above subject.

Yours faithfully,

(Mrs). T M J Y P Fernando
Director of Bank Supervision

Ref. No. : 02/17/550/002/003

Bank Supervision Department

24 December 2010

*To : CEOs of all Licensed Commercial Banks;
Licensed Specialised Banks, and
Auditors conducting Bank Audits*

Dear Sir/Madam,

**REQUIREMENTS UNDER
THE CORPORATE GOVERNANCE DIRECTION**

We write to inform you that the Institute of Chartered Accountants of Sri Lanka (ICASL) has issued guidelines on the internal control mechanism and annual corporate governance report to be followed by banks in relation to Directions 3(8)(ii) (b), (c) and (g) of the Corporate Governance Direction dated 26.12.2007 issued by the Central Bank of Sri Lanka.

Please find the guidelines in the website of the ICASL. The link is as follows:

<http://www.icasrilanka.com/Technical/Central%20Bank%20Internal%20Control%20-%20Final%20printed%20uploaded.pdf>

Yours faithfully,

N W G R D Nanayakkara
Addl. Director of Bank Supervision

c.c. - President
Institute of Chartered Accountants of Sri Lanka
30A Malalasekera Mawatha
Colombo 7.

Ref. No. : 02/17/600/0017/001

Bank Supervision Department
08 August 2011

To : CEOs of Licensed Commercial Banks

Dear Sirs,

**ASSESSMENT OF FITNESS AND PROPRIETY OF
CHIEF EXECUTIVE OFFICERS OF
LICENSED COMMERCIAL BANKS**

In terms of Section 44A of the Banking Act, Chief Executive Officers (CEOs) of Licensed Commercial Banks (LCBs) are required to be fit and proper persons to perform executive functions in a LCB.

Accordingly, we enclose herewith formats for the affidavit and the declaration to be submitted by the CEOs of LCBs and a guidance note to duly complete such affidavits and the declarations.

Annex I : Affidavit to be submitted by CEOs of LCBs

Annex II : Declaration to be submitted by CEOs of LCBs

Annex III : Guidance Note

Yours faithfully,

(Mrs.) T M J Y P Fernando
Director of Bank Supervision

Annex I

Name of Bank :

**Affidavit to be submitted by Chief Executive Officers of
Licensed Commercial Banks in terms of Section 44A of the Banking Act**

I, (full name)
holder of National Identity Card No. / Passport No. of
..... (address)
being a [Buddhist / Hindu do hereby solemnly, sincerely and truly declare and affirm / Christian / Catholic / Muslim make oath and state] as follows :

- (a) I am the [affirmant / deponent] above named and I am the [*Chief Executive Officer / proposed Chief Executive Officer*] of
..... (name of bank) which is a commercial bank, licensed under the Banking Act, No. 30 of 1988.
- (b) I [affirm / state] that I possess the following academic and / or professional qualification/s:
.....
.....
- (c) I [affirm / state] that the effective experience that I possess in banking, finance, business or administration or of any other relevant discipline is as follows:
.....
.....
- (d) I [affirm / state] that there is no finding of any regulatory or supervisory authority, professional association, any Commission of Inquiry, tribunal or other body established by law in Sri Lanka or abroad, to the effect that I have committed or have been connected with the commission of, any act which involves fraud, deceit, dishonesty or any other improper conduct.
- (e) I [affirm / state] that I am not subject to an investigation or inquiry consequent upon being served with notice of a charge involving fraud, deceit, dishonesty or other similar criminal activity, by any regulatory authority, supervisory authority, professional association, any Commission of Inquiry, tribunal or other body established by law, in Sri Lanka or abroad.
- (f) I [affirm / state] that I have not been convicted by any Court in Sri Lanka or abroad in respect of a crime committed in connection with financial management or of any offence involving moral turpitude.
- (g) I [affirm / state] that I am not an undischarged insolvent nor have I been declared a bankrupt in Sri Lanka or abroad.

- (h) I [affirm / state] that I have not failed, to satisfy any judgment or order of any Court whether in Sri Lanka or abroad, or to repay a debt.
- (i) I [affirm / state] that I have not been declared by a Court of competent jurisdiction in Sri Lanka or abroad, to be of unsound mind.
- (j) I [affirm / state] that I have not been removed or suspended by an order of a regulatory or supervisory authority from serving as a director, Chief Executive Officer or other officer in any licensed bank or financial institution or corporate body, in Sri Lanka or abroad.
- (k) I [affirm / state] that I have not been a Director, Chief Executive Officer or held any other position of authority in any bank or financial institution –
 - (i) whose license has been suspended or cancelled; or
 - (ii) which has been wound up or is being wound up, or which is being compulsorily liquidated; whether in Sri Lanka or abroad.
- (l) I [affirm / state] that to the best of my knowledge I am a fit and proper person [to hold office as a Chief Executive Officer / to be appointed as a Chief Executive Officer] of a licensed commercial bank in terms of the provisions of Section 76H read with Section 44A of the Banking Act.

The averments contained herein were read over to the [affirmant / deponent] who having understood the contents hereof and having accepted same as true, affirmed / swore to and placed his / her signature at
 on this
 day of

*Affix Stamps
as applicable*

Before me

JUSTICE OF THE PEACE /
COMMISSIONER FOR OATHS

Annex II

Name of Bank:

**Declaration to be submitted by Chief Executive Officers of
Licensed Commercial Banks in terms of Section 44A of the Banking Act
(with enclosures as appropriate as of)**

1. Personal Details

- 1.1 Full name:
- 1.2 NIC / Passport number:
- 1.3 Date of birth :
- 1.4 Permanent address :
- 1.5 Present address :

2. Appointment to the Bank

- 2.1 Date of appointment :
(please attach a certified copy of the appointment letter)
- 2.2 Designation :
- 2.3 Local or expatriate :

3. Background and Experience

Name/s of licensed bank/s, its subsidiaries in terms of the Banking Act and associates if any, in which he / she is or has been employed as Chief Executive Officer, Director or an officer performing executive functions:

| <i>Name of the institution</i> | <i>Period of office</i> | <i>Designation</i> |
|--------------------------------|-------------------------|--------------------|
| | | |
| | | |
| | | |
| | | |
| | | |

4. Shareholdings in Banks and their Related Companies

Share ownerships in any licensed banks, their subsidiaries and associates, if any, presently held:

| <i>Name of the institution</i> | <i>No. of shares</i> | <i>Percentage holding</i> |
|--------------------------------|----------------------|---------------------------|
| | | |
| | | |
| | | |
| | | |
| | | |

5. Business Transactions^{1/}

Any business transactions the Chief Executive Officer / proposed Chief Executive Officer presently has with the bank and its subsidiaries and associates, if any.

| Name of the institution | Date of transaction | Amount as at (Rs. mn) | | Classification (performing/ non-performing) | Type and value of collateral (Rs. mn) | % of Bank's capital |
|-------------------------|---------------------|-----------------------------------|--------------|---|--|---------------------|
| | | Limit | Out-standing | | | |
| Accommodations | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| Investments | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| Deposits | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |

6. Personal Details of Close Relations in terms of Section 86 of the Banking Act

6.1 Full name of spouse :

6.2 NIC / Passport number :

6.3 Names of dependant children :

| | Full name | NIC / Passport number |
|-------|-----------|-----------------------|
| 6.3.1 | | |
| 6.3.2 | | |
| 6.3.3 | | |
| 6.3.4 | | |

7. Appointments, Shareholdings and Business Transactions of Close Relations

7.1 Any close relations presently employed as Chief Executive Officers, Directors or officers performing executive functions in any licensed banks, their subsidiaries and associates, if any.

| Name of the bank | Full name of the close relation | Position held |
|------------------|---------------------------------|---------------|
| | | |
| | | |
| | | |
| | | |

^{1/} "Business transaction" shall mean any accommodations, investments and deposits and in the case of foreign banks, only the business transactions with Sri Lankan operations.

7.2 Direct or indirect share ownership in the bank, its subsidiaries and associates, if any, presently held by any close relation.

| <i>Full name of the close relation</i> | <i>No. of Shares</i> | | <i>Percentage holding</i> | |
|--|----------------------|-----------------|---------------------------|-----------------|
| | <i>Direct</i> | <i>Indirect</i> | <i>Direct</i> | <i>Indirect</i> |
| | | | | |
| | | | | |
| | | | | |

7.3 Any business transaction, the close relation currently has with the bank, its subsidiaries and associates, if any.

| <i>Name of the institution</i> | <i>Date of transaction</i> | <i>Amount as at</i> <i>(Rs. mn)</i> | | <i>Classification (performing/ non-performing)</i> | <i>Type and value of collateral (Rs. mn)</i> | <i>% of Bank's regulatory capital</i> |
|--------------------------------|----------------------------|--|---------------------|--|--|---------------------------------------|
| | | <i>Limit</i> | <i>Out-standing</i> | | | |
| Accommodations | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| Investments | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| Deposits | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |

8. Any other explanation / information in regard to the information furnished above and other information considered relevant for assessing the suitability of the Chief Executive Officer / proposed Chief Executive Officer of the bank.

DECLARATION:

I confirm that the above information is to the best of my knowledge and belief true and complete. I undertake to keep the bank fully informed, as soon as possible, of all events, which take place subsequently, which is relevant to the information provided above.

I state that I am not prevented by any Statute from being appointed as the Chief Executive Officer of Licensed Commercial Bank.

Date :

*Signature of Chief Executive Officer /
Proposed Chief Executive Officer*

TO BE FILLED BY THE CHAIRMAN / REGIONAL HEAD (in the case of foreign banks)

1. Any other explanation / information in regard to the information furnished above and other information considered relevant for assessing the suitability of the Chief Executive Officer / proposed Chief Executive Officer of the bank.

2. I confirm that, in terms of Section 76H read with Section 44A of the Banking Act, No. 30 of 1988, the officer referred to above is fit and proper to carry out functions of the Chief Executive Officer of
..... .

Date :

*Signature of the Chairman / Regional Head
and the official stamp*

Annex III**GUIDANCE TO DULY COMPLETE THE AFFIDAVITS AND
DECLARATIONS TO BE SUBMITTED BY CHIEF EXECUTIVE OFFICERS OF
LICENSED COMMERCIAL BANKS****A. PURPOSE OF OBTAINING AFFIDAVITS AND DECLARATIONS**

- The purpose of obtaining affidavits and declarations of Chief Executive Officers (CEOs) of Licensed Commercial Banks (LCBs) is to enable the Bank Supervision Department to assess the fitness and propriety of such officers in terms of the provisions of the Banking Act. Accordingly, the Bank Supervision Department requires comprehensive information to evaluate the experience, qualifications, integrity and compliance with other requirements specified in the Banking Act, to assess the suitability of the CEOs of the LCBs.
- Further, these should be legally binding documents in the event of any dispute.
- This guidance is issued to ensure that sufficient information is provided by banks for assessing the fitness and propriety of the CEOs.

B. AFFIDAVITS

1. It is preferable that the affidavit is prepared as a fresh document, based on the format provided by the Bank Supervision Department, so as to avoid inclusion of unnecessary words. However, if the given format is filled, all alterations, erasures and interlineations should be initialed by the Commissioner for Oaths.
2. Academic/professional qualifications
 - Relevant qualification should be mentioned clearly with:
 - Qualification obtained
 - Name of the Institution/University
 - Year of obtaining the qualification
 - Name of the Professional body where he/she is a member
3. Effective experience should include:
 - Institution
 - Designation
 - Period
4. Complete all blank spaces and clauses appropriately. (*Eg.*, Name in full, NIC No. / Passport No., Address, Chief executive officer/proposed chief executive officer, Name of the Bank, *etc.*)
5. Appropriate words should be used based on the religion of the person
 - 5.1 Delete/strike out inappropriate words
 - Eg.
 - Buddhist/Hindu: affirm/affirmant/solemnly, sincerely and truly declare and affirm.
 - Christian/Catholic/Muslim: deponent/state/make oath and state/ swear.
 - If a person refrains/objects to disclose his/her religion: affirm/affirmant/solemnly, sincerely and truly declare and affirm. In this event, a confirmation should be submitted by the officer stating that:
 - he/she is an atheist or belongs to a religion not mentioned in this affidavit; or
 - he/she objects to disclosing his/her religion.

- 5.2 If the inappropriate words are stricken out, the Commissioner for Oaths/Justice of the Peace should place his initials immediately after all such amendments.
6. If the person is a foreigner and signs the affidavit while overseas:
- signature of the person should be attested by a Commissioner for Oaths or an equivalent in the country in which he places his signature.
 - attestation should be made in front of the Sri Lankan High Commissioner in the respective country.
7. Affix a stamp for a sum of Rs.25/- and the signature of the person. In the case of future affidavits, the denomination of the stamp should be changed according to the value applicable as at the date of signing the affidavit.
8. Attest by a Commissioner for Oaths/Justice of the Peace immediately after the signature of the person at 'Before me'.

C. DECLARATIONS

1. Declarations:
- should be duly completed: All the sections (1-8) should be completed (full name, date *etc.*) and irrelevant sections stated as Not applicable/nil/none or cancelled out.
 - should be signed and dated.
2. The last section should be completed, dated and signed with official stamp/seal by the Chairman/Regional Head (in the case of foreign banks). If there is no comment it should be stated as Not applicable/nil/none.
3. Terms of appointment (including designation, date of appointment, duties, responsibilities and remuneration package) should be attached.

D. INTERPRETATION

1. "Close relation" means spouse or dependent child.
2. "Business Transaction" shall mean any accommodations, investment and deposits and in the case of foreign banks, only the business transactions with Sri Lankan operations.
3. "Accommodation" means any loan, overdraft or advance or such other facility as may be determined by the Monetary Board or any commitment to grant any loan, overdraft or advance or such other facility as may be determined by the Monetary Board, including a commitment to accept a contingent liability.

Explanatory Note: 1/2012

Bank Supervision Department

**AUTHORITY OF THE MONETARY BOARD
TO ISSUE DIRECTIONS TO LICENSED BANKS REAFFIRMED BY THE
COURT OF APPEAL**

The Monetary Board of the Central Bank of Sri Lanka (CBSL) issued Directions on corporate governance to licensed banks on 26 December 2007. The Directions were issued in terms of the Banking Act requiring, *inter alia*, fitness and propriety of bank directors, limiting the age of a director of a bank to 70 years, the term of office of a director to be not more than 9 years, *etc.*

Consequent to issuing these Directions, the authority of the Monetary Board of the CBSL to issue such Directions was challenged in the Court of Appeal CA (Writ) Application No. 330 /2008 by K.C. Vignarajah, the Petitioner.

As per the Court of Appeal judgment of the above action delivered on 28 March 2012, it was held that, *inter-alia*, the Banking Act, No. 30 of 1988 falls within the category of legislation referred to as Administrative Legislation, and that a necessary aspect of such legislation is one of delegating powers to an extraneous body of persons to act at Parliament's bidding. The Court further held that, accordingly, the Banking Act is a Primary Legislation for the purpose of providing for any aspect of banking business and of business of such banks and includes the right to control the existing systems and functions of banks, and therefore that the Monetary Board has been delegated with the power to make directions which had the approval, licence or stamp of a legislative power. On that basis, the Court of Appeal ruled that Direction No.11 of 2007 on Corporate Governance of 26 December 2007 is within the powers prescribed in the Banking Act, No. 30 of 1988, as amended.

My No. : 02/17/800/0005/01

Bank Supervision Department

20 August 2008

To : CEOs of all Licensed Commercial Banks

Dear Sirs,

**PERMITTING LICENSED COMMERCIAL BANKS TO TRADE IN
THE INTERNATIONAL SOVEREIGN BONDS ISSUED IN 2007 BY
THE GOVERNMENT OF SRI LANKA**

This is to inform you that the Monetary Board of the Central Bank of Sri Lanka with the concurrence of the Minister of Finance and Planning has authorised, in terms of the provisions of the Banking (Off-shore Banking Scheme) Order 2000 made under sections 23, 25 and 26 of the Banking Act, No.30 of 1988 as amended, for licensed commercial banks (LCBs) to invest in the international sovereign bonds issued by the Government of Sri Lanka in 2007, in the secondary market.

Yours faithfully,

B D W A Silva

Director of Bank Supervision

Ref. No. : 02/17/600/0034/001

Bank Supervision Department
08 November, 2011

To : The CEOs of all Licesed Commercial Banks

**AMENDMENT TO BANKING ACT,
OFF-SHORE BANKING SCHEME ORDER, 2000**

This is to inform you that the Clause 5 of the Banking Act (Off-Shore Banking Scheme), Order 2000 dated 7 April 2000 made under Sections 23, 25 and 26 of the Banking Act, No. 30 of 1988 has been amended.

The Banking Order, No. 2 of 2011 on the above mentioned amendment is attached.

Yours faithfully,

(Mrs.) T M J Y P Fernando
Director of Bank Supervision

Order made by the Monetary Board of the Central Bank of Sri Lanka with the approval of the Minister, made under Sections 23, 25 and 26 of the Banking Act, No. 30 of 1988, as amended.

Sgd. K G D D Dheerasinghe

*Senior Deputy Governor
Central Bank of Sri Lanka*

Colombo
08 November, 2011.

**BANKING ACT, ORDER NO. 2 OF 2011
BANKING (OFF-SHORE BANKING BUSINESS SCHEME) ORDER**

- | | |
|---|---|
| Citation. | 1. This Order may be cited as the Banking Act, Order No.2 of 2011. The Sections referred to in this Order will be those of the Banking Act, No.30 of 1988, as amended. |
| Amendment to Clause 5 in the Banking (Off-shore Banking Business) Order, 2000 issued on 7th April 2000. | <p>2. The following new Clause replaces the Clause 5 in the Banking (Off-Shore Banking Business Scheme) Order, 2000, dated 7th April 2000.</p> <p style="margin-left: 40px;">‘Permitted deposits in an account of a non-resident.</p> <p style="margin-left: 40px;">5. An account maintained by a non-resident in an off-shore unit shall be credited with funds received on inward remittances and fund transfers in any designated currency from the Domestic Banking Units on all current account transactions falling under the general or specific permission of the Controller of Exchange.’</p> |

Ref. No. : 02/17/600/0009/002

Bank Supervision Department

27 October, 2011

To : The CEOs of all Licenced Commercial Banks

DESIGNATED FOREIGN CURRENCIES

This is to inform you that the Monetary Board of the Central Bank of Sri Lanka, with the approval of the Minister, has specified the Chinese Renminbi as a designated currency for foreign exchange transactions in both Domestic Banking Units and Off-shore Banking Units of Licensed Commercial Banks.

Accordingly, the Banking (Off-Shore Banking Business Scheme) Order No. 1 of 2008 dated 12 September, 2008, made under sections 23, 25 and 26 of the Banking Act, No. 30 of 1988, is hereby amended to include the Chinese Renminbi as a designated currency.

The Banking Act, Order No. 1 of 2011 which contains the amended Schedule of Designated Foreign Currencies, is attached.

Yours faithfully,

(Mrs.) T M J Y P Fernando
Director of Bank Supervision

Order made by the Monetary Board of the Central Bank of Sri Lanka with the approval of the Minister, made under Sections 23, 25 and 26 of the Banking Act, No. 30 of 1988, as amended.

Sgd. K G D D Dheerasinghe

*Senior Deputy Governor
Central Bank of Sri Lanka*

Colombo
27 October, 2011.

BANKING ACT, ORDER NO. 1 OF 2011
BANKING (OFF-SHORE BANKING BUSINESS SCHEME) ORDER

Citation. This order may be cited as the Banking Act, Order No. 1 of 2011. The Sections referred to in this Order will be those of the Banking Act, No. 30 of 1988, as amended.

Designated Foreign Currencies. The foreign currencies set out in the Schedule below in this Order are determined as the Designated Foreign Currencies under the Banking (Off-Shore Banking Business Scheme) Order.

The Schedule in this Order, replaces the Schedule in the Banking (Off-Shore Banking Business Scheme) Order No. 1 of 2008, dated 12 September, 2008.

SCHEDULE

Designated Foreign Currencies

1. Australian Dollar
2. Canadian Dollar
3. Chinese Renminbi
4. Danish Kroner
5. Euro
6. Hongkong Dollar
7. Japanese Yen
8. New Zealand Dollar
9. Norwegian Kroner
10. Pound Sterling
11. Singapore Dollar
12. Swedish Kroner
13. Swiss Franc
14. United States Dollar

Ref. No. : 02/17/600/0009/001

Bank Supervision Department

12 September, 2008

To : The CEOs of all Licesed Commercial Banks

This is to inform you that the Monetary Board of the Central Bank of Sri Lanka, with the approval of the Minister of Finance and Planning, has specified the New Zealand Dollar as a designated currency for foreign exchange transactions in both Domestic Banking Units and Off-shore Banking Units of Licensed Commercial Banks.

Accordingly, the Banking (Off-Shore Banking Scheme) Order 2000 dated 7th April, 2000, made under sections 23, 25 and 26 of the Banking Act, No. 30 of 1988, is hereby amended to include the New Zealand Dollar as a designated currency for off-shore banking business carried out by licensed commercial banks, and to remove the Deutsche Mark, the French Franc and the Netherlands Guilder from the Schedule of Designated Foreign Currencies.

The Banking Act, Order No. 1 of 2008 which contains the amended Schedule of Designated Foreign Currencies, is attached.

Yours faithfully,

B D W A Silva

Director of Bank Supervision

Order made by the Monetary Board of the Central Bank of Sri Lanka with the approval of the Minister made under Section 23, 25 and 26 of the Banking Act No. 30 of 1988, as amended.

Sgd. Nivard Ajith Leslie Cabraal

*Chairman of the Monetary Board /
Governor of the Central Bank of Sri Lanka*

Colombo
12 September 2008.

BANKING ACT, ORDER NO. 1 OF 2008
Banking (Off-Shore Banking Business Scheme) Order

- Citation. This order may be cited as the Banking Act Order No. 1 of 2008. The Sections referred to in this order will be those of the Banking Act No. 30 of 1988, as amended.
- Designated Foreign Currencies.
1. The following foreign currencies set out in the Schedule to this Order are determined as the Designated Foreign Currencies under the Banking (Off-Shore Banking Business Scheme) Order.
 2. The Schedule referred to in this Order, replaces the Schedule in the Banking (Off-Shore Banking Business Scheme) Order 2000, dated 7th April 2000.

SCHEDULE

Designated Foreign Currencies

- (i) Australian Dollar
- (ii) Canadian Dollar
- (iii) Danish Kroner
- (iv) Euro
- (v) Hong Kong Dollar
- (vi) Japanese Yen
- (vii) New Zealand Dollar
- (viii) Norwegian Kroner
- (ix) Pound Sterling
- (x) Singapore Dollar
- (xi) Swedish Kroner
- (xii) Swiss Franc
- (xiii) United States Dollar

Ref. No. : 02/17/800/009/001

Bank Supervision Department

23 October 2009

To : CEOs of all Licensed Commercial Banks

Dear Sir/Madam,

**PERMITTING TRANSFER OF FUNDS BETWEEN ACCOUNTS MAINTAINED AT
THE DOMESTIC BANKING UNITS AND THE OFF-SHORE UNITS OF
LICENSED COMMERCIAL BANKS**

With a view to further deepening and diversifying the government securities market, the Monetary Board has authorised the transfer of funds between Treasury Bill/Bond Investment External Rupee Accounts (TIERA), Share Investment External Rupee Accounts (SIERA) and Special Foreign Investment Deposit Accounts (SFIDA) maintained in the Domestic Banking Units and the accounts maintained in Off-Shore Units of licensed commercial banks.

Accordingly, the Banking (Off-Shore Banking Scheme) Order 2000 dated 7 April 2000, made under sections 23, 25 and 26 of the Banking Act, No. 30 of 1988, is amended to facilitate such transfers between the said accounts maintained in the Domestic Banking Units and Off-Shore Units of licensed commercial banks.

The Banking Order, No. 1 of 2009 incorporating the above mentioned amendment, is attached.

Yours faithfully,

(Mrs.) T M J Y P Fernando
Actg. Director of Bank Supervision

Order made by the Monetary Board of the Central Bank of Sri Lanka with the approval of the Minister, under sections 23, 25 and 26 of the Banking Act, No. 30 of 1988, as amended.

Nivard Ajith Leslie Cabraal

*Chairman of the Monetary Board and
Governor of the Central Bank of Sri Lanka*

Colombo
23 October 2009.

**BANKING ACT, ORDER NO.1 OF 2009
BANKING (OFF-SHORE BANKING BUSINESS SCHEME) ORDER**

- | | | | |
|--|---|--|--|
| Citation. | <ol style="list-style-type: none"> 1. This Order may be cited as the Banking Act, Order No.1 of 2009. The Sections referred to in this Order will be those of the Banking Act, No.30 of 1988, as amended. | | |
| Insertion of new Clause 5A in the Banking (Off-shore Banking Business) Order, 2000 issued on 7 April 2000. | <ol style="list-style-type: none"> 2. The following new clause is hereby inserted immediately after Clause 5 and shall have effect as Clause 5A of the Banking (Off-Shore Banking Business Scheme) Order, 2000 dated on 7 April 2000 :- <table border="0" style="margin-left: 20px;"> <tr> <td style="vertical-align: top; padding-right: 10px;">Permitted transactions with the Domestic Banking Unit.</td> <td style="vertical-align: top;"> <ol style="list-style-type: none"> 5A. Any transfer of funds between Treasury Bill / Bond Investment External Rupee Accounts, Share Investment External Rupee Accounts and Special Foreign Investment Deposit Accounts of a non-resident, and accounts maintained in Off-Shore Units in Sri Lanka by such non-resident shall be permitted. </td> </tr> </table> | Permitted transactions with the Domestic Banking Unit. | <ol style="list-style-type: none"> 5A. Any transfer of funds between Treasury Bill / Bond Investment External Rupee Accounts, Share Investment External Rupee Accounts and Special Foreign Investment Deposit Accounts of a non-resident, and accounts maintained in Off-Shore Units in Sri Lanka by such non-resident shall be permitted. |
| Permitted transactions with the Domestic Banking Unit. | <ol style="list-style-type: none"> 5A. Any transfer of funds between Treasury Bill / Bond Investment External Rupee Accounts, Share Investment External Rupee Accounts and Special Foreign Investment Deposit Accounts of a non-resident, and accounts maintained in Off-Shore Units in Sri Lanka by such non-resident shall be permitted. | | |

**Banking Act, No. 30 of 1988 as Last Amended by
Banking (Amendment) Act, No.33 of 1995**

Banking (Off-shore Banking Scheme) Order, 2000

Order relating to off-shore banking business carried on by licensed commercial banks, made under sections 23, 25 and 26 of the Banking Act, by the Monetary Board, with the approval of the Minister.

Sgd. A. S. Jayawardena

Governor

Central Bank of Sri Lanka

Colombo
7th April, 2000

BANKING (OFF-SHORE BANKING SCHEME) ORDER, 2000

1. This Order may be cited as the Banking (Off-shore Banking Scheme) Order, 2000. Citation.

2. (1) An off-shore unit may, subject to this Order and to any other written law, carry on all or any of the businesses specified in paragraphs (a) to (e) of Section 25 of the Act. Authorised Businesses.

(2) In accepting any contingent liability under Section 25(c) of the Act, an off-shore unit shall only engage in any or all of the following transactions—
 - (a) establish, open or advise letters of credit expressed in any designated foreign currency;
 - (b) issue or renew guarantees, indemnities or similar undertakings expressed in any designated foreign currency;
 - (c) acceptances expressed in any designated foreign currency.

3. Funds of an account maintained with an off-shore unit shall not be withdrawable by cheque. Withdrawal of funds.

4. (1) An off-shore unit may, subject to this Order and any other written law, engage in off-shore banking business specified in paragraph 2 with any one or more of the following residents—
 - (a) the Central Bank of Sri Lanka;
 - (b) a licensed commercial bank;
 - (c) subject to sub paragraph (3), a BOI enterprise;Authorised Business with Residents.

- (d) any other resident approved by the Monetary Board in the interest of national economy, subject to such conditions as the Monetary Board may impose.
- (2) Without prejudice to the rights conferred under this Order on a resident specified in subparagraph (1), an off-shore unit may, subject to any other written law, grant loans in any designated foreign currency to any resident, being an exporter of goods and services from Sri Lanka or to any resident, being a supplier of accessories to such exporter as may be approved by the Monetary Board and may discount export bills expressed in any designated foreign currency for such an exporter.
- (3) An off-shore unit shall not grant a loan in foreign currency to a BOI enterprise unless the off-shore unit is satisfied that the BOI enterprise has the capacity to repay the loan in foreign currency.
- Permitted deposits in an account of a non-resident. **5.** An account maintained by a non-resident in an off-shore unit shall only be credited with funds received on inward remittances in any designated foreign currency.
- Assets and liabilities of an off-shore unit. **6.** The total assets and liabilities of an off-shore unit shall not exceed such amount as may be determined by the Monetary Board.
- Particulars of executive officers and undertaking. **7.** A licensed commercial bank shall—
- (a) prior to commencement of off-shore banking business, furnish to the Director of Bank Supervision the names, qualifications and banking experience of all executive officers of the off-shore unit of the bank and notify forthwith any changes, if any, in such particulars thereafter; and
- (b) in the case of a commercial bank incorporated outside Sri Lanka, furnish the Director of Bank Supervision, if required by the Monetary Board, a written undertaking from its Head Office stating that such bank shall provide such funds in such designated foreign currency as may be necessary to meet all obligations and liabilities incurred in carrying on of its off-shore banking business.
- Books etc. off-shore units. **8.** Books, other documents and records maintained by the off-shore unit of a licensed commercial bank shall be kept separate from other books, documents and records maintained by the bank and the off-shore unit shall, if so required by the Monetary Board, furnish the Central Bank information from such books, documents and records maintained by the off-shore unit.
- Interpretation. **9.** In this Order—
- “BOI Enterprise” means a company with which an agreement has been entered into by the Board of Investment of Sri Lanka under Section 17 of the Board of Investment of Sri Lanka, Law No. 4 of 1978 and which has been granted approval to transact business with any off-shore unit;

“designated foreign currency” means the foreign currency set out in the Schedule to this Order;

“off-shore unit” means an off-shore unit of a licensed commercial bank carrying on off-shore banking business of the bank under this Act and includes any unit which carried on off-shore banking operations under the “Foreign Currency Banking Scheme” established by the Monetary Board;

“resident” and “non-resident” shall have the same meaning assigned to them in Section 86 of the Banking Act, No. 30 of 1988.

SCHEDULE

Designated Foreign Currencies

1. Australian Dollar
2. Canadian Dollar
3. Danish Kroner
4. Deutsche Mark
5. Euro
6. French Franc
7. Hongkong Dollar
8. Japanese Yen
9. Netherland Guilder
10. Norwegian Kroner
11. Pound Sterling
12. Singapore Dollar
13. Swedish Kroner
14. Swiss Franc
15. United States Dollar

Operating Instructions

Ref. No. : EC/04/2000 (D)

Department of Exchange Control
Central Bank of Sri Lanka
61 Janadhipathi Mawatha
P.O. Box 883
Colombo 1.

7th April, 2000

*To : All Licensed Commercial Banks***OFF-SHORE BANKING BUSINESS**

1. Licensed commercial banks are hereby permitted to carry on, subject to these instructions, off-shore banking business in accordance with the Banking (Off-shore Banking Scheme) Order 2000 issued under the Banking Act, No.30 of 1988 and amended by Banking (Amendment) Act, No.33 of 1995 (hereinafter referred to as the "Order").

2. Any loan granted under paragraph 4(2) of the Order in any designated foreign currency by an off-shore unit of a licensed commercial bank to a resident, being an exporter of goods and services from Sri Lanka, other than a BOI Enterprise, or to a resident, not being a BOI Enterprise, who is a supplier of accessories to such exporter, shall be in accordance with the instructions to Authorised Dealers No. ECD/02/97 (C&F) and ECD/03/97 (C&F) dated 03.01.1997 and EC/02/98 (C&F) dated 31.07.1998* relating to foreign currency loans to direct and indirect exporters issued under the Exchange Control Act and shall not exceed such limits as may be imposed by the Central Bank of Sri Lanka and communicated to each licensed commercial bank by the Chief Accountant of the Central Bank and any reference in these operating instructions to Foreign Currency Banking Units shall be a reference to Off-Shore Units.

3. (a) An accommodation extended to a resident under paragraph 4(1) of the Order, not being an exporter or supplier of goods to such an exporter referred to in paragraph 2 of these instructions, by an off-shore unit which is authorised to engage in off-shore banking business with such resident under the Order, shall be extended solely for the operations of such resident in Sri Lanka and for no other purpose whatsoever.

(b) An accommodation granted under sub-paragraph (a) to a resident, being a licensed commercial bank or any other resident approved by the Monetary Board under paragraph 4(1)(d) of the Order, shall not exceed such amount as may be determined by the Central Bank.

4. Where under paragraph 2(2) of the Order or under paragraph 4 of that Order, an off-shore unit is authorised –

(a) to open, establish, or advise a Letter of Credit, such letter shall be opened, established or advised on behalf of a non-resident or a resident specified in paragraph 4 of the Order;

(b) to issue or renew a guarantee, indemnity or similar undertaking, such guarantee, indemnity or undertaking shall be given on behalf of a non-resident or a resident specified in paragraph 4 of the Order; and

* and EC/05/2000 of 7th April 2000 and ECD/F/D 1488 of 4th April 2000 [see chapter 15 of Foreign Exchange Manual]

- (c) to receive an acceptance, such acceptance shall be received for a non-resident or a resident specified in paragraph 4 of the Order.

5. An off-shore unit shall, if so required by the Central Bank, furnish to the Central Bank, such statements or returns as may be deemed necessary in respect of any transactions carried on by such off-shore unit under these instructions.

6. In these instructions, the expressions "BOI Enterprise", "designated foreign currency", "off-shore unit", "resident" and "non-resident" shall have the same meaning assigned to them in paragraph 9 of the Order.

7. (a) Previous Operating Instructions and Circulars issued in relation to the Foreign Currency Banking Scheme established by the Monetary Board and specified in the Schedule hereto are hereby revoked.
- (b) All other Operating Instructions and Circulars in relation to the Foreign Currency Banking Scheme established by the Monetary Board and not revoked by sub-paragraph (a) shall continue in force and any reference in these instructions and circulars to the Foreign Currency Banking Unit shall be read and construed as if it were a reference to an Off-Shore Unit.
- (c) The revocation effected by sub-paragraph (a) shall not affect -
- (i) any offence committed or any penalty or liability incurred under those instructions and circulars prior to the revocation; and
- (ii) any action, proceeding or thing pending or incomplete on the date of revocation, but every such action, proceeding or thing may be carried on and completed as if those instructions and circulars continue to be in force.

