

# PART II



# PART II

## ACCOUNTS AND OPERATIONS OF THE CENTRAL BANK OF SRI LANKA

1. Accounts and Finance	1
2. Bank Supervision	59
3. Centre for Banking Studies	61
4. Communications	62
5. Currency	64
6. Domestic Operations	66
7. Economic Research	69
8. Employees' Provident Fund	72
9. Exchange Control	76
10. Facilities Management	79
11. Finance	80
12. Financial Intelligence Unit	81
13. Human Resources	83
14. Information Technology	87
15. Internal Audit	88
16. International Operations	89
17. Legal and Compliance	91
18. Macroprudential Surveillance	92
19. Payments and Settlements	92
20. Policy Review and Monitoring	94
21. Public Debt	95
22. Regional Development	96
23. Regional Office Management	100
24. Risk Management	101
25. Secretariat	103
26. Security Services	103
27. Staff Services Management	104
28. Statistics	104
29. Supervision of Microfinance Institutions	108
30. Supervision of Non-Bank Financial Institutions	108
31. Training and Development	112



## 1. ACCOUNTS AND FINANCE

### Activity Report of Monetary Board Advisory Audit Committee for the Year 2016

#### 1. Introduction

The Audit Committee of the Central Bank of Sri Lanka was established in 2001 and renamed as Monetary Board Advisory Audit Committee (AAC) in 2009. The Committee advises the Monetary Board on policies and matters relating to the audits of the Bank in the areas such as financial reporting, internal controls and risk management systems, compliance, internal audit and external audit. The AAC reports its recommendations and performance to the Monetary Board for consideration quarterly and when necessary.

#### 2. Composition of AAC

The AAC is chaired by an appointed member of the Monetary Board and comprises of two other external audit professionals. The Secretary to the Monetary Board is the Secretary to AAC and the Director of the Internal Audit Department is the Assistant Secretary to AAC. The Internal Audit Department (IAD) provides secretarial facilitation for the AAC. A representative from Auditor General's Department attends as an observer to the AAC meetings.

The AAC is a subcommittee of the Monetary Board and the composition of the Committee as at 31 December 2016 was as follows:

- i. Mr. A N Fonseka - Chairman (with effect from 16.08.2016)
- ii. Mr. M R Mihular - Member
- iii. Mrs. A M J Patrick - Member

Mr. R A Jayatissa, former member of the Monetary Board served as the Chairman of AAC until 24.05.2016 and Mrs. M Ramanathan, member of the Monetary Board served as the Chairperson from 25.05.2016 to 15.08.2016.

Other regular attendees of the AAC Meetings are Compliance Officer of the Bank and relevant staff of the IAD. Heads of Departments are invited by the Chairman of AAC when required. The Chief Accountant and the engagement partner of the Audit Firm appointed by the Auditor General to carry out the external audit also attend when the financial statements of the Bank are discussed.

The Committee is required to meet at least six times a year or as may be decided by the Chairman of the AAC or as directed by the Monetary Board. Meetings of the Committee are convened by the Secretary of the Committee. A quorum of two (02) members including the Chairman is required for a meeting.

#### 3. Activities carried out in 2016

The AAC held eight (08) meetings during 2016 and made recommendations relating to the following.

a) Financial reporting:

The Committee,

- i. reviewed the Interim Issue Memorandum on the audit of Financial Statements of the Central Bank for the year ended 2015 and made recommendations to the Monetary Board on the changes to accounting policies, different methods available in accounting for significant transactions and improving clarity of disclosure in the financial reports of the Bank.
- ii. reviewed the Management Letter of Central Bank for the year 2015 and recommended on the changes to accounting policies and accounting methods to improve internal controls in Central Bank processes and procedures.

b) Internal controls and risk management systems:

The Committee reviewed and advised on the adequacy and effectiveness of the internal controls and risk management systems of several departments including Currency and International Operations.

c) Compliance:

The Committee,

- i. reviewed and advised on the internal controls in place to allow employees and external parties to report possible wrongdoings in financial reporting or other related matters.
- ii. reviewed and advised on the procedures of the Bank to assess the effectiveness of internal controls.

d) Internal audit:

The Committee,

- i. reviewed and revised the Internal Audit Charter and obtained approval of the Monetary Board for the revised charter.
- ii. reviewed the Report on External Quality Assessment Review issued by an independent external quality assessment reviewer with a view to ensuring that IAD performed its functions effectively in accordance with relevant professional standards.
- iii. reviewed the risk based audit methodology adopted by IAD.
- iv. reviewed and obtained approval of the Monetary Board for the annual internal audit plan and 3 year strategic audit plan prepared by IAD.
- v. reviewed the implementation progress of the recommendations made to the Heads of Departments on the observations made by IAD and the follow up status.
- vi. assessed the adequacy and made recommendations to the Monetary Board regarding the appropriate access to information by IAD.
- vii. revised the scope of activities of IAD to and discontinued pre audit verification tasks hitherto carried out by the department and instead introduced spot, surprise and test checks within the risk based audit approach.
- viii. reviewed the adequacy of resources at IAD and discussed the capacity development program for IAD.

e) External audit:

The Committee,

- i. reviewed the Interim Issue Memorandum on the audit of Financial Statements of the Central Bank for the year ended 2015, the responses of management thereto and the recommendations of the External Auditor.
- ii. reviewed the Management Letter of the Central Bank for the year 2015, the responses of management thereto and the recommendations of the External Auditor.

#### **4. Amendments to the Framework of AAC**

The Committee reviewed the Framework of AAC at several meetings and the revised Framework was approved by the Monetary Board in September 2016.

## **Central Bank of Sri Lanka**

### **Management Statement**

#### **For the period ended 31 December 2016**

### **Accountability and the Financial Performance of the Central Bank of Sri Lanka in relation to the Objectives**

The Central Bank was established as the authority responsible for the administration, supervision and regulation of the monetary, financial and payment systems of Sri Lanka under the Monetary Law Act. In accordance with this Act, the Bank is charged with the responsibility of securing the core objectives of economic and price stability and financial system stability.

The basis of accountability for the Central Bank and the success of its operations therefore would be the effectiveness of its policies and operations leading towards the achievement of its core objectives and not necessarily its profitability. These statutory objectives are the fundamental features that distinguish the Central Bank from any other entity, private or public. Accordingly, profitability related approach, if adopted by the Central Bank, could result in the Bank pursuing profits while compromising its core objectives, since it has the unique ability to create its own profits through its monetary policy activities, which could influence interest rates and exchange rates. It therefore

follows that the Central Bank's objectives of economic and price stability and financial system stability need to be distinguished and detached from the pure profitability objective which should essentially be incidental or academic only.

In this background, the Central Bank's financial statements record gains and/or deficits in the implementation of its monetary policy operations, exchange rate management, issuing of currency, etc. at the values as realized and hence, the financial performance as reported in these statements needs to be interpreted and understood in that context.

The Bank is subject to an external audit by the Auditor General under the Monetary Law Act sections 42 & 43. The Auditor General in turn has obtained the services of a firm of Chartered Accountants, M/S Ernst & Young, to carry out an audit under International Standards of Auditing to ensure compliance with the International Financial Reporting Standards.



විගණකාධිපති දෙපාර්තමේන්තුව  
கணக்காய்வாளர் தலைமை அறிபதி திணைக்களம்  
**AUDITOR GENERAL'S DEPARTMENT**



මගේ අංකය }  
எனது இல. } BAF/H/CBSL/1/16/1  
My No. }

ඔබේ අංකය }  
உமது இல. }  
Your No. }

දිනය }  
திகதி } 28 March 2017  
Date }

The Hon. Minister of Finance,

**Report of the Auditor General on the Financial Statements of Central Bank of Sri Lanka (CBSL) for the year ended 31 December 2016 in terms of Section 42 (2) of the Monetary Law Act (Chapter 422)**

**Opinion**

The audit of the financial statements of Central Bank of Sri Lanka (the Bank), which comprise the statement of financial position as at 31 December 2016, and the statement of income, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act No.38 of 1971 and Section 42 (2) of the Monetary Law Act (Chapter 422). In carrying out this audit, I was assisted by a firm of Chartered Accountants in public practice to examine the compliance with International Financial Reporting Standards.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

**Basis for Opinion**

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Bank in accordance with the ethical requirements that are relevant to my audit of the financial statements in accordance with the code of ethics issued by Institute of Chartered Accountants of Sri Lanka, and I have fulfilled my other ethical responsibilities in accordance with this requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.





## **Responsibilities of Monetary Board**

Monetary Board of the Bank is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as Monetary Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Monetary Board is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Monetary Board.



- Conclude on the appropriateness of Monetary Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Monetary Board regarding, among other matters the planed scope and timing of the audit and significant audits findings, including any significant deficiencies in internal control that I identify during my audit.

A handwritten signature in black ink, appearing to read 'H.M. Gamini Wijesinghe'.

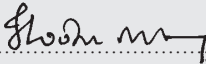
H.M.Gamini Wijesinghe

Auditor General

**Central Bank of Sri Lanka**  
**Statement of Financial Position**  
**As at 31 December 2016**

	Note	2016 Rs. 000	2015 Rs. 000
<b>Assets</b>			
<b>Foreign Currency Financial Assets</b>			
Cash & Cash Equivalents		423,783,737	557,474,685
Securities at Fair Value through Profit or Loss	5	43,278,755	35,779,665
Available for Sale Investments	5	348,544,650	352,054,482
Derivative Financial Instruments	6	198,880	4,145
IMF Related Assets	7	117,008,340	83,636,350
Other Receivables		6,175,049	5,075
<b>Total Foreign Currency Financial Assets</b>		<b>938,989,411</b>	<b>1,028,954,402</b>
<b>Local Currency Financial Assets</b>			
Sri Lanka Government Securities	8	351,426,470	102,866,995
Provisional Advances to Government	9	83,306,771	151,131,671
Loans to Banks	10	484,043	886,357
Equity Investments in Financial and Other Institutions	11	41,095	41,095
Other Assets	12	12,322,596	11,164,424
<b>Total Local Currency Financial Assets</b>		<b>447,580,975</b>	<b>266,090,542</b>
<b>Total Financial Assets</b>		<b>1,386,570,386</b>	<b>1,295,044,944</b>
<b>Foreign Currency Non-Financial Assets</b>			
Gold	13	111,009,339	97,723,836
<b>Non-Financial Assets</b>			
Inventories	14	6,114,861	3,419,964
Other Receivables and Prepayments		7,226,801	14,347,811
Property, Plant and Equipment	15	18,132,390	15,422,315
Intangible Assets	16	156,320	240,610
<b>Total Non-Financial Assets</b>		<b>142,639,711</b>	<b>131,154,536</b>
<b>Total Assets</b>		<b>1,529,210,097</b>	<b>1,426,199,480</b>
<b>Liabilities and Equity</b>			
<b>Foreign Currency Financial Liabilities</b>			
Banks and Financial Institutions	17	45,566,681	12,048,241
Derivative Financial Instruments	6	14,573,675	24,280,308
Asian Clearing Union	18	79,863,615	68,887,459
IMF	19	269,540,596	251,644,344
Other	20	96,250,032	217,924,142
<b>Total Foreign Currency Financial Liabilities</b>		<b>505,794,599</b>	<b>574,784,494</b>
<b>Local Currency Financial Liabilities</b>			
Deposits of Banks and Financial Institutions	21	303,251,290	181,726,732
Deposits of Government and Governmental Entities	22	450,884	428,142
Securities Sold Under Repurchase Agreements	23	70,054,436	105,491,006
Balances of Employee Benefit Plans	24	51,744	7,212
Currency in Circulation	25	552,777,865	491,699,948
Other Payables	26	8,563,548	6,824,992
<b>Total Local Currency Financial Liabilities</b>		<b>935,149,767</b>	<b>786,178,032</b>
<b>Total Financial Liabilities</b>		<b>1,440,944,366</b>	<b>1,360,962,526</b>
<b>Other Liabilities</b>			
Deferred Grants	27	80	106
Pension and Other Post Employment Benefit Plans	45	2,429,153	10,942,541
Miscellaneous Liabilities and Accruals	28	193,297	199,325
<b>Total Other Liabilities</b>		<b>2,622,530</b>	<b>11,141,972</b>
<b>Total Liabilities</b>		<b>1,443,566,896</b>	<b>1,372,104,498</b>
<b>Equity</b>			
Capital Funds		50,000,000	50,000,000
Reserves		35,643,201	4,094,982
<b>Total Equity</b>		<b>85,643,201</b>	<b>54,094,982</b>
<b>Total Liabilities and Equity</b>		<b>1,529,210,097</b>	<b>1,426,199,480</b>

The Governor and the Chief Accountant of the Central Bank of Sri Lanka authorised these financial statements for issue on 07 March 2017 for and on behalf of the Monetary Board.

  
 Dr. Indrajit Coomaraswamy – Governor

  
 M.I. Sufiyan - Chief Accountant

The accounting policies and notes on pages 11 through 58 form an integral part of the Financial Statements.

**Central Bank of Sri Lanka**  
**Statement of Income**  
**Year ended 31 December 2016**

	Note	2016 Rs. 000	2015 Rs. 000
<b>Operating Income :</b>			
<b>Income from Foreign Currency Financial Assets</b>			
Interest Income	31	14,869,835	13,047,314
Gain/(Loss) from Unrealized Price Revaluations	32	9,739,043	(34,853,795)
Gain from Realized Price Changes		1,755,321	6,686,252
<b>Total Income from Foreign Currency Financial Assets</b>		<b>26,364,199</b>	<b>(15,120,229)</b>
<b>Expenses on Foreign Currency Financial Liabilities</b>			
Interest Expense	33	(3,953,835)	(3,622,737)
<b>Total Expenses on Foreign Currency Financial Liabilities</b>		<b>(3,953,835)</b>	<b>(3,622,737)</b>
Net Foreign Exchange Revaluation Gain / (Loss)		(6,775,246)	10,589,267
<b>Foreign Currency Investment Income / (Loss)</b>		<b>15,635,118</b>	<b>(8,153,699)</b>
<b>Income from Local Currency Financial Assets</b>			
Interest Income	31	21,020,691	9,323,553
Interest Expense	33	(2,197,815)	(8,919,984)
<b>Total Income / (Expense) from Local Currency Financial Assets</b>		<b>18,822,876</b>	<b>403,569</b>
Other Income	34	1,508,261	1,577,442
<b>Total Net Operating Income / (Loss)</b>		<b>35,966,255</b>	<b>(6,172,688)</b>
<b>Operating Expenses:</b>			
Personnel Expenses:	35		
- Salaries and Wages		(4,258,884)	(4,201,583)
- Defined Contribution Plan Costs		(629,786)	(629,357)
- Contribution to Post Employment Benefit Plan Costs		(1,479,963)	(1,329,578)
		<b>(6,368,633)</b>	<b>(6,160,518)</b>
Depreciation & Amortization		(520,961)	(557,158)
Cost of Inventory (Cost of new currency issue)		(3,076,747)	(3,311,761)
Administration and Other Expenses	36	(1,468,009)	(1,611,537)
Net Losses on Revaluation of Fixed Assets		(378,907)	-
Impairment Charges on Assets		(139,131)	-
<b>Total Operating Expenses</b>		<b>(11,952,388)</b>	<b>(11,640,974)</b>
<b>Profit/(Loss) Before Tax</b>		<b>24,013,867</b>	<b>(17,813,662)</b>
Withholding Tax	37	(1,834,348)	(1,788,157)
<b>Net Profit/(Loss) for the Year</b>		<b>22,179,519</b>	<b>(19,601,819)</b>

The accounting policies and notes on pages 11 through 58 form an integral part of the Financial Statements.

**Central Bank of Sri Lanka**  
**Statement Of Other Comprehensive Income**  
**Year ended 31 December 2016**

	2016 Rs. 000	2015 Rs. 000
Net Profit/(Loss) for the Year	22,179,519	(19,601,819)
<b>Other Comprehensive Income (OCI)</b>		
<b>OCI to be re-classified to Profit / (Loss) in subsequent period</b>		
Net Fair Value Gain / (Loss) on Available for Sale Securities	2,022,241	(624,957)
<b>OCI not to be re-classified to profit/(loss) in subsequent period</b>		
Gain on Revaluation of Property, Plant & Equipment	3,036,305	-
Post Employment Benefit Plan cost recognized in Other Comprehensive Income	9,485,849	(7,257,078)
<b>Total Comprehensive Income/(Loss)</b>	<b>36,723,914</b>	<b>(27,483,854)</b>

The accounting policies and notes on pages 11 through 58 form an integral part of the Financial Statements.

**Central Bank of Sri Lanka**  
**Statement Of Changes In Equity**  
**Year ended 31 December 2016**

	Contributed Capital Rs.000	Revaluation Reserve Rs.000	Other Reserves (Note 29) Rs.000	Retained Earnings Rs.000	Total Rs.000
<b>As at 1 January 2015</b>	50,000,000	5,986,602	31,493,260	(5,768,011)	81,711,851
Net Loss	-	-	-	(19,601,819)	(19,601,819)
Transfer to RTGS Sinking Fund	-	-	256,478	(256,478)	-
Post Employment Benefit Plan cost recognized in Other Comprehensive Income	-	-	-	(7,257,078)	(7,257,078)
Transfer of Net Foreign Exchange Revaluation Gain (IRR)	-	-	10,589,267	(10,589,267)	-
Transfer to CBSL Specific Reserve	-	-	-	(132,839)	(132,839)
Net Fair Value Gain/ (Loss) on Available for Sale Securities	-	-	(624,957)	-	(624,957)
Transfer of Funds to CBSL Employees and Pensioners Distress Relief Fund	-	-	-	(176)	(176)
Transfer of Funds from pension fund reserve to establish New pension scheme	-	-	(2,000,000)	2,000,000	-
<b>As at 1 January 2016</b>	<b>50,000,000</b>	<b>5,986,602</b>	<b>39,714,048</b>	<b>(41,605,668)</b>	<b>54,094,982</b>
Net Profit	-	-	-	22,179,519	22,179,519
Transfer to RTGS Sinking Fund	-	-	220,272	(220,272)	-
Post Employment Benefit Plan cost recognized in Other Comprehensive Income	-	-	-	9,485,849	9,485,849
Transfer of Net Foreign Exchange Revaluation Loss (IRR)	-	-	(6,775,246)	6,775,246	-
Transfer to CBSL Specific Reserve	-	-	-	(175,470)	(175,470)
Net Fair Value Gain/ (Loss) on Available for Sale Securities	-	-	2,022,241	-	2,022,241
Transfer of interim Profit to Government -2016	-	-	-	(5,000,000)	(5,000,000)
Transfer to Fixed Asset Revaluation Reserve	-	3,036,305	-	-	3,036,305
Transfer of Funds to CBSL Employees and Pensioners Distress Relief Fund	-	-	-	(225)	(225)
Transfer of Funds from Market Revaluation Reserve (MRR) to Retained Earnings	-	-	(4,650,806)	4,650,806	-
<b>As at 31 December 2016</b>	<b>50,000,000</b>	<b>9,022,907</b>	<b>30,530,509</b>	<b>(3,910,215)</b>	<b>85,643,201</b>

The accounting policies and notes on pages 11 through 58 form an integral part of the Financial Statements.

**Central Bank of Sri Lanka**  
**Statement of Cash Flows**  
**Year ended 31 December 2016**

	Note	2016 Rs. 000	2015 Rs. 000
<b>Cash Flow from Operating Activities</b>			
<b>Receipts:</b>			
Interest Received - Foreign Currency		11,097,325	14,641,329
Interest Received - Local Currency - Others		690,326	600,046
Liquidity Management and Trading Income		1,755,321	6,686,252
Realised Exchange Gain / (Loss)		(19,001,328)	(13,838,368)
Other Income Received		1,500,669	1,570,072
		(3,957,687)	9,659,331
<b>Disbursements:</b>			
Interest Paid - Foreign Currency		3,922,805	3,740,805
Interest Paid - Local Currency		2,196,385	10,967,407
Payments to Employees		5,464,654	6,267,998
Payments to Suppliers		5,557,729	6,645,579
Tax Paid		2,595,700	1,817,747
		19,737,273	29,439,536
<b>Net Cash Flow from/(used in) Operating Activities</b>	38	(23,694,960)	(19,780,205)
<b>Cash Flows from Investing Activities</b>			
<b>Receipts:</b>			
Net (Increase) /Decrease in Other Local Currency Financial Assets		(2,100,302)	(823,124)
Principal Recoveries from Loans and Advances to Other Institutions		890,497	1,523,438
Sale of Property, Plant and Equipment		709	749
Net Increase / (Decrease) in Securities Purchased under Agreement to Re-sell		(35,429,276)	(222,787,000)
		(36,638,372)	(222,085,937)
<b>Disbursements:</b>			
Net Increase / (Decrease) in Foreign Currency Securities		(7,066,141)	(89,998,376)
Net Increase / (Decrease) in Other Foreign Currency Financial Assets		30,222,682	(289,309)
Net Increase / (Decrease) in Other Foreign Currency Financial Liabilities		89,038,712	(139,352,884)
Net Increase / (Decrease) in Other Local Deposits and Payables		(791)	2,274
Purchase of Property, Plant and Equipment net of Grants		488,036	1,206,040
Purchase of Intangible Assets		1,124	21,627
Purchase of Leasehold Assets		5,135	14,361
Net Increase / (Decrease) in Gold Inventory		-	(5,124,212)
Loans and Advances granted to other Institutions		488,183	920,424
		113,176,940	(232,600,055)
<b>Net Cash Flow from / (used in) Investing Activities</b>		(149,815,312)	10,514,118
<b>Cash Flow from Financing Activities</b>			
<b>Receipts :</b>			
Issue of Circulating Currency		(595,035,881)	(504,508,531)
Withdrawal of Circulating Currency		656,113,797	579,313,118
Net Issue of Circulating Currency		61,077,916	74,804,587
<b>Disbursements:</b>			
Net Issues / (Withdrawals) of Circulating Currency on Government Transactions	39	160,378,295	(23,208,921)
Net Issues / (Withdrawals) of Circulating Currency on Transactions with Banks and Financial Institutions	40	(121,524,559)	(20,944,825)
Net Issues / (Withdrawals) of Circulating Currency		38,853,736	(44,153,746)
<b>Net Increase/(Decrease) in Circulating Currency</b>		22,224,180	118,958,333
<b>Disbursements:</b>			
Repayment of Foreign Currency Term Liabilities		(13,612,965)	68,788,313
Payments to Other Funds		225	175
Transfer of Profits to Consolidated Fund		5,000,000	-
		(8,612,740)	68,788,488
<b>Net Cash Flow from / (used in) Financing Activities</b>		30,836,920	50,169,845
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>		(142,673,352)	40,903,760
Exchange Rate Effect on Cash and Cash Equivalents		8,982,404	29,500,154
Cash and Cash Equivalents at the Beginning of the Year		557,474,685	487,070,771
<b>Cash and Cash Equivalents at 31 December</b>	41	423,783,737	557,474,685

The accounting policies and notes on pages 11 through 58 form an integral part of the Financial Statements.