M. B. Dissanayake
Chief Accountant

H. A. G. Hettiarachchi
Controller of Exchange

SCHEDULE

- (1) Circular No. 380 (FCBS 1/79) dated 02.05.1979.
- (2) Circular No. 381 (FCBS 2/79) dated 17.05.1979.
- (3) (FCBS 3/79) and Operating Instructions BC 29/79 dated 28.09.1979.
- (4) (FCBS 4/79) dated 29.10.1979.
- (5) (FCBS 5/79) dated 02.11.1979.
- (6) (FCBS 6/79) – BC/F 1049/79 and Operating Instructions BD 40/79 dated 10.01.1980
- (7) (FCBS 7/80) – BC/F 1049/79 and Operating Instructions BD 18/80 dated 30.04.1980.
- (8) (FCBS 8/80) – BC/F 1049/79 and Operating Instructions BD 21/80 dated 14.05.1980.
- (9) (FCBS 9/84) – BC/F 1049/79 and Operating Instructions BD 23/84 dated 13.11.1984.
- (10) (FCBS 10/89) – BC/F 1049/79 and Operating Instructions BD 01/89 dated 31.01.1989.
- (11) Operating Instructions BD/15/93 dated 24.11.1993.

Directions issued by the Monetary Board of the Central Bank of Sri Lanka under Section 46(1) of the Banking Act, No. 30 of 1988, as amended.

Nivard Ajith Leslie Cabraal

*Chairman of the Monetary Board and
Governor of the Central Bank of Sri Lanka*

Colombo
02 September 2009.

**BANKING ACT DIRECTIONS NO.5 OF 2009
IDENTIFYING, REPORTING, TRANSFERRING AND MAINTAINING
ABANDONED PROPERTY OF LICENSED COMMERCIAL BANKS**

In the exercise of the powers conferred by Sections 72 to 76 of the Banking Act No. 30 of 1988, last amended by the Banking (Amendment) Act No. 46 of 2006, the Monetary Board hereby issues these Directions under provisions of Section 46(1) of the Act in respect of identifying, reporting, transferring and maintaining abandoned property of licensed commercial banks.

- | | |
|--|--|
| Citation. | 1 These Directions may be cited as the Banking Act Directions No. 5 of 2009. The Sections referred to in these Directions are those of the Banking Act No. 30 of 1988, last amended by the Banking (Amendment) Act No. 46 of 2006. |
| Reporting of abandoned property to the Monetary Board. | <p>2(1) In terms of Section 73(1), all licensed commercial banks holding any articles defined as abandoned property in Section 72 of the Banking Act, shall submit a report to the Monetary Board on an annual basis, within six months from the end of each financial year. Licensed commercial banks shall report abandoned property in accordance with the format at Annex I.</p> <p>2(2) If there is no abandoned property identified by a licensed commercial bank during a financial year, the respective licensed commercial bank shall formally communicate this fact to the Central Bank of Sri Lanka. Such communication will be considered as a 'Nil' report.</p> <p>2(3) Pursuant to filing of the report on abandoned property, licensed commercial banks shall maintain documents necessary to substantiate the information submitted in the report for a period of at least ten years from the date of submission.</p> |
| Publication of the notice on abandoned property. | <p>3(1) In terms of Section 74 of the Banking Act, all licensed commercial banks shall, within 30 days of submitting the report required under Direction 2(1) above,</p> <p style="margin-left: 40px;"><i>(i)</i> publish a notice in Sinhala, Tamil and English daily news papers stating the name of the owner and particulars concerning the property, and</p> <p style="margin-left: 40px;"><i>(ii)</i> dispatch by registered post, a notice containing the particulars of such property to the owner's last known address.</p> |

3(2) All licensed commercial banks shall confirm in writing to the Central Bank of Sri Lanka of compliance with these requirements, within seven working days from the date of publishing and despatching such notices.

4(1) All licensed commercial banks shall create “control accounts” for abandoned property, based on the currency, in the banks’ books and shall transfer to control accounts all monies reported to the Monetary Board as abandoned property in accordance with Direction 2(1) above.

Transfer of abandoned property to “control accounts”.

4(2) All licensed commercial banks shall transfer monies that have already been reported to the Monetary Board as abandoned property in accordance with the Circular dated 2 May 2006, to the “control accounts” referred to in Direction 4(1) above, within seven working days from the date of this Direction.

5(1) In terms of Section 73(2) of the Banking Act, the Monetary Board has determined that licensed commercial banks shall transfer ninety per cent of the monies reported as abandoned property, maintained in Sri Lanka Rupees (LKR) in a control account, to a special account in the Central Bank of Sri Lanka, within forty five calendar days from the date of reporting the abandoned property each year.

Transfer of monies to a special account in the Central Bank.

5(2) Licensed commercial banks shall transfer ninety per cent of monies that have already been reported as abandoned property in accordance with the Circular dated 2 May 2006, maintained in LKR, and the interest on such monies calculated up to the date of transfer, to a special account in the Central Bank of Sri Lanka, within thirty calendar days from the date of this Direction.

5(3) Licensed commercial banks shall transfer the monies reported as abandoned property referred to in Directions 5(1) and 5(2) above to the following account in the Central Bank of Sri Lanka, and notify it in writing to the Chief Accountant of the Central Bank with a copy to the Director of Bank Supervision.

Name of Account : Abandoned Property of Licensed Commercial Banks

Account Number : 4679

6(1) Ten per cent of the monies reported as abandoned property maintained in LKR, remaining after the transfer as specified under the Direction 5(1), and abandoned property maintained in foreign currency shall be retained in the “control accounts” of licensed commercial banks referred to in Direction 4(1) above. These monies shall be utilised to meet any claims on the abandoned properties, upon the licensed commercial banks satisfying themselves of the identity of the claimants.

Repayment of claims.

6(2) Once a payment is made in terms of Direction 6(1) above, licensed commercial banks shall report it to the Central Bank of Sri Lanka within seven days from the date of such payment, along with relevant information, *i.e.*, details of the owner, description of property, date of reporting of such abandoned property, amount of payment and date of payment. All licensed commercial banks shall prepare a report of such repayments on an annual basis and submit the same within six months of the end of each financial year, in accordance with the reporting format at Annex II, along with the report referred to in Direction 2(1) above.

6(3) Any claims in LKR made in excess of ten per cent of the funds retained in the respective control account by the licensed commercial bank, will be repaid by the Central Bank of Sri Lanka in terms of the provisions of Section 75 of the Banking Act. When any such claim is made, licensed commercial banks shall forward the same to the Central Bank of Sri Lanka, along with a letter certifying the identity of the owner of such abandoned property.

Opening of Safe
Deposit Boxes.

7(1) Licensed commercial banks shall prepare a Safe Deposit Inventory Sheet to record the details of safe deposit boxes opened. Opening of safe deposit boxes shall be carried out in the presence of two responsible officers who are, *inter-alia*, specifically assigned with such task and one of whom should be at least at Senior Executive level. All items contained in safe deposit boxes that are considered to be abandoned, shall be included in the Inventory Sheet without exceptions. All items contained in the safe deposit boxes shall be itemised and kept in safe custody after opening the safe deposit boxes. No item should be sold, destroyed or disposed of.

7(2) The Inventory Sheet shall be signed by the officers mentioned in Direction 7(1) above. The Safe Deposit Inventory Sheet shall be prepared in accordance with the instructions to these Directions and reporting format at Annex III and submitted to the Monetary Board within six months of the end of each financial year, along with the report on abandoned property referred to in Direction 2(1) above.

Revocation.

8 In view of the introduction of this Direction, Circular Letter No. 02/17/402/0079/001, dated 2 May 2006, titled 'Implementation of the provisions of Sections 72 to 76 of the Banking Act on Abandoned Property' is hereby revoked with respect to its applicability to licensed commercial banks and without prejudice to anything duly done under or in terms of such Circular Letter.

**Instructions for completing the Annexures on Abandoned Property
In terms of Section 73(1) of the Banking Act**

Details of the property, as defined in terms of Section 72 of the Banking Act, should be recorded in alphabetical order of the owners' last name, to the extent possible, branch wise and currency wise.

Name of Bank : Enter the name of the reporting Licensed Commercial Bank.

Reporting Date : Enter the date as at when the reporting is done
(last calendar day of the financial year).

| | |
|-----------------|--|
| (18.1.0.0.0.0) | Enter the name of the branch in which the customer account is held. |
| (18.2.0.0.0.0) | Enter the owner's last name followed by the first name and middle name/s in full. Enter information that would aid in identification such as Miss, Mr., Mrs., after the middle name. |
| | If a single item has two or more owners, the names of all such owners must be reported, with the relationship. |
| | If your records do not show the name of the owner of an item, enter the owner as "unknown". |
| (18.3.0.0.0.0) | Enter the complete address available in your records. If no address is available, indicate this fact. In the case of several owners, if the address is the same, the address may be entered once and indicated that it is the same for the others. |
| (18.4.0.0.0.0) | Enter the owner's National Identity Card No., Passport No., Date of Birth or any other information that will assist in identifying the owner. These will be essential at the time of paying claims and if known, must be included in the report. |
| (18.5.0.0.0.0) | Select the description of the item from the list or, if it is not available, enter the description with sufficient detail. |
| (18.6.0.0.0.0) | Enter your identification number for each item such as Account No., <i>etc.</i> |
| (18.7.0.0.0.0) | Select whether the item is interest bearing or not. |
| (18.8.0.0.0.0) | Indicate the date when the last deposit, withdrawal or contact was made by the owner. It could also be the date a dividend became payable, cheque or draft was issued, certificate was purchased <i>etc.</i> |
| (18.9.0.0.0.0) | Indicate the nature of the last activity. E.g. A withdrawal, a deposit to the account <i>etc.</i> |
| (18.10.0.0.0.0) | Select the currency in which the account is maintained from the list or, if it is not available, enter the relevant currency. |
| (18.11.0.0.0.0) | Indicate the total amount due to the owner, including all interest, dividends <i>etc.</i> , earned up to the reporting date, without deducting any service charges. In the case of safe deposit boxes or other items held for safekeeping, identify the contents and include the description of any item that has a value. For all safe deposit boxes, include an inventory sheet as in Annex III. |
| (18.12.0.0.0.0) | Enter the amount of deductions made which should include only any lawful charges. |
| (18.13.0.0.0.0) | Indicate the nature of any deduction made such as service charges, tax <i>etc.</i> |
| (18.14.0.0.0.0) | The net amount due after the deductions mentioned. |
| (18.15.0.0.0.0) | Indicate the exchange rate applicable in the case of any currency other than LKR, as at the end date of the reporting period. |

| | |
|------------------------|--|
| (18.16.0.0.0.0) | The net amount due in LKR. |
| (18.17.0.0.0.0) | Indicate the terms agreed with the owner, such as interest rate, payment instructions <i>etc.</i> , that will be essential in the case of any payment of claims. Also indicate any special considerations attached to such property and the date of maturity in the case of term deposits. |
| (18.18.0.0.0.0) | Total of the net amount due in LKR in (18.16.0.0.0.0). |
| (18.19.0.0.0.0) | Indicate the year of reporting/identifying the particular property as abandoned property in reporting to CBSL. |
| (18.20.0.0.0.0) | Indicate the date of settlement of the claim to the customer. |
| (18.21.0.0.0.0) | Indicate the full name(s) of the owner(s) including information useful for identifying the owner. |
| (18.22.0.0.0.0) | Indicate the safe deposit box number. |
| (18.23.0.0.0.0) | Indicate the place at which the vault containing the safe deposit is located. |
| (18.24.0.0.0.0) | Indicate the date the safe deposit was opened. |
| (18.25.0.0.0.0) | Indicate the quantity of items in the safe deposit box. |
| (18.26.0.0.0.0) | Indicate the nature of each item contained in the safe deposit box. |
| (18.27.0.0.0.0) | Indicate any other relevant information. |

Ref. No. : 02/17/402/0079/001

Bank Supervision Department

May 02, 2006

*To : CEOs of Licensed Commercial Banks and
CEOs of Licensed Specialised Banks*

Dear Sirs,

**IMPLEMENTATION OF THE PROVISIONS OF PART IX (SECTIONS 72 TO 76)
OF THE BANKING ACT ON ABANDONED PROPERTY**

As intimated to you at the meeting of the CEOs of Licensed Commercial Banks and Licensed Specialised Banks held on 24.11.05, in terms of Section 73(1) of the Banking Act, all licensed commercial banks (LCBs) are hereby required to report "Abandoned Property" referred to in Section 72 of the Banking Act in the format determined by the Monetary Board given in Annex 1. In implementing the provisions of the Banking Act on Abandoned Property LCBs are requested to follow the guidelines at Annex 2.

The provisions of the Banking Act do not require the licensed specialized banks (LSBs) to report Abandoned Property. However, the LSBs too are requested to identify the articles that could be considered abandoned as described in Section 72 of the Banking Act and to report them using the format at Annex 1 till such time these provisions are made applicable to LSBs as well.

The first Report should contain property that would have been presumed abandoned up to 31.12.2005.

Please acknowledge receipt of this letter.

Yours faithfully,

Sgd. Director of Bank Supervision

Encl:

Annex 1

Report of Abandoned Property

Name of Bank :
Reporting Period :

| | A | B | C | D | E | F | G | H | I | J | K | L | M |
|-------|--|-----------------------------|---|-------------------------|--------------------------------|-------------------------|--------------------|--------------------|------------|-----------------|--------------------------|--------|---|
| | Owner's Last Name with Other Names in Full | Last known Complete Address | Owner's Identification Nos., if available (NIC, Passport No., date of birth etc.) | Description of Property | Property Identification Number | Interest bearing Yes/No | Last Activity Date | Nature of Activity | Amount Due | Amount Deducted | Description of Deduction | Amount | Terms of Agreement and owner's instructions |
| 1. | | | | | | | | | | | | | |
| 2. | | | | | | | | | | | | | |
| 3. | | | | | | | | | | | | | |
| 4. | | | | | | | | | | | | | |
| 5. | | | | | | | | | | | | | |
| 6. | | | | | | | | | | | | | |
| 7. | | | | | | | | | | | | | |
| 8. | | | | | | | | | | | | | |
| 9. | | | | | | | | | | | | | |
| 10. | | | | | | | | | | | | | |
| 11. | | | | | | | | | | | | | |
| 12. | | | | | | | | | | | | | |
| Total | | | | | | | | | | | | | |

I,, being first duly sworn, on oath depose and state that I have cause to be prepared and have examined this report consisting ofpages totaling Rs as to property presumed abandoned under the provisions of the Banking Act, No.30 of 1988, for the period stated above that I am duly authorised by the (name of the bank) to execute this Report and that to the best of my knowledge and belief the Report is true, correct and complete as of said date, excepting for such property as has since ceased to be abandoned.

Signature: Name: Designation:

Sworn and placed his/her signature before me on this day of in the year

Signature: Name:

Annex 2**Guidelines on the implementation of Part IX (Section 72 to 76) of the Banking Act on Abandoned Property**

The Central Bank of Sri Lanka has decided to implement the provisions of Part IX of the Banking Act with effect from 31 December 2005. These guidelines establish the procedures for handling such property.

1. Identification of Abandoned Property

- a. All licensed commercial banks (LCBs) should identify articles presumed to be abandoned property as described in Section 72 of the Banking Act. In general abandoned property includes the following articles in respect of which no activity has been evidenced for a period of ten years.
 - Any general deposit (demand, savings or matured time deposit) with an LCB with any interest or dividend but excluding any lawful charges.
 - Any funds paid towards the purchase of shares or other interests in an LCB with any interest or dividend but excluding any lawful charges.
 - Any sum payable on cheques or other instruments for which the LCB is directly liable.
 - Any intangible personal property and any income or interest thereon held in a fiduciary capacity.
 - The contents of safe deposit boxes upon which the rental period has expired and of which notice has been sent by registered post to the last known address of the lessee and the lessee has failed to respond within three years.
- b. Activity in this regard is evidenced by any action taken by an owner with respect to his property, which indicates that the owner does not intend his property to be considered abandoned. Such action would include a deposit or a withdrawal in the case of a customer account, notification of change of address, payment of a safe deposit rental charge, any other written correspondence, presenting the pass book for updating *etc.*

2. Filing of the Report on Abandoned Property with the Central Bank of Sri Lanka (CBSL)

- a. All LCBs holding any abandoned property should submit a report to CBSL within six months of the end of each financial year. The first Report should cover property that would have been presumed abandoned up to 31.12.2005. In the case of LCBs whose financial year ends on 31 March, the first report may cover the position as at 31.03.2006.
- b. All reporting of abandoned property should be in accordance with the format approved by the Monetary Board given at Annex 1. Information should be recorded in alphabetical order of the owners' last name, to the extent possible, and branchwise. Minors accounts should be reported separately. The process of identifying and completing the Report is expected to be automated by LCBs.
- c. While the banks should report all property that falls within the definition of abandoned property, if there are special considerations attached to such property, *e.g.*: the owner having migrated or left the country for an infinite period with notice to the bank, such special consideration should be reported to CBSL.
- d. Where an LCB does not hold any abandoned property to be reported as required by Section 73 of the Banking Act, the respective bank is expected to formally communicate it to CBSL. Such communication will be considered as a "Negative Report".
- e. Prior to reporting abandoned property to CBSL, the banks should make notification of it to the owner of such abandoned property, by registered mail, to the last known address of the owner giving a reasonable period to respond. Such notice should include a description of the property, a statement explaining the statutory requirements of abandoned property and the intended date that the property will be reported to CBSL if there is no response. In the case of Minors' accounts where the banks are

of the view that it is not reasonable to consider a particular account as abandoned due to its intrinsic characteristics, banks need not notify the owners/guardians of such accounts. However, the banks should report all Minors' accounts that fall within the definition of abandoned property to CBSL with specific mention why they should not be considered as abandoned property.

- f. Pursuant to the filing of a Report on Abandoned Property, a bank should maintain documents necessary to prove information submitted in the Report for a period of at least six years from the date of submitting the Report.

3. Delivery of Abandoned Property to CBSL

Any further action to be taken in terms of Subsections (2) and (3) of Section 73 of the Banking Act will be notified to all LCBs in due course.

4. Publication of Notice of Abandoned Property

- a. In accordance with Section 74 of the Banking Act a bank should, within thirty days of submission of the Report, required under paragraph 2.a above,
 - publish a notice in the Sinhala, Tamil and English daily newspapers stating the name of the owner and particulars concerning the property; and
 - should dispatch by registered post, a notice containing particulars of the property to the last known address of the owner.
- b. With regard to Minors' accounts, the procedure stated in paragraph 2e. above should be followed.

5. Drilling/Opening of safe deposits

- a. The bank should prepare a Safe Deposit Inventory Sheet to record details of safe deposit boxes opened. Opening of the safe custody lockers should be carried out in the presence of two responsible officers who are, inter-alia, specifically assigned with such task and one of whom should be at least at Senior Executive Level. All items found in safe deposit boxes presumed to be abandoned should be included in the Inventory Sheet without exceptions. No item should be sold, destroyed or disposed.
- b. The format at Annex 3 may be used for this purpose. The Inventory Sheet should be signed by the staff conducting the inventory and returned to CBSL along with the Report on Abandoned Property.
- c. All items contained in the safe deposit boxes should be itemised and kept in safe custody after the drilling/opening of safe deposit boxes.

6. The costs

The banks should attempt to comply with these guidelines in the most cost efficient manner. These costs should be charged to the owners of abandoned property only if it has been made known to the customers in a valid, enforceable and written contract between the bank and the customer, specifying the amount of the fee and the customer is notified of the charging of such fee.

7. Submission of information by licensed specialized banks (LSBs)

The provisions of the Banking Act do not require LSBs to identify and report Abandoned Property. However, LSBs are requested to identify the articles that could be considered abandoned as described in Section 72 of the Banking Act and to report them to CBSL using the format at Annex 1.

Instructions for completing the Report of Abandoned Property at Annex 1

Information should be recorded in alphabetical order of the owners' last name, to the extent possible, and branchwise. A separate sheet should be used for Minors accounts.

Name of Bank: Enter the name of the reporting bank.

Reporting Date: Enter the date as at when the reporting is done.

Column A: Enter the owner's last name followed by full first name and full middle name/s. Enter information that would aid in identification such as Miss, Mr., Mrs., after the middle name.

If a single item has two or more owners, the names of all such owners must be reported with the relationship.

If your records do not show an owner name for an item, enter the owner as "unknown".

Column B: Enter the complete address available in your records. If no address is available indicate so. In the case of several owners if the address is same, the address may be entered once and indicated that it is same for others.

Column C: Enter the owner's National Identity Card No., Passport No., date of birth or any other information that will assist in identification of an owner. These will be essential in paying claims and if known, they must be included in the Report.

Column D: Enter the description of item with sufficient detail.

Column E: Enter your identification number for each item such as Account No., Cheque No. *etc.*

Column F: Indicate whether the item is interest bearing.

Column G: Indicate the date when the last deposit, withdrawal or contact was made by the owner. It could also be the date a dividend became payable, cheque or draft was issued, certificate was purchased.

Column H: Indicate the nature of the last activity.

Column I: Indicate the total amount due to the owner including all interest, dividend, earned up to the reporting date without deducting any service charges.

In the case of safe deposit boxes or other items held for safekeeping, identify the contents and include the description of any item that has a value. For all safe deposit boxes include an inventory sheet as in Annex 3.

Column J: Enter the amount of deductions made which should include only any lawful charges.

Column K: Indicate the nature of deduction made such as service charges, tax *etc.*

Column L: Indicate the net amount due after the deductions mentioned.

Column M: Indicate the terms agreed with the owner such as interest rate, payment instructions *etc.*, that will be essential in case of payment of claims.

Also indicate any special considerations attached to such property and the date of maturity in case of term deposits.

Total: Total the Column L and enter at the bottom of each page. On the last page enter the page total and the grand total for the entire Report.

Annex 3

Safe Deposit Box Inventory Sheet

Name of Bank:

Reporting Year:

Name of Box Owner(s):

Box Number: **Date Drilled:** **Vault Location:**

| Quantity | Detailed Description of Contents | Any other Relevant Information |
|----------|----------------------------------|--------------------------------|
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |

We certify that the above information is true and that no items have been removed or destroyed.

Date of Inventory:

Signature of Bank Official

Name of Official

Designation

Signature of Bank Official

Name of Official

Designation

Instructions for completing the Safe Deposit Box Inventory Sheet at Annex 3

Name of Bank: Enter the name of the reporting bank.

Reporting Date: Enter the date as at the date of reporting.

Name of the Box Owner(s): Indicate the full name(s) of the owner(s) including information useful for owner identification.

Box Number: Enter the safe deposit box number.

Date Drilled: Enter the date the safe deposit box was opened.

Vault Location: Indicate where the vault containing the safe deposit is located.

Quantity & Detailed Description: Indicate the nature of each item contained in the safe deposit box with the quantities.

Date of Inventory: The date on which the inventory was taken.

Ref. No. : BS/14/88 Vol. IV

16 October, 1990

To : All Commercial Banks

IMPLEMENTATION OF PART V OF BANKING ACT

All commercial banks are hereby informed that the Honourable Minister of Finance has announced, in the *Gazette* Extraordinary No.628/10 dated 18th September 1990, 20th September 1990 as the date on which the provisions of Part V of the Banking Act No.30 of 1988 shall come into operation.

The formats to be used by commercial banks in the preparation of Balance Sheets and Profit & Loss Accounts specified under section 38(3) of the Banking Act will be forwarded to you shortly.

Yours faithfully,

Sgd. P. T. Sirisena

Director of Bank Supervision

Ref. No. : BS/38/90

Bank Supervision Department
Central Bank of Sri Lanka
8th Floor – Renuka Building
41 Janadhipathi Mawatha
Colombo 1.

30 April 1998.

To : All Licensed Commercial Banks

Dear Sir,

LIST OF QUALIFIED AUDITORS

S.38 A OF THE BANKING ACT NO.30 OF 1988 AS AMENDED BY ACT NO.33 OF 1995

We refer to section 38A of the Banking Act, No.30 of 1988 as amended by Act No.33 of 1995 and enclose herewith a list of qualified auditors compiled in accordance with S.38 A(1) of the Act.

Your attention is drawn to S.38A (2) and S.39(1) of the Act which requires that the appointment of an auditor to audit the accounts of your Bank from the list transmitted to you under S.38A(1) by the Director of Bank Supervision.

You are required to comply with this provision when you next appoint an auditor in terms of S.39 of the Banking Act, No.30 of 1988 as amended by Act No.33 of 1995.

Please acknowledge receipt of this letter.

Yours faithfully,

Sgd. Y. A. Piyatissa
Director of Bank Supervision

List of Qualified Auditors

S 38 A (1) of the Banking Act, No. 30 of 1988 as amended by Act, No.33 of 1995

| <i>Name</i> | <i>Address</i> |
|---------------------------------------|--|
| 1. Ernst & Young | 201 De Saram Place P.O. Box 101 Colombo 10. |
| 2. K P M G Ford Rhodes Thornton & Co. | 32A Sir Mohamed Macan Marker Mawatha P.O. Box 186 Colombo 3. |
| 3. Pricewaterhouse Coopers | P.O. Box 918 100, Braybrooke Place Colombo 2. |
| 4. SJMS Associates | 2 Castle Lane Colombo 4. |
| 5. H L B Edirisinghe & Co. | 45 Braybrooke Street Colombo 2 |
| 6. B R de Silva & Co. | 22/4 Vijaya Kumaratunga Mawatha Colombo 5. |
| 7. Kreston MNS & Co. | P.O. Box 210 50/2 Sir James Peiris Mawatha Colombo 2. |
| 8. BDO Hathy | 'Charter House' 65/2 Sir Chittampalam A Gardiner Mawatha P.O. Box 962 Colombo 2. |
| 9. B V Fernando & Co. | 78-3 1/1 Rodney Street Colombo 8 |
| 10. Tissa Fernando | 519/2B Elvitigala Mawatha Colombo 5. |

Ref. No. : BS/38/90

Bank Supervision Department
8th Floor, Renuka Building
41, Janadhipathi Mawatha
Colombo 01.

2nd June, 1998

Dear Sir,

**PREPARATION OF ANNUAL AUDITED ACCOUNTS – SECTION 38(4)
OF THE BANKING ACT NO. 30 OF 1988 AS AMENDED BY
BANKING AMENDMENT ACT NO. 33 OF 1995**

We refer to Section 38(3) of Part V of the Banking Act in terms of which, the Monetary Board is empowered to specify the form of the Balance Sheet and Profit & Loss Account of Licensed Commercial Banks in Sri Lanka.

In this regard, Licensed Commercial Banks are informed that the Central Bank of Sri Lanka has revised the Prescribed Format for the preparation and publication of Annual Audited Accounts of Licensed Commercial Banks by incorporating SLAS 23. The Revised Prescribed Format has already been sent to you for your comments/observations.

I wish to advise you that in terms of Part V of the Banking Act, Licensed Commercial Banks are required to prepare and exhibit their annual audited accounts according to this revised format. The revised Prescribed Format which is effective from 1st January, 1998 is enclosed herewith.

Please acknowledge receipt of this letter.

Yours faithfully,

Sgd. Y. A. Piyatissa
Director of Bank Supervision

Ref. No. : 02/17/900/0001/04

Bank Supervision Department

11 February, 2013

*To : CEOs of all Licensed Commercial Banks and
Licensed Specialised Banks*

Dear Sir / Madam,

**PREPARATION, PRESENTATION AND PUBLICATION OF
ANNUAL AUDITED ACCOUNTS OF BANKS**

We refer to our previous correspondence and discussions on the above and enclose the new format for the preparation, presentation and publication of annual audited accounts of licenced commercial banks and licensed specialised banks effective from the financial reporting periods beginning on or after 1 January 2012.

Accordingly, formats referred to in the Circulars dated 02 June 1998 and 15 December 1999 on preparation of annual audited accounts of licensed commercial banks and licensed specialised banks, respectively, are replaced with the format in Annex.

Yours faithfully,

(Mrs.) T M J Y P Fernando
Director of Bank Supervision

Encl.

Copy to : The Secretary-General, Sri Lanka Banks' Association (Gurantee) Ltd.
Panel of Auditors



**SPECIFIED FORMAT FOR THE PREPARATION OF
ANNUAL FINANCIAL STATEMENTS OF
LICENSED COMMERCIAL BANKS
AND
LICENSED SPECIALISED BANKS**

Financial Statements

Table of Contents

Financial Statements

- Income Statement
- Statement of Comprehensive Income
- Statement of Financial Position
- Statement of Changes in Equity
- Statement of Cash Flows

Notes to the Financial Statements

1. Corporate Information
2. Accounting Policies
3. Segment Information

Income Statement

4. Net Interest Income
5. Net Fee and Commission Income
6. Net Gain/(Loss) from Trading
7. Net Gain/(Loss) from Financial Instruments Designated at Fair Value through Profit or Loss
8. Net Gain/(Loss) from Financial Investments
9. Other Operating Income (net)
10. Impairment for Loans and Other Losses
11. Personnel Expenses
12. Other Expenses
13. Tax Expenses
14. Earnings Per Share

Statement of Financial Position: Assets

15. Analysis of Financial Instruments by Measurement Basis
16. Cash and Cash Equivalents
17. Balances with Central Banks
18. Placements with Banks
19. Derivative Financial Instruments
20. Other Financial Assets at Fair Value through Profit or Loss
21. Loans and Receivables to Banks
22. Loans and Receivables to Other Customers
23. Financial Investments - Available-for-Sale
24. Financial Investments - Held-to-Maturity
25. Investments in Subsidiaries
26. Investments in Associates and Joint Ventures
27. Property, Plant and Equipment
28. Investment Properties
29. Goodwill and Intangible Assets
30. Deferred Tax Assets/Liabilities
31. Other Assets

Statement of Financial Position: Liabilities

32. Due to Banks
33. Derivative Financial Instruments
34. Other Financial Liabilities at Fair Value through Profit or Loss
35. Due to Other Customers
36. Other Borrowings
37. Debt Securities Issued
38. Other Provisions
39. Other Liabilities
40. Due to Subsidiaries
41. Subordinated Term Debts

Statement of Financial Position: Capital and Reserves

42. Stated Capital/Assigned Capital
43. Statutory Reserve Fund
44. Retained Earnings
45. Other Reserves
46. Non-controlling Interests

Off-Balance Sheet Information

47. Contingent Liabilities and Commitments

Other Disclosures

48. Related Party Disclosures
49. Net Assets Value per Ordinary Share

Statement of Cash Flows

50. Non-Cash items included in Profit Before Tax
51. Changes in Operating Assets
52. Changes in Operating Liabilities

Other Disclosure Requirements

1. Information about the significance of financial instruments for financial position and performance
2. Information about the nature and extent of risks arising from financial instruments
3. Other disclosures

**INCOME STATEMENT
FOR THE YEAR ENDED DD MM YYYY**

In Rupees Million

| | Note | Bank | | Group | |
|---|------|------|------|-------|------|
| | | 20XX | 20XX | 20XX | 20XX |
| Interest income | | | | | |
| Interest expenses | | | | | |
| Net interest income | 04 | | | | |
| Fee and commission income | | | | | |
| Fee and commission expenses | | | | | |
| Net fee and commission income | 05 | | | | |
| Net gain / (loss) from trading | 06 | | | | |
| Net gain / (loss) from financial instruments designated at fair value through profit or loss | 07 | | | | |
| Net gain / (loss) from financial investments | 08 | | | | |
| Other operating income (net) | 09 | | | | |
| Total operating income | | | | | |
| Impairment for loans and other losses | 10 | | | | |
| Net operating income | | | | | |
| Personnel expenses | 11 | | | | |
| Other expenses | 12 | | | | |
| Operating profit/(loss) before value added tax (VAT) | | | | | |
| Value added tax (VAT) on financial services | | | | | |
| Operating profit/(loss) after value added tax (VAT) | | | | | |
| Share of profits of associates and joint ventures | | | | | |
| Profit / (loss) before tax | | | | | |
| Tax expenses | 13 | | | | |
| Profit / (loss) for the year | | | | | |
| Profit attributable to: | | | | | |
| Owners of the parent | | | | | |
| Non-controlling interests | | | | | |
| Earnings per share on profit | 14 | | | | |
| Basic earnings per ordinary share | | | | | |
| Diluted earnings per ordinary share | | | | | |

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DD MM YYYY**

In Rupees Million

| | Note | Bank | | Group | |
|--|------|------|------|-------|------|
| | | 20XX | 20XX | 20XX | 20XX |
| Profit / (loss) for the year | | | | | |
| Other comprehensive income, net of tax | | | | | |
| Changes in revaluation surplus | | | | | |
| Actuarial gains and losses on defined benefit plans | | | | | |
| Gains and losses (arising from translating the financial statements of a foreign operation) | | | | | |
| Gains and losses on re-measuring available-for-sale financial assets | | | | | |
| Gains and losses on cash flow hedges | | | | | |
| Others | | | | | |
| Share of profits of associates and joint ventures | | | | | |
| <i>Less:</i> Tax expense/(income) relating to components of other comprehensive income | | | | | |
| Other comprehensive income for the year, net of taxes | | | | | |
| Total comprehensive income for the year | | | | | |
| Attributable to: | | | | | |
| Owners of the parent | | | | | |
| Non-controlling interests | | | | | |

STATEMENT OF FINANCIAL POSITION
AS AT DD MM YYYY

In Rupees Million

| | Note | Bank | | Group | |
|---|------|------|------|-------|------|
| | | 20XX | 20XX | 20XX | 20XX |
| Assets | | | | | |
| Cash and cash equivalents | 16 | | | | |
| Balances with central banks | 17 | | | | |
| Placements with banks | 18 | | | | |
| Derivative financial instruments | 19 | | | | |
| Other financial assets held-for-trading | 20 | | | | |
| Financial assets designated at fair value through profit or loss | 20 | | | | |
| Loans and receivables to banks | 21 | | | | |
| Loans and receivables to other customers | 22 | | | | |
| Financial investments – Available-for-sale | 23 | | | | |
| Financial investments – Held-to-maturity | 24 | | | | |
| Investments in subsidiaries | 25 | | | | |
| Investments in associates and joint ventures | 26 | | | | |
| Property, plant and equipment | 27 | | | | |
| Investment properties | 28 | | | | |
| Goodwill and intangible assets | 29 | | | | |
| Deferred tax assets | 30 | | | | |
| Other assets | 31 | | | | |
| Total assets | | | | | |
| Liabilities | | | | | |
| Due to banks | 32 | | | | |
| Derivative financial instruments | 33 | | | | |
| Other financial liabilities held-for-trading | 34 | | | | |
| Financial liabilities designated at fair value through profit or loss | 34 | | | | |
| Due to other customers | 35 | | | | |
| Other borrowings | 36 | | | | |
| Debt securities issued | 37 | | | | |
| Current tax liabilities | | | | | |
| Deferred tax liabilities | 30 | | | | |
| Other provisions | 38 | | | | |
| Other liabilities | 39 | | | | |
| Due to subsidiaries | 40 | | | | |
| Subordinated term debts | 41 | | | | |
| Total liabilities | | | | | |
| Equity | | | | | |
| Stated capital/Assigned capital | 42 | | | | |
| Statutory reserve fund | 43 | | | | |
| Retained earnings | 44 | | | | |
| Other reserves | 45 | | | | |
| Total equity of the owners of the parent | 46 | | | | |
| Non-controlling interests | | | | | |
| Total equity | | | | | |
| Total equity and liabilities | | | | | |
| Contingent liabilities and commitments | | | | | |
| | 47 | | | | |

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DD MM YYYY**

In Rupees Million

| | Note | Bank | | Group | |
|---|------|------|------|-------|------|
| | | 20XX | 20XX | 20XX | 20XX |
| Cash flows from operating activities | | | | | |
| Profit before tax | | | | | |
| Adjustment for : | | | | | |
| Non-cash items included in profits before tax | 50 | | | | |
| Change in operating assets | 51 | | | | |
| Change in operating liabilities | 52 | | | | |
| Net gains from investing activities | | | | | |
| Share of profits in associates and joint ventures | | | | | |
| Dividend income from subsidiaries and associates | | | | | |
| Interest expense on subordinated debt | | | | | |
| Others (please specify) | | | | | |
| Contribution paid to defined benefit plans | | | | | |
| Tax paid | | | | | |
| Net cash generated from operating activities | | | | | |
| Cash flows from investing activities | | | | | |
| Purchase of property, plant and equipment | | | | | |
| Proceeds from the sale of property, plant and equipment | | | | | |
| Purchase of financial investments | | | | | |
| Proceeds from the sale and maturity of financial investments | | | | | |
| Net purchase of intangible assets | | | | | |
| Net cash flow from acquisition of investment in subsidiaries and associates | | | | | |
| Net cash flow from disposal of subsidiaries | | | | | |
| Proceeds from disposal of associates and joint ventures | | | | | |
| Dividends received from investment in subsidiaries and associates | | | | | |
| Others (please specify) | | | | | |
| Net cash (used in)/from investing activities | | | | | |
| Cash flows from financing activities | | | | | |
| Net proceeds from the issue of ordinary share capital | | | | | |
| Net proceeds from the issue of other equity instruments | | | | | |
| Net proceeds from the issue of subordinated debt | | | | | |
| Repayment of subordinated debt | | | | | |
| Interest paid on subordinated debt | | | | | |
| Dividend paid to non-controlling interest | | | | | |
| Dividend paid to the owners of the parent company | | | | | |
| Dividend paid to holders of other equity instruments | | | | | |
| Others (please specify) | | | | | |
| Net cash from financing activities | | | | | |
| Net increase/(decrease) in cash & cash equivalents | | | | | |
| Cash and cash equivalents at the beginning of the year | | | | | |
| Exchange difference in respect of cash & cash equivalent | | | | | |
| Cash and cash equivalents at the end of the year | | | | | |

Note: Banks have the option to use one of the two methods specified in LKAS 7 for the preparation of the statement of cash flows

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DD MM YYYY

1. Corporate information

2. Accounting policies

- 2.1 Basis of preparation
 - 2.1.1 Statement of compliance
 - 2.1.2 Presentation of financial statements
- 2.2 Basis of consolidation
- 2.3 Significant accounting judgments and estimates
 - 2.3.1 Fair value of financial instruments
 - 2.3.2 Impairment losses on loans and receivables
 - 2.3.3 Impairment of available-for-sale investments
 - 2.3.4 Deferred tax assets
 - 2.3.5 Pensions obligation
 - 2.3.6 Others
- 2.4 Changes in accounting policy and disclosures
- 2.5 Summary of significant accounting policies
 - 2.5.1 Foreign currency translation
 - 2.5.2 Financial instruments - initial recognition and subsequent measurement
 - 2.5.3 Impairment of financial assets and subsequent measurement of financial liabilities
 - 2.5.4 Impairment of non-financial assets
 - 2.5.5 Repurchase and reverse repurchase agreements
 - 2.5.6 Securities lending and borrowing
 - 2.5.7 Determination of fair value
 - 2.5.8 Hedge accounting
 - 2.5.9 Off-setting financial instruments
 - 2.5.10 Leasing
 - 2.5.11 Recognition of income and expenses
 - 2.5.12 Cash and cash equivalents
 - 2.5.13 Property, plant and equipment
 - 2.5.14 Business combination and goodwill
 - 2.5.15 Intangible assets
 - 2.5.16 Financial guarantees
 - 2.5.17 Pension benefits
 - 2.5.18 Provisions
 - 2.5.19 Share based payment transactions
 - 2.5.20 Taxes
 - 2.5.21 Dividends
 - 2.5.22 Reserves
 - 2.5.23 Segment reporting
 - 2.5.24 Others

3. Segment information (as per SLFRS 8)**4. Net Interest Income***In Rupees Million*

| | Bank | | Group | |
|--|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Interest income | | | | |
| Cash and cash equivalents | | | | |
| Placements with banks | | | | |
| Derivative financial instruments | | | | |
| Other financial assets held-for-trading | | | | |
| Financial assets designated at fair value through profit or loss | | | | |
| Loans and receivables to banks | | | | |
| Loans and receivables to other customers | | | | |
| Financial investments – Held-to-maturity | | | | |
| Financial investments – Available-for-sale | | | | |
| Others (Please specify) | | | | |
| Total interest income | | | | |
| Interest expenses | | | | |
| Due to banks | | | | |
| Derivative financial instruments | | | | |
| Other financial liabilities at fair value through profit or loss | | | | |
| Due to other customers | | | | |
| Other borrowings | | | | |
| Debt securities issued | | | | |
| Others (Please specify) | | | | |
| Total interest expenses | | | | |
| Net interest income | | | | |

a. Net Interest Income from Sri Lanka Government Securities*In Rupees Million*

| | Bank | | Group | |
|----------------------------|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Interest income | | | | |
| Less : Interest expenses | | | | |
| Net interest income | | | | |

5. Net Fee and Commission Income*In Rupees Million*

| | Bank | | Group | |
|--------------------------------------|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Fee and commission income | | | | |
| Fee and commission expenses | | | | |
| Net fee and commission income | | | | |

Comprising

Loans

Cards

Trade and remittances

Investment banking

Deposits

Guarantees

Others (Please specify)

Net fee and commission income**6. Net Gain / (Loss) from Trading***In Rupees Million*

| | Bank | | Group | |
|-------------------------|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Foreign exchange | | | | |
| From banks | | | | |
| From others customers | | | | |
| Interest rates | | | | |
| Equities | | | | |
| Others (Please specify) | | | | |

Total**7. Net Gain / (Loss) from Financial Instruments Designated at Fair Value through Profit or Loss***In Rupees Million*

| | Bank | | Group | |
|---|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Gains on financial assets designated at fair value through profit or loss | | | | |
| Losses on financial assets designated at fair value through profit or loss | | | | |
| Gains on financial liabilities designated at fair value through profit or loss | | | | |
| Losses on financial liabilities designated at fair value through profit or loss | | | | |

Total**8. Net Gain / (Loss) from Financial Investments***In Rupees Million*

| | Bank | | Group | |
|---------------------------|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Assets available-for-sale | | | | |
| Debt securities | | | | |
| Equities | | | | |
| Others (Please specify) | | | | |
| Others (Please specify) | | | | |

Total

9. Other Operating Income (net)*In Rupees Million*

| | Bank | | Group | |
|--|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Gain / (Loss) on investment properties | | | | |
| Gain / (Loss) on sale of property, plant and equipment | | | | |
| Gain / (Loss) on revaluation of foreign exchange | | | | |
| Recovery of loans written-off | | | | |
| Others (Please specify) | | | | |
| Other Operating Income (net) | | | | |

10. Impairment for Loans and Other Losses*In Rupees Million*

| | Bank | | Group | |
|---|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Loans and receivables | | | | |
| To banks [Note 21(b)] | | | | |
| To other customers [Note 22(c)] | | | | |
| Financial investments | | | | |
| Available-for-sale [Note 23(a)] | | | | |
| Held-to-maturity [Note 24(a)] | | | | |
| Investment in subsidiaries [Note 25(a)] | | | | |
| Investments in associates and joint ventures [Note 26(a)] | | | | |
| Property, plant and equipment [Note 27(c)] | | | | |
| Investment properties [Note 28(b)] | | | | |
| Off-balance sheet exposures [Note 39] | | | | |
| Others (Please specify) | | | | |
| Total | | | | |

11. Personnel Expenses*In Rupees Million*

| | Bank | | Group | |
|---|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Salary and bonus | | | | |
| Contributions to defined contribution / benefit plans | | | | |
| Share based expenses | | | | |
| Others | | | | |
| Total | | | | |

12. Other Expenses*In Rupees Million*

| | Bank | | Group | |
|--|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Directors' emoluments | | | | |
| Auditors' remunerations | | | | |
| Non-audit fees to auditors | | | | |
| Professional and legal expenses | | | | |
| Depreciation of property, plant and equipment | | | | |
| Amortisation of leasedhold property | | | | |
| Amortisation of intangible assets | | | | |
| Operating lease expenses | | | | |
| Office administration and establishment expenses | | | | |
| Others (Please specify) | | | | |
| Total | | | | |

13. Tax Expenses*In Rupees Million*

| | Bank | | Group | |
|-------------------------------|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Current tax expense | | | | |
| Current year | | | | |
| Prior years' provision | | | | |
| Deferred tax expense | | | | |
| Effect of change in tax rates | | | | |
| Temporary differences | | | | |
| Prior years' provision | | | | |
| Total | | | | |

a. Reconciliation of tax expenses*In Rupees Million*

| | Bank | | Group | |
|--|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Profit / (loss) before tax | | | | |
| Income tax for the period | | | | |
| (Accounting profit @ applicable tax rate) | | | | |
| Adjustment in respect of current income tax of prior periods | | | | |
| <i>Add</i> : Tax effect of expenses that are not deductible for tax purposes | | | | |
| <i>Less</i> : Tax effect of expenses that are deductible for tax purposes | | | | |
| Tax expense for the period | | | | |

b. The deferred tax (credit) / charge in the income statement comprise of the following:*In Rupees Million*

| | Bank | | Group | |
|---|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Deferred tax assets | | | | |
| Deferred tax liabilities | | | | |
| Other temporary differences | | | | |
| Deferred tax (credit) / charge to income statement | | | | |

14. Earnings Per Share*In Rupees Million*

| | Bank | | Group | |
|--|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Net profit attributable to ordinary equity holders | | | | |
| Adjust : | | | | |
| Interest on preference shares | | | | |
| Interest on convertible bonds | | | | |
| Net profit attributable to ordinary equity holders adjusted for the effect of dilution | | | | |
| Weighted average number of ordinary shares for basic earnings per share | | | | |
| Effect of dilution | | | | |
| Convertible bonds | | | | |
| Convertible preference shares | | | | |
| Others | | | | |
| Weighted average number of ordinary shares adjusted for the effect of dilution | | | | |
| Basic earnings per ordinary share | | | | |
| Diluted earnings per ordinary share | | | | |

15. Analysis of Financial Instruments by Measurement Basis*In Rupees Million*

| a. Bank – Current year (20XX) | | | | | | | |
|--|-----|-----------------------------|-----|-------------------|-----|---------|-------|
| | HFT | Designated at fair value | HTM | Amortised cost | AFS | Hedging | Total |
| ASSETS | | | | | | | |
| Cash and cash equivalents | | | | | | | |
| Balances with central banks | | | | | | | |
| Placements with banks | | | | | | | |
| Derivative financial instruments | | | | | | | |
| Other financial assets at fair value through profit or loss | | | | | | | |
| Loans and receivables to banks | | | | | | | |
| Loans and receivables to other customers | | | | | | | |
| Financial investments | | | | | | | |
| Total financial assets | | | | | | | |

| | HFT | Designated at fair value | Amortised cost | Hedging | Total |
|---|-----|-----------------------------|-------------------|---------|-------|
| LIABILITIES | | | | | |
| Due to banks | | | | | |
| Derivative financial instruments | | | | | |
| Other financial liabilities at fair value through profit or loss | | | | | |
| Due to other customers | | | | | |
| Debt securities issued | | | | | |
| Other borrowings | | | | | |
| Total financial liabilities | | | | | |

| | |
|--------------------------|--|
| HFT | – Held for trading |
| Designated at fair value | – Designated at fair value through profit or loss |
| Amortised cost | – Loans and receivables/deposits at amortised cost |
| HTM | – Held-to-maturity |
| AFS | – Available-for-sale |
| Hedging | – Instruments of fair value and cash flow hedging |

In Rupees Million

| b. Bank – Previous year (20XX) | | | | | | | |
|---|-----|-----------------------------|-----|-------------------|-----|---------|-------|
| | HFT | Designated at fair value | HTM | Amortised cost | AFS | Hedging | Total |
| ASSETS | | | | | | | |
| Cash and cash equivalents | | | | | | | |
| Balances with central banks | | | | | | | |
| Placements with banks | | | | | | | |
| Derivative financial instruments | | | | | | | |
| Other financial assets at fair value through profit or loss | | | | | | | |
| Loans and receivables to banks | | | | | | | |
| Loans and receivables to other customers | | | | | | | |
| Financial investments | | | | | | | |
| Total financial assets | | | | | | | |
| LIABILITIES | | | | | | | |
| Due to banks | | | | | | | |
| Derivative financial instruments | | | | | | | |
| Other financial liabilities at fair value through profit or loss | | | | | | | |
| Due to other customers | | | | | | | |
| Debt securities issued | | | | | | | |
| Other borrowings | | | | | | | |
| Total financial liabilities | | | | | | | |

c. Group – Current year (20XX) [as per 15(a) above]**d. Group – Previous year (20XX) [as per 15(b) above]****16. Cash and Cash Equivalents***In Rupees Million*

| | Bank | | Group | |
|--------------------------------|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Cash in hand | | | | |
| Balances with banks | | | | |
| Money at call and short notice | | | | |
| Total | | | | |

17. Balances with Central Banks*In Rupees Million*

| | Bank | | Group | |
|---|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Statutory balances with central banks | | | | |
| Central bank of Sri Lanka | | | | |
| Other Central banks | | | | |
| Non-statutory balances with central banks | | | | |
| Central bank of Sri Lanka | | | | |
| Other central banks | | | | |
| Total balances with central banks | | | | |

18. Placements with Banks*In Rupees Million*

| | Bank | | Group | |
|--------------|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Total | | | | |

19. Derivative Financial Instruments*In Rupees Million*

| | Bank | | Group | |
|------------------------------------|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Interest rate derivatives | | | | |
| Interest rate swaps | | | | |
| Interest rate futures | | | | |
| Interest rate options | | | | |
| Others (Please specify) | | | | |
| Foreign currency derivatives | | | | |
| Currency swaps | | | | |
| Forward foreign exchange contracts | | | | |
| Others(Please specify) | | | | |
| Others (Please specify) | | | | |
| Total | | | | |

20. Other Financial Assets at Fair Value through Profit or Loss*In Rupees Million*

| | Bank | | Group | |
|--|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Held for trading | | | | |
| Sri Lanka Government Securities (separately by instrument-wise) | | | | |
| Equity securities | | | | |
| Debt securities | | | | |
| Others (Please specify) | | | | |
| Sub Total | | | | |
| Designated at fair value through profit or loss | | | | |
| Sri Lanka Government Securities (separately by instrument-wise) | | | | |
| Debt securities | | | | |
| Equity securities | | | | |
| Loans and receivables to banks (Note 21) | | | | |
| Loans and receivables to other customers (Note 22) | | | | |
| Others (Please specify) | | | | |
| Sub Total | | | | |
| Total | | | | |

a. Financial Assets Held for Trading*In Rupees Million*

| | Bank | | Group | |
|---|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Financial assets held for trading pledged as collateral | | | | |
| Other financial assets held for trading | | | | |
| Total | | | | |

21. Loans and Receivables to Banks*In Rupees Million*

| | Bank | | Group | |
|---|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Gross loans and receivables | | | | |
| Less : Individual impairment | | | | |
| <i>Of which</i> : Loans and receivables designated at fair value through profit or loss (Note 20) | | | | |
| Net loans and receivables | | | | |

a. Analysis*In Rupees Million*

| | Bank | | Group | |
|---|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| By product | | | | |
| Loans and advances | | | | |
| Overdrafts | | | | |
| Short-term loans | | | | |
| Long-term loans | | | | |
| Securities purchased under resale agreements | | | | |
| Others (Please specify) | | | | |
| Others | | | | |
| Sri Lanka Government Securities (separately by instrument-wise) | | | | |
| Others (Please specify) | | | | |
| Gross total | | | | |
| By currency | | | | |
| Sri Lankan Rupee | | | | |
| United States Dollar | | | | |
| Great Britain Pound | | | | |
| Others (Please specify) | | | | |
| Gross total | | | | |

b. Movements in Individual Impairment during the year*In Rupees Million*

| | Bank | | Group | |
|---|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Individual impairment | | | | |
| Opening balance at DD MM YY | | | | |
| Charge / (Write back) to income statement | | | | |
| Write-off during the year | | | | |
| Other movements | | | | |
| Closing balance at DD MM YY | | | | |

22. Loans and Receivables to Other Customers*In Rupees Million*

| | Bank | | Group | |
|--|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Gross loans and receivables | | | | |
| Less : Individual impairment | | | | |
| Collective impairment | | | | |
| <i>Of which</i> : Loans and receivables designated at fair value through profit or loss (Note 20) | | | | |
| Net loans and receivables | | | | |

a. Analysis*In Rupees Million*

| | Bank | | Group | |
|---|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| By product | | | | |
| Loans and advances | | | | |
| Overdrafts | | | | |
| Trade finance | | | | |
| Lease rentals receivable | | | | |
| Credit cards | | | | |
| Pawning | | | | |
| Staff loans | | | | |
| Term loans | | | | |
| Short-term | | | | |
| Long-term | | | | |
| Securities purchased under resale agreements | | | | |
| Others (Please specify) | | | | |
| Others | | | | |
| Sri Lanka Government Securities (separately by instrument-wise) | | | | |
| Others (Please specify) | | | | |
| Gross total | | | | |
| By currency | | | | |
| Sri Lankan Rupee | | | | |
| United States Dollar | | | | |
| Great Britain Pound | | | | |
| Others (Please specify) | | | | |
| Gross total | | | | |
| By industry | | | | |
| Agriculture and fishing | | | | |
| Manufacturing | | | | |
| Tourism | | | | |
| Transport | | | | |
| Construction | | | | |
| Traders | | | | |
| New economy | | | | |
| Others | | | | |
| Gross total | | | | |

b. Lease rentals receivable (Disclose as per LKAS 17)*In Rupees Million*

| | Bank | | Group | |
|----------------|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Please specify | | | | |
| Total | | | | |

c. Movements in Individual and Collective Impairment during the year*In Rupees Million*

| | Bank | | Group | |
|---|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Individual impairment | | | | |
| Opening balance at DD MM YY | | | | |
| Charge / (Write back) to income statement | | | | |
| Write-off during the year | | | | |
| Other movements | | | | |
| Closing balance at DD MM YY | | | | |
| Collective impairment | | | | |
| Opening balance at DD MM YY | | | | |
| Charge / (Write back) to income statement | | | | |
| Other movements | | | | |
| Closing balance at DD MM YY | | | | |
| Total | | | | |

23. Financial Investments – Available-for-Sale*In Rupees Million*

| | Bank | | Group | |
|---|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Sri Lanka Government Securities (separately by instrument-wise) | | | | |
| Equity securities | | | | |
| Debt securities | | | | |
| Others | | | | |
| Less : Impairment | | | | |
| Net Available-for-sale Investments | | | | |

a. Movements in Impairment during the year*In Rupees Million*

| | Bank | | Group | |
|---|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Opening balance at DD MM YY | | | | |
| Charge / (Write back) to income statement | | | | |
| Write-off during the year | | | | |
| Other movements | | | | |
| Closing balance at DD MM YY | | | | |

b. Financial Investments – Available-for-Sale*In Rupees Million*

| | Bank | | Group | |
|--|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Financial investments – Available-for-sale pledged as collateral | | | | |
| Other financial investments – Available-for-sale | | | | |
| Total | | | | |

24. Financial Investments – Held-to-Maturity*In Rupees Million*

| | Bank | | Group | |
|--|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Sri Lanka Government Securities (separately by instrument-wise) | | | | |
| Debt securities | | | | |
| Others | | | | |
| Less : Impairment | | | | |
| Net Total | | | | |
| <i>Of which</i> : Held-to-Maturity investments designated at fair value through profit or loss (Note 20) | | | | |
| Net Held-to-Maturity Investments | | | | |

a. Movements in Impairment during the year*In Rupees Million*

| | Bank | | Group | |
|---|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Opening balance at DD MM YY | | | | |
| Charge / (Write back) to income statement | | | | |
| Write-off during the year | | | | |
| Other movements | | | | |
| Closing balance at DD MM YY | | | | |

25. Investments in Subsidiaries*In Rupees Million*

| | Bank | |
|-----------------------|------|------|
| | 20XX | 20XX |
| Quoted equity share | | |
| Unquoted equity share | | |
| Less : Impairment | | |
| Net Total | | |

Note : Please provide details of subsidiaries, separately.

a. Movements in Impairment during the year*In Rupees Million*

| | Bank | |
|---|-------------|-------------|
| | 20XX | 20XX |
| Opening balance at DD MM YY | | |
| Charge / (Write back) to income statement | | |
| Net Write-off during the year | | |
| Other movements | | |
| Closing balance at DD MM YY | | |

26. Investments in Associates and Joint Ventures*In Rupees Million*

| | Bank | | Group | |
|-----------------------|-------------|-------------|--------------|-------------|
| | 20XX | 20XX | 20XX | 20XX |
| Associates | | | | |
| Unquoted equity share | | | | |
| Quoted equity share | | | | |
| Less : Impairment | | | | |
| Sub Total | | | | |
| Joint Ventures | | | | |
| Unquoted equity share | | | | |
| Quoted equity share | | | | |
| Less : Impairment | | | | |
| Sub Total | | | | |
| Total | | | | |

Note : Please provide details of associates and joint ventures separately.

a. Movements in Impairment during the year*In Rupees Million*

| | Bank | | Group | |
|---|-------------|-------------|--------------|-------------|
| | 20XX | 20XX | 20XX | 20XX |
| Associates | | | | |
| Opening balance at DD MM YY | | | | |
| Charge / (Write back) to income statement | | | | |
| Net Write-off during the year | | | | |
| Other movements | | | | |
| Closing balance at DD MM YY | | | | |
| Joint Ventures | | | | |
| Opening balance at DD MM YY | | | | |
| Charge / (Write back) to income statement | | | | |
| Net Write-off during the year | | | | |
| Other movements | | | | |
| Closing balance at DD MM YY | | | | |

27. Property, Plant and Equipment**a. Property, Plant and Equipment – Bank***In Rupees Million*

| | Bank 20XX | | | | | | |
|--|--------------------|----------------------|-------------------|-------------------|--|--------|-------|
| | Land and Buildings | Leasehold properties | Computer Hardware | Computer Software | Office Equipment, furniture and fittings | Others | Total |
| 20XX (Current year) | | | | | | | |
| Cost / fair value | | | | | | | |
| Opening balance at DD MM YY | | | | | | | |
| Additions | | | | | | | |
| Disposals | | | | | | | |
| Exchange rate variance | | | | | | | |
| Adjustments | | | | | | | |
| Closing balance at DD MM YY | | | | | | | |
| Less : Accumulated depreciation | | | | | | | |
| Opening balance at DD MM YY | | | | | | | |
| Charge for the year | | | | | | | |
| Additions | | | | | | | |
| Disposals | | | | | | | |
| Exchange rate variance | | | | | | | |
| Adjustments | | | | | | | |
| Closing balance at DD MM YY | | | | | | | |
| Less : Impairment | | | | | | | |
| Net book value at DD MM YY | | | | | | | |
| Market value at DD MM YY | | | | | | | |
| 20XX (Previous year) | | | | | | | |
| Cost / fair value | | | | | | | |
| Opening balance at DD MM YY | | | | | | | |
| Additions | | | | | | | |
| Disposals | | | | | | | |
| Exchange rate variance | | | | | | | |
| Adjustments | | | | | | | |
| Closing balance at DD MM YY | | | | | | | |
| Less : Accumulated depreciation | | | | | | | |
| Opening balance at DD MM YY | | | | | | | |
| Charge for the year | | | | | | | |
| Additions | | | | | | | |
| Disposals | | | | | | | |
| Exchange rate variance | | | | | | | |
| Adjustments | | | | | | | |
| Closing balance at DD MM YY | | | | | | | |
| Less : Impairment | | | | | | | |
| Net book value at DD MM YY | | | | | | | |
| Market value at DD MM YY | | | | | | | |

b. Property, Plant and Equipment – Group [as per 27(a) above]**c. Movements in Impairment during the year***In Rupees Million*

| | Bank | | Group | |
|--|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Opening balance at DD MM YY | | | | |
| Charge / (Write back) to income statement | | | | |
| Net Write-off during the year | | | | |
| Exchange rate variance and other adjustments | | | | |
| Closing balance at DD MM YY | | | | |

28. Investment Properties**a. Investment Properties as Cost / fair value***In Rupees Million*

| | Bank | | Group | |
|--|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Cost / fair value | | | | |
| Opening balance at DD MM YY | | | | |
| Additions | | | | |
| Disposals | | | | |
| Exchange rate variance | | | | |
| Adjustments | | | | |
| Closing balance at DD MM YY | | | | |
| Less : Accumulated depreciation | | | | |
| Opening balance at DD MM YY | | | | |
| Charge for the year | | | | |
| Additions | | | | |
| Disposals | | | | |
| Exchange rate variance | | | | |
| Adjustments | | | | |
| Closing balance at DD MM YY | | | | |
| Less : Impairment | | | | |
| Net book value at DD MM YY | | | | |
| Market value at DD MM YY | | | | |

b. Movements in Impairment during the year*In Rupees Million*

| | Bank | | Group | |
|--|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Opening balance at DD MM YY | | | | |
| Charge / (Write back) to income statement | | | | |
| Net Write-off during the year | | | | |
| Exchange rate variance and other adjustments | | | | |
| Closing balance at DD MM YY | | | | |

29. Goodwill and Intangible Assets*In Rupees Million*

| | Bank | | Group | |
|---|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Goodwill | | | | |
| Opening balance at DD MM YY | | | | |
| Adjustments | | | | |
| <i>Less</i> : Impairment | | | | |
| Sub-total (closing balance at DD MM YY) | | | | |
| Other Intangible Assets | | | | |
| Opening balance at DD MM YY | | | | |
| Adjustments | | | | |
| Sub-total (closing balance at DD MM YY) | | | | |
| Total | | | | |

30. Deferred Tax Assets / Liabilities*In Rupees Million*

| | Bank | | Group | |
|--------------------------|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Deferred tax assets | | | | |
| Deferred tax liabilities | | | | |
| Income statement | | | | |
| Net Total | | | | |

31. Other Assets*In Rupees Million*

| | Bank | | Group | |
|--------------------------|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Cost | | | | |
| Receivables | | | | |
| Deposits and prepayments | | | | |
| Sundry debtors | | | | |
| Others (Please specify) | | | | |
| Total | | | | |

32. Due to Banks*In Rupees Million*

| | Bank | | Group | |
|--|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Borrowings | | | | |
| Securities sold under repurchase (repo) agreements | | | | |
| Others (Please specify) | | | | |
| Total | | | | |

33. Derivative Financial Instruments*In Rupees Million*

| | Bank | | Group | |
|------------------------------------|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Interest rate derivatives | | | | |
| Interest rate swaps | | | | |
| Interest rate futures | | | | |
| Interest rate options | | | | |
| Others (Please specify) | | | | |
| Foreign exchange derivatives | | | | |
| Currency swaps | | | | |
| Forward foreign exchange contracts | | | | |
| Others (Please specify) | | | | |
| Others (Please specify) | | | | |
| Total | | | | |

34. Other Financial Liabilities at Fair Value through Profit or Loss*In Rupees Million*

| | Bank | | Group | |
|-----------------------------|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Held for trading | | | | |
| Other debt securities | | | | |
| Due to non-bank customers | | | | |
| Other financial liabilities | | | | |
| Sub Total | | | | |
| Fair value designated | | | | |
| Other debt securities | | | | |
| Due to non-bank customers | | | | |
| Other financial liabilities | | | | |
| Sub Total | | | | |
| Total | | | | |

35. Due to Other Customers*In Rupees Million*

| | Bank | | Group | |
|--|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Total amount due to other customers | | | | |
| Less : Designated at fair value through profit or loss (Note 34) | | | | |
| Total | | | | |

a. Analysis*In Rupees Million*

| | Bank | | Group | |
|------------------------------------|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| By product | | | | |
| Demand deposits (current accounts) | | | | |
| Savings deposits | | | | |
| Fixed deposits | | | | |
| Other deposits (Please specify) | | | | |
| Total | | | | |
| By currency | | | | |
| Sri Lanka rupee | | | | |
| United State dollar | | | | |
| Great Britain pound | | | | |
| Others (Please specify) | | | | |
| Total | | | | |

36. Other Borrowings*In Rupees Million*

| | Bank | | Group | |
|--|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Securities sold under repurchase (repo) agreements | | | | |
| Others (Please specify) | | | | |
| Total | | | | |

37. Debt Securities Issued*In Rupees Million*

| | Bank | | Group | |
|--|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Issued by the bank (Note 32) | | | | |
| Issued by other subsidiaries (Note 40) | | | | |
| Total | | | | |
| Due within 1 year | | | | |
| Due after 1 year | | | | |
| Total | | | | |

a. Details of Debt Securities Issued

| Type | Face Value (Rupees Millions) | Interest Rate and Repayment Terms | Issue Date | Maturity Date | Bank | | Group | |
|------------------------------|------------------------------------|--|---------------|------------------|------|------|-------|------|
| | | | | | 20XX | 20XX | 20XX | 20XX |
| Issued by the bank | | | | | | | | |
| (i) | | | | | | | | |
| (ii) | | | | | | | | |
| Sub Total | | | | | | | | |
| Issued by other subsidiaries | | | | | | | | |
| (i) | | | | | | | | |
| (ii) | | | | | | | | |
| Sub Total | | | | | | | | |
| Total | | | | | | | | |

38. Other Provisions*In Rupees Million*

| | Bank | | Group | |
|----------------|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Please specify | | | | |
| Total | | | | |

39. Other Liabilities*In Rupees Million*

| | Bank | | Group | |
|---|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Sundry creditors | | | | |
| Interest payable | | | | |
| Impairment in respect of off-balance sheet credit exposures (Note 10) | | | | |
| Other payables | | | | |
| Total | | | | |

40. Due to Subsidiaries*In Rupees Million*

| | Bank | |
|----------------|------|------|
| | 20XX | 20XX |
| Please specify | | |
| Total | | |

41. Subordinated Term Debts

| Type | Face Value (Rupees Millions) | Interest Rate and Repayment Terms | Issue Date | Maturity Date | Bank | | Group | |
|------------------------------|------------------------------------|--|---------------|------------------|------|------|-------|------|
| | | | | | 20XX | 20XX | 20XX | 20XX |
| Issued by the bank | | | | | | | | |
| (i) | | | | | | | | |
| (ii) | | | | | | | | |
| Sub Total | | | | | | | | |
| Issued by other subsidiaries | | | | | | | | |
| (i) | | | | | | | | |
| (ii) | | | | | | | | |
| Sub Total | | | | | | | | |
| Total | | | | | | | | |
| Due within 1 year | | | | | | | | |
| Due after 1 year | | | | | | | | |
| Total | | | | | | | | |

42. Stated Capital / Assigned Capital*In Rupees Million*

| | Bank | | Group | |
|----------------|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Please specify | | | | |
| Total | | | | |

43. Statutory Reserve Fund*In Rupees Million*

| | Bank | | Group | |
|------------------------------------|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Opening balance at DD MM YY | | | | |
| Transfer during the period | | | | |
| Closing balance at DD MM YY | | | | |

44. Retained Earnings*In Rupees Million*

| | Bank | | Group | |
|------------------------------------|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Opening balance at DD MM YY | | | | |
| Profit for the year | | | | |
| Transfers to other reserves | | | | |
| Dividend | | | | |
| Closing balance at DD MM YY | | | | |

45. Other Reserves**a. Bank – Current year (20XX)***In Rupees Million*

| | Opening balance at DD MM YY | Movement / transfers | Closing balance at DD MM YY |
|--------------------------------------|--------------------------------|-------------------------|--------------------------------|
| General reserve | | | |
| Revaluation reserve | | | |
| Available-for-sale reserve | | | |
| Cash flow hedge reserve | | | |
| Foreign currency translation reserve | | | |
| Others (please specify) | | | |
| Total | | | |

b. Bank – Previous year (20XX)*In Rupees Million*

| | Opening balance at DD MM YY | Movement / transfers | Closing balance at DD MM YY |
|--------------------------------------|--------------------------------|-------------------------|--------------------------------|
| General reserve | | | |
| Revaluation reserve | | | |
| Available-for-sale reserve | | | |
| Cash flow hedge reserve | | | |
| Foreign currency translation reserve | | | |
| Others (please specify) | | | |
| Total | | | |

c. Group – Current year (20XX) [as per 43(a) above]**d. Group – Previous year (20XX) [as per 43(b) above]****46. Non-controlling Interests***In Rupees Million*

| | Group | |
|----------------|-------|------|
| | 20XX | 20XX |
| Please specify | | |
| Total | | |

47. Contingent Liabilities and Commitments*In Rupees Million*

| | Bank | | Group | |
|--------------------------|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Guarantees | | | | |
| Performance bonds | | | | |
| Letters of credit | | | | |
| Other contingent items | | | | |
| Undrawn loan commitments | | | | |
| Other commitments | | | | |
| Total | | | | |

48. Related Party Disclosures*In Rupees Million*

| | Bank | | Group | |
|----------------|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Please specify | | | | |
| Total | | | | |

49. Net Assets Value per Ordinary Share*In Rupees Million*

| | Bank | | Group | |
|----------------|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Please specify | | | | |
| Total | | | | |

50. Non-Cash items included in Profit Before Tax*In Rupees Million*

| | Bank | | Group | |
|--|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Depreciation of property, plant and equipment | | | | |
| Amortisation of leasehold property | | | | |
| Amortisation of intangible assets | | | | |
| Impairment losses on loans and advances | | | | |
| Other impairment | | | | |
| Accretion of discounts and amortisation of premiums of investment securities | | | | |
| Charge for defined benefit plans | | | | |
| Share based payment expense | | | | |
| Others (please specify) | | | | |
| Total | | | | |

51. Change in Operating Assets*In Rupees Million*

| | Bank | | Group | |
|---|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Change in derivative financial instruments | | | | |
| Net increase in debt securities, treasury bills & bonds and equity shares held at fair value through profit or loss | | | | |
| Net increase in loans and advances to banks | | | | |
| Net increase in loans and advances to customers | | | | |
| Change in balances with Central Banks | | | | |
| Change in pre-payments and accrued income | | | | |
| Change in other assets (please specify) | | | | |
| Total | | | | |

52. Change in Operating Liabilities*In Rupees Million*

| | Bank | | Group | |
|---|------|------|-------|------|
| | 20XX | 20XX | 20XX | 20XX |
| Change in derivative financial instruments | | | | |
| Change in deposits from banks, customers and debt securities issued | | | | |
| Change in debt securities | | | | |
| Change in financial liabilities designated at fair value through profit or loss | | | | |
| Change in accruals and deferred income | | | | |
| Change in other liabilities (Please specify) | | | | |
| Total | | | | |

Other Disclosure Requirements

While complying with the disclosure requirements of all applicable Sri Lanka Accounting Standards, the following minimum disclosure requirements are applicable for all licensed banks on standalone basis and on consolidated basis for the financial reporting periods beginning on or after 01.01.2012 and shall be disclosed either on the face of financial statements or on the notes.