## Central Bank of Sri Lanka

### Notes To The Financial Statements

#### Year ended 31 December 2016

#### 1. REPORTING ENTITY AND STATUTORY BASE

The Central Bank of Sri Lanka ("Bank" or "CBSL") is an institution established under the Monetary Law Act No. 58 of 1949 of Sri Lanka as amended ("MLA"), as the authority responsible for the administration, supervision and regulation of monetary, financial and payment system of Sri Lanka. The Bank is domiciled in the Democratic Socialist Republic of Sri Lanka and situated at No. 30, Janadhipathi Mawatha, Colombo 01.

These financial statements were authorised for issue by the Governor and Chief Accountant for and on behalf of the Monetary Board on 07 March 2017.

#### 2. ACCOUNTING POLICIES

##### 2.1 Basis of Preparation

The financial statements are prepared on the historical cost basis, except for land & buildings, gold and certain financial assets that have been measured at fair value as identified in specific accounting policies below.

##### 2.1.1 Reporting Format

The bank presents financial assets and financial liabilities, and their associated income and expense streams, by distinguishing between foreign currency and local currency activities. In the Statement of Financial Position, assets and liabilities are presented broadly in order of liquidity within such distinguished categories. The bank considers that this reporting approach provides appropriate reporting of the bank's activities which are more fully described in Note 4.

##### 2.1.2 Statement of Compliance

These financial statements of the Bank for the period ended 31 December 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS). Such financial statements are audited by the Auditor General and gazetted as required by the law. However, the amounts in the gazetted financial statements would be different from these financial statements due to certain classification differences.

##### 2.1.3 Currency of Presentation

The Financial Statements are presented in Sri Lankan Rupees (Rs.) and all the values are rounded to nearest Rupees thousands, except when otherwise indicated.

#### 2.2 Significant Accounting Judgements and Estimates

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

##### 2.2.1 Impairment of Available for Sale Investments

The Bank determines that Available for Sale Investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement.

##### 2.2.2 Pensions and Other Post Employment Benefit Plans

The cost of defined benefit plans is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future compensation increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Assumptions used are disclosed in Note 45.

##### 2.2.3 Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as volatility for longer-dated derivatives.

#### 2.3 Standards Issued but not yet Effective

The standards and interpretations that are issued, but not yet effective which are applicable to the Bank, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, when they become effective.

##### 2.3.1 IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS9 Financial Instruments which reflects all phases of the financial instruments project and replaces International Accounting Standard (IAS) 39 Financial Instruments: Recognition and

Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but no impact on the classification and measurement of the Bank's financial liabilities.

### 2.3.2 Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g. gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Bank is currently evaluating the impact.

### 2.3.3 IFRS 16 Leases

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right of use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.

The Bank does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

### 2.3.4 IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognizing revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments

and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g. IFRS 9, and IFRS 16 Leases).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Bank does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Foreign Currency Conversions

The Bank's functional and presentation currency is Sri Lanka Rupees (Rs). Transactions in foreign currencies are initially recorded in the functional currency prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange prevailing at the reporting date. All differences are taken to the Statement of Income. For the purposes of retranslation the following Sri Lanka Rupee exchange rates for major currencies were used:

Currency	2016 Rs.	2015 Rs.
1 Australian Dollar	108.2380	105.3888
1 Canadian Dollar	111.0617	103.7278
1 Euro	158.4959	157.4097
1 Japanese Yen	1.2818	1.1970
1 Special Drawing Rights (SDR)	201.3811	199.6310
1 Sterling Pound	184.5087	213.5508
1 United States Dollar	149.8000	144.0623
1 Chinese Yuan (Offshore)	21.4901	21.9285

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rates at the dates of initial transactions.

### 3.2 Fair Value Measurement

The Bank measures financial instruments such as foreign securities, derivatives, non-financial assets such as Land and Building at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 46.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either :



- In the principal market for the asset or liability or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### 3.3 Financial Assets and Liabilities

The Bank presents financial assets and liabilities, and the associated income and expense streams, by distinguishing between foreign currency and local currency activities. Foreign currency activities mainly arise from the bank's foreign reserves management function. Local currency activities mainly reflect the assets and liabilities associated with monetary policy implementation, issuing currency and banking activities.

The separate reporting of these activities is considered to provide a better presentation of the Bank's financial position, financial performance and risk profile. The Bank considers that the combined reporting of foreign and local currency activities would weaken the informational value of the financial statements.

All financial assets are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. Subsequent measurement bases after initial recognition are described below. All regular way purchases and sales of financial assets are recognised on the trade date respectively. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

#### 3.3.1 Securities at Fair Value through Profit or Loss

Financial assets classified as held for trading are included in the category "Securities at Fair Value through Profit or Loss". These securities are subsequently valued at quoted market prices. Changes in market values are recognised as an increase or decrease in the value of the securities in the Statement of Financial Position while resulting gains and losses are recognised in the Statement of Income.

Where the security is still owned, the gain or loss is reported as "Gain/(Loss) from Unrealised Price Revaluations". Where the gain or loss has been realised (through selling the security), it is reported as "Gain/(Loss) from realised Price Revaluations".

#### 3.3.2 Foreign Currency Available for Sale Investments

Foreign currency Available For Sale investments are subsequently valued at quoted market prices. Changes in market value are recognised as an increase or decrease in the value of the Available For Sale securities in the Statement of Financial Position.

Gains and losses arising from changes in the market value of foreign currency Available for Sale investments are recognised directly in equity (Other Comprehensive Income) which is shown under Other Reserves in the Statement of Financial Position until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported as equity is included in Income Statement.

#### 3.3.3 Derivative Instruments

The Bank uses derivatives such as cross currency swaps, forward foreign exchange contracts, interest rate swaps for risk management purposes and not for speculative purposes. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in 'Gain/(Loss) from Unrealised Price Revaluations'.

#### 3.3.4 'Day 1' Difference

When the transaction price differs from the fair value of other observable current market transactions in the same

instrument, or based on a valuation technique whose variables include only data from observable markets, the bank immediately recognises the difference between the transaction price and fair value (a Day 1 difference) in 'Gain/(Loss) from Unrealised Price Revaluations'. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when inputs become observable, or when the instrument is derecognised.

### 3.3.5 International Monetary Fund (IMF) Related Balances

The Bank transacts with the International Monetary Fund (IMF) in its own right rather than as the depository of the Government of Sri Lanka. All transactions by the Bank with the IMF have been included in these financial statements on that basis.

The Bank records the quota with the IMF as an asset and the amount payable to the IMF for quota is recorded as a liability of the Bank. The cumulative allocation of SDRs by the IMF is treated as a liability. Exchange gains and losses arising on revaluation of IMF assets and liabilities at the exchange rate applying at reporting date as published by the IMF are recognised in the Statement of Income.

All other charges and interest pertaining to balances with the IMF are recorded immediately in the Statement of Income.

### 3.3.6 Cash and Cash Equivalents

Cash and cash equivalents comprise cash at foreign banks and financial institutions and short-term deposits.

As a part of local currency activities CBSL generates certain income and incurs expenses, which do not involve in movement of cash. Those activities result in certain assets and liabilities and mainly comprise of the transactions with the Government of Sri Lanka (GOSL) and transactions with domestic banks and financial institutions. Transactions with GOSL include the purchase of Treasury bills and bonds that are issued by the Government as a monetary policy mechanism. Such purchases, disposals or interest thereon are reflected as mere book entries in the records of CBSL. These are disclosed separately in Note 38 and Note 39 to these Financial Statements.

As the sole statutory authority, CBSL issues currency to the public in line with Monetary Law Act. Currency issued by CBSL represents a claim on the bank in favor of the holder. This is a liability on the part of the CBSL while it is an item of cash in the hands of the holder. Movement in circulation currency is included as part of financing activities in line with prevailing industry practices among those central banks which present cash flow statements.

CBSL through the cash/pay order process disburses cash in the form of notes and coins or cheques drawn on CBSL, to various drawees including suppliers and employees for goods and services obtained, which is either added to the Currency in Circulation liability or Deposits by Banks and Financial Institutions. Such forms of utilization of currency for the purposes of CBSL's payments form part of cash outflows of CBSL.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of cash/ pay order outflows.

### 3.3.7 Repurchase and Reverse-Repurchase Transactions

Securities sold under agreements to repurchase continue to be recorded as assets in the Statement of Financial Position. The obligation to repurchase (Securities Sold under Agreements to Repurchase) is disclosed as a liability. The difference between the sale and repurchase price in repurchase transactions and the purchase price and sale price in reverse-repurchase transactions represents an expense and income respectively and recognised in the Statement of Income.

Securities held under reverse-repurchase agreements are recorded as an asset in the Statement of Financial Position (Securities Purchased under Agreements to Re-sell). Both repurchase and reverse-repurchase transactions are reported at the transaction value inclusive of any accrued income or expense.

### 3.3.8 Standing Deposit Facility

With effect from 01st February 2014, Standing Deposit Facility (former Standing Repurchase (Repo) Facility) was converted in to a 'clean deposit' with no allocation of collateral. Hence, participating institutions invest their excess funds in the Standing Deposit Facility as a clean deposit on daily basis at standing deposit facility rate.

The procedures of Standing Lending Facility (formerly Standing Reverse Repurchase (Reverse Repo) Facility) are identical to the Standing Reverse Repurchase Facility.

### 3.3.9 CBSL Securities

The Bank issues CBSL Securities from time to time under its Monetary Policy operations to absorb excess liquidity in the market.

The securities issued are recorded as a liability. The difference between the issue price and the face value is recorded as an expense in the Statement of Income.

### 3.3.10 Sri Lanka Government Securities

Sri Lanka Government Securities consists of Treasury bills purchased from GOSL. The portfolio is recorded

in the Statement of Financial Position at amortised cost since they represent loans provided to the GOSL.

### 3.3.11 Advances to Government

Advances to Government represents direct provisional advances made to GOSL under Section 89 of the Monetary Law Act No. 58 of 1949 of Sri Lanka, as amended. These advances are subsequently measured at amortized cost.

### 3.3.12 Loans to Other Institutions

Loans granted to Other Institutions are recognised and carried at amortized cost less an allowance for any uncollectible amounts. An allowance for doubtful debts (for loan impairment) is established if there is objective evidence that the bank will not be able to collect all amounts due. The amount of the allowance is the difference between the carrying amount and the estimated recoverable amount. Bad debts are written off when identified.

### 3.3.13 Securities Borrowings and Securities Lending

Bank borrows Government Securities from time to time under its monetary policy operations from major institutional investors. The borrowed securities are used by the Bank for repurchase operations to absorb excess liquidity in the market.

The securities borrowings is an unconditional blanket guarantee from the bank for return of securities, payment of agreed fee and on compensation at market rate ( as per the market rates communicated to the primary market participants by the Public Debt Department of the Bank) in events of any failure in delivery.

The market values of the securities borrowed and not used for the repurchase operations at a particular time are recorded as a contingent liability. The commission paid is expensed on accrual basis.

Transfer of securities to counterparties under lending transactions is only reflected on the Statement of Financial Position if the risks and rewards of ownership are also transferred.

### 3.3.14 Staff Loans

Bank employees are entitled to loan facilities under concessionary interest rates. These loans which were granted from 2008 onwards are fair valued as per IAS 39 using discounted cash flows.

**Discount rate** - The rate compiled by the Economic Research Department of CBSL (ERD) based on the long term inflation target on USD –Commercial Interest Reference Rate (CIRR) plus 1 per cent added for the risk premium as agreed by the Audit Committee of the Bank is used as the discount rate and it varies with the period of the loans.

The difference between the present value of the staff loans as at the end of a year and beginning of the year have been amortized yearly to record the expense incurred by the Bank in providing these loans at concessionary rates and equivalent amount is recorded as other income to record the income that would have been earned by the Bank if these loans were granted at market rates.

### Assumptions used for computation of fair valuation

- The date of staff loan granted is considered as 1 January.
- There were no amendments or early settlements.

### 3.3.15 Impairment of Financial Assets

The Bank assesses at each reporting date whether a financial asset is impaired.

### 3.3.16 Impairment of Assets Carried at Amortised Cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in the Statement of Income.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the Statement of Income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

### 3.3.17 Impairment of Available for Sale Investments

If an Available for Sale asset is impaired, an amount comprising the difference between its cost (net of any

principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the Statement of Income. Reversals in respect of equity instruments classified as Available for Sale are not recognized in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

### 3.3.18 Foreign Currency Term Liabilities

Foreign currency term liabilities are subsequently reported at the amortised cost of the liabilities. Changes in the value of these liabilities are recognised as an increase or decrease in the value of the term liabilities in the Statement of Financial Position. Gains and losses arising from changes in value of foreign currency term liabilities are recognised immediately as expenses in the Statement of Income. Where the liability is still owed, the gain or loss is reported as Gain /(Loss) from Unrealised Price Revaluation. Where the gain or loss has been realised (through repayment of the liability), this is reported as Gains /(Losses) Realised from Price Changes.

### 3.3.19 Other Financial Assets and Liabilities

Local and foreign currency cash, deposits and short-term advances are recognised on trade date.

## 3.4 Other Assets and Liabilities

### 3.4.1 Gold

Section 67 (1) of the Monetary Law Act which specifies the composition of the International Reserve indicates that gold may be held by the CBSL as part of this Reserve. Hence, CBSL holds Rs. 124.41 Bn (Allocated - Rs. 111.01 Bn and Non Allocated - Rs. 13.40 Bn) in gold as part of its International Reserves as at 31 December 2016. As this gold is part of the International Reserve and not used as a commodity which is traded during the normal course of business, gold is fair valued and the gains or losses are transferred to the income statement. Prior to appropriation of profits, the unrealised gains from gold are transferred to the relevant reserve account.

### 3.4.2 Inventories

#### 3.4.2.1 Currency Inventory

Inventories of the Bank include new currencies that are not yet issued to the circulation. Cost related to production and design of new currency notes and coins are initially recognized at cost. Cost of new currency notes and coins which are issued to the circulation is determined on a weighted average basis and at the time of issue it is charged to Statement of Income. Allowance is made for slow moving inventories.

#### 3.4.2.2 Other Inventories

Other inventories are carried at lower of cost and net realisable value. Cost is determined on a weighted average basis.

### 3.4.3 Property, Plant and Equipment

Property, Plant and Equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of such Property, Plant and Equipment when that cost is incurred if the recognition criteria are met. Land and Buildings are measured at fair value less depreciation on Buildings and impairment charged subsequent to the date of the revaluation.

Except for the freehold land, depreciation is calculated on a straight-line method over the following estimated useful life.

Class of Asset	Useful Life
Buildings on Freehold Land	Over 50 Years
Buildings on Leasehold land	Over the Lease Period
Plant & Plant Integrals	20 Years
Furniture & Equipment	10 Years
Motor Vehicles	5 Years
Motor Vehicles acquired 2014 onwards	10 Years
Computer Hardware	4 Years
Others	3 Years

The carrying values of Plant and Equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Initial recognition at cost, Land and Buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on Buildings and subsequent accumulated impairment losses.

Policy for revaluation of Land & Building of the Bank is at least once in five years or at any shorter interval when a significant valuation adjustment becomes evident.

Any revaluation surplus is credited to the Revaluation Reserve included in the equity section of the Statement of Financial Position, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in Statement of Income, in which case the increase is recognized in Statement of Income. A revaluation deficit is recognized in Statement of Income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the Revaluation Reserve. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred to retained earnings. An item of Property, Plant and Equipment is de-recognized upon disposal or

when no future economic benefits are expected from its use or disposal.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Income in the year the asset is de-recognized. The asset's residual values, useful life and methods are reviewed, and adjusted if appropriate, regularly.

#### 3.4.4 Intangible Assets

Computer software not integral to computer hardware are shown as intangible assets and recognized at cost. Following initial recognition these intangible assets are carried at cost less any accumulated amortization based on a useful life of 4 years.

#### 3.4.5 Other Assets

Other assets are carried at expected realisable values.

#### 3.4.6 Impairment of Non-Financial Assets

The Bank assesses at each end of reporting period if events or changes in circumstances indicate that the carrying value may be impaired, whether there is an indication that a non-financial asset may be impaired. If any such indication exists, the Bank makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

#### 3.4.7 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Bank expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

#### 3.4.8 Currency in Circulation

Currency issued by the CBSL represents a claim on the Bank in favour of the holder. The liability for Currency in Circulation is recorded at face value in the Statement of Financial Position.

#### 3.4.9 Pension and Other Post Employment Benefit Plans

Pension and other Post Employment Benefit Plans operated by the Bank are disclosed in Note 45.

#### 3.4.10 Defined Benefit Plans

The Bank operates defined benefit schemes for Pension (Old and new schemes), Widows' and Orphans' Pensions

(W&OP), Widowers' and Orphans' Pensions (WR&OP), Retirement Gratuity and Post Employment Medical Benefits. The Bank and eligible beneficiaries make contributions, to separately administered funds in respect of the first three schemes. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method.

#### 3.4.11 Defined Contribution Plans

Employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in line with respective statutes and regulations. The bank contributes 24% and 3% of employees' gross emoluments to Employees' Provident Fund and Employees' Trust Fund respectively which are separately administered defined contribution plans.

#### 3.4.12 Grants

Grants recognised at their fair value (where there is a reasonable assurance that the grant will be received and all attaching conditions, if any, will be complied with) are shown under equity. When the grant relates to an expense item it is recognised in the Statement of Income over the periods necessary to match them to the expenses it is intended to compensate on a systematic basis. Where the grant relates to an asset, the fair value is credited to a deferred government grant account and is released to the Statement of Income over the expected useful life of the relevant asset on a systematic basis consistent with the depreciation policy of the related asset.

#### 3.4.13 Personnel Expenses

Personnel Expenses include the full cost of all staff benefits. Salaries and related expenses due at year-end are included in other local payables.

#### 3.4.14 Operating Leases

Where the Bank is the lessee, the lease rentals payable on operating leases are recognised in the Statement of Income over the term of the lease on a basis consistent with the expected benefits derived from the leased assets.

#### 3.4.15 Taxation

The income of the Bank is exempted from tax under section 118 of the Monetary Law Act No. 58 of 1949 as amended.

Further, Bank is exempted from ESC as per the Economic Service Charge (Amendment) Act, No. 6 of 2013 and exempted from Value Added Tax on supply of financial services as per Value Added Tax (Amendment) Act No. 17 of 2013.

#### 3.4.16 Revenue & Expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. Expenses are

recognised in the Statement of Income on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the Property, Plant & Equipment in a state of efficiency has been charged to income in arriving at the result for the year.

The following specific recognition criteria must also be met before revenue and expenses are recognised:

#### 3.4.16.1 Interest

Interest income and expenses are recognised in the Statement of Income for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price unless collectability is in doubt. Interest income includes coupons earned on fixed income investments and securities and accrued discount and premium on Treasury bills and other discounted instruments. Interest income is suspended when loans become doubtful of collection. Such income is excluded from interest income until received.

#### 3.4.16.2 Dividends

Dividend income is recognised when the shareholder's right to receive the payment is established.

#### 3.4.16.3 Miscellaneous

Miscellaneous income and expenses are recognised on an accrual basis.

Net gains and losses of a revenue nature on the disposal of Property, Plant & Equipment have been accounted for in the Statement of Income, having deducted from proceeds on disposal, the carrying amount of the assets and related selling expenses.

Gains and losses arising from incidental activities to the main revenue generating activities and those arising from a group of similar transactions which are not material, are aggregated, reported and presented on a net basis.

#### 3.4.17 Contingent Liabilities and Commitments

All guarantees of indebtedness, forward foreign exchange transactions and other commitments, which are not recognised in Statement of Financial Position are shown under respective headings recognised as Contingent Liabilities and Capital commitment items. Where applicable, such amounts are measured at best estimates.

### 4. NATURE AND EXTENT OF ACTIVITIES

The Monetary Board of the CBSL is, in addition to determining the policies or measures authorized to

be adopted or taken under Monetary Law Act No. 58 of 1949 of Sri Lanka as amended, vested with the powers, duties and functions of the CBSL and are generally responsible for the management, operations and administration of the Bank. The Bank is primarily responsible for the administration, supervision, regulation of monetary, financial and payment system of Sri Lanka and also acts as the fiscal agent of the Government. The activities of the Bank mainly include:

- Implementing monetary and exchange rate policies.
- Issuing of currency.
- Facilitating free competition and stability in the financial system.
- Licensing and supervision of defined financial institutions.
- Organization and management of the inter-bank settlement system and promotion of the smooth functioning of the payment system.
- Providing loans and advances to the Government, banks and financial institutions under various facilities.
- Acting as a depository of the Government under specific arrangements with Government and agencies acting on behalf of the Government.

The activities carried out in order to achieve its objective of economic, price and financial system stability with a view to encouraging and promoting the development of the productive resources of Sri Lanka can be broadly segregated into foreign currency and local currency activities. Results of these activities are taken to main Operating Activities in the context of the Statement of Income.

#### 4.1 Foreign Currency Activities

Foreign currency activities result mainly from the CBSL's holdings of foreign currency assets under its foreign reserves management function. The foreign reserves management portfolio comprises foreign currency assets held for foreign exchange intervention purposes and other foreign currency assets held for trading purposes.

The foreign currency assets are held in various currencies. The majority are denominated in United States Dollars, Australian Dollars, Euros, Sterling Pounds, Japanese Yen and New Zealand Dollars. The financial instruments held within these foreign currency portfolios consist mainly of sovereign securities, securities held under reverse-repurchase transactions or balances held with other central banks, commercial banks and custodial institutions.

The CBSL also holds, from time-to-time, foreign currency assets and liabilities that arise from international market operations.

#### 4.2 Local Currency Activities

Local currency activities arise as follows:

- (i) Liquidity management operations: Liquidity management largely involves the CBSL offsetting the daily net flows to or from government or market by advancing funds to or withdrawing funds from the banking system. Most of this business is undertaken through daily open market operations.
- (ii) Holding an investment portfolio comprising Sri Lanka Government Securities to support the liability for currency in circulation. The Bank's policy is to hold these investments for monetary operations and not for trading.