1. Information about the significance of financial instruments for financial position and performance**1.1 Statement of Financial Position**

1.1.1 Disclosures on categories of financial assets and financial liabilities (refer notes to the financial statements).

1.1.2 Other disclosures

- (i) Special disclosures about financial assets and financial liabilities designated to be measured at fair value through profit or loss, including disclosures about credit risk and market risk, changes in fair values attributable to these risks and the methods of measurement.
- (ii) Reclassifications of financial instruments from one category to another.
- (iii) Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.
- (iv) Reconciliation of the allowance account for credit losses by class of financial assets.
- (v) Information about compound financial instruments with multiple embedded derivatives.
- (vi) Breaches of terms of loan agreements.

1.2 Statement of Comprehensive Income

1.2.1 Disclosures on items of income, expense, gains and losses (refer notes to the financial statements).

1.2.2 Other disclosures:

- (i) Total interest income and total interest expense for those financial instruments that are not measured at fair value through profit and loss.
- (ii) Fee income and expense.

- (iii) Amount of impairment losses by class of financial assets.
- (iv) Interest income on impaired financial assets.

1.3 Other disclosures

1.3.1 Accounting policies for financial instruments

1.3.2 Information on hedge accounting

1.3.3 Information about the fair values of each class of financial asset and financial liability, along with:

- (i) Comparable carrying amounts.
- (ii) Description of how fair value was determined.
- (iii) The level of inputs used in determining fair value.
- (iv) Reconciliations of movements between levels of fair value measurement hierarchy, additional disclosures for financial instruments that fair value is determined using level 3 inputs.
- (v) Information if fair value cannot be reliably measured.

2. Information about the nature and extent of risks arising from financial instruments

2.1 Qualitative disclosures

2.1.1 Risk exposures for each type of financial instrument

2.1.2 Management's objectives, policies, and processes for managing those risks

2.1.3 Changes from the prior period

2.2 Quantitative disclosures

2.2.1 Summary of quantitative data about exposure to each risk at the reporting date.

2.2.2 Disclosures about credit risk, liquidity risk, market risk, operational risk, interest rate risk and how these risks are managed.

(i) Credit Risk

- (a) Maximum amount of exposure (before deducting the value of collateral), description of collateral, information about credit quality of financial assets that are neither past due nor impaired and information about credit quality of financial assets.
- (b) For financial assets that are past due or impaired, disclosures on age, factors considered in determining as impaired and the description of collateral on each class of financial asset.
- (c) Information about collateral or other credit enhancements obtained or called.
- (d) For other disclosures, refer Banking Act, Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).

(ii) Liquidity Risk

- (a) A maturity analysis of financial liabilities.
- (b) Description of approach to risk management.
- (c) For other disclosures, refer Banking Act, Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).

(iii) Market Risk

- (a) A sensitivity analysis of each type of market risk to which the entity is exposed.

- (b) Additional information, if the sensitivity analysis is not representative of the entity's risk exposure.
- (c) For other disclosures, refer Banking Act, Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).
- (iv) Operational Risk

Refer Banking Act, Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).
- (v) Equity risk in the banking book
 - (a) Qualitative disclosures
 - Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons.
 - Discussion of important policies covering the valuation and accounting of equity holdings in the banking book.
 - (b) Quantitative disclosures
 - Value disclosed in the statement of financial position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.
 - The types and nature of investments
 - The cumulative realised gains/(losses) arising from sales and liquidations in the reporting period.
- (vi) Interest rate risk in the banking book
 - (a) Qualitative disclosures

Nature of interest rate risk in the banking book (IRRBB) and key assumptions
 - (b) Quantitative disclosures

The increase / (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant).

2.2.3 Information on concentrations of risk

3. Other disclosures

3.1 Capital

3.1.1 Capital structure

- (i) Qualitative disclosures

Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments.
- (ii) Quantitative disclosures
 - (a) The amount of Tier 1 capital, with separate disclosure of:
 - Paid-up share capital / common stock
 - Reserves
 - Non-controlling interests in the equity of subsidiaries
 - Innovative instruments
 - Other capital instruments
 - Deductions from Tier 1 capital

- (b) The total amount of Tier 2 and Tier 3 capital
- (c) Other deductions from capital
- (d) Total eligible capital

3.1.2 Capital adequacy

(i) Qualitative disclosures

A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities.

(ii) Quantitative disclosures

- (a) Capital requirements for credit risk, market risk and operational risk
- (b) Total and Tier 1 capital ratio

Ref. No. : 02/05/006/0100/002

Bank Supervision Department
06 June 2011

To : CEOs of All Licensed Banks

Dear Sir / Madam,

**DISPLAY OF INTEREST RATES, EXCHANGE RATES,
SERVICE CHARGES, FEES AND COMMISSIONS**

Reference Circular No. 02/05/006/0100/001 dated 28 October 2003 on display of interest rates and exchange rates.

To further improve the market efficiency by promoting healthy competition among banks, all licensed banks are required to expand the disclosures on interest rates of deposits and lending products, exchange rates and to display details of fees, commissions and other service charges in all branches and other banking outlets and publish them in banks' web sites, commencing from 01 August 2011.

Formats for display of above information are enclosed herewith. Banks may further expand the formats given to suit the products and services of each bank.

Annex I : Format for display of interest rates

Annex II : Format for display of foreign exchange rates

Annex III : Format for display of service charges, fees and commissions

Yours faithfully,

(Mrs). T M J Y P Fernando
Director of Bank Supervision

Annex I

Suggested format for the Display of Interest Rates

| Description | Min. rate as at | Max. rate as at |
|---|--------------------------|--------------------------|
| Interest Rates on Deposits | | |
| Savings Deposits | | |
| Minor Savings Deposits | | |
| Call Deposits | | |
| Time Deposits - 1 Year | | |
| * Interest Payable monthly | | |
| * Interest Payable at maturity | | |
| NRFC Savings Deposits | | |
| * US Dollar | | |
| * Sterling Pound | | |
| * Euro | | |
| * Any other currencies | | |
| NRFC Fixed Deposits - 1 Year | | |
| * US Dollar | | |
| * Sterling Pound | | |
| * Euro | | |
| * Any other currencies | | |
| Interest Rates on Advances | | |
| Export Bill Finance - Rupee Facilities | | |
| Import Bill Finance - Rupee Facilities | | |
| Lease Finance | | |
| Lending to Small & Medium Scale Industries (SMEs) | | |
| Residential Housing | | |
| Pawning | | |
| US Dollar Loans to Exporters | | |
| Overdrafts | | |
| * Permanent | | |
| * Temporary | | |
| Personal Loans | | |
| Vehicle Loans | | |
| Credit Cards | | |
| Agricultural Lending | | |
| Refinance Schemes | | |
| i. Agriculture & Animal Husbandry | | |
| * Tea Development Project (Revolving fund)- (TDPRF) | | |
| * Agro – Livestock Development Project | | |
| * Any other | | |
| ii. Small & Medium Enterprises Sector | | |
| * Sushana Loan Scheme | | |
| * Self-Employment Initiative Loan Scheme | | |
| * Any other | | |
| iii. Micro Finance Sector | | |
| * Poverty Alleviation Microfinance Project (Revolving Fund) PAMP Scheme | | |
| * Small Farmers & Landless Credit Project Revolving Fund | | |
| * Any other | | |

Annex II

Suggested format for the Display of Foreign Exchange Rates

| Exchange Rates | Rate: Rupees per unit of foreign currency as at | | | | | | |
|----------------------|---|--------------|-------------------|--------------|-----------------------|--------------|-------------------|
| | Currency | | Travelers Cheques | | Telegraphic Transfers | | Import Bill Rates |
| | Buying Rate | Selling Rate | Buying Rate | Selling Rate | Buying Rate | Selling Rate | |
| Australian Dollar | | | | | | | |
| Canadian Dollar | | | | | | | |
| Danish Kroner | | | | | | | |
| Euro | | | | | | | |
| Hong Kong Dollar | | | | | | | |
| Japanese Yen | | | | | | | |
| New Zealand Dollar | | | | | | | |
| Norwegian Kroner | | | | | | | |
| Pound Sterling | | | | | | | |
| Singapore Dollar | | | | | | | |
| Swedish Kroner | | | | | | | |
| Swiss Franc | | | | | | | |
| United States Dollar | | | | | | | |

Annex III

Suggested format for the Display of Service Charges, Fees & Commissions

| Description | Rs. as at |
|---|-----------------|
| SERVICE CHARGES | |
| Savings Accounts | |
| Charges for non-maintenance of account balance as stipulated minimum, <i>etc...</i> | |
| Current Accounts | |
| Current account monthly service charge | |
| Charges for account statement | |
| Cheque issuing cost | |
| Stop payment order | |
| Return cheques due to insufficient funds, <i>etc...</i> | |
| Remittances | |
| Inward credit to Sri Lanka rupee account | |
| Inward remittance to foreign currency account | |
| Issue of foreign currency demand draft, pay orders, <i>etc...</i> | |
| Traveler's Cheques | |
| Encashment of Traveler's Cheques | |
| Sale of Traveler's Cheques, <i>etc...</i> | |
| ATMs | |
| Issuing Fee | |
| ATM cash withdrawal - Own Bank | |
| ATM cash withdrawal - Other Bank, <i>etc...</i> | |
| Credit Cards - Main Cardholder | |
| Annual fee | |
| Late Payment charges | |
| Interest charges, <i>etc...</i> | |
| FEES & COMMISSIONS | |
| SLIPS Payment Charges | |
| RTGS Payment Charges | |
| Facility Arrangement Fees - Overdrafts | |
| * Security Backed | |
| * Clean Basis | |
| Early Settlement Fees | |
| * Residential Housing | |
| * Vehicle Loans | |
| Cheque Purchase Commission | |
| LC Commission | |
| * LC Opening Fee & Commission | |
| * LC Negotiation Charges, <i>etc...</i> | |
| Shipping Guarantees | |
| Bank Guarantees | |
| Acceptance | |

Ref. No. : 02/05/006/0100/001

Bank Supervision Department
28th October 2003*To : All Licensed Commercial Banks and
all Licensed Specialised Banks*

Dear Sir/Madam,

DISPLAY OF INTEREST RATES AND EXCHANGE RATES

The Central Bank of Sri Lanka welcomes the efforts made by banks to publish their deposit and lending rates. You would no doubt appreciate that adequate market information is vital for improving market efficiency and in promoting healthy competition.

As another step forward in this direction, all licensed commercial banks and specialised banks are requested to compile a representative list of their interest rates on deposits and advances and their buying and selling rates for foreign currencies and to display such information to the general public in all branches and other banking outlets. You would recall that we agreed at an earlier Bank Managers' Meeting to follow this practice, but it is observed that not all banks adequately do so.

All licensed commercial banks and specialised banks are informed that the display of interest rates and exchange rates of banks should commence from 1st January, 2004 the latest. A format suggested for the display of information is enclosed herewith.

Please forward a copy of the list of interest rates and exchange rates displayed to this Department periodically as and when it is revised.

Yours faithfully,
Director of Bank Supervision

Suggested Format for the Display of Interest Rates and Exchange Rates**Bank**

| Interest Rates on Deposits [per cent per annum] | Rate as at |
|---|------------------|
| Savings Deposits Fixed Deposits - 12 months Interest payable monthly Interest payable at maturity NRFC Savings Deposits - US Dollar - Sterling Pound NRFC One Year Fixed Deposits - US Dollar - Sterling Pound | |

| Interest Rates on Advances [per cent per annum] | Rate as at |
|---|------------------|
| Export Bill Finance - Rupee Facilities Import Bill Finance - Rupee Facilities Lease Finance Lending to Medium Scale Industries (up to 5 years) Residential Housing Pawning US Dollar Loans to Exporters | |

| Exchange Rates | Rate : Rupees per unit of Foreign Currency as at | | | |
|---|--|--------------|---------------------|--------------|
| | Currency | | Traveller's Cheques | |
| | Buying Rate | Selling Rate | Buying Rate | Selling Rate |
| US Dollar Sterling Pound Yen Euro Australian Dollar Singapore Dollar Indian Rupee | | | | |

Ref. No. : 02/04/003/0401/001

Bank Supervision Department

24 March 2006

*To : CEOs of Licensed Commercial Banks and
CEOs of Licensed Specialised Banks*

Dear Sirs,

INADEQUATE / INCORRECT DISCLOSURES / PRESS STATEMENTS BY BANKS

As intimated to you at the Chief Executive Officers meeting held on 23 March 2006, there have been several instances where banks have attempted to mislead the public by publishing incorrect statements/data or by not publishing certain aspects of information with regard to non-compliance with statutory regulations.

Such attempts by banks to mislead the general public totally negate the efforts of the regulator to educate the public on the true state of the banks in the industry, and it would be futile to further enhance our efforts in this regard, if immediate action is not taken by the regulator to stop such deception. The Central Bank of Sri Lanka (CBSL) will be faulted for permitting the banks to misrepresent their financial condition to the public.

It is incumbent on bank management, in the discharge of their fiduciary responsibility, to project the true picture of their financial condition to the public.

Therefore, in the interest of providing accurate information to the public for making informed decisions, all banks are required, in making statements to the press, and in publishing the financial results of banks, to ensure that adequate publicity is given to non-compliance, if any, with the prudential ratios and the measures being taken by the bank to meet these ratios.

Where banks, which are not compliant with regulatory requirements, do not make such disclosures to the public in press interviews or statements, the CBSL, as the regulator will be compelled to correct such information in the public domain.

Yours faithfully,

Sgd, Director of Bank Supervision

Copy to : Secretary-General, SLBA

Ref. No. : 02/04/003/0401/001

Bank Supervision Department

21 February 2006

To : *The CEOs of all Licensed Commercial Banks and
all Licensed Specialised Banks*

Dear Sirs,

PUBLICATION OF AUDITED FINANCIAL STATEMENTS OF BANKS IN THE PRESS

Further to the circulars issued with regard to the publication of financial statements of banks in the press, dated 30 September 2005 and 26 January 2006.

Considering the representations made by the banks with regard to the practical difficulties faced by them with regard to the time period for publication of audited financial statements of banks in the press, in order to qualify for exemption from publishing the last quarter unaudited results, all licensed banks are informed as follows:

- o If the bank publishes its annual audited financial statements within three months from the end of the financial year, the requirement to publish the financial statements for the fourth quarter in terms of the circular dated 30 September 2005 would not be mandatory.
- o The licensed commercial banks incorporated abroad may publish the latest available key performance indicators relating to the global operations of such bank on a quarterly basis, and the ratios based on audited financial information along with the audited financial statements of the parent bank.
- o With regard to the format for publication of audited financial statements, all banks should use the format issued on 30 September 2005 for the publication of quarterly financial statements.

Yours faithfully,

Sgd, **Director of Bank Supervision**

Ref. No. : 02/04/003/0401/001

Bank Supervision Department

30 September 2005

*To : The CEOs of all Licensed Commercial Banks and
all Licensed Specialised Banks*

Dear Sirs,

**PUBLIC DISCLOSURE BY PUBLICATION OF
QUARTERLY FINANCIAL STATEMENTS OF BANKS IN THE PRESS**

As discussed at the meeting of the CEOs of LCBs held on 28 July 2005, the format for publication of quarterly financial statements in the press has been revised in consultation with the representative of banks, and is attached herewith, along with the suggested Sinhala and Tamil translations.

2. The revision is aimed at increasing the transparency of banking operations, and to align the publication requirements with those of other regulators. Accordingly, the formats have been drafted incorporating the disclosure requirements of the Securities and Exchange Commission (SEC) (in respect of listed banks) and the Sri Lanka Accounting Standards, as far as possible. In addition, selected performance indicators, including key prudential ratios have been included, as agreed with the banks.

3. The information published should be in respect of the entire bank, *i.e.*, including the off-shore banking unit and in the case of LCBs incorporated in Sri Lanka, any branches abroad.

4. The new format contains two parts *viz*;

- Part I : The format for the summarized balance sheet, income statement, and the statement of changes in equity and reserves and selected performance indicators ^{1/}
- Part II : Instructions for Preparation of Bank Accounts for publication in the press^{1/}

5. Balance Sheet information should be reported as at end of the relevant quarter. Comparative figures to be published should be based on the audited financial statements for the previous financial year.

5.1 The reporting period in respect of the income statement should be the cumulative position as at the end of the relevant quarter in the financial year. Comparative figures should be in respect of the same reporting period in the previous financial year.

5.2 In the case of selected performance indicators, the relevant ratios as at the reporting date should be reported while the comparative ratios should be based on the audited financial statements for the previous financial year.

6. The publication should be made within two months from the end of each quarter, at least once in an English, Sinhala and Tamil newspaper. If the bank publishes its annual audited financial statements within two months from the end of the financial year, the requirement to publish the financial statements for the fourth quarter in terms of these instructions would not be mandatory.

7. The licensed commercial banks incorporated abroad may report information pertaining to the global operations of the parent bank, in the column for reporting the information on the Group. Such information may be reported in the currency of the home country or in US Dollars. In view of the heterogeneous

character of group accounts of foreign banks, the banks are requested to make every endeavour to publish all items given in the agreed format.

8. The disclosure requirements contained herein specify the minimum requirements to be adopted by the banks and all banks are encouraged to make additional disclosures for the benefit of the general public. In addition, the banks listed on the Colombo Stock Exchange should comply with any additional regulations imposed by the SEC with regard to publication of financial information.

9. The revised publication format will be effective for publication of banks' financial statements from the 3rd quarter of 2005 onwards.

9.1 The codes indicated in the formats are for cross reference with the definitions in the instructions and not for publication.

10. The circular dated 30 January 2003 on the publication of quarterly financial statements is hereby rescinded.

Please acknowledge receipt of this circular.

Yours faithfully,

Sgd, **Director of Bank Supervision**

Ref. No. : 02/04/003/0401/001

Bank Supervision Department

26 January 2006

To : CEOs of all Licensed Banks

Dear Sirs,

**PUBLICATION OF QUARTERLY FINANCIAL STATEMENTS OF BANKS
IN THE PRESS**

By circular No. 02/04/003/0401/001 dated 30 September 2005, all banks were informed of the requirements with regard to the publication of quarterly financial statements of banks in the press, which was applicable for the publication of financial statements from the 3rd Quarter of 2005 onwards.

Several discrepancies were observed with regard to the publications in respect of the 3rd Quarter of 2005. Therefore all banks are informed that they should comply with all the requirements in the above circular. The following points should be noted:

1. The time frame for publication is within two months from the end of each quarter.
2. The publication should be made in a Sinhala, English and Tamil daily newspaper – This requirement is to inform the public of the financial condition of the banks and is uniformly applicable to all banks.
3. The format specified by the circular should be conformed to. If a ‘nil’ balance has to be reported in respect of an item in the format, such items should be reported as ‘nil’, instead of deleting the entire row from the format.
4. The key performance indicators should be computed according to the definitions provided by the BSD.

With regard to the publication of accounts by licensed commercial banks incorporated abroad, the publication of global accounts is mandatory on an annual basis, while the banks may publish information relating to the latest available period on a quarterly basis. However, all such banks should publish quarterly, the selected performance indicators such as capital adequacy ratio, return on assets, return on equity, and the non-performing advances ratio of the parent bank for the respective quarter.

Yours faithfully,

Sgd, Director of Bank Supervision

Our Ref. : 02/17/900/0001/04

Bank Supervision Department

11 February 2013

*To : CEOs of all Licensed Commercial Banks and
Licensed Specialised Banks*

Dear Sir / Madam,

**PUBLIC DISCLOSURE BY PUBLICATION OF
QUARTERLY FINANCIAL STATEMENTS OF
BANKS IN THE PRESS**

We refer to our previous correspondence and discussions on the above and enclose the new format for the publication of quarterly financial statements of licensed commercial banks and licensed specialised banks in the press effective from the 1st quarter of 2013.

Accordingly, format referred to in the paragraph No. 4 of the Circular dated 30 September 2005 on the above is replaced with the format in Annex.

Yours faithfully,

(Mrs.) T M J Y P Fernando
Director of Bank Supervision

Encl.

Copy to : The Secretary-General, Sri Lanka Banks' Association (Gurantee) Ltd.



**SPECIFIED FORMAT FOR THE PUBLICATION OF
QUARTERLY FINANCIAL STATEMENTS OF
LICENSED COMMERCIAL BANKS AND LICENSED SPECIALISED BANKS
IN THE PRESS**

..... **BANK**
INCOME STATEMENT
FOR THE PERIOD ENDED

In Rupees Thousands

| | Bank | | Group | |
|--|---------------------------|----------------------------|---------------------------|----------------------------|
| | Current Period | Previous Period | Current Period | Previous Period |
| | From DD/MM/YY | From DD/MM/YY | From DD/MM/YY | From DD/MM/YY |
| | To DD/MM/YY | To DD/MM/YY | To DD/MM/YY | To DD/MM/YY |
| Interest income | | | | |
| Interest expenses | | | | |
| Net interest income | | | | |
| Fee and commission income | | | | |
| Fee and commission expenses | | | | |
| Net fee and commission income | | | | |
| Net gain / (loss) from trading | | | | |
| Net gain / (loss) from financial instruments designated at fair value through profit or loss | | | | |
| Net gain / (loss) from financial investments | | | | |
| Other operating income (net) | | | | |
| Total operating income | | | | |
| Impairment for loans and other losses | | | | |
| Individual impairment | | | | |
| Collective impairment | | | | |
| Others | | | | |
| Net operating income | | | | |
| Personnel expenses | | | | |
| Depreciation and amortisation | | | | |
| Other expenses | | | | |
| Operating profit/(loss) before value added tax (VAT) | | | | |
| Value added tax (VAT) on financial services | | | | |

(Contd.)

| |
|--|
| Operating profit/(loss) after value added tax (VAT) |
| Share of profits of associates and joint ventures |
| Profit/(loss) before tax |
| Tax expenses |
| Profit/(loss) for the period |
| Profit attributable to: |
| Owners of the parent |
| Non-controlling interests |
| Earnings per share on profit |
| Basic earnings per ordinary share |
| Diluted earnings per ordinary share |

..... **BANK**
STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED

In Rupees Thousands

| | Bank | | Group | |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| | From DD/MM/YY To DD/MM/YY | From DD/MM/YY To DD/MM/YY | From DD/MM/YY To DD/MM/YY | From DD/MM/YY To DD/MM/YY |
| Profit / (loss) for the period | | | | |
| Other comprehensive income, net of tax | | | | |
| Changes in revaluation surplus | | | | |
| Actuarial gains and losses on defined benefit plans | | | | |
| Gains and losses (arising from translating the financial statements of a foreign operation) | | | | |
| Gains and losses on re-measuring available-for-sale financial assets | | | | |
| Gains and losses on cash flow hedges | | | | |
| Others | | | | |
| Share of profits of associates and joint ventures | | | | |
| <i>Less: Tax expense/(income) relating to components of other comprehensive income</i> | | | | |
| Other comprehensive income for the period, net of taxes | | | | |
| Total comprehensive income for the period | | | | |
| Attributable to: | | | | |
| Owners of the parent | | | | |
| Non-controlling interests | | | | |

..... **BANK**
STATEMENT OF FINANCIAL POSITION
AS AT

In Rupees Thousands

| | Bank | | Group | |
|--|---------------------------|----------------------------|---------------------------|----------------------------|
| | Current Period | Previous Period | Current Period | Previous Period |
| | As at | As at | As at | As at |
| | DD/MM/YY | DD/MM/YY | DD/MM/YY | DD/MM/YY |
| Assets | | | | |
| Cash and cash equivalents | | | | |
| Balances with central banks | | | | |
| Placements with banks | | | | |
| Derivative financial instruments | | | | |
| Other financial assets held-for-trading | | | | |
| Financial assets designated at fair value through profit or loss | | | | |
| Loans and receivables to banks | | | | |
| Loans and receivables to other customers | | | | |
| Financial investments – Available-for-sale | | | | |
| Financial investments – Held-to-maturity | | | | |
| Investments in subsidiaries | | | | |
| Investments in associates and joint ventures | | | | |
| Property, plant and equipment | | | | |
| Investment properties | | | | |
| Goodwill and intangible assets | | | | |
| Deferred tax assets | | | | |
| Other assets | | | | |
| Total assets | | | | |
| Liabilities | | | | |
| Due to banks | | | | |
| Derivative financial instruments | | | | |
| Other financial liabilities held-for-trading | | | | |
| Financial liabilities designated at fair value through profit or loss | | | | |
| Due to other customers | | | | |
| Other borrowings | | | | |
| Debt securities issued | | | | |
| Current tax liabilities | | | | |
| Deferred tax liabilities | | | | |
| Other provisions | | | | |
| Other liabilities | | | | |
| Due to subsidiaries | | | | |
| Subordinated term debts | | | | |
| Total liabilities | | | | |

..... **BANK**
STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED

In Rupees Thousands

| | Bank | | Group | |
|---|---------------------------|----------------------------|---------------------------|----------------------------|
| | Current Period | Previous Period | Current Period | Previous Period |
| | DD/MM/YY | DD/MM/YY | DD/MM/YY | DD/MM/YY |
| Cash flows from operating activities | | | | |
| Profit before tax | | | | |
| Adjustment for : | | | | |
| Non-cash items included in profits before tax | | | | |
| Change in operating assets | | | | |
| Change in operating liabilities | | | | |
| Net gains from investing activities | | | | |
| Share of profits in associates and joint ventures | | | | |
| Dividend income from subsidiaries and associates | | | | |
| Interest expense on subordinated debt | | | | |
| Others (please specify) | | | | |
| Contribution paid to defined benefit plans | | | | |
| Tax paid | | | | |
| Net cash generated from operating activities | | | | |
| Cash flows from investing activities | | | | |
| Purchase of property, plant and equipment | | | | |
| Proceeds from the sale of property, plant and equipment | | | | |
| Purchase of financial investments | | | | |
| Proceeds from the sale and maturity of financial investments | | | | |
| Net purchase of intangible assets | | | | |
| Net cash flow from acquisition of investment in subsidiaries and associates | | | | |
| Net cash flow from disposal of subsidiaries | | | | |
| Proceeds from disposal of associates and joint ventures | | | | |
| Dividends received from investment in subsidiaries and associates | | | | |
| Others (please specify) | | | | |
| Net cash (used in)/from investing activities | | | | |
| Cash flows from financing activities | | | | |
| Net proceeds from the issue of ordinary share capital | | | | |
| Net proceeds from the issue of other equity instruments | | | | |
| Net proceeds from the issue of subordinated debt | | | | |
| Repayment of subordinated debt | | | | |
| Interest paid on subordinated debt | | | | |
| Dividend paid to non-controlling interest | | | | |
| Dividend paid to shareholders of the parent company | | | | |
| Dividend paid to holders of other equity instruments | | | | |
| Others (please specify) | | | | |
| Net cash from financing activities | | | | |
| Net increase/(decrease) in cash & cash equivalents | | | | |
| Cash and cash equivalents at the beginning of the period | | | | |
| Exchange difference in respect of cash & cash equivalent | | | | |
| Cash and cash equivalents at the end of the period | | | | |

Note: Banks have the option to use one of the two methods specified in LKAS 7 for the preparation of the statement of cash flows

..... **BANK**
ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS
AS AT

In Rupees Thousands

| a. Bank – Current period | | | | | | | |
|---|------------|-------------------------------------|-----|---------------------------|----------------|---------|--------------|
| | HFT | Designated at fair value | HTM | Amortised cost | AFS | Hedging | Total |
| ASSETS | | | | | | | |
| Cash and cash equivalents | | | | | | | |
| Balances with central banks | | | | | | | |
| Placements with banks | | | | | | | |
| Derivative financial instruments | | | | | | | |
| Other financial assets at fair value through profit or loss | | | | | | | |
| Loans and receivables to banks | | | | | | | |
| Loans and receivables to other customers | | | | | | | |
| Financial investments | | | | | | | |
| Total financial assets | | | | | | | |
| | HFT | Designated at fair value | | Amortised cost | Hedging | | Total |
| LIABILITIES | | | | | | | |
| Due to banks | | | | | | | |
| Derivative financial instruments | | | | | | | |
| Other financial liabilities at fair value through profit or loss | | | | | | | |
| Due to other customers | | | | | | | |
| Other borrowings | | | | | | | |
| Debt securities issued | | | | | | | |
| Total financial liabilities | | | | | | | |
| <p>HFT – Held for trading</p> <p>Designated at fair value – Designated at fair value through profit or loss</p> <p>Amortised cost – Loans and receivables/deposits at amortised cost</p> <p>HTM – Held-to-maturity</p> <p>AFS – Available-for-sale</p> <p>Hedging – Instruments of fair value and cash flow hedging</p> | | | | | | | |
| b. Bank – Previous period as above | | | | | | | |
| c. Group – Current period as above | | | | | | | |
| d. Group – Previous period as above | | | | | | | |

..... **BANK**
SELECTED PERFORMANCE INDICATORS (AS PER REGULATORY REPORTING)
AS AT

| Item | Bank | | Group | |
|--|----------|----------|----------|----------|
| | DD/MM/YY | DD/MM/YY | DD/MM/YY | DD/MM/YY |
| Regulatory Capital Adequacy | | | | |
| Core Capital (Tier 1 Capital), Rs. '000 | | | | |
| Total Capital Base, Rs. '000 | | | | |
| Core Capital Adequacy Ratio, as % of Risk Weighted Assets (Minimum Requirement, 5%) | | | | |
| Total Capital Adequacy Ratio, as % of Risk Weighted Assets (Minimum Requirement, 10%) | | | | |
| Assets Quality (Quality of Loan Portfolio) | | | | |
| Gross Non-Performing Advances Ratio, % (net of interest in suspense) | | | | |
| Net-Non Performing Advances, % (net of interest in suspense and provision) | | | | |
| Profitability | | | | |
| Interest Margin, % | | | | |
| Return on Assets (before Tax), % | | | | |
| Return on Equity, % | | | | |
| Regulatory Liquidity | | | | |
| Statutory Liquid Assets, Rs. '000 | | | | |
| Statutory Liquid Assets Ratio, % (Minimum Requirement, 20%) | | | | |
| Domestic Banking Unit | | | | |
| Off-Shore Banking Unit | | | | |

CERTIFICATION:

We, the undersigned, being the Chief Executive officer and the Financial Controller / Compliance Officer of

..... Bank certify jointly that:

- (a) the above statements have been prepared in compliance with the format and definitions prescribed by the Central Bank of Sri Lanka;
- (b) the information contained in these statements have been extracted from the unaudited financial statements of the bank unless indicated as audited.

(Name)
(Sgd.) Chief Executive Officer
Date: DD/MM/YY

(Name)
(Sgd.) Financial Controller or Compliance Officer
Date: DD/MM/YY

Ref. : 02/17/900/0001/004

Bank Supervision Department

11 October 2013

*To : CEOs of all Licensed Commercial Banks and
Licensed Specialised Banks*

Dear Sir / Madam,

**ADDITIONAL QUARTERLY DISCLOSURE
IN THE PRESS AND ON THE WEBSITES**

Reference our Circulars dated 11 February 2013 and 17 September 2013 on Public Disclosure by Publication of Quarterly Financial Statements of Banks in the Press and Publication of Financial Statements and Other Disclosures on the Websites, respectively.

Every bank shall ensure additional disclosures on the following items in their quarterly publications in the press and on their respective websites, from 3rd quarter of 2013 as given in Annex.

1. Loans and receivables to other customers
2. Loans and receivables to other customers – By product
3. Movements in individual and collective impairment during the period for loans and receivables to other customers
4. Dues to other customers – By product

Accordingly, you are requested to take necessary measures to comply with the above.

Yours faithfully,

(Mrs.) T M J Y P Fernando
Director of Bank Supervision

Encl.

Annex

**ADDITIONAL QUARTERLY DISCLOSURES IN THE PRESS AND
ON THE WEBSITES**

1) Loans and Receivables to Other Customers*In Rupees Thousand*

| | Bank | | Group | |
|--|-------------------|--------------------|-------------------|--------------------|
| | Current Period | Previous Period | Current Period | Previous Period |
| | As at DD/MM/YY | As at DD/MM/YY | As at DD/MM/YY | As at DD/MM/YY |
| Gross loans and receivables | | | | |
| (Less): Individual impairment | | | | |
| Collective impairment | | | | |
| Net loans and receivables including those designated at fair value through profit or loss | | | | |
| (Less): Loans and receivables designated at fair value through profit or loss | | | | |
| Net loans and receivables | | | | |

2) Loans and Receivables to Other Customers – By product*In Rupees Thousand*

| | Bank | | Group | |
|-------------------------------------|-------------------|--------------------|-------------------|--------------------|
| | Current Period | Previous Period | Current Period | Previous Period |
| | As at DD/MM/YY | As at DD/MM/YY | As at DD/MM/YY | As at DD/MM/YY |
| By product-Domestic Currency | | | | |
| Overdrafts | | | | |
| Term loans | | | | |
| Lease rentals receivable | | | | |
| Credit cards | | | | |
| Pawning | | | | |
| Other loans (Please specify) | | | | |
| Sub total | | | | |
| By product-Foreign Currency | | | | |
| Overdrafts | | | | |
| Term loans | | | | |
| Other loans (Please specify) | | | | |
| Sub total | | | | |
| Total | | | | |

3) Movements in Individual and Collective Impairment during the period for Loans and Receivables to Other Customers

In Rupees Thousand

| | Bank | | Group | |
|---|----------------|-----------------|----------------|-----------------|
| | Current Period | Previous Period | Current Period | Previous Period |
| | As at DD/MM/YY | As at DD/MM/YY | As at DD/MM/YY | As at DD/MM/YY |
| Individual impairment | | | | |
| Opening balance at DD/MM/YY | | | | |
| Charge/(Write back) to income statement | | | | |
| Write-off during the year | | | | |
| Other movements | | | | |
| Closing balance at DD/MM/YY | | | | |
| Collective impairment | | | | |
| Opening balance at DD/MM/YY | | | | |
| Charge/(Write back) to income statement | | | | |
| Other movements | | | | |
| Closing balance at DD/MM/YY | | | | |
| Total impairment | | | | |

4) Due to Other Customers – By product

In Rupees Thousand

| | Bank | | Group | |
|-------------------------------------|----------------|-----------------|----------------|-----------------|
| | Current Period | Previous Period | Current Period | Previous Period |
| | As at DD/MM/YY | As at DD/MM/YY | As at DD/MM/YY | As at DD/MM/YY |
| By product-Domestic Currency | | | | |
| Demand deposits (current accounts) | | | | |
| Savings deposits | | | | |
| Fixed deposits | | | | |
| Other deposits (Please specify) | | | | |
| Sub total | | | | |
| By product- Foreign Currency | | | | |
| Demand deposits (current accounts) | | | | |
| Savings deposits | | | | |
| Fixed deposits | | | | |
| Other deposits (Please specify) | | | | |
| Sub total | | | | |
| Total | | | | |

Ref. No. : BS/62/97

Bank Supervision Department
8th Floor, Renuka Building
41, Janadhipathi Mawatha
Colombo 1.

10th September, 2001

To : All Licensed Commercial Banks

Dear Sir,

PUBLIC DISCLOSURE BY PUBLICATION OF BANK ACCOUNTS IN THE PRESS

Your attention is drawn to our circular No.BS/62/97 dated 29.01.1999 on the above subject.

If the audited accounts of banks are published in the newspapers stating that they are audited without any reference to any audit qualifications, where there are such qualifications, it could mislead the public. Therefore, banks should include a brief description of any audit qualifications when they publish the audited accounts in the newspapers.

Further, I wish to inform you that banks are expected to publish their annual audited accounts in newspapers within six months of the end of their financial year and their half yearly un-audited accounts within three months of the end of the half-year.

Yours faithfully

Director of Bank Supervision

Ref. Nos. :02/04/002/0105/001
&
02/04/002/0151/001

Bank Supervision Department
8th Floor, Renuka Building
41, Janadhipathi Mawatha
Colombo 1.

20th March, 2001

*To : All Licensed Commercial Banks and
Licensed Sepcialised Banks*

Dear Sir,

PUBLICATION OF CAPITAL ADEQUACY STATEMENT IN THE ANNUAL REPORT

You may be aware that the CBSL guidelines permit consolidation of subsidiaries for the purpose of computing capital adequacy ratios of banks but have not specified the nature of subsidiaries to be consolidated. The CBSL is presently reviewing the policy on consolidation of subsidiaries by banks for capital adequacy purposes.

It is observed that there had been no uniformity among banks in presenting the capital adequacy statement in their Annual Reports. While few banks publish the statement on a 'solo' basis others present it on a 'consolidated' basis.

With a view to giving a true picture to the readers, it is recommended that the basis of computation of the capital adequacy and the inclusion of non banking and non-financial subsidiaries in the computation of the capital adequacy ratio, be disclosed as a footnote to the capital adequacy statement, if published in the Annual Report of the bank.

Yours faithfully

P. T. Sirisena

Director of Bank Supervision

Bank Supervision Department

13 February 2006

To : The CEOs of all Licensed Commercial Banks

Dear Sirs,

SUBMISSION OF AUDITED FINANCIAL STATEMENTS BY BANKS

I wish to draw your attention to Section 38(1) and 38(2) of the Banking Act, No.30 of 1988 as amended by the Banking (Amendment) Act, No.33 of 1995 and No.2 of 2005, in terms of which:

1. All Licensed Commercial Banks (LCB) incorporated or established within Sri Lanka shall transmit within five months after the close of its financial year to the Director of Bank Supervision, its audited balance sheet as at the close of the financial year, and its profit and loss account for such financial year in respect of its business in and outside Sri Lanka including its off-shore banking business.
2. All LCBs incorporated outside Sri Lanka shall transmit to the Director of Bank Supervision, within five months after the close of its financial year, its audited balance sheet as at the close of the financial year and its profit and loss account for such financial year in respect of its business in Sri Lanka including its off-shore banking business.

You are kindly reminded to submit the audited financial statements for 2005, in the prescribed format as per circular No. BS/38/90 of 02.06.98.

Your attention is also drawn to Section 30(2) of the Banking Act, in terms of which a copy of the audited financial statements (OSBU) is required to be submitted. The above format should be used for the submission of the OSBU accounts as well.

Accordingly, you are advised to transmit the annual audited financial statements for 2005 according to the above requirements within the stipulated time frame.

Yours faithfully,

Sgd, **Director of Bank Supervision**

Ref. Nos. :02/17/800/0002/002

Bank Supervision Department

17 September, 2013

To : *CEOs of All Licensed Commercial Banks and
Licensed Specialised Banks*

Dear Sir/Madam,

**PUBLICATION OF FINANCIAL STATEMENTS AND
OTHER DISCLOSURES ON THE WEBSITES**

As intimated at the Chief Executive Officers meeting held on 28 August 2013, uniform and adequate disclosure practices are important for improving market efficiency and promoting healthy competition. In view of same and to further enhance transparency of banking operations and market discipline, every bank shall ensure the following publication requirements on their respective websites.

| Frequency | Disclosure requirement |
|-------------|--|
| Annually | <ul style="list-style-type: none"> (i) Annual Audited Report/Financial Statements and/or reports based on the requirements specified in, <ul style="list-style-type: none"> (a) Circulars dated 02 June 1998 and 11 February 2013 issued on preparation of annual audited accounts. (b) Direction No. 3(8): "Disclosures" of the Banking Act, Directions No. 11 and 12 of 2007 on Corporate Governance. (ii) In respect of branches of foreign banks, item (i)(b) above shall be in accordance with the requirements specified in the Circular dated 03 January 2011. |
| Bi-annually | <ul style="list-style-type: none"> (i) Qualitative disclosures of the bank's risk management as required under Direction 1.5 of Item H on Disclosure Requirements of the Guidelines issued under the Banking Act, Directions No. 7 of 2011 on the Integrated Risk Management Framework. Such publication in the website will be considered as compliance with the respective requirements under the Banking Act, Directions No. 7 of 2011. (ii) Banks may effect appropriate changes to the above requirements in accordance with the Sri Lanka Financial Reporting Standards (SLFRS) and Sri Lanka Accounting Standards (LKAS). |
| Quarterly | Quarterly Financial Statements based on the requirements specified in Circulars dated 30 September 2005, 26 January 2006, 21 February 2006 and 11 February 2013 issued on publication on quarterly financial statements in the press. |

Accordingly, you are required to take necessary measures to comply with the above.

Yours faithfully

(Mrs.) T M J Y P Fernando
Director of Bank Supervision

Ref. No. : BS/38/90

Bank Supervision Department
Central Bank of Sri Lanka
8th Floor, Renuka Building
41, Janadhipathi Mawatha
Colombo 1.

20 May 1998

*To : All approved External Auditors
of Licensed Commercial Banks*

Dear Sir,

As you are aware, the Central Bank of Sri Lanka, as the supervisory authority for licensed commercial banks and specialised banks in Sri Lanka, is charged with the responsibility of ensuring that there is a great degree of consistency of bank audits and standard procedures which can be followed by approved auditors. Accordingly, we enclose herewith a set of "Guidelines for External Auditors relating to their statutory duties under Section 39 of the Banking Act, No.30 of 1988, as amended by Banking Act, No.33 of 1995".

Since your Firm is on the panel of approved auditors of the Central Bank, you are required to ensure that the audit of licensed commercial banks/licensed specialised banks, are in conformity with these guidelines, with effect from the financial year 1998.

Please note that wherever the expression "licensed commercial banks" appears in the guidelines, it would also include "licensed specialised banks".

Please acknowledge receipt of this letter and the enclosures.

Yours faithfully,

Sgd. Y. A. Piyatissa
Director of Bank Supervision

**GUIDELINES FOR EXTERNAL AUDITORS RELATING TO THEIR STATUTORY DUTIES
UNDER SECTION 39 OF THE BANKING ACT NO. 30 OF 1988
AS AMENDED BY BANKING ACT NO. 33 OF 1995**

1. In terms of Section 39 of the Banking Act, the Central Bank of Sri Lanka, as the supervisory authority for licensed commercial banks in Sri Lanka, is charged with the responsibility of ensuring that the audits of banks are conducted satisfactorily. Accordingly, External Auditors of licensed commercial banks in Sri Lanka are informed of the following guidelines which have been formulated in recognition of the fact that Auditors are specially qualified to undertake :-
 - (a) The verification of prudential returns;
 - (b) The evaluation of control systems;
 - (c) The expression of opinions on provisioning policies; and
 - (d) The monitoring of the fiduciary activities of Banks.
2. The auditing guidelines envisaged by the Central Bank for the audit of licensed commercial banks in Sri Lanka do not seek to provide an exhaustive listing of the procedures and practices to be used in an audit. Rather, they seek to stress special audit considerations for instance concerning related party transactions, or the risks they assume resulting from the use of electronic data processing and electronic fund transfer systems connected to the specific characteristics of Banks. These guidelines acknowledge the audit objectives which are of particular importance in relation to the typical items in a Bank's financial statement and encourage substantive audit procedures for the evaluation of loan loss provisions, income recognition, *etc.* It is hoped that these guidelines will encourage a greater degree of consistency in Bank audits and set standard procedures which can be followed by Auditors in Sri Lanka.
3. With a view to ensuring that the interests of depositors are not at risk because of adverse changes in the financial position or in the management or other resources of an institution, External Auditors, in performing their statutory duties under the Banking Act and in recognizing the dependence of the Central Bank on prudential returns and other information submitted by licensed commercial banks, shall ensure :-
 - (a) that the institution has not breached, or is in the process of currently breaching, or is likely to breach, the capital ratio set by the Central Bank;
 - (b) that the institution has not breached by a material amount for a significant period, or has been frequently breaching by any amount, the liquidity ratio laid down by the Central Bank;
 - (c) that the institution holds adequate provisions for bad and doubtful debts, expected losses on contingents and tax liabilities, in accordance with accepted accounting standards;
 - (d) that the accounting and other records and systems of control of the institution are commensurate with the size and nature of business, or the way in which the business is structured, organized and managed;
 - (e) that the business, or a significant component of the business, is not effectively being directed or has been directed for any period of time, by only one individual;
 - (f) that there is evidence which calls into question the appropriateness of actions or decisions taken by the management which are significant for prudential purposes.
4. In formulating these guidelines the Central Bank has recognized that in an industry environment of high dependence on information technology, auditors should devote sufficient resources to assess the soundness of the EDP processes which are vital to the institution's operations and to the

effectiveness of internal EDP controls. External Auditors should accordingly, refer in their annual management letters to any shortcomings and imperfections which have come to their attention in the course of their examination of this specified field. The Central Bank recognizes that the risks which characterize an EDP environment and the security and control procedures it requires are :-

- (a) Improper disclosure of information;
 - (b) Error;
 - (c) Fraud;
 - (d) Interruption of business due to hardware or software failure;
 - (e) Ineffective planning and risks associated with end-user computing operations.
5. The Central Bank of Sri Lanka would also require auditors, under certain conditions, to discuss with the supervisory authorities the activities of their banking clients. In doing so, the Central Bank recognises that it is important that Auditors act in a manner that will preserve their professional relationship with their client at all times. They would be therefore expected to draw the attention of the Bank's management immediately in certain situations, reference to which shall be contained in their annual Management Letter. The situations envisaged in this regard are :-
- (a) Where it has come to the Auditor's attention that there is an extreme situation, such as evidence of imminent financial collapse;
 - (b) Where the Auditor has evidence of an occurrence which has led or is likely to lead to a material diminution of the institution's assets;
 - (c) When there appears to the Auditor to be a material contravention of one or more of the provisions of the Banking Act or of the regulations, directives, or guidelines issued to licensed commercial banks by the Central Bank;
 - (d) When the Auditor forms the opinion that the management has reported financial information to the Supervisor which is misleading or when he becomes aware that management has failed, does not intend to, report something and such failure to report is, or would be, materially misleading; or
 - (e) When the Auditor forms the opinion that there has been a significant failure of, or that there is significant weakness in, the accounting and other records or internal control systems of the institution.
6. The Central Bank believes that these guidelines would require Auditors to enlarge the scope of their audit work. The Central Bank expects that only when Auditors become aware in the ordinary course of their audit work of such an occurrence that they would expect them to make detailed enquiries with the statutory provisions/directives/regulations/guidelines specifically in mind. These guidelines do not cast an obligation on Auditors to seek out ground for making a report nor do they place an obligation on them to conduct their work in such a way that there is reasonable certainty that they will discover a breach of the criteria set out in these guidelines.

Detailed operational guidelines to auditors are annexed.

**OPERATIONAL GUIDELINES TO EXTERNAL AUDITORS RELATING
TO THEIR STATUTORY DUTIES UNDER SECTION 39 OF THE BANKING ACT NO. 30 OF 1988
AS AMENDED BY BANKING ACT NO. 33 OF 1995**

1. These auditing guidelines on Bank audits are intended to assist the Auditors of Licensed commercial banks in Sri Lanka to comply with generally accepted auditing standards when carrying out their audit work and in preparing their report on the financial statements of Banks. These guidelines are supplementary to and should be read in conjunction with the Sri Lanka Accounting Standards Nos. 23 and 30 and any other relevant Standards referred to therein on the audit of licensed commercial banks in Sri Lanka.
2. It is particularly important that Auditors of a Bank undertake an audit engagement only after considering their own competence and the adequacy of their resources (including relevant experience) to carry out their duties. In assessing their competence and, resources the Auditors should bear in mind the type and range of the Banks activities and the nature of its systems. For example highly specialized computer systems will require different skills from those necessary to evaluate manual systems.
3. These guidelines have been drawn up in recognition of the fact that the maintenance of adequate records and systems in a licensed commercial bank is of paramount importance and that an institution cannot be regarded as conducting its business in a prudent manner unless it maintains adequate accounting and other records as well as adequate systems of control of its business and records to enable the business of the institution to be prudently managed and to comply with the duties imposed on it by or under the statutes relevant to its operations.
4. These guidelines do not attempt to describe in detail the manner, in which a particular institution should maintain its accounting and other records and internal control systems. Rather it emphasizes the need to ensure that the scope and nature of the financial information which the accounting and other records must be designed to capture, contain the required information.

Planning and Audit

5. When planning the audit of a Bank, Auditors are required to consider the following :-
 - (a) The overall financial environment in which the Bank operates and its type of business;
 - (b) The extent of computer systems and the reliance placed on these systems by the Bank;
 - (c) The legal framework in which the Bank operates;
 - (d) The audit risk involved, the assessment of which is crucial and should be undertaken very carefully, particularly where the circumstances and management of the Bank indicate that the engagement is likely to be high risk;
 - (e) Key audit areas, in particular, individual areas where there is a high risk of material misstatement. These should be identified at an early stage of audit to ensure that work is concentrated on this area;
 - (f) The adequacy and scope of the internal audit or inspection function;
 - (g) The timing and nature of the audit work to be carried out;
 - (h) The use of staff with adequate training and experience.
6. Auditors should also consider the following additional matters when planning the audit :-
 - (a) Compliance with the requirements of any guidelines issued by the CBSL;
 - (b) Any formal communications between the CBSL and the Bank, including all correspondence, minutes or notes of meetings relevant to the examination of the accounting and other records, internal control systems and CBSL returns used for prudential purposes.

Scope of Audit – Accounts and Other Records

7. The scope and nature of the accounting and other records which are required for the business of a Bank to be conducted in a prudent manner should be commensurate with the manner in which the business is structured, organized and managed, as well as the volume, nature and complexity of its transactions and commitments. Auditors are thus required to ensure that the accounting and other records of a Bank meet the following general requirements :-
- (a) capture and record on a timely basis and in an orderly fashion every transaction and commitment which the institution enters into with sufficient information to explain :-
 - (i) its nature and purpose;
 - (ii) any asset and/or liability, actual and contingent, which respectively arises or may arise from it; and
 - (iii) any income and/or expenditure, current and/or deferred which arises from it;
 - (b) provide details, as appropriate, for each transaction and commitment, showing :-
 - (i) the parties, including, in the case of a loan, advance or other credit exposure, whether it is sub-participated and if so to whom it is sub-participated;
 - (ii) the amount and currency;
 - (iii) the contract, rollover, value and settlement or repayment dates;
 - (iv) the contracted interest rates of an interest rate transaction or commitment;
 - (v) the contracted exchange rate of a foreign exchange transaction or commitment;
 - (vi) the contracted commission or fees payable or receivable together with any other related payment or receipt;
 - (vii) the nature and current estimated value of any security for a loan or other exposure; the physical location and documentary evidence of such security; and
 - (viii) in the case of any borrowing, whether it is subordinated; if secured, the nature and book value of any asset upon which it is secured;
 - (c) maintain the accounting and other records in such a manner that financial and business information can be extracted promptly to enable management to :-
 - (i) monitor the quality of the institution's assets and safeguard them, including those held as custodian;
 - (ii) identify, quantify, control and manage its exposures by related counter-parties across all products;
 - (iii) identify, quantify, control and manage its exposures to liquidity risk and foreign exchange and other market risks across all products;
 - (iv) monitor the performance of all aspects of its business on an up-to-date basis; and
 - (v) make timely and informed decisions;
 - (d) contain details of exposure limits authorized by management which are appropriate to the type, nature and volume of business undertaken. These limits should, where relevant, include counterparty, industry sector, country, settlement liquidity, interest rate mismatch and securities position limits as well as limits on the level of intra-day and overnight trading positions in foreign exchange, futures, options, future (or forward) rate agreements (FRAs) and swaps; provide information which can be summarized in such a way as to enable actual exposures to be readily, accurately and regularly measured against these limits;
 - (e) contain details of the factors considered, the analysis undertaken and the authorization or rejection by management of a loan, advance or other credit exposure; and

- (f) provide on a memorandum basis details of every transaction entered into in the name of or on behalf of another party on an agency or fiduciary (trustee) basis where it is agreed that the institution itself is not legally or contractually bound by the transaction.

Internal Control Systems

8. A system of internal controls in a Bank is deemed to be;
- ‘the whole system of controls, financial and otherwise, established by management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records.’
9. In evaluating the adequacy of internal control systems in a bank, auditors are required to assess the internal control systems only to the extent that they wish to place reliance on those systems in arriving at their opinion as to whether the financial statements give a true and fair view. A careful evaluation of these systems would include computer based accounting and information systems and their relationship with the risk of material misstatement in the financial statements will be essential. If the Auditors conclude that they can rely on the system of controls they may be able to limit the level of substantive tests required to form their opinion on the financial statements.
10. For the purpose of identifying relevant controls, the principal activities of banks may be classified as follows :—
- (a) loans, advances, trade finance and related income and expense;
 - (b) customer accounts, cash, transfer of funds, nostro accounts and related income and expense;
 - (c) inter bank deposits and related income and expense;
 - (d) dealing in foreign exchange, futures, options, commodities, bullion and related income, expense, gains and losses;
 - (e) investments, dealing securities and related income, expense, gains and losses; and
 - (f) trustee and advisory activities (including portfolio management) and related income and expense.
11. The overall audit objective should always be to ensure that the financial statements give a true and fair view of the state of the Bank’s affairs at a given date and of the results for the year ended, and comply with statutory and other relevant requirements.
12. Audit steps likely to be required to satisfy this overall objective, can be identified as follows :—
- (a) to determine the reliability of the bank’s systems of internal control;
 - (b) to ensure that all material balances exist, are complete, and are fairly stated at the balance sheet date;
 - (c) to ensure that all income and expenditure, gains and losses are properly accounted for;
 - (d) to ascertain the recoverability and hence the realizability at the balance sheet date, of any loans, investments and other related credit exposures;
 - (e) in relation to trustee activities, to ascertain whether controls exist to give reasonable assurance that the bank has fulfilled its fiduciary duties; and
 - (f) to ensure that all material commitments and liabilities, contingent or otherwise, are identified, provided for, or adequately disclosed in the financial statements.

Automation

13. As a result of the large number of transactions undertaken and records held by banks and the need for swift and accurate information processing and retrieval, many banking functions are often highly automated, including : funds transfer systems, the accounting function, the processing and recording of retail customer transactions, the dealing room and the supply of dealing and management information.
14. The Auditors should assess the extent, nature and impact of automation within the bank and plan and perform their work accordingly.
 - (a) the required level of technical computer knowledge and skills is likely to be extensive and may require the auditor to obtain advice and assistance from staff with specialist skills;
 - (b) bank audits are particularly suitable for the use of audit software and other types of Computer Assisted Audit Techniques; and
 - (c) reliance on internal controls for audit purposes is likely to require the evaluation and testing of general controls relating to the environment within which computer based systems are developed, maintained and operated.

Branches

15. Many branches operate a network of branches. The Auditors' approach to such branches will principally be determined by the degree of Head Office control over the business and accounting functions at each branch and by the scope and effectiveness of the bank's inspection and/or internal audit visits. The extent and impact of visits from regulators should also be considered. Where branches maintain separate accounting records, the extent of audit visits and work on each branch will also be dependent on the materiality of, and risks associated with, the operations of each branch and the extent to which controls over branches are exercised centrally. Where the branch accounting records are centralized, the auditors should obtain reasonable assurance that the systems of control over branches are operating satisfactorily either by visiting branches, or by ensuring that an adequate system of branch inspection by internal auditors exists. Particular attention should be paid both to the difficulties of exercising Head Office control and to the differences in nature and degree of risk that may arise in overseas branches. In the case of smaller branches, attention should focussed upon the exceptions to a bank's normal control procedures caused by staffing levels (*e.g.*, the greater difficulty of ensuring adequate segregation of duties) and to the consequent need for an increased level of control from outside the branch.

Review of Financial Statements

16. When reviewing the financial statements of the Bank the Auditor should carry out such a review of the financial statements as is sufficient, in conjunction with the conclusions drawn from the other audit evidence obtained, to give him a reasonable basis for his opinion on the financial statements. Such a review should include :-
 - (a) Large deposits or loan repayments received shortly before the year end which are repaid or re-advanced shortly afterwards. This will require a good deal of judgement to identify any window-dressing transactions;
 - (b) Transfers between the trading security and investment security portfolios which take advantage of different valuation policies;
 - (c) The reclassification of hedging and trading transaction/positions to take advantage of different timing of profit and loss recognition;
 - (d) The reclassification of assets within liquidity profiles or under balance sheets headings.

17. Auditors should consider whether the accounts comply with all relevant statutory requirements, and whether the accounting policies adopted will enable them to express an unqualified opinion on the financial statement, in respect of the following:—
- (a) loans, advances and trade finance;
 - (b) customer accounts, cash, transfer of funds and NOSTRO accounts;
 - (c) market deposits;
 - (d) foreign exchange, futures, options and commodities dealings;
 - (e) investments and dealing securities.
18. Auditors should ensure that the following controls are compliance tested :—
- (a) Segregation of duties wherever these controls are deemed necessary;
 - (b) Physical controls wherever they are deemed necessary;
 - (c) Authorization and approval wherever they are deemed necessary;
 - (d) Arithmetical and accounting accuracy and controls where they are deemed necessary;
 - (e) Supervision controls where they are deemed necessary;
 - (f) Substantive tests to prove the adequacy of these controls.
19. Application and general control over the computer environment would entail :—
- (a) The organization of the relevant Bank departments.
 - (b) Management review of activities.
 - (c) Recompute processing of the transactions.
 - (d) Input and processing of transactions by computer.
 - (e) Maintenance of computer files of transactions and balances.
 - (f) Post processing actions on output and computer systems.
 - (g) Reconciliation of computerized records with related assets.
20. The general controls relating to the development, maintenance and operation of computer systems that are designed to control the following risks :—
- (a) Risks arising in the development and enhancement of new computer systems;
 - (b) Risks or errors during data processing, development and amendment to programmes;
 - (c) Risks of loss including being unable to continue operation or recover from a breakdown or disaster - business interruption;
 - (d) Risks relating to unauthorized access to the computer system, its application and data files.
21. Other controls which affect a number of areas :—
- (a) controls over the authorization and correct recording of :
 - (i) nostro transactions; and
 - (ii) transactions using funds transfer systems.
 - (b) Control over financial planning and budgeting.
 - (c) Controls governing the provision of adequate management accounting information.
 - (d) Controls over the documentation and communication of :
 - (i) accounting policies ; and
 - (ii) operational procedures and controls.
 - (e) controls over effective personnel selection routines.
 - (f) Controls over establishing, monitoring and reporting risk.
 - (g) Controls over management review of systems, e.g. internal audit.
 - (h) Controls over communication with the CBSL and other regulatory authorities.
 - (i) Computer controls.

Bank Supervision Department

27 April 2004

To : All Approved External Auditors

Dear Sir,

**GUIDELINES FOR EXTERNAL AUDITORS RELATING TO
THEIR STATUTORY DUTIES IN TERMS OF SECTION 39 OF
THE BANKING ACT NO. 30 OF 1988 AS AMENDED BY
THE BANKING ACT NO. 33 OF 1995**

The Central Bank of Sri Lanka as the Supervisory and regulatory authority of banking institutions strives continually to mitigate and manage the attendant risks in the banking sector in Sri Lanka. The CBSL recognizes the important role played by the External Audit firms in this regard and is working towards improving the quality and the integrity of bank audits.

Significant developments and changes have taken place in the global financial architecture since the introduction of the first guidelines to External Auditors by the CBSL. As you are aware, the Sarbanes-Oxley Act of the US has attempted to address some of these issues. Accordingly, the Monetary Board of the Central Bank of Sri Lanka has approved the attached Addendum to the Guidelines issued on 20 May 1998. The CBSL believes that these additional guidelines will address some of these concerns and contribute towards the improvement of bank audits in Sri Lanka.

Since your Firm is on the panel of approved auditors of the Central Bank, you are required to ensure that your firm is in compliance with these guidelines, which are operative with immediate effect.

Please acknowledge receipt of this letter.

Yours faithfully,

Director of Bank Supervision

Encl.

**GUIDELINES FOR EXTERNAL AUDITORS RELATING TO THEIR STATUTORY DUTIES
IN TERMS OF SECTION 39 OF THE BANKING ACT NO. 30 OF 1988
AS AMENDED BY THE BANKING ACT NO. 33 OF 1995**

ADDENDUM

Non-Audit Services

1. Qualified External Auditors shall not undertake any consultancy or other non-audit services with a bank contemporaneously with the external audit. The restricted non-audit services are:
 - Book keeping or other services related to the accounting records or financial statements of the audit client;
 - Financial information systems design and implementation;
 - Appraisal or valuation services, fairness options, or contribution-in-kind reports;
 - Actuarial services;
 - Internal audit outsourcing services;
 - Management functions, human resources and payroll services;
 - Broker or dealer, investment adviser, or investment banking services; and
 - Legal services and expert services related to the audit.

This restriction also applies to services provided by entities where a partner of an Audit Firm is a Director or has a significant share holding.

Management Letter

2. External Audit firms are requested to submit the Management Letter, which is a non-statutory report by the Auditor to the management of the Bank, together with the published audited accounts to the Banks they audit, within five months of the end of the financial year. If the auditors are unable to finalize the Management Letter, they should submit an interim report with their major findings within the said period. This will enable the Banks and the Regulator to identify significant and systemically important risks in a timely manner.

Ref. No. : 02/03/004/0006/001

Bank Supervision Department

15 October, 2012

To : The CEOs of all Licensed Banks

SUBMISSION OF STATUTORY RETURNS

A review of the submission of Statutory Returns to the Bank Supervision Department has revealed that several banks continue submission of some Statutory Returns in manual form which have already been discontinued due to the following.

- (a) Implementation of the web based off-site surveillance system from the reporting period ending June 2009.
- (b) Withdrawal of certain Circulars.

2. As intimated to you by our letter dated 28.03.2006, banks were requested only to continue submission of Returns that are not replaced with web based Returns, in manual form. However, it is noted that few banks do not follow these instructions and continue submitting the same Returns both manually and as web based Returns.

3. Accordingly, we request you to ensure that only the Returns enumerated in Annex are sent in manual form with effect from 01.11.2012 and to advise the respective officers accordingly.

Yours faithfully,

(Mrs.) T M J Y P Fernando
Director of Bank Supervision

Encl.

Annex

Returns to be submitted manually

| | Return | Reference | Reporting Period |
|-----|---|--|---------------------------------|
| 1. | Report of abandoned property - settlements during the period (Only for LCBs) | Banking Act Direction No. 05 of 2009 dated 02.09.2009 | Weekly |
| 2. | Cheque returns statement (Only for LCBs) | | Monthly |
| 3. | Donations received by Government, Non-Government Organisations (NGOs) and Others (Non-NGOs) – Table 1 | 02/19/40110072/001 dated 07.03.2006 | Monthly |
| 4. | Donations received by NGOs – Table 2 | 02/19/40110072/001 dated 07.03.2006 | Monthly |
| 5. | Utilization of investment fund account | 02/17/800/0014/02 dated 31.10.2011 | Monthly (by e-mail) |
| 6. | Statements of certification of weekly, monthly, quarterly and annual reports approved/submitted | Guidelines on Implementation of the new web based off-site surveillance system dated 28.07.2006 | Monthly, quarterly and annually |
| 7. | Information on shareholdings (Only for domestically incorporated private banks) | BD/CB/P dated 21.06.1996 | Monthly |
| 8. | Statement of exposure to the stock market | Banking Act Direction No. 05 & 06 of 2011 dated 26.08.2011 | Quarterly (by e-mail) |
| 9. | Information on operation of banking outlet | 02/03/004/0200/002 dated 18.01.2012 | Quarterly (by e-mail) |
| 10. | Report of internal loss events in banks | Exposure Draft on implementation of the Standardised Approach for calculating capital charge for Operational Risk dated 22.06.2011 | Quarterly |
| 11. | Business operations that are/to be outsourced as at/during the year | Banking Act Direction No. 7 & 8 of 2010 dated 02.11.2010 | Annually |
| 12. | Report of abandoned property – additions during the period | Banking Act Direction No. 05 of 2009 dated 02.09.2009 | Annually * |
| 13. | Report of abandoned property – settlements during the period | Banking Act Direction No. 05 of 2009 dated 02.09.2009 | Annually * |
| 14. | Return on depositor wise details of eligible deposits | Circular No. 02/2010 dated 09.12.2010 | Quarterly |
| 15. | Sri Lanka deposit insurance scheme – payment of premium | Circular No. 01/2010 dated 15.10.2010 | Quarterly |

* Only for Licensed Commercial Banks which are unable to upload data to the web based returns BSD-AF-18-AP – Report of Abandoned Property-Additions during the period and BSD-AF-18-AS – Report of Abandoned Property-Settlements during the period are required to submit manually.

Bank Supervision Department

28 July 2006

To : CEOs of all Licensed Commercial Banks

Dear Sirs,

**IMPLEMENTATION OF THE NEW WEB BASED
OFF-SITE SURVEILLANCE SYSTEM**

Further to our circular dated 17 March 2006 and the discussions at the meeting of the CEOs of licensed banks held on 04.07.2006 and 22.06.2006, on the above subject, all licensed banks are hereby informed that the submission of periodical returns in manual form will be discontinued from the reporting period ending June 2006. The new 'web-based returns' will be implemented from the reporting period commencing July 01, 2006. The lists of web-based returns are given in the Annex 1. Existing returns that are not replaced with the web-based returns should continue to be submitted in manual form.

Banks are further informed that statement of certification relating to returns submitted on a weekly/monthly, quarterly and annual basis should be submitted as specified in Annex 2, Annex 3, Annex 4 and Annex 5, respectively, within 3 days from the end of the reporting period.

Yours faithfully,

Sgd, **Director of Bank Supervision**

**The List of Returns implemented under New Web-based Off-site Surveillance System
Licensed Commercial Banks**

| Existing Manual Return | New web-based Return to replace the Manual Return |
|---|---|
| Weekly Returns | |
| Interest Rates | BSD-WF-13-IR – Interest Rates (“Bank Only” Totals) |
| Monthly Returns | |
| Assets and Liabilities – DBU | BSD-MF-01-BD – Balance Sheet (DBU and Bank Only Operations) |
| Assets and Liabilities – FCBU | BSD-MF-01- BF – Balance Sheet (FCBU Operations) |
| Income and Expenditure – DBU (<i>Note</i>) | BSD-MF-02-PD – Profit & Loss (DBU and Bank Only Operations) |
| Income & Expenditure – FCBU (<i>Note</i>) | BSD-MF-02- PF – Profit & Loss (FCBU Operations) |
| Classified Advances – DBU (<i>Note</i>) | BSD-MF-03-CD – Classification of Loans & Advances (DBU Operations) |
| Classified Advances – FCBU (<i>Note</i>) | BSD-MF-03-CF – Classification of Loans & Advances (FCBU Operations) |
| Statutory Liquid Assets – DBU | BSD-MF-04-LD – Statutory Liquid Asset Ratio (DBU Operations) |
| Statutory Liquid Assets – FCBU | BSD-MF-04- LF – Statutory Liquid Asset Ratio (FCBU Operations) |
| Commercial Paper/Promissory Notes | BSD-MF-16-CP – Commercial Papers/Promissory Notes |
| Overdue Export Credit (DBU & FCBU) | BSD-MF-17-CS – Overdue Export Credit (Enhanced Interest Charge on Settlements) BSD-MF-17-CO – Overdue Export Credit (Outstanding) |
| – | BSD-MF-15-GE – Government Exposure (“Bank Only” Totals) (New) |
| Quarterly Returns | |
| Accommodation Granted to a Bank Director and/or Close Relation – Domestic Banks | BSD-QF-06-RC – Related Party Exposures (Accommodation Granted by the Bank to Directors and/or Close Relatives – “Bank Only” Totals) |
| Accommodation Granted to Bank Directors and Concerns where the Director has a Substantial Interest - Domestic Banks | BSD-QF-06-RS – Related Party Exposures (Accommodations Granted by the Bank to Concerns where a Director of the Bank has a Substantial Interest – “Bank Only” Totals) |
| Investments in Shares (Section 17A(1) of the Banking Act, No.30 of 1988 as amended by (Amendment) Act, No.33 of 1995) | BSD-QF-07-IE – Investment in Equity (“Bank Only” Totals) |
| Capital Adequacy - Solo | BSD-QF-11-C1-C4 – Capital Adequacy (“Bank Only” Solo Basis Totals) |
| Capital Adequacy - Consolidated | BSD-QF-11-C5-C8 – Capital Adequacy (Consolidated Totals) |
| Interest Spread | BSD-QF-14-SP – Interest Spread |
| – | BSD-QF-05-LN – Large Exposures (Performing & Non Performing – “Bank Only” Totals) (New) |
| – | BSD-QF-08-FE – Foreign Currency Exposures (DBU Operations Only) (New) |

| Existing Manual Return | New web-based Return to replace the Manual Return |
|---|--|
| – | BSD-QF-09-GA – Maturity Gap Analysis (“Bank Only” Totals) (<i>New</i>) |
| – | BSD-QF-10-IS – Interest Rate Sensitivity (“Bank Only” Totals) (<i>New</i>) |
| – | BSD-QF-12-SC – Sector Wise Credit Exposures (“Bank Only” Totals) (<i>New</i>) |
| Annual Returns – As per Audited Accounts | |
| Assets and Liabilities – DBU | BSD-AF-01-BD – Balance Sheet (DBU and Bank Only Operations) |
| Assets and Liabilities – FCBU | BSD-AF-01-BD & BF – Balance Sheet (FCBU Operations) |
| Income and Expenditure – DBU | BSD-AF-02-PD – Profit & Loss (DBU and Bank Only Operations) |
| Income and Expenditure – FCBU | BSD-AF-02-PF – Profit & Loss (FCBU Operations) |
| Capital Adequacy - Solo | BSD-AF-11-C1-C4 – Capital Adequacy (“Bank Only” Solo Basis Totals) |
| Capital Adequacy - Consolidated | BSD-AF-11-C5-C8 – Capital Adequacy (Consolidated Totals) |

Note: Frequency has been changed from quarterly to monthly.