#### 4.3 Trust and Custodial Activities

Amounts administered by the CBSL under custodial and administration arrangements are not included in these financial statements, as they do not form part of elements of financial statements of the Bank.

### 5. INVESTMENT IN FOREIGN SECURITIES

	2016 Rs. 000	2015 Rs. 000
<b>Securities at Fair Value through Profit or Loss</b>		
-Investment in Foreign Securities	29,882,588	23,986,740
-Gold (Un-Allocated)	13,396,167	11,792,925
	<b>43,278,755</b>	<b>35,779,665</b>
<b>Available for Sale Investments</b>		
-Investment in Foreign Securities	341,225,162	344,668,225
-Unit Investment	7,319,488	7,386,257
	<b>348,544,650</b>	<b>352,054,482</b>
<b>Total Investment in Foreign Securities</b>	<b>391,823,405</b>	<b>387,834,147</b>

Investment in foreign securities includes the investments made by CBSL during 2016 in the Reserve Advisory Management Program (RAMP) managed by the World Bank. The value of the investment with RAMP as at 31 December 2016 was Rs. 29,882.59 Mn.

### 6. DERIVATIVE FINANCIAL INSTRUMENTS

- a) The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of

derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at period end and are indicative of neither the market risk nor the credit risk.

	2016			2015		
	Assets Rs. 000	Liabilities Rs. 000	Notional Amount Rs. 000	Assets Rs. 000	Liabilities Rs. 000	Notional Amount Rs. 000
Currency SWAPS	198,880	8,659,453	374,297,030	-	13,989,728	379,377,271
Forward Forex	-	2,410	2,771,960	2,259	169	4,725,243
Embedded Derivatives - Currency Options	-	5,911,812	85,524,565	-	10,290,162	157,782,073
Interest Rate SWAP	-	-	-	1,886	249	1,440,623
<b>Total</b>	<b>198,880</b>	<b>14,573,675</b>	<b>462,593,555</b>	<b>4,145</b>	<b>24,280,308</b>	<b>543,325,210</b>

- b) The above derivatives consisting of Currency Swaps, Currency Options, Foreign Exchange Forward Contracts and Interest Rate Swaps were used for the purpose of managing market and liquidity risks in international reserves held by the Bank in line with the statutory objectives of maintenance of international reserves. In addition, the Bank entered into Swap transactions with Licensed Commercial Banks (LCBs), Licensed Specialized Banks (LSBs) and Foreign Central Banks in order to maintain international stability of the Sri Lankan Rupee, to strengthen the financial system of the country and to encourage those Banks to bring foreign funds.
- c) Derivatives are financial contracts that derive their value in response to changes in interest rates, financial instruments prices, commodity prices, foreign exchange rates, credit risk and indices.
- d) A significant part of derivatives portfolio of the Bank consists of currency swaps entered into as a strategy to manage the short term liquidity requirements. In a currency swap, the Bank pays/receives a specified amount of a currency on an agreed date in exchange of another currency at agreed rates.
- e) From Foreign Exchange Forward contracts, the Bank gets the obligation to buy or sell specific amount of foreign currency on an agreed future date at an agreed rate.
- f) In interest rate swaps the Bank pays fixed interest rate (the swap rate) to the counterparty, while receiving floating interest rate indexed to reference rate (E.g. 3 months LIBOR + Margin) and vice versa.
- g) The Bank's exposure to derivative contracts is closely monitored as part of the overall risk management of the Bank to ensure expected benefits from such derivatives are crystalized to the Bank.

## 7. IMF RELATED ASSETS

	2016 Rs. 000	2015 Rs. 000
Holding of Special Drawing Rights	303,070	970,272
IMF Quota	116,559,364	82,527,455
Deposits with IMF	145,906	138,623
<b>Total IMF Related Assets</b>	<b>117,008,340</b>	<b>83,636,350</b>

### a). Holding of Special Drawing Rights

Holding of Special Drawing Rights (SDR) is potentially a claim on the freely usable currencies of IMF members, in that holders of SDRs can exchange their SDRs for these currencies. The SDRs value as a reserve asset derives from the commitments of members to hold and accept SDRs, and to honor various obligations connected with the operation of the SDR system. The IMF ensures that the SDRs claim on freely usable currencies is being honored in two ways: by designating IMF members with a strong external position to purchase SDRs from members with weak external positions, and through the arrangement of voluntary exchanges between participating members in a managed market. The amount shown above represents the total holding of the Bank as at the respective reporting dates.

### b). IMF Quota

The IMF Quotas (capital subscriptions) are the primary source of IMF resources received from its member countries. Each country's quota is determined broadly on the basis of the relative economic size of the country. Upon joining the IMF, a country must pay 25 per cent of its quota in widely accepted foreign currencies or SDRs, and the remaining 75 per cent in its own currency. The IMF quota represents an asset of the Bank as it transacts with the IMF on its own account on behalf of the Government as per Articles of the IMF.

The IMF, based on the General Quota Review Agreement, decided to increase the quotas of each of the IMF's 189 members in January 2016. As a result, Sri Lanka's IMF quota increased to SDR 578.80 Mn on 17 February 2016 from the previous quota amount of SDR 413.40 Mn. The amounts payable in respect of the IMF Quota is shown under the heading Quota Liability in Note 19. A member's quota determines that country's financial and organizational relationship with IMF, including:

(i) **Subscriptions:** A member's subscription to IMF resources is equal to its quota and determines the maximum amount of financial resources the member is obliged to provide to the IMF. A member must pay its subscription in full; up to 25 percent must be paid in reserve assets specified by the IMF (SDRs or usable currencies), and the rest in the member's own currency.

(ii) **Voting power:** The quota defines a member's voting power in IMF decisions. IMF member's votes are comprised of basic votes plus one additional vote for each SDR 100, 000 of quota. The 2008 reform fix the number of basic votes at 5.50 per cent of total votes.

(iii) **Access to financing:** The amount of financing a member can obtain from the IMF (access limits) is based on its quota. Under Stand-By and Extended Arrangements, for instance, a member can currently borrow up to 200 percent of its quota annually and 600 percent cumulatively. Access may be higher in exceptional circumstances and to meet specific problems.

(iv) **SDR allocations:** Members' shares of SDR allocations are established in proportion to their quotas.

### c). Deposits with IMF – PRGF – HIPC Trust Deposit

The PRGF – HIPC (Poverty Reduction and Growth Facility for the Heavily Indebted Poor Countries) Trust Deposit was made under the agreement between the GOSL and the IMF on 21 April 2000 by transferring SDR 788,783 from Sri Lanka's deposit in the post SCA-2 (Special Contingent Account) administered account with the IMF. This account was created under the guidance of the IMF by transferring the balance held in SCA-2 against Sri Lanka when it was decided to wind up SCA-2 by the IMF. IMF requested the countries that had balances in the Post SCA-2 account to consider providing the balances in that account to the PRGF/HIPC Trust either as outright grant or as a means of providing a subsidy for PRGF/HIPC loan. Accordingly, GOSL agreed to transfer the funds from Post SCA –2 accounts to PRGF/HIPC Trust account, not as an outright grant, but as an interest free deposit until 2018.

## 8. SRI LANKA GOVERNMENT SECURITIES

Portfolio of Government Securities acquired and maintained as per Section 90 (2) of the Monetary Law Act for the purpose of open market operations to be carried out in the conduct of the monetary policy.

## 9. PROVISIONAL ADVANCES TO GOVERNMENT

These represent advances granted to the Government of Sri Lanka (GOSL) under Section 89 of the Monetary Law Act subject to the conditions stated in provision of advances to finance expenditure authorised to be incurred out of the Consolidated Fund.

## 10. LOANS TO BANKS

These are the loans granted in terms of Part IIIA of Chapter V of the Monetary Law Act to facilitate lending for productive purposes.



	2016 Rs. 000	2015 Rs. 000
Medium & Long Term Credit Scheme (MLTC)		
- Related Parties	31,340	33,534
Susahana Tsunami Loan Scheme Phase I & II		
- Related Parties	-	10,665
Provincial Development Loan Scheme		
- Related Parties	112,652	233,867
Saubaghya Loan Scheme		
- Related Parties	101,176	175,296
- Others	30,768	47,864
Resumption of Economic Activities in the East		
- Related Parties	115,977	212,265
- Others	53,296	76,984
Repair of Damaged Houses North & East		
- Related Parties	30,310	36,267
Awakening North Loan Scheme (RF Phase II)		
- Related Parties	34,632	84,140
- Others	1,194	2,778
<b>Less:</b>		
Provision for Doubtful Receivables	(27,302)	(27,302)
<b>Net Receivable</b>	<b>484,043</b>	<b>886,357</b>
Movement in Provision for Doubtful Loans		
	2016 Rs. 000	2015 Rs. 000
At the beginning of the period	27,302	27,302
Write off of doubtful loans	-	-
<b>At the end of 31 December</b>	<b>27,302</b>	<b>27,302</b>

## 11. EQUITY INVESTMENTS IN FINANCIAL AND OTHER INSTITUTIONS

These investments are made in terms of Section 105 A of the Monetary Law Act. Under this Section, the Bank is empowered to acquire and hold shares in any company which in the opinion of the Monetary Board was formed for the advancement and promotion of human resources and technological development in the Banking and Financial sector or to facilitate clearance of transactions among commercial banks operating in Sri Lanka.

### (i) Investment position

Company	Nature of the Business	% Holding	
		2016	2015
Lanka Clear (Private) Limited	Automated Clearing	19.66	19.66
Fitch Ratings Lanka Limited	Credit Rating	10.00	10.00
Lanka Financial Services Bureau Limited	Automated Fund Transfers	7.50	7.50
Credit Information Bureau of Sri Lanka Limited	Provision of Credit Information	19.30	19.30

### (ii) The carrying value of investments

Company	2016 Rs. 000	2015 Rs. 000
Credit Information Bureau of Sri Lanka Limited	5,845	5,845
Lanka Clear (Private) Limited	29,500	29,500
Fitch Ratings Lanka Limited	3,500	3,500
Lanka Financial Services Bureau Limited	2,250	2,250
<b>Total Investments</b>	<b>41,095</b>	<b>41,095</b>

## 12. OTHER ASSETS

	2016 Rs. 000	2015 Rs. 000
Investment of Internal Funds	5,208,837	4,302,590
Impairment Charges on Assets	(139,131)	-
Net Investment of Internal Funds	5,069,706	4,302,590
Staff Loans at Amortized Cost	4,588,285	4,234,875
Receivable from Treasury and Other Ministries	1,401,497	1,378,695
Receivable from RDD	208,977	311,572
Investment in Debentures at Amortized Cost	11,964	10,564
Other Receivables	26,941	27,103
	11,307,370	10,265,399
Non Financial Assets		
Deferred asset on Staff Loan	1,015,226	899,025
	<b>12,322,596</b>	<b>11,164,424</b>

Investment in Debentures represents debentures received by the Bank in part settlement of refinance loans granted to Mercantile Credit Limited by the Bank in 1988, which was written off in 2011, pending proceeds from the liquidation of the company as the company is in the liquidation process.

A total value of Rs. 10,839,500/- debentures of Sri Lanka Savings Bank Ltd. received by the Bank is stated at the amortized cost. The debentures are 10 years unsecured, subordinated and redeemable and carry an interest at 5% per annum or one year Treasury bill yield rate whichever is less to be accrued annually.