Annex 2

Statement of Certification of Weekly/Monthly Returns Approved/Submitted

| Return | Due Date | Submitted | | Approved Date |
|--|----------|-----------|----|---------------|
| | | Yes | No | |
| Monthly Returns | | | | |
| BSD-MF-01-BD – Balance Sheet - Domestic Banking Unit Operations (DBU) and Bank | 15/MM/YY | | | |
| BSD-MF-01-BF – Balance Sheet - Foreign Currency Banking Unit Operations (FCBU) | 15/MM/YY | | | |
| BSD-MF-02-PD – Profit & Loss - Domestic Banking Unit Operations (DBU) and Bank | 15/MM/YY | | | |
| BSD-MF-02-PF – Profit & Loss - Foreign Currency Banking Unit Operations (FCBU) | 15/MM/YY | | | |
| BSD-MF-03-CD – Classification of Loans & Advances - Domestic Banking Unit Operations (DBU) | 15/MM/YY | | | |
| BSD-MF-03-CF – Classification of Loans & Advances - Foreign Currency Banking Unit Operations (FCBU) | 15/MM/YY | | | |
| BSD-MF-04-LD – Statutory Liquid Asset Ratio - Domestic Banking Unit Operations (DBU) | 15/MM/YY | | | |
| BSD-MF-04-LF – Statutory Liquid Asset Ratio - Foreign Currency Banking Unit Operations (FCBU) | 15/MM/YY | | | |
| BSD-MF-16-CP – Commercial Papers/Promissory Notes | 15/MM/YY | | | |
| BSD-MF-17-CS – Overdue Export Credit - Enhanced Interest Charged on Settlement | 15/MM/YY | | | |
| BSD-MF-17-CO – Overdue Export Credit - Outstanding | 15/MM/YY | | | |
| BSD-MF-15-GE – Government Exposure (<i>New</i>) | 15/MM/YY | | | |
| BSD-WF-13-IR – Interest Rates – 1st Week | DD/MM/YY | | | |

| Return | Due Date | Submitted | | Approved Date |
|---|----------|-----------|----|---------------|
| | | Yes | No | |
| BSD-WF-13-IR – Interest Rates – 2nd Week | DD/MM/YY | | | |
| BSD-WF-13-IR – Interest Rates – 3rd Week | DD/MM/YY | | | |
| BSD-WF-13-IR – Interest Rates – 4th Week | DD/MM/YY | | | |
| BSD-WF-13-IR – Interest Rates – 5th Week | DD/MM/YY | | | |

We certify that the information contained in the above returns has been extracted from and is in accordance with the books of accounts of the bank.

(Name)

(Name)

.....

.....

(Sgd) Finance Controller

(Sgd) Compliance Officer/Administrator

Date: DD/MM/YY

Date: DD/MM/YY

Annex 3

Statement of Certification of Quarterly Returns Approved/Submitted

| Return | Due Date | Submitted | | Approved Date |
|---|----------|-----------|----|---------------|
| | | Yes | No | |
| <i>Quarterly Returns</i> | | | | |
| BSD-QF-05-LN – Large Exposures (<i>New</i>) | 21/MM/YY | | | |
| BSD-QF-06-RC – Related Party Exposures - Accommodation granted by the Bank to Directors and/or Close Relatives | 21/MM/YY | | | |
| BSD-QF-06-RS – Related Party Exposures - Accommodation Granted by the Bank to Concerns where a Director of the Bank has a Substantial Interest | 21/MM/YY | | | |
| BSD-QF-07-IE – Investment in Equity | 21/MM/YY | | | |
| BSD-QF-08-FE – Foreign Currency Exposures (<i>New</i>) | 21/MM/YY | | | |
| BSD-QF-09-GA – Maturity Gap Analysis (<i>New</i>) | 21/MM/YY | | | |
| BSD-QF-10-IS – Interest Rate Sensitivity (<i>New</i>) | 21/MM/YY | | | |
| BSD-QF-12-SC – Sector Wise Credit Exposures (<i>New</i>) | 21/MM/YY | | | |
| BSD-QF-14-SP – Interest Spread | 21/MM/YY | | | |

We certify that the information contained in the above returns has been extracted from and is in accordance with the books of accounts of the bank.

(Name)

(Name)

.....

.....

(Sgd) Finance Controller

(Sgd) Compliance Officer/Administrator

Date: DD/MM/YY

Date: DD/MM/YY

Annex 4

Statement of Certification of Annual Returns Approved/Submitted

| Return | Due Date | Submitted | | Approved Date |
|--|----------|-----------|----|---------------|
| | | Yes | No | |
| <i>Annual Returns</i> | | | | |
| BSD-AF-01-BD – Balance Sheet (DBU and Bank Only Operations) | 30/MM/YY | | | |
| BSD-AF-01-BD & BF – Balance Sheet (FCBU Operations) | 30/MM/YY | | | |
| BSD-AF-02-PD – Profit & Loss (DBU and Bank Only Operations) | 30/MM/YY | | | |
| BSD-AF-02-PF – Profit & Loss (FCBU Operations) | 30/MM/YY | | | |

We certify that the information contained in the above returns has been extracted from and is in accordance with the books of accounts of the bank.

(Name)

 (Sgd) Finance Controller
 Date: DD/MM/YY

(Name)

 (Sgd) Compliance Officer/Administrator
 Date: DD/MM/YY

Annex 5

**Statement of Certification of Quarterly/Annual Returns Approved/Submitted
 (Only for Capital Adequacy)**

| Return | Due Date | Submitted | | Approved Date |
|--|----------|-----------|----|---------------|
| | | Yes | No | |
| <i>Quarterly Returns</i> | | | | |
| BSD-QF-11-C – Capital Adequacy – Bank Only (SOLO basis) | 30/MM/YY | | | |
| BSD-QF-11-C – Capital Adequacy – Consolidated | 30/MM/YY | | | |

We certify that –

- (1) The information submitted in the above return is, to the best of our knowledge and belief, correct;
- (2) The capital adequacy ratio was, at any time during the quarter/year under review, not less than the ratio determined by the Monetary Board, in terms of section 19(7)(a) of the Banking Act, No.30 of 1988 as amended by Banking Act, No.33 of 1995 and Act, No.2 of 2005.

.....
 Chief Accountant / Authorised Officer

 Name
 Date:.....

.....
 Chief Executive

 Name
 Date:.....

Bank Supervision Department

17 March 2006

*To : CEOs of all Licensed Commercial Banks and
all Licensed Specialised Banks*

Dear Sirs,

NEW WEB-BASED OFF-SITE SURVEILLANCE SYSTEM

We refer to the discussion at the Bank Managers' Meeting held on 26 January 2006 and the previous correspondence on the above subject and write to inform you that the testing of, and familiarization with, the above system with the use of information submitted by the banks for the month of September 2005, through the web-based application, has been completed. The next step is to go "live" with the above system and this exercise will start in parallel with the existing manual system till June 2006. Once the system is fully tested, the existing manual returns submission system will be discontinued.

Therefore, we shall be thankful if you will make arrangements to forward the information in the new returns, from January 2006 onwards, through the above web-based system, in addition to the present system of "manual returns submission" to this Department. Your co-operation in this regard will be much appreciated.

Yours faithfully,

Sgd, **Director of Bank Supervision**

Ref. No. : 02/04/004/0010/001

Bank Supervision Department

18 February 2005

*To : The CEOs of all Licensed Commercial Banks and
Licensed Specialised Banks*

Dear Sirs,

SUBMISSION OF THE MONTHLY & QUARTERLY COMPLIANCE REPORTS

I refer to the BSD Circular dated 26 October 2001 and the discussion on the above subject at the meeting of the CEOs of Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs) held on 17.02.2005.

As agreed, all banks are hereby informed that the CEO of the respective bank should sign the Compliance Reports submitted to this Department on a monthly and quarterly basis.

This will be effective for the Compliance Reports to be submitted for the month of February 2005 onwards.

Yours faithfully,

Sgd, **Director of Bank Supervision**

cc – Secretary-General/SLBA

BANKING ACT NO. 30 OF 1988
AS AMENDED BY BANKING (AMENDMENT) ACT NO. 33 OF 1995

Conditions determined, by the Monetary Board of the Central Bank of Sri Lanka, under section 83A of the Banking Act No.30 of 1988 as amended by the Banking (Amendment) Act No.33 of 1995 relating to business of pawn broking.

Sgd. A. S. Jayawardena

Governor

Colombo
07 September 1998

LICENSED COMMERCIAL BANKS (PAWNING) CONDITIONS 1998

Citation & Application.

1. (1) These Conditions may be cited as the Licensed Commercial Banks & (Pawning) Conditions, 1998

(2) These Conditions shall apply to the business of pawn broking, (hereafter referred to as pawning) carried on by a licensed commercial bank or any branch or agency of such bank (hereafter referred to as the “pawnee”).

Interpretation.

2. In these Conditions, “pawning” means the lending of money on the security of personal articles made of gold (hereafter referred to as the “article”) accepted as a pledge for a period not exceeding an initial period of 12 months.

Ownership of pledge.

3. (1) A pawnee shall not accept an article as a pledge where the pawnee has reasonable grounds to believe that the person who gives the article as a pledge is not the owner or the authorised agent of the article.

(2) A person who gives an article as a pledge or redeems an article shall establish the identity of the person to the satisfaction of the pawnee.

Dates & Times of Pawning.

4. Pawning shall be carried on by a pawnee –

(a) between the opening and closing hours of business for the public in its capacity as a licensed commercial bank; and

(b) on such other dates and times as may be specified in a notice displayed in a conspicuous place at the place of business of the pawnee.

Competence of Staff and equipment.

5. A pawnee shall, for the purpose of testing and valuing articles for pawning, have staff with sufficient training and competency in and the equipment for assaying the gold content of an article.

6. (1) The standard measurement for the determination of the quality of an article shall be a carat. Standard Measurement.

(2) The standard measurement of weight used in the valuation of an article shall be a gram.

(3) An article measuring less than 9 carats shall not be accepted as a pledge.

(4) In valuing an article, the pawnee shall have regard only to the value of gold in the article.

(5) A pawnee shall, in accepting an article as a pledge, inform the person delivering the article, the value of the article determined in accordance with this paragraph.

7. (1) The rate of interest chargeable on the money lent on the security of an article accepted as a pledge for pawning shall be fixed by the pawnee. Interest Rates.

(2) A pawnee shall display in a conspicuous place in its place of business a notice specifying –

- (a) the daily market value of sovereign gold;
- (b) the rate or rates of interest fixed under subparagraph (1) or subparagraph (3).
- (c) The maximum percentage of the value of an article lent on each carat of the article.

(3) Where an article given as a pledge for pawning is not redeemed within the redeemable period calculated under paragraph 11, a pawnee may, subject to paragraph 10(2), levy interest on the money lent at a rate higher than the rate levied during the redeemable period, (such higher rate referred to as “enhanced interest”) from the date immediately following the redeemable period.

8. (1) A pawnee shall keep for its business – Books to be maintained.

- (a) a pledge book in the Form set out in the First Schedule;
- (b) a sale book of pledges in the Form set out in the Second Schedule.

(2) A pawnee shall, after due inquiry, enter in each book kept under the subparagraph (1), the particulars specified therein in respect of each article taken as a pledge.

9. (1) Subject to subparagraph (6), a pawnee shall execute, in respect of every article accepted as a pledge for pawning, a pawn ticket. Pawn Ticket.

(2) A pawn ticket shall be in foil and counterfoil and shall be in the Form set out in the Third Schedule.

(3) The counterfoil of the pawn ticket shall, after its is filled up by the pawnee, be signed by the person giving the article as a pledge (hereafter referred to as the “pawner”) or, if the pawner is unable to sign the name, be marked with the left thumb impression of the pawner.

(4) The foil of the pawn ticket shall be filled up and signed by the pawnee.

(5) The pawnee shall, after compliance with sub paragraph (4), hand over the foil of the pawn ticket to the pawner.

(6) When a pawner gives more than one article as pledge on the same occasion, the pawnee may execute one pawn ticket for all such articles, unless the pawner requests otherwise.

Computation of Interest.

10. (1) Where an article is redeemed within the first fourteen days of a month, the interest chargeable for that month shall be one half interest chargeable for that month.

(2) Where the business of a pawnee remains closed on the last date of the redeemable period without reasonable and adequate notice, enhanced interest may be levied only from the day immediately succeeding the first day on which the business thereafter remains open.

Redeemable period.

11. (1) Every article given as a pledge shall be redeemable within a period of 12 months commencing from the date of pawning (in these Conditions referred to as the “redeemable period”).

(2) In calculating the period of 12 months under subparagraph (1) the date of pawning shall be disregarded.

Procedure for redemption of a pledge.

12. (1) Subject to the other provisions of this paragraph, a pawner may redeem an article given as a pledge, by delivering to the pawnee the foil of the pawn ticket in relation to that article and by placing the signature or the left thumb imprint, as the case may be, of the pawner on the foil in the presence of the pawnee or an authorised agent or employee of the pawnee.

(2) A person authorised in writing by the pawner may redeem an article given as a pledge by delivering to the pawnee the foil of the pawn ticket in relation to the article, duly endorsed by the signature or the left thumb imprint of the pawner and by placing on the foil the person’s signature or left thumb impression in the presence of the pawnee or an authorised agent or employee of the pawnee.

(3) Where by reason of the death or disability of the pawner, an article given as a pledge cannot be redeemed under subparagraph (1) or subparagraph (2), a holder of the foil of the pawn ticket in relation to the article may redeem the article by delivering to the pawnee the foil together with a declaration in the form set out in the Fourth Schedule signed by the holder and by a person identifying the holder and made before a Justice of Peace.

(4) Where a foil in relation to an article given as a pledge is lost, stolen, mislaid, destroyed or has been obtained by a person not entitled to it, the pawner, the person or the holder referred to in subparagraphs (1), (2), or (3) may redeem the article by making a declaration in the Form set out in the Fifth Schedule signed by the pawner, person or holder, as the case may be, and a person identifying the pawner, person or holder and made before a Justice of the Peace and in that event the pawner, person or holder, as the case may be, shall place the signature or the left thumb impression on the counterfoil of the pawn ticket in the presence of the pawnee, or an authorised agent or employee of the pawnee.

(5) Subject to subparagraphs (1), (2), (3) and (4) the pawnee of an article given as a pledge shall, on payment of the money lent on the security of the article together with the interest due thereon by the person entitled to redeem the article under those subparagraphs, deliver, subject to subparagraph (6), the article to such person.

(6) Where a pawnee has reasonable grounds to believe that a person delivering a foil of a pawn ticket under subparagraphs (1), (2) or (3) has stolen or otherwise illegally obtained possession of it, the pawnee may refuse to deliver the article in relation to that foil.

(7) The pawnee shall in delivering under subparagraph (4) an article given as a pledge, issue to the person redeeming the article a receipt for the money paid in the Form set out in the Sixth Schedule.

13. (1) Where an article given as a pledge is lost, destroyed or damaged while in the custody of the pawnee, the pawnee shall be liable, on demand by a person entitled to redeem it within the redeemable period, to pay the person the value of the article determined under paragraph 6 less any sum due as money lent and interest thereon.

Loss or destruction of pledge.

(2) Every pawnee shall insure the business of pawn broking to the value of the articles taken as pledges.

14. Every pawnee shall retain in the possession of the pawnee –

Period of retention of documents.

- (a) the counterfoil of each pawn ticket for a period of 12 months from the date of redemption of the article relating that pawn ticket or, when the article is sold under paragraph 15 from the date of sale.
- (b) foil of every such pawn ticket referred to in paragraph (a) for a period of 12 month from the date of redemption where the foil is delivered to the pawnee;
- (c) each declaration made under paragraph 12 for a period of 12 months from date of redemption of the article in respect of which the declaration is made.
- (d) the duplicate copy of the receipt issued under paragraph 12 (7) for a period of 12 months from the date of issue of the receipt.

Sale of Pledges.

15. (1) Where an article delivered as a pledge is not redeemed within the redeemable period calculated under paragraph 11, a pawnee may sell the article by public auction and the provisions of this paragraph and the Seventh Schedule shall apply to such sale.

(2) The auctioneer at a public auction conducted under subparagraph (1) shall be a senior officer of the pawnee of a rank not below the rank of a Branch Manager.

(3) A pawnee shall give to each pawner of an article liable for sale under subparagraph (1) not less than 14 days notice of the auction.

(4) The notice under subparagraph (3) shall state the date, time and place of the auction and shall be sent to the pawner by registered post to the address stated in the pledge book and the cost of such postage shall be borne by the pawner.

(5) Where a notice sent by registered post to a pawner is returned undelivered to the pawnee, the notice of the auction published pursuant to the Seventh Schedule shall be a sufficient notice to the pawner.

(6) A pawnee may bid for and purchase at an auction conducted under subparagraph (1) an article delivered to the pawnee as a pledge and liable to be sold under that subparagraph and on such purchase shall be deemed to be the absolute owner of the article.

(7) Where at an auction conducted under subparagraph (1) an article is sold for an amount exceeding the money lent on the security of that article together with interest thereon, the pawnee shall –

- (a) forthwith give notice to the pawner of that article by registered post to the address stated in the pledge book of the amount for which the article was sold and of the amount lying to the credit of the pawner after deducting the cost of postage and the charges of the auction;
- (b) on demand made by the pawner within 12 months from the date of dispatch of the notice, pay to the pawner the sum lying to the pawner's credit;
- (c) if no demand is made within the period specified in clause (b) above, deposit forthwith after the expiration of that period such amount in a savings account opened in the name of the pawner or transfer the said amount to an unclaimed balance account maintained by the pawnee.

(8) A pawnee shall keep proper records of the unclaimed balance account maintained under subparagraph (7)(c) and pay to the pawner the amount due to the pawner if a claim is made thereto by the pawner.

16. A pawnee shall at the end of every quarter carry a physical check to be made of the articles delivered as pledges and held in stock by the pawnee. Physical check of pledges.

17. A pawnee shall not – Acts prohibited.

- (a) accept an article as a pledge from any person appearing to be under the age of 16 years or to be under the influence of alcohol;
- (b) accept an article as a pledge without giving the pawner of the article the foil of the pawn ticket;
- (c) purchase or take as security or exchange the foil of a pawn ticket issued by another pawnee;
- (d) purchase any article given to the pawnee as a pledge except at a public auction conducted under paragraph 15;
- (e) allow any article delivered as a pledge to be redeemed with the view to purchasing it by the pawnee;
- (f) agree with the pawner to purchase, sell, or dispose within the redeemable period an article delivered by the pawner as a pledge;
- (g) sell or otherwise dispose of an article delivered as a pledge except at such time and in such manner as is authorised under these Conditions.
- (h) make any false entry in a pledge book or any other document required to be kept under these Conditions or fail to make therein any entry required to be entered under these Conditions.

18. (1) A pawnee shall be responsible for the safe custody of articles delivered as pledges. Safe custody of articles.

(2) Articles delivered to a pawnee as pledges shall be placed –

- (a) In safes which are under dual control;
- or
- (b) In steel cabinets under dual control kept inside a vault.

(3) A pawnee shall establish a dual control team of which the Head of the pawning division shall be a member.

19. (1) A pawnee may formulate rules which are not inconsistent with these Conditions for the conduct of its pawn broking business. Rules.

(2) A pawnee shall forward to the Director of the Bank Supervision Department of the Central Bank a copy of the rules formulated under paragraph (1) and display a copy of those rules in a conspicuous place at its place of business.

[PARAGRAPH 8]

First Schedule

PLEDGE BOOK

Pledge Book ofPawnee of

| Date | Serial No. of pledge in the month | No. of the Issued Pawn Ticket | Name of Pawner | Address* of Pawner | Name of Owner if other than Pawner | Description of each Article Pawned |
|------|-----------------------------------|-------------------------------|----------------|--------------------|------------------------------------|------------------------------------|
| | | | | | | |

| Weight of Article if Jewellery | Value of each Article in term of para (6) (Rs. cts.) | Amount of Loan upon each Article (Rs. cts.) | Profit or interest charged upon each Article (Rs. cts.) | Date of redemption | Name & Address of Person redeeming |
|--------------------------------|--|---|---|--------------------|------------------------------------|
| | | | | | |

* New address if original is changed

[PARAGRAPH 8]

Second Schedule

SALE BOOK OF PLEDGES

Date and Place of Sale :

Name and Address of Auctioneer :

| Date of Pawning | No. of pledge as in pledge Book | Name of Pawner | Amount of Loan | Amount of Interest due | Amount for which each Pledge was Sold by Auctioneer | Name & Address of Purchaser |
|-----------------|---------------------------------|----------------|----------------|------------------------|---|-----------------------------|
| | | | | | | |

[PARAGRAPH 12]

4th Schedule

**DECLARATION WHERE THE FOIL OF THE PAWN TICKET IS SURRENDERED
WITHOUT THE SIGNATURE
OF THE PAWNER ENDORSED THEREON**

I, A. B., , of , do solemnly and sincerely declare that pledged at Pawnee, the article/s described below and received the foil of a pawn ticket for the same and that for the purpose of redeeming the pledge I am unable to surrender the foil of the pawn ticket to the pawnee with the signature of the said

(pawner) duly endorsed thereon, because the said

(pawner) is dead/under a disability, to wit

(nature of disability).

The article/s above referred to is/are

I, C. D., do solemnly and sincerely declare that I know the person now making the foregoing declaration to be A. B., of

Declared before me this day of, 19.....

Signature of A. B.,

Signature of C. D.,

.....
Justice of Peace

[PARAGRAPH 12]

5th Schedule

DECLARATION WHERE THE FOIL OF THE PAWN TICKET IS LOST &C.

Take notice, if this declaration is false the person making it is punishable.

I, A. B., , of , do solemnly and sincerely declare that pledged at Pawnee, the article (or articles) described below, , property, and received the foil of the pawn ticket for the same, which has since been by , and that the foil of the pawn ticket has not been sold or transferred to any person by toknowledge or belief.

The article (or articles) above referred to is (or are) the following :

And, I, C. D., do solemnly and sincerely declare that I know the person now making the foregoing declaration to be A. B., of

Declared before me this day of, 19.....

.....
Justice of Peace

[PARAGRAPH 12]

6th Schedule

RECEIPT NO.

Date :

Received on redemption of Pledge No.

| | Rs. | Cts. |
|--------------------|-------|------|
| Amount of loan | | |
| Profit or interest | | |
| | ————— | |
| | Total | |
| | ===== | |

.....
Signature of Pawnee

[PARAGRAPH 15]

7th Schedule

REGULATIONS RELATING TO AUCTIONS OF PLEDGES

1. The pawnee shall cause all pledges to be exposed to public view.
2. The pawnee shall display catalogues of the pledges, stating –
 - (a) the pawnee's name and place of business;
 - (b) the month in which each pledge was pawned;
 - (c) the number of each pledge as entered at the time of pawning in the pledge book.
3. The pledges of each pawnee in the catalogue shall be separate from any pledges of any other pawnee.
4. The auctioneer shall insert in a daily newspaper in all three languages an advertisement giving notice of the sale, and stating –
 - (a) the pawnee's name and place of business;
 - (b) the months in which the pledges were pawned;
 - (c) the place of auction;
 - (d) the date and time of auction.
5. The advertisement shall be inserted on two separate days in the same newspaper, and the second advertisement shall be inserted at least ten clear days before the first day of sale.
6. Where a pawnee bids at a sale, the auctioneer shall not take the bidding in any other form than that in which he takes the biddings of other persons at the same sale; and the auctioneer on knocking down any article to a pawnee shall forthwith declare audibly the name of the pawnee as purchaser.
7. The auctioneer shall, within fourteen days after the sale, deliver to the pawnee a copy of the catalogue, or of so much thereof as relates to the pledges of that pawnee, filled up with the amount for which the several pledges of that pawnee were sold, and authenticated by the signature of the auctioneer.
8. The pawnee shall preserve every such catalogue for two years at least after the date of the auction.

Ref. No. : 02/04/002/005/001

Bank Supervision Department
8th Floor, Renuka Building
41, Janadhipathi Mawatha
Colombo 01.

01 December 1999

*To : All Licensed Commercial Banks &
all Licensed Specialised Banks*

Dear Sir/Madam,

**SECRECY OF BANKING TRANSACTIONS IN TERMS
OF SECTION 77 OF THE BANKING ACT**

In terms of Section 77 of the Banking Act, No.30 of 1988 as amended by Banking (Amendment) Act, No.33 of 1995, Banks are required to observe strict secrecy in respect of all banking transactions.

Innovations in the field of Information Technology have changed the environment of the Banking Industry and it has been observed that staff of outside computer firms also have access to confidential customer information of Banks.

In the above circumstances all Licensed Commercial Banks and all Licensed Specialised Banks are hereby required to adhere to the following:

- (i) Inclusion of a special clause/condition in software maintenance agreements or service agreements with outside software companies, requiring them to observe strict secrecy in respect of all transactions of the bank, its customers and the state of accounts of any person and all matters relating thereto.
- (ii) Obtain declarations of secrecy from all persons and organisations who perform services in terms of such maintenance or service agreements.

Yours faithfully,

Sgd. Dr. Anila Dias Bandaranaike
Actg. Director of Bank Supervision

Directions issued by the Monetary Board of the Central Bank of Sri Lanka in terms of Sections 46(1) and 76(J)(1) of the Banking Act, No. 30 of 1988, as amended.

Nivard Ajith Leslie Cabraal

*Chairman of the Monetary Board /
Governor of the Central Bank of Sri Lanka*

Colombo
05 October 2011

**BANKING ACT DIRECTION NO. 8 OF 2011
CUSTOMER CHARTER OF LICENSED BANKS**

In order to ensure the soundness of the banking system, Sections 46(1) and 76(J)(1) of the Banking Act, No. 30 of 1988, last amended by the Banking Act, No.46 of 2006, empowers the Monetary Board to issue Directions to licensed banks regarding the manner in which any aspect of the business of such banks is to be conducted. Safeguarding the interests of the customers, building up a healthy relationship between customers and banks; and improving the customer confidence in the banking sector would promote and ensure stability in the banking sector. In view of the above, the Monetary Board issues this Direction to all licensed banks to adopt a 'Code of Conduct' in line with the Customer Charter annexed to this Direction.

1. All licensed banks shall ensure that the customers' rights are protected in line with 'Customer Charter' annexed to this Direction and adopt a 'Code of Conduct' based on the charter.
2. All licensed banks shall obtain written confirmation on adherence to the 'Code of Conduct' from the current employees and all new employees (prior to taking up their employment in the bank).
3. All licensed banks shall publish the 'Customer Charter' in their websites, make copies available for customers on request in their preferred language and educate them when necessary.
4. All licensed banks shall ensure the implementation of this Direction within 6 months from the date of the Direction.

Annexure

CUSTOMER CHARTER OF LICENSED BANKS**1. Introduction**

This Charter sets key standards of fair banking practices envisaged by customers when they undertake transactions with licensed banks and provides guidance to the licensed banks to adopt a 'Code of Conduct' on customer protection. The Charter also includes a set of customer obligations towards licensed banks in the interest of stable relationship.

2. Receiving information and understanding the banking Products/Services

The customers have the right to receive factual information and understand the financial products/services offered by banks. In this regard, certain good practices of banks would be as follows:

- (a) The licensed banks should help the customers to understand the financial products/services offered by providing adequate information about them, explaining their financial implications and assisting the customers to choose the appropriate banking products/services.
- (b) Each licensed bank should have Key Facts Document in the form of a brochure/leaflet written in simple language for its products or services, separately or in combination and which should be distributed to the customers seeking such products/services. These brochures/leaflets should, at minimum, contain the following basic information and be available in languages preferred by the customers (*i.e.*, Sinhala/Tamil/English):
 - i. Description of the products/services.
 - ii. Financial and other benefits to customers including any incentives and promotions.
 - iii. Fees/charges, commission, interest *etc.*, charged from customers.
 - iv. Procedures to be followed to obtain the product/service.
 - v. Major terms and conditions.
 - vi. A common complaint procedure for customers.
- (c) All advertisements by licensed banks should contain factual information on products/services offered by them in any media and promotional material, which can be understood by the targeted customers and not contain information that may be likely to mislead the public. In addition, all such advertisements should give the contact details and state that the respective bank is a licensed bank supervised by the Central Bank of Sri Lanka.
- (d) Further information or clarification on any advertisements on bank's products/services (*i.e.*, fees/charges and interest rates *etc.*) should be provided by banks on request.
- (e) The following information should be conspicuously displayed in the Head Offices and all branches and other banking outlets of the licensed banks.
 - i. Current interest rates on all deposit and loan products
 - ii. Buying and selling rates of foreign currencies
 - iii. Credit rating of the bank with underlying specifications
 - iv. The contact details of the Financial Ombudsman and Credit Counselling Centre
 - v. Banking hours and Holiday notices
 - vi. Any other relevant information
- (f) A periodic statement should be sent to customers either in printed form or electronic form opted by them regarding transactions and balances in their deposit or loan accounts or other services other than passbook savings accounts of non-dormant category.

Statements for credit cards should set out the minimum payment required and the total interest amount charged if only the required minimum payment is made and late payment fee if the minimum payment is not made.

- (g) The licensed banks should improve the customer awareness on financial products/services and risks by arranging specific financial literacy programmes.
- (h) The licensed banks should act fairly and reasonably by ensuring that the banks' staff follows procedures and practices stipulated in the 'Code of Conduct', the products/services offered are in line with relevant laws and regulations and the maintenance of the principles of integrity and transparency.

3. Awareness and understanding the 'Terms & Conditions' on Products/Services

3.1 The customers have the right to access to and fully understand the terms and conditions relevant to each and every product or service they obtain from banks. In this regard, the licensed banks should ensure that:

- (a) the 'Terms and Conditions' associated with each product or service are made available to customers in languages preferred by them;
- (b) a copy of the 'Terms and Conditions' is given to the prospective customer prior to offering or recommending a product or service and any clarification sought by customers is clearly explained;
- (c) an officer carrying out the duties of a relationship officer should clearly explain to the customer of the terms and conditions and features of the products/services, provide a comparison of alternative products/services available and give reasonable time for the customer to make a decision;
- (d) a written confirmation is obtained from the customer that the details of the products or services and their terms and conditions were received, explained and understood;
- (e) all the documents pertaining to the product or service are duly completed and signed by the customer. (Incomplete documents and obtaining signatures on blank papers/documents are avoided.);
- (f) any changes made by licensed banks to the agreed terms and conditions on products or services should be informed to the customers in writing or through paper notice or any other appropriate way before such changes are made.

3.2 The customers have the right to know specifically the following under 'Terms and Conditions'.

- (a) The details of the bank's general charges such as interest rates, fees and commissions, if any, required to be paid by the customer including the method of computing interest charges.
- (b) The bank's procedure for receiving complaints and the resolution mechanism.
- (c) The course of recovery actions a bank may follow in the event of any default by the customer on his/her obligations and bank's expenses that will be reimbursed from the customer.
- (d) Any compensation proposed to be paid by the relevant customers in case of pre-mature withdrawal/termination of participation in a product/service by the customers.
- (e) Any restrictions on opening of accounts, closing of accounts, maintenance of accounts (e.g., minimum balance), transfer of funds by customers and policies and procedures on dormant accounts and abandoned property.
- (f) The disclosure of customer information to a party legally authorised to obtain such information.
- (g) The rules regarding (i) reporting of suspicious transactions and above-the-threshold transactions to the Financial Intelligence Unit (ii) the reporting procedures that the customer should follow in the case of stolen cards /financial instruments and (iii) liability of the bank and the customer.
- (h) The procedures to be employed by the bank to foreclose on the property held as collateral for a loan and the consequences thereof to the customer and options available to him/her.

4. Compensation from withdrawal / cancellation of products / services by banks

In the event a licensed bank seeks to withdraw/terminate a product or service already on contract, especially deposit products, customers have the right to receive a reasonable time with an exit compensation scheme disclosed in advance.

5. Protection from Agents of banks

The customers have the right to know the details of the agents appointed for customer services by licensed banks and the 'Code of Conduct' issued to them by banks to refrain from doing any of the following.

- (a) Harassing customers.
- (b) Using abusive debt collection practices.
- (c) Disclosing customer information to others.
- (d) Giving false or misleading information about products/services.
- (e) Unduly influence customers or the general public to buy or get involved in the bank's products/services.
- (f) Engage in getting any security documents signed outside the bank.

6. Complaint measures and relief

The customers have the right to resolve their complaints with transparency and effectively. In this regard, licensed banks should:

- (a) implement a quick and effective resolution mechanism on disputes between customers and banks by rectifying disputes quickly, handling complaints within a short period, directing to take the complaints forward if the customer is still not satisfied and reversing any charges that applied due to a mistake;
- (b) have in place a written procedure for receiving complaints and steps to be taken to resolve such complaints;
- (c) acknowledge the receipt of any complaint in writing within a reasonably short period of time and inform the complainants of the procedure that will be followed by the bank for the resolution of the complaint and the contact details of the officer/officers handling the complaint;
- (d) facilitate receiving complaints verbally or in writing and the banks shall not insist that complaints be necessarily made only in writing;
- (e) establish a management information system regarding complaints and process of resolution as part of the duties of risk management committee relating to operational risks;
- (f) assign an officer with the duty of handling the complaints and management information in each branch or office; and
- (g) advise the customers to seek affordable and efficient recourse through the Financial Ombudsman or in Courts in the event the complaint is not resolved to their satisfaction.

7. Special attention and Care

The customers such as elderly, disabled or customers with low financial literacy have the right to receive special attention to facilitate them to have a fair access to banking services.

8. Customer obligations toward banks

Customers should foster the relationship with banks fulfilling their obligations. In this regard:

- (a) Customers should not borrow beyond their affordable repayment capacity limit.
- (b) Customers should not allow the repayments or instalments to go into arrears and the prompt repayments will create healthy relationships with the banks.
- (c) If a customer wants to settle his/her loan before the end of the loan period, he/she has to pay certain amount of money over the loan amount as agreed at the time of accepting the offer.