## 13. GOLD

This is the value of physical gold held as required under Section 67 (1) and Section 67(2) of the Monetary Law Act (MLA) as part of the International Reserve of the Bank. As per Section 67(2), Monetary Board is required to endeavor to hold at least a nuclear reserve in gold or currencies freely convertible by the Central Bank, whether directly or indirectly, into gold as per the MLA.

## 14. INVENTORIES

	2016 Rs. 000	2015 Rs. 000
Notes for Circulation	3,402,661	2,179,294
Coins for Circulation	1,779,021	961,716
Coins in Transit from the Supplier	116,197	143,336
Notes in Transit from the Supplier	803,227	128,026
	6,101,106	3,412,372
<b>Less: Allowance for Slow Moving Items</b>	<b>(45,000)</b>	<b>(45,000)</b>
	6,056,106	3,367,372
Stationery and Sundry Inventory	58,557	52,259
Medical Center Stock	198	333
<b>Total Inventories at Lower of Cost or Net Realizable Value</b>	<b>6,114,861</b>	<b>3,419,964</b>

**15. PROPERTY, PLANT AND EQUIPMENT**

Cost	Land and Buildings Rs.000	Plant & Plant Integrals Rs.000	Furniture & Equipment Rs.000	Vehicles Rs.000	Computers Rs.000	Others		2016 Total Rs.000	2015 Total Rs.000
						Reading Materials Rs.000	Construction In progress Rs.000		
As at 01 January	13,369,401	1,283,488	1,230,501	489,475	810,574	53,007	1,366,603	18,603,049	17,422,764
Revaluation	1,848,249	-	-	-	-	-	-	1,848,249	-
Additions	-	5,295	49,535	-	47,988	764	389,590	493,172	1,235,918
Disposals	-	-	(1,145)	-	(18,176)	-	-	(19,321)	(25,756)
Transfers	1,506,711	207,139	2,923	-	2,653	237	(1,724,798)	(5,135)	(29,877)
As at 31 December	16,724,361	1,495,922	1,281,814	489,475	843,039	54,008	31,395	20,920,014	18,603,049

Depreciation	Land and Buildings Rs.000	Plant & Plant Integrals Rs.000	Furniture & Equipment Rs.000	Vehicles Rs.000	Computers Rs.000	Others		2016 Total Rs.000	2015 Total Rs.000
						Reading Materials Rs.000	Construction In progress Rs.000		
As at 01 January	662,493	718,434	706,812	340,845	718,222	33,928	-	3,180,734	2,736,068
Depreciation for the year	198,998	66,408	81,326	35,611	51,125	1,220	-	434,688	469,674
Revaluation	(809,150)	-	-	-	-	-	-	(809,150)	-
Disposals	-	-	(1,089)	-	(17,559)	-	-	(18,648)	(25,008)
As at 31 December	52,341	784,842	787,049	376,456	751,788	35,148	-	2,787,624	3,180,734
Net Book Value	16,672,020	711,080	494,765	113,019	91,251	18,860	31,395	18,132,390	15,422,315

The carrying values of Land and Buildings are recorded at fair value. The latest independent valuation was performed as at 31 December 2016 by FM Valuers, which was recorded as at 31 December 2016.

The properties of the bank at Newyork and Brazil have not been recorded at fair value since the cabinet has approved the transfer of such properties to the Secretary to the Ministry of Foreign Affairs at cost in November

2016. Further, the properties are disclosed under PPE, without classifying as Assets Held for sale.

During the financial year, the Bank has acquired property, plant and equipment by means of cash with an aggregated cost of Rs.488.04 Mn (2015 - Rs. 1,206.04 Mn).

The value of the fully depreciated assets which are still in use as at 31 December 2016 was Rs. 1,404.91 Mn (2015 - Rs. 1,303.09 Mn).

**Information on Valuations of Freehold Land and Buildings and Buildings on Leasehold Land of the Bank**

Property	Name of the chartered valuation surveyor	Valuation approach	Estimated price per perch (Rs.)	Estimated price per square foot (Rs.)	Estimated rent per month (Rs.)	Outgoing expenses	Years Purchase
<b>Land &amp; Building</b>							
Head Office - Colombo 01	A. A. M. Fathihu	Market Approach & Cost Approach	12,500,000	9,000 - 15,000	-	-	-
Whiteaways Building - Colombo 01	-do-	Income Approach	13,500,000	-	6,000,000	40%	16.66
Lloyds Building - Colombo 01	-do-	Income Approach	13,500,000	-	6,750,000	40%	16.66
Central Point Building - Colombo 01	-do-	Income Approach	14,000,000	-	7,500,000	35%	16.66
Centre for Banking Studies - Rajagiriya	-do-	Market Approach & Cost Approach	2,500,000 - 3,500,000	2,500 - 9,500	-	-	-
Bank House - Colombo 07	-do-	Market Approach & Cost Approach	7,500,000	3,500 - 8,500	-	-	-
Regional Office - Matara	-do-	Market Approach & Cost Approach	1,500,000 - 3,000,000	4,000 - 7,500	-	-	-
Regional Office - Matale	-do-	Market Approach & Cost Approach	100,000 - 500,000	2,500 - 7,500	-	-	-
Holiday Home - Nuwara Eliya	-do-	Market Approach & Cost Approach	1,000,000	2,000 - 7,000	-	-	-
Holiday Home - Kataragama	-do-	Market Approach & Cost Approach	200,000	4,500 - 10,000	-	-	-
<b>Building on Leasehold Land</b>							
Regional Office - Anuradhapura	A. A. M. Fathihu	Cost Approach	-	3,500 - 7,500	-	-	-
Holiday Home - Anuradhapura	-do-	Cost Approach	-	5,500	-	-	-
Regional Office - Kilinochchi	-do-	Cost Approach	-	1,500 - 7,000	-	-	-
Holiday Home - Somawathiya	-do-	Cost Approach	-	10,000	-	-	-

**Composition of Land and Buildings**

	Carrying Value 2016 Rs. 000	Carrying Value 2015 Rs. 000
Freehold Land	8,976,339	5,689,063
Buildings on Freehold Land	7,424,982	6,935,388
Buildings on Leasehold Land	270,700	82,457
	<b>16,672,021</b>	<b>12,706,908</b>

The carrying amount of revalued Land & Buildings that would have been included in the financial statements had they been carried at cost less depreciation is Rs.8,762.63 Mn (2015 - Rs.9,998.75 Mn).

**16. INTANGIBLE ASSETS**

	2016 Rs. 000	2015 Rs. 000
<b>Computer Software:</b>		
<b>Cost:</b>		
As at 1 January	948,648	927,022
Additions	1,124	21,626
As at 31 December	<b>949,772</b>	<b>948,648</b>
<b>Amortization and Impairment:</b>		
As at 1 January	708,038	620,938
Amortization Charge for the year	85,414	87,100
As at 31 December	<b>793,452</b>	<b>708,038</b>
<b>Net Book Value:</b>		
As at 1 January	240,610	306,084
As at 31 December	<b>156,320</b>	<b>240,610</b>

During the financial year, the Bank has acquired intangible assets by means of cash with an aggregated cost of Rs. 1.12 Mn (2015 - Rs. 21.63 Mn).

The value of the fully amortized assets which are still in use as at 31 December 2016 was Rs. 613.34 Mn. (2015 - Rs. 594.08 Mn).

**17. BANKS AND FINANCIAL INSTITUTIONS**

	2016 Rs. 000	2015 Rs. 000
Payable to Foreign Banks	45,267,025	11,524,984
Payable to other Foreign Financial Institutions	299,656	523,257
	<b>45,566,681</b>	<b>12,048,241</b>

**18. ASIAN CLEARING UNION**

The Asian Clearing Union (ACU) was established in 1974 at the initiative of the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) as a mechanism for settlement of payments among participating countries' Central Banks. The participants of ACU are Sri Lanka, Bangladesh, Iran, Nepal, Pakistan, India, Bhutan, Myanmar and Maldives. This is a clearing facility to settle,

on a multilateral basis, payments for current international transactions among territories of participants. Net position as at end of each month is settled or received, after two-month credit period. Interest between 0.34 % and 0.51 % in USD (2015 - 0.02 % and 0.23 %) & Interest between 0.00 % and 0.00% in EURO (2015 - 0.00 % and 0.00 %) is paid by net debtors to the facility and transferred to net creditors on daily balances outstanding between settlement dates. The balance represents the amounts due to ACU at the respective reporting dates.

**19. IMF**

	2016 Rs. 000	2015 Rs. 000
Interest Bearing Loans - Non Current	48,288,764	34,386,440
Interest Bearing Loans - Current	34,687,890	65,334,236
Allocation of Special Drawing Rights	79,638,200	78,946,116
Other Amounts Payable to IMF Quota Liability	52,858,160	47,512,222
	<b>54,067,582</b>	<b>25,465,330</b>
	<b>221,251,832</b>	<b>217,257,904</b>
<b>Total IMF Related Liabilities</b>	<b>269,540,596</b>	<b>251,644,344</b>

a). Interest bearing Loans consist of the Extended Fund Facility (EFF) and Stand By Arrangement (SBA) obtained from the IMF.

b). **Extended Fund Facility (EFF)** is a three year facility provided by the IMF to support the Balance of Payments and Government's economic reform agenda. The IMF approved the EFF of SDR 1.10 Bn (approximately USD 1.50 Bn) in June 2016. This amount is equivalent to 185 per cent of the country's current quota with the IMF. The first tranche under the EFF amounting to SDR 119.89 Mn (approximately USD 168.10 Mn) was made available on June 2016. The second tranche to the value of SDR 119.89 Mn (approximately US dollars 162.56 Mn) was disbursed on November 2016 after the second review of the EFF. The remaining amount is expected to be disbursed in five more tranches over a period of three years, with the final tranche expected in April 2019. The interest rate applicable on the EFF comprise of the basic rate of charge, which is equivalent to the SDR interest rate (currently stands at 0.05 per cent per annum) plus 100 basis points.

c). **SBA** is a balance of payment support financing facility provided by the IMF subject to certain conditions on macroeconomic management of the borrowing countries. The IMF approved a SBA facility of SDR 1.65 Bn (USD 2.60 Bn) for Sri Lanka in July 2009 as a balance of payment support. The SBA was successfully completed in 2012 with the final tranche received in July 2012. This loan facility is repayable within 5 years and the repayments commenced in October 2012. The rate of interest payable is composed

of two components; the service charge and a fixed margin. The service charge is calculated weekly, based on the SDR interest rate. The fixed margin is 1 per cent per annum for the outstanding loan amount up to 300 per cent of the quota with the IMF. When the outstanding loan amount exceeds 300 per cent of the quota, a surcharge of 2 per cent per annum will be levied on the outstanding in excess of 300 per cent. The first repayment of SDR 25.80 Mn was made on 25 October 2012.

Total amount of SDR 1,128.24 Mn of repayments was done during the year 2013-2015 and SDR 327.28 Mn was done during the year of 2016. The outstanding balance as at 31st December 2016 was SDR 172.25 Mn.