- (d) If the customer is unable to repay his/her loan outstanding as agreed, the bank will have the right to recover the amount owing to the bank including the bank's expenses specified in the 'Terms & Conditions'.
- (e) If a customer finds himself/herself in financial difficulties, he/she should let the bank know as early as possible. The sooner the bank discusses the customer's problems, the easier it will be for both of the customer and the bank to find a solution.
- (f) When a customer account goes into default, the first step the bank takes is to contact the customer. In this regard, it is imperative that the customer should inform the bank at all times of any changes to his/her address and contact details.
- (g) Customers should have the full knowledge and understanding of the product/service offered before entering into the contract.
- (h) Customers should duly fill and submit the required application forms and supporting documents in time.
- (i) Customers should exercise due care in all transactions with banks.
- (j) Customers should notify the bank promptly of any fraudulent transaction/s or such attempts in their accounts with the banks whenever they become aware of such instances.
- (k) Customers should exercise utmost care in using and storing/handling Personal Identification Numbers (PIN) and security measures of other electronic cards issued by the bank.
- (l) Customers should not treat any operational lapse of a bank on its obligations mentioned in Clause 2 to 7 above other than any dispute on the amount payable to the bank as a reason for his/her non settlement or delay in settlement of a debt unless otherwise allowed by a court of law. All such incidents need to be resolved separately or individually.

Ref. : 02/17/600/002/001

Bank Supervision Department

26 July 2013

*To : CEOs of all Licensed Commercial Banks and
Licensed Specialised Banks*

Dear Sir / Madam,

**CAP ON PENAL INTEREST RATES CHARGED BY LICENSED BANKS
ON LOANS AND ADVANCES**

The Central Bank of Sri Lanka (CBSL) has reviewed the penal interest rates charged by licensed banks on overdue loans and advances, and is of the view that such rates are excessively high, and result in an undue burden to overdue borrowers when repaying loans. The inability to sustainably service the loans as a result of such excessive rates being charged also has an adverse impact on financial position of banks, as well as on the financial system stability. In addition high interest rates hinder entrepreneurship development in the economy.

2. The recent surveys conducted by CBSL has revealed that the penal rates charged by the banks are in the range of 2 per cent to 20 per cent per annum on the amount in arrears and sometimes on the total amount outstanding, over and above the original interest rates charged on the loan. In the case of leasing facilities, penal rates are in the range of 36 per cent to 48 per cent per annum, on overdue rentals over and above the original rate.

3. In view of the foregoing, the Monetary Board has instructed the undersigned to request all licensed banks to reduce the penal interest rates charged on all loans and advances including credit facilities already granted to a level not exceeding 2 per cent per annum for the amount in arrears, during the overdue period with effect from 1 August 2013.

4. Accordingly, you are requested to take necessary measures to comply with the above.

Yours faithfully,

(Ms.) T M J Y P Fernando
Director of Bank Supervision

Ref. : 02/17/600/002/001

Bank Supervision Department

07 June 2013

*To : CEOs of all Licensed Commercial Banks and
Licensed Specialised Banks*

Dear Sir / Madam,

INTEREST RATES ON CREDIT CARDS AND OTHER LOANS AND ADVANCES

The Central Bank of Sri Lanka in the recent past has eased its monetary policy stance resulting in a reduction of policy rates leading to a reduction in short term interest rates. In view of these developments, the Central Bank on many occasions requested banks to reduce interest rates on lending. Although a marginal reduction in interest rates of a few products has been observed in certain banks, a wider reduction is required across the banking sector.

2. In view of the foregoing, the Monetary Board has instructed the undersigned to request you to reduce interest rates on:

- (a) credit card advances from its present level of 28 per annum to 24 per annum, and
- (b) all other loans and advances in an appropriate manner from their current level, so as to not exceed 24 per cent per annum.

3. Accordingly, you are requested to take necessary measures to comply with the above.

Yours faithfully,

(Ms.) T M J Y P Fernando
Director of Bank Supervision

Our Ref. : 02/17/600/002/001

Bank Supervision Department

17 April 2012

*To : CEOs of all Licensed Commercial Banks and
Licensed Specialised Banks*

Dear Sir / Madam,

INTEREST RATES ON CREDIT CARDS AND HOUSING LOANS

We refer to our letter dated 21 September 2010 on the Reduction of Interest Rates on Loans and Advances and write to inform you that, considering the recent trends in market interest rates, the Monetary Board is of the view that licensed banks may increase interest rates on housing loans to 16 per cent per annum and credit card advances to 28 per cent per annum.

Yours faithfully,

(Mrs.) T M J Y P Fernando
Director of Bank Supervision

Ref. No. : 02/04/001/0105/002

Bank Supervision Department

06 April 2005

*To : All Licensed Commercial Banks
Licensed Specialised Banks;*

Dear Sirs,

EXTENDING/RESTRICTING OF BANKING HOURS BY THE BANKS

It has been observed that the Licensed Commercial Banks and Licensed Specialised Banks have made requests from time to time to extend and restrict their banking hours. There is no legal provision that governs banking hours of the licensed banks. However, as there can be certain repercussions arising under certain laws if banking hours are extended to bank holidays and/or normal business hours are restricted, it is important that banks satisfy themselves with the legal implications and liabilities, if any, arising out of these arrangements.

All licensed banks are hereby informed that the Central Bank of Sri Lanka has no objection to the extension or restriction of banking hours subject to the above concerns being met. All banks should ensure that customers are informed of such changes well in advance to avoid inconvenience to them.

Yours faithfully,

Sgd, Director of Bank Supervision

cc: Mr. Upali de Silva
Secretary-General
Sri Lanka Banks' Association (Gte) Ltd.
Level 8, Ceylinco House
Colombo 1.

Ref. No. : BS/33/93

1st July, 1993.

NOTICE TO BANKS – 1/93

INCENTIVE SCHEMES FOR MOBILIZING DEMAND DEPOSIT ACCOUNTS

The following guidelines should be followed by all Commercial Banks when framing incentive schemes to mobilize demand deposits.

1. First preference to be given to schemes that promote service oriented facilities such as –
 - (a) permitting withdrawals of funds from any branch office;
 - (b) extended banking hours;
 - (c) reducing time taken for the encashment of cheques; and
 - (d) reducing the minimum deposit required to open an account.
2. Where any other form of incentive is offered, the scheme should :
 - (a) be within the legal framework and accepted banking practices;
 - (b) promote banking habits or any other broader objective in the economy;
 - (c) not have adverse revenue implications for the Government;
 - (d) not have an adverse impact on the profitability of the bank through excessive increase in costs of mobilizing deposits;
 - (e) bestow on the depositor a real benefit and not something illusory;
 - (f) not lead to unfair and unethical banking practices;
 - (g) not weaken the monetary policy tools or prudential requirements; and
 - (h) be operated directly by the bank or, where it is undertaken in association with another company, the company providing the benefit should not be an affiliate/subsidiary company of the bank concerned or part of Group to which the bank belongs.

The prior approval of the Director of Bank Supervision should be obtained before such deposit incentive schemes are implemented.

Yours faithfully

Sgd. P. T. Sirisena

Director of Bank Supervision

INTRODUCTION OF PRODUCTS BASED ON ISLAMIC PRINCIPLES^{1/}

The recent amendments to the Banking Act permit banks to introduce banking products based on Islamic principles. Several banks have requested permission from CBSL in this regard.

In order to ensure that all banking operations, be it conventional banking or Islamic Banking, are conducted in a prudential manner, the following regulatory framework will apply:

1. The Islamic Banking operations should be conducted strictly within the existing regulatory framework applicable to the licensed banks.
2. The respective banks should maintain separate books of accounts for their Islamic Banking Operations.
3. Data on Islamic Banking should be included under a separate column in the statutory returns submitted to CBSL in order to enable a clear demarcation between the accounts relating to conventional banking and Islamic Banking.
4. The prudential regulations that apply to conventional banking operations will apply equally to Islamic Banking business and banks are advised to strictly follow the existing regulations. If any deviations are observed, such banks will be required to immediately cease the continuation of the relevant operations.

The CBSL will write individually to the banks that have inquired in this regard.

Bank Supervision Department

31 December 2004

*To : CEOs of Licensed Commercial Banks
Secretary-General/SLBA*

Dear Sirs,

WITHDRAWALS ON SAVINGS ACCOUNTS

This is to inform you that the restriction on payment of interest for a particular month, on savings accounts in respect of which there had been more than 4 withdrawals per month, in terms of Circular No. BS/6/81 dated 29 June 1990, has been removed with immediate effect.

Please acknowledge receipt.

Yours faithfully,

***Sgd,* Director of Bank Supervision**

Ref. No. : BS/6/81

29, June 1990.

To : All Commercial Banks

WITHDRAWALS ON SAVINGS ACCOUNTS AND 7 DAY CALL DEPOSIT ACCOUNTS

It has been observed that some commercial banks operate savings accounts and 7 day call deposit accounts for their customers in the manner of current accounts, *i.e.*, permitting almost daily withdrawals on these accounts, whilst paying interest on them. This is tantamount to the payment of interest on demand deposits and is contrary to established banking practice in Sri Lanka.

To ensure the element of notice on withdrawals from savings accounts, it has been the practice to permit only once-a-week withdrawals on these accounts. 7 day call deposits by their very name ensure that a deposit is not uplifted before 7 days for the payment of interest.

In order to ensure the savings character of these accounts and with a view to ensuring uniformity in the practice prevailing in the commercial banking system in Sri Lanka, commercial banks are hereby informed that they should, with immediate effect, conform strictly to established banking practice in Sri Lanka in the operation of savings accounts and 7 day call deposit accounts for their customers, through their savings pass books or through automated teller machines.

Where any commercial bank has deviated from the above practice, a press notice drawing the attention of its customers to the correct procedure in the operation of these accounts is required.

Sgd. P. T. Sirisena

Director of Bank Supervision

Ref. : 02/17/800/007/001

Bank Supervision Department

19 March 2012

*To : CEOs of all Licensed Commercial Banks and
Licensed Specialised Banks*

Dear Sir / Madam,

**THRESHOLD AGE OF THE SENIOR CITIZENS FOR
TRANSACTIONS WITH LICENSED BANKS**

The Monetary Board having observed that licensed banks and licensed finance companies use different thresholds of age to identify senior citizens when conducting banking operations has decided to request the licensed banks to use a common threshold of 55 years of age in identifying senior citizens.

Accordingly, you are requested to take appropriate measures to implement the above.

Yours faithfully,

(Mrs.) T M J Y P Fernando
Director of Bank Supervision

Directions issued by the Monetary Board in terms of Section 46(1) of the Banking Act, No.30 of 1988, as amended.

Nivard Ajith Leslie Cabraal

*Chairman of the Monetary Board /
Governor of the Central Bank of Sri Lanka*

Colombo
27 September 2010

**BANKING ACT DIRECTION NO. 5 OF 2010
INSURANCE OF DEPOSIT LIABILITIES**

In the exercise of the powers conferred by Section 46(1) of the Banking Act, No. 30 of 1988, last amended by the Banking Act No. 46 of 2006, the Monetary Board hereby issues Directions to licensed commercial banks to be effective from 1 October, 2010.

- | | | |
|-----|--|-----------------------------------|
| 1.1 | These Directions shall be cited as the Banking Act, Directions No. 5 of 2010 on Insurance of Deposit Liabilities. | 1. Citation. |
| 2.1 | In terms of Section 46(1) of the Banking Act in order to ensure the soundness of the banking system, the Monetary Board may issue directions to licensed commercial banks regarding the manner in which any aspect of the business of such bank or banks is to be conducted. | 2. Enabling statutory provisions. |
| 3.1 | In terms of statutory provisions and best practices in banking, accepting deposits is a core business that requires effective risk management measures as it critically depends on the public confidence in banks. As such, insurance of deposits is a well-accepted safety net measure that will protect and promote the public confidence and stability of the banking system. | 3. The objective of Directions. |
| 4.1 | As such, all licensed commercial banks shall insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme, Regulations No. 1 of 2010 issued under Sections 32A to 32E of the Monetary Law Act with effect from 1 October, 2010. | 4. Insurance of deposits. |
| 4.2 | All licensed commercial banks shall also disclose to the public, in their advertisements soliciting deposits, the fact that eligible deposit liabilities have been insured with the Sri Lanka Deposit Insurance Scheme implemented by the Monetary Board on payment of the applicable premium for compensation up to a maximum of Rs. 200,000 per depositor. | |

ශ්‍රී ලංකා ප්‍රජාතාන්ත්‍රික සමාජවාදී ජනරජයේ ගැසට් පත්‍රය
අති විශේෂ

The Gazette of the Democratic Socialist Republic of Sri Lanka
EXTRAORDINARY

අංක 1711/14 – 2011 ජූනි 22 වැනි බදාදා – 2011.06.22
No. 1711/14 – WEDNESDAY, JUNE 22, 2011

(Published by Authority)

PART I : SECTION (I) – GENERAL

Central Bank of Sri Lanka Notices

THE MONETARY LAW ACT

REGULATIONS made by the Monetary Board under Section 32E of the Monetary Law Act, (Chapter 422).

NIVARD AJITH LESLIE CABRAAL,
Chairman,
Monetary Board.

Central Bank of Sri Lanka,
Colombo,
20th June 2011.

Sri Lanka Deposit Insurance Scheme Regulations

Amendment to the Sri Lanka Deposit Insurance Scheme Regulations, No.1 of 2010

- | | |
|--|--|
| 1. Citation. | 1.1 These Regulations shall be cited as “Sri Lanka Deposit Insurance Scheme Regulations, No. 2 of 2011”. |
| 2. Amendments to the principal regulation. | 2.1 Sri Lanka Deposit Insurance Scheme Regulations, No. 1 of 2010 published in Gazette Extraordinary No. 1673/11 of 28 th September, 2010 are hereby amended as follows:– |
| Substitution for regulation 7.3. | 2.2 In regulation 7 thereof by the repeal of paragraph 7.3 of that regulation and the substitution therefor of the following paragraph : “7.3 Debits to the Fund shall be for compensation payments to depositors, investments and operating expenses of the Scheme as may be determined by the Monetary Board.”. |

ශ්‍රී ලංකා ප්‍රජාතාන්ත්‍රික සමාජවාදී ජනරජයේ ගැසට් පත්‍රය
අති විශේෂ

The Gazette of the Democratic Socialist Republic of Sri Lanka
EXTRAORDINARY

අංක 1690/11 – 2011 ජනවාරි 27 වැනි බ්‍රහස්පතින්දා – 2011.01.27
No. 1690/11 – THURSDAY, JANUARY 27, 2011

(Published by Authority)

PART I : SECTION (I) – GENERAL

Central Bank of Sri Lanka Notices

THE MONETARY LAW ACT

REGULATIONS made by the Monetary Board under Section 32E of the Monetary Law Act, (Chapter 422).

NIVARD AJITH LESLIE CABRAAL,
Chairman,
Monetary Board.

Central Bank of Sri Lanka,
Colombo,
26th January 2011.

Sri Lanka Deposit Insurance Scheme Regulations

Amendments to the Sri Lanka Deposit Insurance Scheme Regulations, No. 1 of 2010

- | | | |
|-----|--|--|
| 1.1 | These Regulations shall be cited as “Sri Lanka Deposit Insurance Scheme Regulations, No. 1 of 2011”. | 1. Citation. |
| 2.1 | Sri Lanka Deposit Insurance Regulations, No. 1 of 2010 published in <i>Gazette Extraordinary</i> No. 1673/11 of 28 th September, 2010 is hereby amended as follows:– | 2. Amendments to the principal regulation. |
| 2.2 | By the substitution for word “regulation” of the word “regulation” wherever it is applicable. | Substitution for the word “regulation”. |
| 2.3 | In regulation 5 thereof by the repeal of paragraph 5.2(iii) of that regulation and the substitution therefor of the following paragraph: “5.2(iii) Deposit liabilities to directors, key management personnel and other related parties excluding shareholders as defined in Banking Act Direction, No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks, Banking Act Direction, No. 12 of 2007 on Corporate Governance for Licensed Specialised Banks and the Finance Companies Act (Corporate Governance) Direction, No. 3 of 2008 for Registered Finance Companies.” | Substitution for regulation 5.2(iii). |

ශ්‍රී ලංකා ප්‍රජාතාන්ත්‍රික සමාජවාදී ජනරජයේ ගැසට් පත්‍රය
අති විශේෂ

The Gazette of the Democratic Socialist Republic of Sri Lanka
EXTRAORDINARY

අංක 1673/11 – 2010 සැප්තැම්බර් 28 වැනි අඟහරුවාදා – 2010.09.28
No. 1673/11 – TUESDAY, SEPTEMBER 28, 2010

(Published by Authority)

PART I : SECTION (I) – GENERAL

Central Bank of Sri Lanka Notices

THE MONETARY LAW ACT

REGULATIONS made by the Monetary Board under Section 32E of the Monetary Law Act, (Chapter 422).

NIVARD AJITH LESLIE CABRAAL,
Chairman,
Monetary Board.

Central Bank of Sri Lanka,
Colombo,
27th September, 2010.

SRI LANKA DEPOSIT INSURANCE SCHEME REGULATIONS

- | | |
|---|--|
| 1. Citation. | 1.1 These Regulations shall be cited as “Sri Lanka Deposit Insurance Scheme Regulations, No. 1 of 2010”. |
| 2. Objective of the Scheme & Enabling Provisions. | <p>2.1 In terms of Section 5 of the Monetary Law Act, the Central Bank of Sri Lanka is charged with the duty of securing, as far as possible by action authorized by such Act, the two objectives, namely, (a) economic and price stability and (b) financial system stability.</p> <p>2.2 In terms of the Sections 32A to 32E of the Monetary Law Act, the Central Bank may establish, maintain, manage and control, as determined by the Monetary Board from time to time, a scheme for insurance of deposits held by banking institutions.</p> <p>2.3 In terms of Sections 46(1) and 76J of the Banking Act, in order to ensure the soundness of the banking system, the Monetary Board is empowered to issue</p> |

Directions to licensed commercial banks and licensed specialized banks, regarding the manner in which any aspect of the business of such banks is to be conducted.

- 2.4 In terms of the Sections 27 to 29 of the Finance Companies Act, the Central Bank may operate a scheme for insurance of deposits held by registered finance companies and require such finance companies to insure their deposit liabilities under the scheme or under any other scheme as is specified by the Monetary Board.
- 2.5 Accordingly, this Deposit Insurance Scheme will be implemented in the interest of the overall financial system stability of the country, and it will initially outline a mechanism to protect small depositors from failure of financial institutions, thereby promoting the stability of financial institutions by maintaining small-depositor-confidence.
- 3.1 This Scheme shall be titled Sri Lanka Deposit Insurance Scheme. 3. Title of the Scheme and Effective Date.
- 3.2 The Scheme shall come into effect from 1st October, 2010.
- 4.1 All Licensed Commercial Banks, Licensed Specialised Banks and Registered Finance Companies shall be the members of the Scheme. 4. Member Institutions to be governed by the Scheme.
- 5.1 Deposits to be insured shall include demand, time and savings deposit liabilities of member institutions and exclude all borrowing instruments. 5. Eligible Deposits to be insured.
- 5.2 The following deposit liabilities shall be excluded from the Scheme:–
- (i) Deposit liabilities to member institutions.
 - (ii) Deposit liabilities to the Government of Sri Lanka inclusive of Ministries, Departments and Local Governments.
 - (iii) Deposit liabilities to shareholders, directors, key management personnel and other related parties as defined in Banking Act, Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks, Banking Act, Direction No. 12 of 2007 on Corporate Governance for Licensed Specialised Banks and the Finance Companies Act (Corporate Governance) Direction, No. 3 of 2008 for Registered Finance Companies.
 - (iv) Deposit liabilities held as collateral against any accommodation granted.
 - (v) Deposits falling within the meaning of abandoned property in terms of the Banking Act and dormant deposits in terms of the Finance Companies Act, funds of which have been transferred to the Central Bank of Sri Lanka in terms of the relevant Directions issued by the Monetary Board.
- 5.3 All eligible deposits shall be insured by member institutions.
- 6.1 Member institutions shall pay a premium calculated on the total amount of deposits, excluding the deposit liabilities stated in 5.2 above as at end of the quarter / month as may be determined by the Monetary Board from time to time, to the Deposit Insurance Fund stated in Regulation 7. 6. Premium to be levied on insured deposits.

6.2 The calculation of premia effective until further notice shall be as follows:–

- (i) Licensed banks which maintained a capital adequacy ratio of 14 *per centum* or above at the end of the immediately preceding financial year as per its audited accounts as accepted by the Director of Bank Supervision – a premium of 0.10 *per centum* per annum payable quarterly calculated on total amount of all eligible deposits as at end of the quarter.
- (ii) All other licensed banks – a premium of 0.125 *per centum* per annum payable quarterly calculated on total amount of all eligible deposits as at end of the quarter.
- (iii) Registered Finance Companies – a premium of 0.15 *per centum* per annum payable monthly calculated on total amount of all eligible deposits as at end of the month.

6.3 Member institutions shall remit the applicable amount of the premium to the account of the Deposit Insurance Fund within a period of 15 days from the end of the respective quarter / month and submit the details of deposits and calculation of premium in a format specified by the Director of Bank Supervision.

6.4 In the event of a delay in the payment of the premium inclusive of instances of under-payment, a penalty will be levied at the prevailing weighted average 91 days primary Treasury bill yield rate plus 200 basis points.

7. Deposit Insurance Fund.

7.1 The Scheme shall have a fund titled “Deposit Insurance Fund” (hereafter referred to as “the Fund”), and it shall be operated and managed by the Monetary Board, which responsibility it may delegate to an officer or a Department of the Central Bank of Sri Lanka of its choice.

7.2 Credits to the Fund shall include premia and penalties paid by member-institutions, all proceeds of profits, income and gains arising out of the investments of the moneys in the Fund, recovery of deposits paid as compensation, such sums as may be appropriated out of the abandoned property in the case of licensed banks and dormant deposits in the case of registered finance companies transferred to the Central Bank of Sri Lanka in terms Directions issued by the Monetary Board under Part IX – Sections 72 and 76 of the Banking Act and Sections 31(1) to 31(3) of the Finance Companies Act as applicable, borrowings and contributions from the Government and / or any other sources as may be approved by the Monetary Board.

7.3 Debits to the Fund shall be for Compensation payments to depositors, investments, repayment of abandoned property or dormant deposits, as the case may be, in the event such property/dormant deposits lying in the fund and operating expenses of the Scheme as may be determined by the Monetary Board.

8. Investments of moneys in the Funds.

8.1 The moneys in the fund shall be invested as hereinafter provided:

- (i) *Government Securities* – Government securities will include Treasury bills, Treasury bonds and other marketable securities issued by the Government of Sri Lanka.
- (ii) Secured advances or loans to any member institution in the instance of a severe liquidity crisis in such member institution, if, in the opinion

of the Monetary Board (after considering an assessment report on the liquidity position submitted by the Director of Bank Supervision in the case of a licensed bank or the Director of Department of Supervision of Non-Bank Financial Institutions in the case of a registered finance company), such an advance / loan will help avoid an imminent financial panic in the particular institution or in the financial system as a whole.

- 8.2 Such advances or loans to member institutions shall be provided on the security of re-saleable collaterals and / or Government / Central Bank of Sri Lanka Guarantees and at rates of interest as may be determined by the Monetary Board.
- 8.3 The repayment period of such loans or advances shall be as determined by the Monetary Board.
- 9.1 Compensation to depositors on insured deposits will be paid as per regulations issued by the Monetary Board from time to time, or as hereinafter provided.
- 9.2 Compensation on insured deposit liabilities of a member institution will be paid only when the licence / registration of the member institution is suspended / cancelled by the Monetary Board in terms of the relevant statutory provisions.
- 9.3 Within a week from the announcement of Monetary Board decision to suspend / cancel the licence / registration of the member institution, the Director of Bank Supervision in the case of a licensed bank or the Director of Department of Supervision of Non-Bank Financial Institutions in the case of a registered finance company, shall prepare a list of depositors with the details of deposit accounts setting out the amounts due from the institution to such depositors as at the date of the Monetary Board Order of suspension / cancellation.
- 9.4 The compensation within the limits as specified will be paid within six months from the date of the suspension/cancellation. No interest will be paid in the ensuing period.
- 9.5 The compensation payable in respect of insured deposits of a member institution will be computed on a “per-depositor” basis, consolidating all insured deposit liabilities to each depositor inclusive of any interest accrued and net of any dues from the depositor to the member institution as at the date of the suspension / cancellation of licence / registration.
- 9.6 The amount of compensation payable to a depositor shall be limited to the total insured deposits computed as above, subject to a maximum of Rs. 200,000 or its equivalent in the case of foreign currency deposits, if such amount exceeds Rs. 200,000.
- 9.7 Any compensation paid to depositors of a member institution by the Deposit Insurance Fund shall be accounted in the books of the member institution as its deposit liability to the Deposit Insurance Scheme, while redeeming the deposit liabilities due to the respective depositors by an equivalent amount.
- 9.8 In the event that any depositor is unable to receive the entitled compensation at the time of payment of compensation, the legal beneficiaries of the depositor
9. Compensation on Insured Deposits.

shall be paid the compensation in terms of the applicable legal provisions and procedures.

9.9 The payment of compensation shall not be a liability of the Monetary Board or the Central Bank of Sri Lanka, and shall be limited to funds available or raised in the Deposit Insurance Fund including any borrowings permitted and contributions received. The Monetary Board and the Central Bank of Sri Lanka shall not be responsible for any liability that exceeds the total amount lying to the credit of the Fund.

9.10 The payment of compensation shall come into effect in the case of a suspension / cancellation as ordered by the Monetary Board on or after 1st January, 2012.

10. Books and Accounts of the Scheme.

10.1 There shall be an established Deposit Insurance Unit in the Bank Supervision Department (The Unit) which shall be responsible for the operational and management arrangements, under the instructions and supervision of the Director of Bank Supervision in terms of Directions / Regulations and policies as approved by the Monetary Board from time to time.

10.2 The Unit shall maintain books, accounts and statements relating to financial transactions of the Scheme in terms of the applicable Sri Lanka Accounting Standards.

10.3 The financial year of the Scheme shall be the calendar year and the Auditor General shall be the Auditor.

10.4 The Unit shall prepare financial statements on income and expenses, assets and liabilities, cash flows and investments for each financial year and submit the audited financial statements to the Monetary Board on or before 31st March of the following year and disclose such statements for the information of the member institutions and the public.

10.5 The financial statements of the Sri Lanka Deposit Insurance Scheme shall be distinctly separate from the financial statements of the Central Bank of Sri Lanka and accordingly, no consolidation of the Unit's financial statements shall be made with that of the Central Bank of Sri Lanka.

11. Repeal of Regulations dated 27 February, 1987 and , No. 443/17 dated 6 March, 1987.

11.1 Deposit Insurance Scheme Regulations / No. 1 of 1987 dated 27th February, 1987 and *Gazette*, No. 443/17 dated 6th March, 1987 issued under Section 32E of the Monetary Law Act, (Chapter 422) and subsequent amendments shall be repealed and cease to operate with effect from 1st October, 2010 and the Deposit Insurance Fund operated under these Regulations as at 30th September, 2010 shall be vested with the Sri Lanka Deposit Insurance Scheme with effect from 1st October, 2010.

11.2 As such, all commitments or contingencies arising from the Scheme operated under Deposit Insurance Scheme, Regulations No. 1 of 1987 as at 30th September, 2010 shall be extinguished as on 1st October, 2010.

Circular No. : 01/2011

Bank Supervision Department

20 April 2011

*To : CEOs of all Member Institutions of
Sri Lanka Deposit Insurance Schemes*

Dear Sir/Madam,

SRI LANKA DEPOSIT INSURANCE SCHEME – OPERATING INSTRUCTIONS

All member institutions are informed that Paragraph 4(c) of Circular No.02/2010 on the above subject dated 09 December 2010 is hereby amended as follows.

“Deposits at overseas branches shall not be considered as eligible deposits.”.

Accordingly, deposits at Off-shore Banking Unit shall be considered as eligible deposits from next premium date.

Yours faithfully,

(Mrs). T M J Y P Fernando
Director of Bank Supervision

Copy: Director of Supervision of Non-Bank Financial Institutions
Central Bank of Sri Lanka

Circular No. : 02/2010

Bank Supervision Department

09 December 2010

*To : CEOs of all Member Institutions of
Sri Lanka Deposit Insurance Schemes*

Dear Sir/Madam,

SRI LANKA DEPOSIT INSURANCE SCHEME – OPERATING INSTRUCTIONS

All member institutions are requested to adhere to the following instructions.

1. **Conversion rates for foreign currency deposit liabilities:** The daily indicative exchange rates issued by International Operations Department of the Central Bank in the Central Bank web site (<http://www.cbsl.gov.lk>) should be used to convert the foreign currency liabilities in the local accounting requirements.
2. **Deposits held as collaterals against any accommodation granted:** The deposits held as collateral to the extent of actual usage of the credit facilities as of the reporting date should be excluded for calculation of insurance premium. In the case of a deposit taken as an additional collateral, the deposit balance or the outstanding balance of the accommodation, which ever is lower, should be excluded.
3. **Deposit liability calculation:** The outstanding balance of depositors' accounts eligible for insurance as at the end of each month/quarter should be treated as the deposit liability.
4. **Eligibility of deposits:**
 - (a) Certificates of deposits shall be considered as eligible deposits.
 - (b) Vostro accounts of entities in the member institution's group entity shall not be considered as eligible deposits.
 - (c) Deposits at Off-shore Banking Unit and overseas branches shall not be considered as eligible deposits.
5. **Reporting on depositor wise details:** Member institutions shall submit depositor wise details of eligible deposits to the Deposit Insurance Unit of the Central Bank of Sri Lanka in the annexed format in an electronic form, along with a covering letter duly signed by the Chief Executive Officer and the Chief Financial Officer, commencing from 31 December 2011.

Yours faithfully,

Acting Director of Bank Supervision

Copy: Director of Supervision of Non-Bank Financial Institutions
Central Bank of Sri Lanka

Annex

Form No: SLDIS/02/2010/01

CONFIDENTIAL

.....

(Name of the Member Institution)

Return on Depositor wise details of eligible deposits

As at (dd/mm/yyyy)

| Account No. | Name of Depositor/(s) | NIC No. or any other Identity No. | Eligible Deposit Balance |
|--------------------|------------------------------|--|---|
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |

Note: In case of joint accounts, Names and NIC numbers of joint account holders and the total deposit balances shall be reported.

.....

CFO / Chief Financial Officer

.....

CEO / Chief Executive Officer

.....

Name

.....

Name

Circular No. : 01/2010

Bank Supervision Department

15 October 2010

*To : CEOs of all Member Institutions of
Sri Lanka Deposit Insurance Scheme*

Dear Sir/Madam

**SRI LANKA DEPOSIT INSURANCE SCHEME
– PREMIUM TO BE LEVIED ON INSURED DEPOSIT**

In terms of Regulation 10.1 of the Sri Lanka Deposit Insurance Scheme Regulations No. 01 of 2010 dated 27 September, we write to inform you of the following.

1. The premium on deposits in terms of Regulation No. 6 of the Regulations should be paid to “Sri Lanka Deposit Insurance Fund” through RTGS, specially mentioning the account name as “Sri Lanka Deposit Insurance Fund – Account Number 4681” or drawing a cheque in favor the said account.
2. In terms of Regulation No. 6.3 of the Regulations, all members of the scheme are required to e-mail the details of the ‘calculation of premium’ as per Annex I to the Director of Bank Supervision (e-mail addresses: dbsd@cbsl.lk, anuradha@cbsl.lk and sumithi@cbsl.lk) along with the payment of premia.
3. All Member Institutions should maintain a proper system of information to support the accuracy of calculation of premium.

Yours faithfully,

(Mrs.) T M J Y P Fernando
Director of Bank Supervision

Encl.

Annex 1

Sri Lanka Deposit Insurance Scheme

Payment of Premium

1. Name of the Member Institution :

2. Capital Adequacy Ratio

(At the end of the immediately preceding financial year as per its audited accounts) :

3. Quarter / Month :

4. Premium to be Paid (Rs. '000)

| | |
|---|------------|
| Total deposit liability as per the general ledger (a) | XXX |
| <i>Less:</i> Total excluded deposits | (XX) |
| Total eligible deposits | XXX |
| Applicable annual insurance premium rate (%) (b) | XX |
| Total insurance premium to be paid for the quarter/month (c) | XXX |

(a) Deposit liability as at end of the quarter in the case of licensed banks and as at end of the month in the case of registered finance companies.

(b) Rate of Premium

(i) Licensed banks which maintained a capital adequacy ratio of 14% or above at the end of the immediately previous financial year as per its audited accounts as accepted by the Director of Bank Supervision – a premium of 0.10 per cent per annum, payable quarterly.

(ii) All other licensed banks – a premium of 0.125 per cent per annum, payable quarterly.

(iii) Registered Finance Companies – a premium of 0.15 per cent per annum, payable monthly calculated on total amount of all eligible deposits as at end of the month.

(c) Premium should be paid within 15 days from the end of the quarter / month.

| | <i>Prepared by</i> | <i>Checked by</i> | <i>Authorised by</i> |
|---|--------------------|-------------------|----------------------|
| Name of the officer : | | | |
| Designation of the officer : Officer | | Head of Finance | Chief Executive |
| Date : | | | |

This return should be sent to the Director of Bank Supervision.

Telephone: 01124772100, 0112398602 and 0112477169. Fax: 0112477711.

E-mail: dbsd@cbsl.lk, anuradha@cbsl.lk and sumithi@cbsl.lk

BANKING ACT

Determination made by the Monetary Board of the Central Bank of Sri Lanka under Section 48A of the Banking Act, No.30 of 1988 as amended by Banking (Amendment) Act, No.33 of 1995.

Sgd. A. S. Jayawardena

Governor

Colombo
22 August 1997

DETERMINATION

1. By virtue of the provision of section 48A of the Banking Act, No.30 of 1988 as amended by Banking (Amendment) Act, No.33 of 1995, the Monetary Board has determined that a licensed commercial bank shall not purchase or in any other way acquire any immovable property or any right therein, exceeding in the aggregate fifteen percent of its capital funds.

Ref. No. : 02/19/150/0104/001

Bank Supervision Department

17 April, 2013

To : The CEOs of all Licensed Commercial Banks

Dear Sir/Madam,

**EXEMPTING FOREIGN BORROWINGS OF LICENSED COMMERCIAL
BANKS FROM REGULATORY LIMITS**

In order to facilitate the implementation of proposals of Budget 2013 on foreign borrowings by licensed banks, the Monetary Board has granted approval for the following exemptions:

- (a) Foreign borrowings of licensed commercial banks of USD 50 mn each during the period 2013 to 2015 and further borrowing of USD 250 mn by the National Development Bank PLC, from the limit of 15 per cent of capital funds of respective banks, in terms of Circular BD/FX/196 dated 13 January 1997 issued by the Central Bank of Sri Lanka.
- (b) Non-agricultural credit facilities granted through the utilisation of the above funds from total loans when computing the respective bank's mandatory lending to the Agriculture Sector.