The amounts expected to be settled before and after 12 months in connection with Interest Bearing Loans are as follows:

	Effective interest rate %	Maturity	2016 Rs. 000	2015 Rs. 000
<b>Current SBA</b>	0.244	2017	<b>34,687,890</b>	65,334,236
			<b>34,687,890</b>	65,334,236
<b>Non-current EFF SBA</b>	0.244	2026 2017	<b>48,288,764</b>	-
			-	34,386,440
			<b>48,288,764</b>	34,386,440
<b>Total Interest bearing loans</b>			<b>82,976,654</b>	99,720,675

**d). The Special Drawing Right (SDR)** is a reserve asset created by the IMF in order to meet a long-term global need to supplement existing reserve assets. SDRs are allocated to member countries in proportion to their IMF quotas. SDR allocations can only be made to countries that participate in the IMF's SDR Department (an accounting unit within the IMF). The IMF created SDRs to supplement existing official reserve assets such as gold holdings, foreign exchange and reserve positions in the IMF. Under certain conditions, which are set in the Articles of Agreement signed on behalf of the Government of Sri Lanka by the Bank, the IMF may allocate SDRs to members in proportion to their IMF quotas. An allocation of SDRs by the IMF provides each member with a costless asset on which interest is neither earned nor paid. The Articles of Agreement also allow for cancellations of SDRs, but to date, this provision has not been used. Increases in Allocation of SDR represents increases in Holding of SDR as described in Note 7. Members of IMF are obligated to pay to the IMF an amount equal to its net cumulative allocation and any other amounts that may be due and payable because of its participation in the Special Drawing Rights Department at the point of termination or liquidation of IMF's SDR Department.

**e). Other Amounts Payable to IMF** represent amounts owed by the Bank to IMF on account of operational and administrative transactions.

**f). Quota Liability** is the amount payable in respect of the IMF Quota as described in Note 7, which is shown under the heading Quota Liability.

## 20. OTHER

	2016 Rs. 000	2015 Rs. 000
DST-PRP II under Escrow Agreement (a)	<b>364,794</b>	1,413,418
Moragahakanda Development Project Loan under Escrow Agreement (b)	<b>5,857,173</b>	11,957,787
DST - PRP III under Escrow Agreement (c)	<b>13,245,476</b>	21,701,612
DST - PRP III Phase II under Escrow Agreement (d)	<b>12,754,696</b>	14,406,230
DST Special Dollar A/C - Small & Medium Enterprises (SME) and Green Energy Global Loan (e)	<b>2,195,121</b>	-
DST Special Euro A/C - SME and Green Energy Global Loan (e)	-	7,483,465
DST Special Dollar A/C - Ambatale Water Supply Improvement Project (f)	<b>291,768</b>	720,312
DST - NORAD Waso Asia Project of the University of Peradeniya (g)	<b>6,409</b>	-
Amount due to Reserve Bank of India (RBI) under SAARC swap facility (h)	<b>59,920,000</b>	158,468,530
Other Foreign Liabilities	<b>1,614,595</b>	1,772,788
	<b>96,250,032</b>	217,924,142

### a). Priority Road Project (II) under Escrow Agreement

A Facility Agreement between China Development Bank Corporation (CDB) and Government of Sri Lanka was signed on 31st March 2011 for USD 500 Mn. The funds of this Facility Agreement are used for the improvement and rehabilitation of priority roads. As per the Facility Agreement, the Bank has been appointed as the Escrow Agent. Accordingly, an Escrow Account has been opened in the Bank for the sole purpose of depositing the loans and disbursing such received monies to the Road Project, and this account shall be jointly operated by the lender (CDB) and the borrower (GOSL) pursuant to this Agreement.

The first tranche of Escrow Funds USD 326 Mn was received on 29th June 2011 and second tranche of USD 174 Mn was received on 28th October 2011.

The lender instructs the Escrow Agent to disburse the Escrowed Funds to the account specified in the Disbursement Request by sending a Notice of Approval.

After receiving a Notice of Approval from the CDB, first disbursement has been made on 18th October 2011 amounting to USD 1.77 Mn.

Thereafter, during the year 2011 & 2012 USD 157.50 Mn was disbursed according to the CDB's request. USD 118.52 Mn, USD 161.01 Mn and USD 51.37 Mn was

disbursed in years 2013, 2014 and 2015 respectively. In the year 2016, USD 7.38 Mn was disbursed and the remaining balance as at 31 December 2016 is USD 2.44 Mn.

**b). Moragahakanda Development Project Loan under Escrow Agreement**

This Loan Agreement was signed between China Development Bank (as lender) and the Government of Sri Lanka (as borrower) on 28th June 2012 for USD 214.20 Mn. The purpose of this loan agreement is to provide facility for financing the construction of a hydroelectric power station at Moragahakanda. This Project has been implemented by the Ministry of Irrigation and Water Resources Management. The Bank opened an account in its books of account, as the Banker to this agreement, according to the instructions of the Department of External Resources for the purpose of receiving and disbursing the loan. On 29th of June 2012 USD 214.20 Mn was received from CDB and first disbursement of USD 64.34 Mn was done on 24th August 2012. During the year 2013-2015, USD 66.86 Mn was disbursed. In the year of 2016, USD 43.90 Mn was disbursed and the remaining balance as at 31st December 2016 is USD 39.10 Mn.

**c). Priority Road Project III under Escrow Agreement**

This Facility Agreement was signed between the China Development Bank (as the lender) and the Government of Sri Lanka (as the borrower) on 11th March 2014 for USD 300 Mn. The purpose of this loan is to finance the cost of improvement and rehabilitation of Priority Road Project III-Phase I. As per the Facility Agreement, the Bank has been appointed as the Banker to the Government of Sri Lanka. Accordingly, an account has been opened in its books of account for the sole purpose of depositing the loan and disbursing such received monies to the Road Project. USD 300 Mn was received to the above account on 28th March 2014. During the year 2014-2015, USD 149.36 Mn was disbursed. In the year of 2016, USD 62.22 Mn was disbursed and the remaining balance as at 31st December 2016 is USD 88.42 Mn.

**d). Priority Road Project III Phase II under Escrow Agreement**

The Phase II of this agreement was received on 24th November 2014 for USD 100 Mn. During the year 2016, USD 14.86 Mn was disbursed and the remaining balance as at 31st December 2016 is 85.14 Mn.

**e). SME and Green Energy Global Loan**

This is a Finance Contract between the Democratic Socialist Republic of Sri Lanka and European Investment

Bank signed on 13th November 2013. As per the Facility Agreement, the Bank has been appointed as the Banker to the Government of Sri Lanka. Accordingly, an account has been opened in its books of account for the sole purpose of depositing the loan and disbursing such received money to the project. USD 21.13 Mn was received to the above account on 06th October 2014. In the year 2014, USD 11.80 Mn was disbursed and the remaining balance as at 31st December 2014 is USD 9.33 Mn. During the year 2015 the remaining amount in the project was disbursed.

The second tranche of the above SME and Green Energy Global Loan was received in Euro on 09 July 2015. Accordingly, an account has been opened in the books of account of the CBSL for the sole purpose of depositing the loan and disbursing such received money to the project. Euro 26.68 Mn and Euro 46.87 Mn was received to the above account on 09 July 2015 and 23 December 2015 respectively. During the year 2015, Euro 26.01 Mn was disbursed and the remaining balance as at December 2015 is Euro 47.54 Mn.

The remaining balance of the Euro account which was EUR 37,337,757.66 was transferred to the USD account on April 2016 with the concurrence of the Treasury Operations Department, and the equivalent USD amount was USD 42,204,394.11. During the year 2016, USD 27.55 Mn was disbursed and the remaining balance in the account as at 31 December 2016 is USD 14.65 Mn.

**f). DST Special Dollar A/C-Ambatale Water Supply Improvement Project**

This Credit Facility Agreement was signed between Agence Francaise de Development as the Lender and the Democratic Socialist Republic of Sri Lanka as the Borrower on 29 September 2014. The Bank has opened an account in its books of account, as the banker to this agreement, according to the instructions of the Department of Treasury operations for the purpose of receiving and disbursing the loan. USD 5 Mn was received to the above account on 14 September 2015.

During the period of 2016 USD 3.05 Mn was disbursed and the balance as at 31st December 2016 is USD 1.95 Mn.

**g). USD Account-NORAD Waso Asia Project of the University of Peradeniya**

The Central Bank of Sri Lanka is maintaining USD Account NORAD Waso Asia Project of the University of Peradeniya on behalf of University of Peradeniya to receive funds from NORAD for the Capacity Building Project. University of Peradeniya is expecting to withdraw the funds in USD or LKR by submitting the withdrawal applications through Treasury Operation Department. USD 42,784.73 was received to the above account on 23 December 2016.

#### h). Amount due to Reserve Bank of India (RBI) under SAARC swap facility

The SAARC Finance Governors' Symposium held in Washington DC on 25th September 2011 gave its financial concurrence to the framework on Currency Swap Arrangement for SAARC countries. The swap agreement will be valid for a period of 3 years from the date on which the arrangement is offered to the SAARC nations. According to this arrangement, the Reserve Bank of India (RBI) and CBSL has entered into a bilateral swap agreement.

Drawing may be allowed in multiple tranches over the validity period of the agreement. Each drawing will be for three months and another 3 months roll over will be allowed. The interest rate applicable for the drawing is 3 month USD LIBOR rate prevailing on the date of each withdrawal plus 200 basis points.

Outstanding balance as at 31 December 2016 represents the drawing of USD 400 Mn which was made on 16 December 2016 and the repayment of this tranche will be due on 16 March 2017.

#### 21. DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS

These are the deposits maintained by LCBs for the purpose of meeting Statutory Reserve Requirement under section 93 of the Monetary Law Act and deposits maintained by LCBs, Primary Dealers in Government Securities and the Employee Provident Fund and as participants of Real Time Gross Settlement System (RTGS) for honoring payments under the RTGS operated by the Bank as per the provisions of the Monetary Law Act. Under the scheme, an interest free intra-day liquidity facility, fully collateralized by Government is available to participants to meet payment obligations within the day to facilitate smooth functioning of the settlement system. Although these deposits are classified as related parties (i.e., State owned Banks and institutions) and others for the purpose of accounting disclosure requirements, such deposits are maintained in terms of relevant statutory provisions and not because of specific business relationship of the Bank with those state institutions.

	2016 Rs. 000	2015 Rs. 000
<b>Deposits by Banks :</b>		
- Related Parties	183,836,224	89,340,293
- Others	110,060,140	92,380,448
	<u>293,896,364</u>	<u>181,720,741</u>
<b>Deposits by Financial Institutions :</b>		
- Related Parties	477	729
- Others	9,354,449	5,262
	<u>9,354,926</u>	<u>5,991</u>
<b>Total Deposits by Banks and Other Financial Institutions</b>	<u><u>303,251,290</u></u>	<u><u>181,726,732</u></u>

#### 22. DEPOSITS OF GOVERNMENT AND GOVERNMENT ENTITIES

	2016 Rs. 000	2015 Rs. 000
Government Deposits	167,615	174,871
Government Agencies and Funds	283,269	253,271
	<u>450,884</u>	<u>428,142</u>

These are the deposits maintained in terms of Section 106(1) of the Monetary Law Act as the Bank is the official depository of the Government and/or government agencies or institutions.

#### 23. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

	2016 Rs. 000	2015 Rs. 000
Government Securities	21,383,724	23,662,520
Standing Deposit Facility (Note 3.3.8)	48,670,712	81,828,486
	<u>70,054,436</u>	<u>105,491,006</u>

Repurchase agreements are undertaken for Open Market Operations (OMO) to regulate liquidity in the money market under Sections 90 and 91 of Monetary Law Act as part of conduct of the monetary policy. These repurchase agreements were engaged only in Government securities on over-night basis or term basis depending on the market liquidity management policies of the Bank, decided from time to time.