Yours faithfully,

(Mrs.) T M J Y P Fernando

Director of Bank Supervision

Ref. No. : 02/17/800/007/001

Bank Supervision Department

19 March 2010

To : CEOs of Licensed Commercial Banks

Dear Sirs,

**DECISION OF THE CABINET OF MINISTERS ON
RESERVATION OF GOVERNMENT SECTOR IMPORT CARGO FOR
THE CEYLON SHIPPING CORPORATION LTD.
– PUBLIC FINANCE CIRCULAR NO. 415 DATED 6 MAY 2005**

The Ministry of Ports and Aviation by their letter dated 10 March 2010 on the above subject has advised us to inform the licensed commercial banks of the decision taken by the Cabinet of Ministers dated 3 February 2010, as follows:

“All cargo imported by Government institutions, including Government Owned Companies, should be carried through the Ceylon Shipping Corporation Ltd., as stipulated in Public Finance Circular No. 415 of 6 May 2005.”

Yours faithfully,

(Mrs.) T M J Y P Fernando
Director of Bank Supervision

Ref. No. : 02/17/800/007/001

Bank Supervision Department

07 April 2009

*To : CEOs of Licensed Commercial Banks and
Licensed Specialised Banks*

Dear Sir/Madam,

**STIMULUS PACKAGE APPROVED BY THE GOVERNMENT FOR THE
FINANCE AND LEASING INDUSTRY**

The Cabinet of Ministers at its meeting held on 25.02.2009, having considered the present financial stress experienced by some registered finance companies (RFCs) and specialised leasing companies (SLCs), has approved of a Stimulus Package consisting of several measures to address the liquidity and funding constraints faced by RFCs and SLCs. This Stimulus Package is designed to restore public confidence in the finance and leasing companies and thereby to ensure the stability of the financial system.

The current liquidity problems encountered by the finance companies and leasing companies have been aggravated by the sudden withdrawal of credit lines by some banking institutions. As the stability of the financial system is of utmost importance, all licensed banks are requested to carry on their normal businesses with registered finance companies and specialised leasing companies.

Yours faithfully,

B D W A Silva
Director of Bank Supervision

Ref. No. : PS/21/98

Bank Supervision Department

14 September 1998

To : All Licensed Commercial Banks

Dear Sirs,

APPOINTMENT OF COMPLIANCE OFFICERS

Your attention is drawn to the discussion held at the Bank Managers' Meeting of 13 August 1998, where it was agreed that the banks should establish an independent compliance function to ensure compliance in respect of banking and other statutory requirements.

As compliance failures affect integrity and reputation of banking institutions, it is imperative, that banks have in place adequate policies and procedures to ensure compliance with laws and regulations.

Such a compliance function would be most appropriately addressed, by appointing a Compliance Officer whose terms of reference, would broadly encompass the following:—

1. Develop policies and procedures designed to eliminate or minimize the risk of breach of regulatory requirements and of damages to the bank's reputation and to ensure these policies and arrangements are adhered to in letter and spirit.
2. Promote throughout the business the belief that compliance is not a negative process but a positive contribution to the success of the Bank, so that the principles and importance of compliance are clearly understood by all.
3. Secure early involvement in the design and structuring of new products and systems, to ensure that they conform to local regulatory requirements and internal compliance and ethical standards.
4. Maintain regular contact and good working relationship with regulators based upon clear and timely communication and a mutual understanding of the regulators' objectives.
5. Ensure that reviews are undertaken at appropriate frequencies to assess compliance with regulatory rules and internal compliance standards.
6. Promote, across the compliance network, best practices developed in the area of compliance.
7. Understand and apply all new legal and regulatory developments relevant to the business of the Bank.
8. Represent the compliance function on relevant internal and external committees.
9. Ensure that compliance policies and procedures are clearly communicated to management and members of staff.
10. Provide timely reports to management, including senior management, which will highlight regulatory developments, changes in the law, and other developments insofar as they give rise to compliance issues relevant to the Bank's business.

11. Highlight serious or persistent compliance problems and where appropriate, work with management to ensure that they are rectified within an acceptable time.
12. Liaise with the Bank's Audit function to ensure that:
 - (a) Auditors are familiar with local regulatory and ethical requirements, so that they are able to ensure that compliance issues are properly addressed.
 - (b) Compliance weaknesses identified as a result of audits are followed up.

You are requested to make early arrangements to appoint a Compliance Officer with sufficient seniority and also communicate the name of the officers and his contact telephone number for our records.

Please acknowledge receipt of this letter.

Yours faithfully,

Sgd, Y. A. Piyatissa

Director of Bank Supervision

cc: Mr. C.A.P. Leonard,
Chairman
Sri Lanka Banks' Association (Gte) Ltd.
17 1/B, Standard Chartered Bank Building
Janadhipathi Mawatha
Colombo 1.

Ref. No. : 02/04/008/0002/001

Bank Supervision Department

06 May, 2008

*To : All CEOs of Licensed Commercial Banks
and Licensed Specialised Banks*

Dear Sir/Madam,

ENHANCING LENDING TO AGRICULTURE SECTOR

As you are aware, international food prices have risen in an unprecedented manner in the recent past and these price escalations could have far reaching effects on Sri Lanka and indeed on almost every country in the world. As you also know, a significant portion of the current inflation in Sri Lanka is driven by these large increases in food prices. This clearly demonstrates the importance of enhancing food production and food security in the country.

Hence, as conveyed by the Governor at the Bank Managers' Meeting held on 24 April 2008, there is a need to sustain and expand lending to the Agriculture sector. While we note that some banks have already achieved the target set out in the Budget 2006, there are others who are yet below such level of lending to the sector. Hence, banks which are yet to expand their Agriculture lending to reach 10% of their lending portfolio, are requested to take steps to do so, and also to inform us of their plans to expand agricultural loans, in particular for cultivation of food crops.

In view of the present national requirement in expanding food production and increasing agricultural productivity, your urgent attention and cooperation to channel lending to this sector is solicited.

Yours faithfully,

Sgd. Actg. Director of Bank Supervision

Ref. : 02/04/008/0002/003

Bank Supervision Department

30 April 2013

*To : CEOs of all Licensed Commercial Banks and
Licensed Specialised Banks*

Dear Sir / Madam,

MANDATORY LENDING TO THE AGRICULTURE SECTOR

We refer to the requests and discussions on compliance with the mandatory lending to the agriculture sector and write to inform you that the Monetary Board has decided to:

- (a) permit licensed banks to include loans and advances granted for growing, processing and trading of domestic agriculture products in the definition of agriculture for the purpose of compliance with the above.
 - (b) exclude the following from the total loans and advances in computing the ratio of mandatory lending to agriculture sector:
 - (i) Total loans and advances granted outside Sri Lanka by Off-shore Banking Units and by overseas branches on a staggered basis, as 50 per cent of such advances in 2013 and 100 per cent in 2014 onwards; and
 - (ii) Direct financing to large Government and other infrastructure projects promoted by the Government.
 - (c) permit LCBs and LSBs to include their loans granted to other banks and finance companies for on-lending to agriculture sector in the mandatory lending, provided that a suitable monitoring mechanism to identify such lending is maintained by the respective banks.
2. Loans and advances granted for processing and trading of domestic agriculture products include advances to:
- (a) manufacturing companies for value addition using domestic agricultural produce; and
 - (b) companies that act as intermediaries to provide advances to meet working capital and other capital requirements of agricultural producers and to facilitate the sale of agricultural produces.
3. The monitoring mechanism under loans granted to other licensed banks for on-lending to agriculture sector should ensure that the borrowing banks will not consider such loan facilities as lending to agriculture sector in complying with the above.

Yours faithfully,

(Ms.) T M J Y P Fernando
Director of Bank Supervision

Ref. No. : 02/04/008/0002/002

Bank Supervision Department

25 February, 2010

To : *CEOs of all Licensed Banks*

Dear Sir/Madam,

MANDATORY LENDING TO THE AGRICULTURE SECTOR

Further to our letter No: 02/04/008/0002/002 dated 13 July 2009 on the above subject, we write to inform you of the following:

- (1) The Monetary Board has decided to:
 - (a) create a refinance fund to be operated by the Regional Development Department (RDD) of the Central Bank of Sri Lanka (CBSL) for lending to the Agriculture Sector through banks;
 - (b) require banks that are non-compliant with the 10% lending requirement to the Agriculture Sector since end 2009 to contribute any shortfall to this refinance fund; and
 - (c) pay a rate of return of 2% per annum to the contributing banks after commencing lending through other banks.
- (2) A refinance fund "Special Loan Scheme for Agriculture Sector Development – Account No: 32 0000 900" has been created in the CBSL.
- (3) Accordingly, all licensed banks are required to:
 - (a) credit funds to the above account to cover any shortfall of the agriculture lending requirement of 10% by end 2009 within 7 days from the date of this letter; and
 - (b) assess the position on lending to agriculture sector quarterly and credit funds equivalent to the shortfall of the requirement of 10% to the above account within 15 days from the end of each quarter.

Yours faithfully,

(Mrs.) T M J Y P Fernando
Actg. Director of Bank Supervision

Ref. No. : 02/04/008/0002/002

Bank Supervision Department

13 July, 2009

To : CEOs of all Licensed Banks

Dear Sir/Madam,

MANDATORY LENDING TO THE AGRICULTURE SECTOR

As per the 2006 Budget proposal, all licensed banks have to fulfil the mandatory requirement of lending 10% of the total advances granted by each bank, to the Agriculture Sector by end 2009. The following time targets were proposed and agreed with the banks at the meeting of Chief Executive Officers of Licensed Banks held on 04 July 2006, in order to reach the target by end of 2009.

- (a) 3% of total advances by 31.12.2007
- (b) 6% of total advances by 31.12.2008; and
- (c) 10% of total advances by 31.12.2009

The position as at 31 March 2009 shows that of the 36 banks, 10 banks have already achieved the 10% target, while 14 banks have achieved the 6% target. However, the Monetary Board, having observed that there are 12 banks that have not yet met even the 6% requirement, has decided to consider the following two options to facilitate banks to grant credit to the Agriculture Sector.

1. Permitting banks to provide funds to banks of their choice to re-lend such funds to the Agriculture Sector; and
2. The banks to subscribe to a fund managed and monitored by the Rural Development Department of the Central Bank, which will lend to the Agriculture Sector.

In this regard, the Central Bank wishes to know the preferred option from each bank, which would facilitate the bank to achieve the stipulated percentage before end 2009. Therefore, you are kindly requested to forward your position to us on or before 17th July, 2009.

Yours faithfully,

B D W A Silva

Director of Bank Supervision

Bank Supervision Department

21 August 2006

*To : CEOs of all Licensed Commercial Banks
All Licensed Specialised Banks;*

Dear Sirs,

MANDATORY LENDING TO AGRICULTURE SECTOR

We refer to the discussion on the above subject at the meeting of the CEOs of Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs) held on 11 August 2006.

As announced, all banks are requested to inform us of the advances granted to the different sub-sectors in the agriculture sector on the basis of definition provided at the meeting held on 04 July 2006 (copy enclosed for reference). You are also requested to include any other advances that are not captured in the above definition but are connected with agricultural purposes, separately, indicating the purpose.

We shall be thankful if you will make arrangements to provide the information on or before 31 August 2006.

Yours faithfully,

Sgd, Actg. Director of Bank Supervision

MANDATORY LENDING TO THE AGRICULTURE SECTOR

The attention of the CEOs is drawn to the discussion on the proposed implementation of the budget proposal on mandatory lending to the agriculture sector. The CEOs were requested to send in their suggestions in this regard.

The BSD has presented a paper in this regard to the Monetary Board, and the following has been approved:

1. The definition of agriculture

Cultivation, processing and purchasing of tea, rubber, coconut, paddy, minor export crops, livestock and dairy farming, fisheries, minor food crops, horticulture, forestry and bee keeping etc. as well as processing of products for value addition for export purposes.

Within the above definition, the following could be construed as mandatory lending to the agriculture sector.

(a) Direct finance to farmers to undertake the agricultural activities specified above and

(b) Indirect finance for:

- Purchase of agricultural implements
- Purchase of farm machinery (tractors, trailers, power tillers, tractor accessories and providing funds to Co-operative societies to provide agricultural equipments and tractors on concessional rental basis to farmers)
- Purchase of vehicles for the transport of agricultural inputs and farm products including lease facilities
- Developing the national irrigation potential (*e.g.*: implementing multipurpose irrigation schemes, construction of tanks, tube wells *etc.* and purchase of drilling units)
- Reclamation and developing land for cultivation
- Construction of farm buildings and structures (Bullock sheds, farm sheds, implement sheds, tractor and truck sheds)
- Construction and running of storage facilities (warehouses, silos and loans granted for establishing cold storages for storing produce)
- Production and processing of hybrid seeds for crops (*e.g.*: developing state owned seed research farms and seed production farms)
- Obtaining fertilizer (Establishing a fertilizer factory to supply fertilizer at cheaper prices and providing essential insecticides and weedicides through Co-operatives at competitive prices)
- Agricultural advisory services and research activities (reviving schools of Agriculture and University faculties, training farmers and equipping them with required technological and other skills)
- Purchase of Agricultural produce (granting loans at concessionary rates to rehabilitate the small and medium scale paddy mills and establishing Rice Processing Villages)
- Developing plantations, horticulture, forestry, dairy, fisheries, piggery, poultry, bee keeping *etc.* and providing loans for allied activities (Providing incentives for introducing

new varieties and value addition, conducting research, boosting exports, modernizing factories, providing assistance for obtaining equipment and new technology, launching projects to preserve crops, add value to market crops as processed/packed foods and store the produce, establishing Regional distribution Centres and arranging to store produce in fully equipped cool rooms *etc.*)

In addition, it is proposed that funding provided under the credit schemes operated by the Regional Development Department of CBSL, also be considered as agricultural credit. The schemes presently in operation are as follows:

- Tea Development Project – Established for the purpose of increasing tea small holders' income on a sustainable basis, improving the natural environment in the project area and developing the necessary infrastructure in the sector (2,678 loans amounting to Rs.2,963 mn had been granted as at end 2005).
- Second Perennial Crops Development Project – Set up to commercialise the perennial crop sector, increase production, develop nurseries, handle post harvest processing and marketing (6,250 loans amounting to Rs.1,453 mn had been granted as at end 2005).
- New Comprehensive Rural Credit Scheme – Provision of working capital requirement of small farmers; short term production loans, production of seeds and plant material and purchase of agricultural commodities under forward sales contracts (70,196 loans amounting to Rs.1,620 mn had been granted during 2005).
- Small Farmers and Landless Credit Project – To establish a cost effective and sustainable micro credit delivery system to generate employment and improve savings habits among the low income receiving people (106,632 loans amounting to Rs.1,513 mn had been granted as at end 2005).

2. Proposed time frame

In implementing the proposals, it is suggested that the banks be required to increase their lending to the agricultural sector to 10% of total advances as follows:

- **3% by end 2007, 6% by end 2008 and 10% by 31 December 2009.**

Bank Supervision Department

27 June 2006

*To : CEOs of Licensed Banks
Panel of Approved Auditors*

Dear Sirs,

PAYMENT OF TAXES BY THE BANKING AND FINANCIAL SECTOR

The Inland Revenue Department has drawn the attention of the CBSL to the deviations observed in the payment of taxes (income tax, VAT – including VAT on financial activities, PAYE, Debit Tax and Economic Service Charge) by the banking sector.

Licensed Banks are therefore informed that payment of all taxes such as income tax, VAT (including VAT on financial activities), PAYE, Debit Tax and Economic Service Charge payable to the Department of Inland Revenue should carry a certification by the External Auditors of the bank, when such payment is made, that the relevant tax is in conformity with the provisions of the relevant Inland Revenue regulations in that regard.

Yours faithfully,

Director of Bank Supervision

cc: Secretary-General/SLBA

Ref. No. : 02/17/800/0007/001

Bank Supervision Department

08 November 2013

*To: CEOs of Licensed Commercial Banks and
Licensed Specialised Banks*

Dear Sirs,

MISLEADING AND UNETHICAL ADVERTISEMENTS

We refer to our Circular 02/17/800/0007/001 dated 6 November 2008 requiring all banks to refrain from publishing misleading and unethical advertisements, and to ensure that all important information is highlighted in a visible manner to enable the general public to understand clearly the nature of the products and the effective interest rates applicable.

As informed at the meeting of the Chief Executive Officers of licensed commercial banks and licensed specialised banks held on 24 October 2013, banks publish advertisements in a misleading and unethical manner, *e.g.*, publication of annual effective rate of interest (AER) of deposits in small font size which is much smaller or less than that of other important information, promoting deposits without divulging a rate of return, *i.e.*, an interest rate or an annual percentage yield.

We, therefore, request you to comply with the Circular 02/17/800/0007/001 dated 6 November 2008 at all times, ensuring that **all key information** including nominal interest rate, AER and credit rating of the bank is published with the same prominence in all advertisements, articles, *etc.*, to enable the general public to make informed decisions.

Yours faithfully,

(Mrs.) T M J Y P Fernando

Director of Bank Supervision

Ref. No. : 02/17/800/0007/001

Bank Supervision Department

06 November 2008

*To: All the CEOs of Licensed Commercial Banks and
Licensed Specialised Banks*

Dear Sirs,

MISLEADING AND UNETHICAL ADVERTISEMENTS

It has been observed on several occasions that banks are publishing misleading and unethical advertisements, *e.g.*, 15% on US Dollar deposits, interest rate of 30% on Fixed deposits, mega bonus return of 300% or bonus interest of 200% *etc.*, in the media and in bill boards displayed in public places. These advertisements are very misleading and cause much negative misinterpretation of the economic situation of the country. There have been complaints from the public about being misled by these advertisements too. Whilst we understand that good marketing strategies are necessary in a competitive market, we wish to emphasise that they should be ethical, with clear policies.

Therefore, we hereby request all the licensed banks to refrain from publishing misleading and unethical advertisements with immediate effect and to ensure that all important information is highlighted in a visible manner to enable the general public to understand clearly the nature of the products and the effective interest rates applicable.

Yours faithfully,

Actg. Director of Bank Supervision

cc: Secretary-General / SLBA

Ref. : 02/17/600/0031/001

Bank Supervision Department

28 July 2011

*To : CEOs of all Licensed Commercial Banks, and
Licensed Specialised Banks*

Dear Sir/Madam,

**REGISTRATION OF SECURED INTERESTS OVER MOVABLE PROPERTIES
WITH THE SECURED TRANSACTIONS REGISTRY**

It is observed that the Secured Transactions Registry maintained by Credit Information Bureau (CRIB) of Sri Lanka under section 23 of the Secured Transactions Act, No. 49 of 2009, will be beneficial to credit risk management of banks as it provides valuable information to assess the availability and quality of movable assets taken as securities for loans and other banking facilities.

Therefore, licensed banks are requested to register any pledge, mortgage or obligation on movable assets as collaterals for loans and other banking facilities, as provided for in sections 2 and 3 of the Secured Transactions Act, with the Secured Transactions Registry at the CRIB and utilize such information obtainable from the CRIB for credit risk management decisions.

Yours faithfully,

(Mrs.) T M J Y P Fernando
Director of Bank Supervision

Ref. No. : 02/01/00/0002/001

Bank Supervision Department

31 December 2007

To : CEOs of All Licensed Banks

Dear Sirs/Madam,

GUIDELINES FOR EMPLOYMENT OF EXPATRIATE STAFF IN BANKS

As announced at the meeting of the Chief Executive Officers of licensed banks on 22 November 2007, the Guidelines for employment of expatriate staff in banks, which have been developed to facilitate the introduction of new banking products and risk management of banks, are sent herewith.

Please acknowledge receipt of this Circular.

Yours faithfully,

Sgd. B.D.W.A. Silva

Acting Director of Bank Supervision

Encl.

Guidelines for Employment of Expatriate Staff in Banks

1. Current Policy

- 1.1 At present, the Central Bank of Sri Lanka (CBSL) recommends to Immigration and Emigration Department resident visas for expatriate staff of foreign banks to enable the banks to employ them as follows.
- (i) Maximum of three officers without any restriction.
 - (ii) Permission for any officers exceeding 3 is granted on a case-by-case-basis for a specific period not exceeding one year subject to condition that local staff should be trained to handle the work initiated/undertaken by such expatriate officers.
- 1.2 The objective of developing this policy is to provide local staff with the training and opportunities to take on positions held by the expatriate officers.
- 1.3 In the case of local banks, there has not been such a policy since local banks generally do not employ foreign personnel. However, four local banks have employed foreign consultants to undertake specific assignments.

2. Need for a Revision of the Policy

The following factors are considered favourably to relax the current policy to permit more expatriate officers and to encourage domestic banks to employ foreign experts.

- (i) Expansion of business operations of some foreign banks.
- (ii) Foreign banks now tend to expand business in Sri Lanka, especially infrastructure projects, through funds borrowed from their respective head offices and branches.
- (iii) The active presence of foreign banks with internationally experienced professionals will help improve Sri Lanka's image and investment promotion internationally.
- (iv) Tendency to introduce international banking products such as securitization, loan syndication, foreign loan raising, infrastructure funding and derivative products.
- (v) Banks in Sri Lanka mainly depend on conventional deposit and loan products. Introduction of innovative banking products indicate the development of the financial sector and the economy. International banking know-how is necessary to introduce new banking products, especially to attract foreign capital to Sri Lanka.
- (vi) Banks will need to employ risk management specialists to implement advanced approaches of Basel II in the medium term and there may be a need to look for such specialists from countries which implement Basel II.
- (vii) The proposed adoption of IAS/IFRS also will require bankers who have practical experience in adopting IAS/IFRS.
- (viii) In general, banking industry needs experts who have global banking experience if Sri Lankan banks are to introduce modern banking products, technology and risk management techniques.

3. Policy Guidelines

3.1 For Foreign Banks

- (i) The maximum number of expatriate officers permitted will be as follows:
 - (a) 3 for banks whose staff strength is less than 75.
 - (b) 5 for banks with staff strength of 75 to 400.
 - (c) 10 for banks with staff strength of more than 400.

- (ii) In the case of Indian banks, agreement as per on-going negotiations of the Comprehensive Economic Partnership Agreement (CEPA) will be adopted as the minimum criteria.
- (iii) Approval for expatriate officers in excess of the above limits will be considered on a case-by-case-basis taking into consideration the specific skills of the nominated expatriates and specific assignments given to them. The banks should submit projections for specific business or deliverables expected from expatriate officers.
- (iv) Validity period of the approval will be two years for expatriates under the normal quota and one year for others (case-by-case-basis criteria).
- (v) In the case of expatriate officers under the normal quota except for CEO, approval may be renewed for another term of two years after assessing the performance of respective expatriate officer. For CEOs, approval may be extended for two terms (4 more years) on the basis of performance records. The renewal for the term of expatriates permitted in excess of the normal quota (case-by-case basis) will be considered only for extension of the projects/ assignments or new projects/assignments.
- (vi) Approving authority for expatriate officers under normal quota will be the Director of Bank Supervision. The Deputy Governor will approve expatriate officers in excess of the normal quota.

3.2 For Locally Incorporated Banks

Permission will be granted on a-case-by-case basis taking into consideration the specific needs of the banks. Special attention will be given to employment of foreign experts in the following fields:

- (a) Basel II-based risk management
- (b) International Accounting Standards
- (c) Risk modeling and data warehouse
- (d) Structuring of derivative products
- (e) Corporate governance

Ref. No. : 02/04/003/0400/001

Department of Bank Supervision

19 January, 2004

*To : All Chief Executive Officers
of LCBs and LSBs*

GUIDELINES ON CREDIT RATING OF BANKING INSTITUTIONS

I refer to the discussions on the above subject at the meetings of the Chief Executive Officers of Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs) held on 20.11.2003 and 18.12.2003 and the agreement of the Chief Executive Officers to obtain ratings for banks.

All LCBs and LSBs are hereby required to observe the following guidelines in this regard.

1. All LCBs and LSBs (both local and foreign) are hereby required to obtain a Credit Rating on or before 30 June 2004.
2. All ratings should be from an independent rating agency acceptable to the Central Bank of Sri Lanka.
3. Local Branches of foreign banks may disclose their parent bank's rating.
4. With effect from July 2004, all banks are required to disclose their rating in all their advertisements soliciting deposits and other debt instruments. The fact that a bank has not obtained a rating should also be disclosed, if that is the case.
5. Credit Ratings should be updated annually and the rating report should be submitted to the Central Bank of Sri Lanka within one month from the date of the report.

Please acknowledge the receipt of this letter.

Yours faithfully,

Director of Bank Supervision

Our Ref. : 02/17/800/0014/01

Bank Supervision Department
24 April 2013

*To : CEOs of all Licensed Commercial Banks and
Licensed Specialised Banks*

Dear Sir / Madam,

**AMENDMENTS TO GUIDELINES ON THE
OPERATIONS OF THE INVESTMENT FUND ACCOUNT**

An amendment to paragraph 3.1(iii) of the above Guidelines and the amended format to submit information on the utilisation of the investment fund account on a monthly basis are enclosed for compliance.

The letter dated 1st October 2011 sent on the above subject is hereby withdrawn.

Yours faithfully,

(Ms.) T M J Y P Fernando
Director of Bank Supervision

Encl.

Annex

**Amendment to Guidelines to Licensed Commercial Banks and Licensed Specialised Banks
on the Operations of the Investment Fund Account**

The following Guidelines will replace 3.1(iii) of the above.

3.1(iii) Lend only for the following purposes commencing 01 May 2013:

- (a) Long-term loans for cultivation of plantation crops/agriculture crops including, fruits, vegetables, cocoa and spices and for livestock and fisheries
- (b) Factory/mills modernization/establishment/expansion
- (c) Small and medium enterprises: loans up to Rs. 200 mn to enterprises with annual turnover less than Rs. 600 mn
- (d) Information Technology related activities and Business Process Outsourcing
- (e) Infrastructure development
- (f) Education: vocational training and tertiary education
- (g) Housing: up to Rs. 2 mn per customer for construction of a house for residential purposes
- (h) Housing development: construction of low cost houses for residential purposes
- (i) Construction of hotels and for related purposes
- (j) Investment in/purchases of sustainable energy sources including solar power up to Rs. 10 mn
- (k) Women entrepreneurship venture capital projects up to Rs. 10 mn
- (l) Restructuring of loans extended for the above purposes.

Utilization of Investment Fund Account (IFA)

Name of Bank :

Month ended :

(Rs. '000)

| Item | | | Amount |
|---|-------------|--------------|-------------|
| A. Total Transferred to IFA | | | XXXX |
| B. Total Loans Granted | | | XXXX |
| Sector | Description | Amount | |
| (a) Long-term loans for cultivation of plantation crops/agriculture crops including, fruits, vegetables, cocoa and spices and for livestock and fisheries | | XX | |
| (b) Factory/mills modernization/establishment/expansion | | XX | |
| (c) Small and medium enterprises: loans up to Rs. 200 mn to enterprises with annual turnover less than Rs. 600 mn | | XX | |
| (d) Information Technology related activities and Business Process Outsourcing | | XX | |
| (e) Infrastructure development | | XX | |
| (f) Education: vocational training and tertiary education | | XX | |
| (g) Housing: up to Rs. 2 mn per customer for construction of a house for residential purposes | | XX | |
| (h) Housing development: construction of low cost houses for residential purposes | | XX | |
| (i) Construction of hotels and for related purposes | | XX | |
| (j) Investments in/purchases of sustainable energy sources including solar power up to Rs. 10 mn | | XX | |
| (k) Women entrepreneurship venture capital projects up to Rs. 10 mn | | XX | |
| (l) Restructuring of loans extended for above purposes | | XX | |
| Sub Total | | | |
| C. Total investments in Government Securities – long-term | | XXXX | |
| | | – short-term |  | XXXX |
| Sub Total | | | XXXX |
| D. Balance available for utilization (A-B-C) | | | XXXX |

NOTE: E-mail the above details to dbsd@cbsl.lk with copies to mihiri@cbsl.lk and manjulap@dfd.treasury.gov.lk by 10th of each month following the month of reporting.

Our Ref. : 02/17/800/0014/02

Bank Supervision Department
31 October 2011

*To : CEOs of all Licensed Commercial Banks and
Licensed Specialised Banks*

Dear Sir / Madam,

**AMENDMENTS TO GUIDELINES ON THE
OPERATIONS OF THE INVESTMENT FUND ACCOUNT**

An amendment to paragraph 3.1(iii) of the above Guidelines and the amended format to submit information on the utilisation of the investment fund account on a monthly basis are enclosed for compliance.

Yours faithfully,

(Ms.) T M J Y P Fernando
Director of Bank Supervision

Encl.

Annex I

**Amendment to Guidelines to Licensed Commercial Banks and Licensed Specialised Banks
on the Operations of the Investment Fund Account proposed in the 2011 Budget**

The following Guidelines will replace 3.1(iii) of the above.

3.1(iii) Lend only for the following purposes commencing 1 November 2011:

- (a) Long-term loans for cultivation of plantation crops/agriculture crops including, fruits, vegetables, cocoa and spices and for livestock and fisheries
- (b) Factory/mills modernization/establishment/expansion
- (c) Small and medium enterprises: loans up to Rs. 200 mn to enterprises with annual turnover less than Rs. 600 mn
- (d) Information Technology related activities and Business Process Outsourcing
- (e) Infrastructure development
- (f) Education: vocational training and tertiary education
- (g) Housing: up to Rs. 2 mn per customer for construction of a house for residential purposes
- (h) Construction of hotels and for related purposes
- (i) Restructuring of loans extended for the above purposes.

Utilization of Investment Fund Account (IFA)

Name of Bank :

Month ended :

(Rs. '000)

| <i>Item</i> | | | <i>Amount</i> |
|--|--------------------|---------------|---------------|
| A. Total Transferred to IFA | | | XXXX |
| B. Total Loans Granted | | | XXXX |
| <i>Sector</i> | <i>Description</i> | <i>Amount</i> | |
| (a) Agriculture | | XX | |
| (b) Factory/mills modernization | | XX | |
| (c) Small and Medium Enterprises | | XX | |
| (d) Information Technology and BPO | | XX | |
| (e) Infrastructure development | | XX | |
| (f) Education | | XX | |
| (g) Housing | | XX | |
| (h) Construction of hotels and for related purposes | | XX | |
| (i) Restructuring of loans extended for above purposes | | XX | |
| C. Total investments in Government Securities - long-term | | | XXXX |
| - short-term | | | XXXX |
| D. Balance available for utilization | | | XXXX |

NOTE: E-mail the above details to dbsd@cbsl.lk with copies to mayadunne@cbsl.lk and jayaminiw@fpd.treasury.gov.lk by 10th of each month following the month of reporting.

Our Ref. : 02/17/800/0041/01

Bank Supervision Department
29 April 2011

*To : CEOs of all Licensed Commercial Banks and
Licensed Specialised Banks*

Dear Sirs,

**GUIDELINES ON THE OPERATION OF THE
INVESTMENT FUND ACCOUNT**

We enclose the Guidelines on the establishment and operations of the Investment Fund Account proposed in the Budget 2011, for compliance.

Yours faithfully,

(Mrs.) T M J Y P Fernando
Director of Bank Supervision

Encl.

**Guidelines to Licensed Commercial Banks and Licensed Specialised Banks
on the Operations of the
Investment Fund Account proposed in the 2011 Budget**

1. Establishment of an Investment Fund Account (IFA)

As proposed in Budget 2011, every person or partnership who is in the business of banking or financial services, is required to establish and operate an IFA.

2. Initial Credits to IFA

As and when taxes are paid after 1 January 2011, licensed banks shall transfer the following funds to the IFA and build a permanent fund in the bank:

- (i) 8 per cent of the profits calculated for the payment of Value Added Tax (VAT) on financial services on dates as specified in the VAT Act for payment of VAT.
- (ii) 5 per cent of the profits before tax calculated for payment of income tax purposes on dates specified in Section 113 of the Inland Revenue Act for the self assessment payments of tax.

3. Utilisation of Funds

3.1 Banks shall commence utilization of funds in the IFA in the following manner within three months from the date of transfer to the IFA:

- (i) Invest in long-term Government securities and/or bonds with maturities not less than seven years.
- (ii) Lend on maturities not less than five years at interest rates not exceeding 5-year Treasury bond rates plus 2 per cent.
- (iii) Lend only for the following purposes:
 - (a) Long-term loans for cultivation of plantation crops/agriculture crops including, fruits, vegetables, cocoa and spices and for livestock and fisheries
 - (b) Factory/mills modernization/establishment/expansion
 - (c) Small and medium enterprises:
 - a. loans up to Rs. 30 mn or
 - b. loans over Rs. 10 mn to enterprises with annual turnover less than Rs. 300 mn and employees less than 400
 - (d) Information Technology related activities and Business Process Outsourcing
 - (e) Infrastructure development
 - (f) Education - vocational training and tertiary education
 - (g) Restructuring of loans extended for the above purposes.

3.2 Lending may be in Sri Lanka Rupees and/or foreign currency loans granted within the country.

3.3 Banks shall invest funds in short-term Government securities until the commencement of utilization of funds as stated in 3.1 above.

4. Conditions

4.1 Applicability of Prudential Requirements

- (i) Subject to paragraph (ii) below, transactions of the IFA shall be subject to all Regulations, Directions, Determinations and Circulars issued by the Central Bank of Sri Lanka as applicable.

- (ii) Lending to the Agriculture sector in the case of licensed banks shall be in addition to the requirement on lending to agriculture by banks of 10 per cent of total loans and advances of the bank in terms of the budget proposal 2006.

4.2 Accounting for Transactions

- (i) Transfers to the IFA shall be treated as appropriations of profit after tax.
- (ii) The IFA shall be maintained as a separate item under general and other reserves and constitutes a part of shareholder funds.
- (iii) Cost of operations of IFA and income from investments and lending operations shall be accounted for in the financial statements of the bank.
- (iv) Banks shall maintain separate accounts with necessary details on all operations of the IFA.
- (v) IFA shall not be impaired or reduced without the approval of the Central Bank of Sri Lanka.

4.3 Disclosures and Reporting to Central Bank of Sri Lanka

- (i) The following disclosures shall be made in the “Notes to the financial statements”:
 - (a) Number of loans granted and total amount outstanding for each purpose stated in paragraph 3.1(iii), interest rates and tenure of loans.
 - (b) Total investments in Government securities, interest rates and maturity.
- (ii) Information on the operations of the IFA shall be made available as and when required by the Central Bank of Sri Lanka and Ministry of Finance.

4.4 Treatment of Taxation

The tax liability in relation to the operations of IFA shall be computed in accordance with applicable tax laws. However, the following shall be noted:

- (i) Interest income on investments, stated in paragraphs 3.1(i) and 3.3 is liable to income tax.
- (ii) Interest income on loans granted utilizing the IFA will be exempt from income tax.
- (iii) Specific provisions on loan losses will be subject to normal adjustments applicable to bad debts.
- (iv) Any over-funding or under-funding shall be in accordance with the relevant tax laws/regulations/guidelines.