#### 24. BALANCES OF EMPLOYEE BENEFIT PLANS

The Bank as a part of normal activities provide current account facilities for its Employee Benefit Plans. The amounts held in credit of these current accounts and inter entity accounts of the separately administered Employee Benefit Plans of the Bank, are as follows:

	2016 Rs. 000	2015 Rs. 000
Balances in CBSL Provident Fund, Pension Schemes and Widows'/Widowers' & Orphans' Pension Schemes	51,744	7,212
	<u>51,744</u>	<u>7,212</u>

#### 25. CURRENCY IN CIRCULATION

The Bank as the sole currency issuing authority in Sri Lanka continued to perform the function of issuing legal tender currency. The amount of currency issued by the Bank and in circulation at respective reporting dates are as follows:

Denomination Coins:	2016 Rs. 000	2015 Rs. 000
1 cent	3,631	3,631
2 cent	5,703	5,703
5 cent	23,247	23,247
10 cent	39,208	39,208
25 cent	120,586	120,558
50 cent	185,611	185,371
1 rupee	851,968	794,975
2 rupee	1,272,301	1,155,840
5 rupee	3,725,947	3,473,827
10 rupee	4,505,834	3,345,748
Commemorative coins	584,177	582,423
	<b>11,318,213</b>	<b>9,730,531</b>
<b>Notes:</b>		
1 rupee	4,981	4,981
2 rupee	26,696	26,696
5 rupee	37,194	37,194
10 rupee	1,382,089	1,449,773
20 rupee	5,331,571	4,882,579
50 rupee	5,141,033	4,671,924
100 rupee	20,590,404	18,979,404
200 rupee	130,526	131,246
500 rupee	33,475,699	31,656,334
1000 rupee	141,169,379	133,243,521
2000 rupee	20,436,195	38,973,585
5000 rupee	313,733,885	247,912,180
	<b>541,459,652</b>	<b>481,969,417</b>
<b>Total Currency in Circulation</b>	<b>552,777,865</b>	<b>491,699,948</b>

## 26. OTHER PAYABLES

	2016 Rs. 000	2015 Rs. 000
Provision and Charges	563,783	556,337
Deposits by RDD	2,440,187	2,314,645
Liability against Abandoned Properties Received	4,094,268	3,221,244
Other Payables	1,465,310	732,766
	<b>8,563,548</b>	<b>6,824,992</b>

Payable in respect of Abandoned Properties represents the amounts collected from the Licensed Commercial Banks under the Banking Act Direction No.05 of 2009-Identifying, Reporting, Transferring & Maintaining Abandoned Property of Licensed Commercial Banks. In the event of any further claims on Abandoned Properties, Bank is liable to pay deposits so collected with interest. Hence, the total deposits collected with the interest calculated on weighted average Treasury bill interest rate is recorded as a liability of the Bank.

## 27. DEFERRED GRANTS

	2016 Rs. 000	2015 Rs. 000
As at 01 January	106	515
Amortization during the year	(26)	(409)
<b>As at 31 December</b>	<b>80</b>	<b>106</b>

Deferred grant is amortized over the period that matches with the depreciation policy of such assets. This includes the assets received by the Bank without any consideration. The Fair Value of the assets have been credited to a deferred grant account and taken to other income over the useful life of the relevant asset consistent with the depreciation policy of the related asset.

## 28. MISCELLANEOUS LIABILITIES AND ACCRUALS

Miscellaneous liabilities and accruals include the balances payable in the accounts payable, contract retention, deposits taken as refundable tender deposits and the penalties collected by the Exchange Control Department to be paid to the Government.

## 29. EQUITY

### Nature of Equity Items

#### Capital Funds

- Contributed Capital** - The capital account represents the capital of the Bank in accordance with section 6 of the Monetary Law Act (MLA). As per the section 6 of the MLA (Amendment) Act No. 15 of 2014, the capital of the bank has been increased to Rs. 50 Bn. Accordingly, bank has increased its capital up to Rs. 50 Bn by capitalizing the Bank's reserves with the concurrence of Minister of Finance in September 2014.
- Fixed Asset Revaluation Reserve** - This reserve is made up of the revaluation surpluses of Property, Plant and Equipment as per IAS 16.
- Other Reserves comprise the following;**
  - International Revaluation Reserve (IRR)** : International Revaluation Reserve is a reserve established in accordance with section 41 of the Monetary Law Act which requires that any unrealised gain or loss arising from the revaluation of net assets and liabilities of CBSL in gold or foreign currency shall not be considered in computing the net profit of the bank, instead such profit or loss should be transferred to the IRR.
  - Market Revaluation Reserve (MRR)**: Market Revaluation Reserve was set up as per the Monetary Board decision of 30 January 2003, to transfer the price valuation gains from marking to market the foreign assets, in order to meet any adverse effects

of volatilities in the international markets leading to adverse movements in market prices of the foreign financial assets. The Monetary Board has decided to build up this reserve to a maximum of 10% of the gross foreign reserves of the Bank.

Further, as per the Monetary Board decision MB/DG (W)/7/1/2016 dated 29 February 2016 on proposed amendments to the Profit Distribution Policy of the Bank, where Monetary Board deems necessary, transfer may be made from the MRR to Retained Earnings, in the case of negative Retained Earnings due to significant unrealized marked to market losses.

Accordingly, an amount of Rs.4.65 Bn has been transferred to Retained Earnings from MRR in the view of improving the current negative Retained Earnings of the Bank which has resulted mainly due to the accumulation of significant unrealized marked to market losses in the past years.

- iii). **Other Reserves** : Other reserves include General Reserve, Building Reserve and Credit Guarantee Reserve. General Reserve includes the amounts set aside from the retained earnings by the Monetary Board.
- iv). **Net Fair Value Gain/(Loss) on Available for Sale Securities** : Unrealized gains and losses on the revaluation of securities and unit investments designated as available for sale are transferred to this reserve.
- v). **RTGS Sinking Fund** : This fund is built up with the charges collected from the participants for the use of the RTGS system.
- vi). **Pension Fund Reserve** : This reserve is made up by transferring an additional Rs.3 Bn from 2007 profits to be used to meet any shortfalls in the pension fund given

the vulnerability of the income generating capacity of the Bank, to external risks. Another Rs. 1 Bn transferred to this reserve from 2011 profits. During June 2015, Rs. 2 Bn has been transferred from Pension Fund Reserve to New Pension Liability Account to implement the new pension scheme as per Board Paper No: MB/HR/11/12/2015.

- vii). **Technical Advancement Reserve** : This reserve is built up from 2007 profits specifically to be used for technical advancement requirements, modification or upgrading of the IT systems currently used by the Bank i.e., General Ledger, RTGS, Treasury Management System and Scriptless Securities Settlement System.
- viii). **Provincial Development Credit Scheme** : During 2010, the Bank has commenced a refinance credit scheme for medium & long term development purposes for provinces by creating a fund from the profits, amounting to Rs. 2.90 Bn. Such loans are granted through Bank of Ceylon & People's Bank.
- ix). **Special Credit Guarantee Scheme Reserve** : This reserve was set up in the year 2014 by transferring Rs. 2 Bn from Medium and Long Term Credit Fund, of which Rs. 1Bn is allocated to support restructure of Saubaghya Loan Scheme, Awakening North Loan Scheme (phase II), Resumption of Economic Activities in the East (phase II) and Repair of Damaged Houses in North and East operated by Regional Development Department of the Bank. The balance of Rs. 1 Bn is allocated to implement a special credit guarantee scheme to support lending to Small and Medium Enterprises by Commercial Banks.

The movements in the other reserves are as follows:

	Medium and Long Term Credit Reserve	Market Revaluation Reserve	Other Reserves	Special Credit Guarantee Scheme Reserve	RTGS Sinking Fund	IRR	Net Fair Value Gain/(Loss) on Available for Sale Securities	Pension Fund Reserve	Technical Advancement Reserve	Provincial Development Credit Scheme Fund	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
<b>As at 1 January 2016</b>	2,925,000	4,650,806	2,489,920	2,000,000	1,332,628	19,157,122	1,258,572	2,000,000	1,000,000	2,900,000	39,714,048
Transfer to RTGS Sinking Fund	-	-	-	-	220,272	-	-	-	-	-	220,272
Transfer of Net Foreign Exchange Revaluation Loss	-	-	-	-	-	(6,775,246)	-	-	-	-	(6,775,246)
Net Fair value Gain on Available for sale Securities	-	-	-	-	-	-	2,022,241	-	-	-	2,022,241
Transfer of Funds from Market Revaluation Reserve to Retained Earnings	-	(4,650,806)	-	-	-	-	-	-	-	-	(4,650,806)
<b>As at 31 December 2016</b>	<b>2,925,000</b>	<b>-</b>	<b>2,489,920</b>	<b>2,000,000</b>	<b>1,552,900</b>	<b>12,381,876</b>	<b>3,280,813</b>	<b>2,000,000</b>	<b>1,000,000</b>	<b>2,900,000</b>	<b>30,530,509</b>

### 30. PROFIT DISTRIBUTION

In terms of the Monetary Law Act and Monetary Board approved Profit Distribution Policy of CBSL (effective from 2015), the following adjustments are made to the IFRS net profit/(loss) for the year in order to arrive at the distributable profit.

- a) Remove the exchange gain /(loss) (Sec. 41 of Monetary Law Act).
- b) Remove gains from Unrealized Price Revaluations (unrealized "marked to market" gains) but charge losses from Unrealized Price Revaluations (unrealized "marked to market" losses) (As per the Profit Distribution Policy of CBSL)



- c) Any other transfers to reserves as per Sec.38 of MLA and any other adjustments arising from Sec. 39 of MLA as decided by the Monetary Board.

Further, any other adjustment as required by accounting standards and management decisions are adjusted in arriving at the distributable profit..

Based on the above adjustments, the distributable profit for the year ended 31st December 2016 is as follows:

Item	2016 Rs. 000
<b>IFRS Profit/(Loss)</b>	<b>22,179,519</b>
<b>Less:</b>	
Transfer of exchange losses to IRR in accordance with the MLA	(6,775,247)
Transfer of "marked to market" gain on foreign assets to Market Revaluation Reserve	14,028,792
Transfer of interest income on internal funds to respective funds	396,063
<b>Distributable Profit/(Loss) as per MLA, Profit Distribution Policy of the Bank and other adjustments - Realised Profit/(Loss)</b>	<b>14,529,911</b>
Transfer to Reserves (Sec. 38 of MLA)	
-Transfer to a specific reserve an amount equivalent to 50% of benefit expenses of the actuarial valuation of post employment benefit plans	689,026
-Transfer to general reserve	7,462,613
Amount Credited to the Consolidated Fund and recovery of outstanding GOSL obligations (Sec. 39 of MLA)	6,378,272

### 31. INTEREST INCOME FROM FINANCIAL ASSETS

	2016 Rs. 000	2015 Rs. 000
<b>Interest Income from Foreign Currency Financial Assets</b>		
Cash and Short Term Deposits	1,479,882	1,464,525
Financial Assets	4,628,934	6,635,778
Derivatives	8,761,019	4,947,011
<b>Total Interest Income from Foreign Currency Financial Assets</b>	<b>14,869,835</b>	<b>13,047,314</b>
<b>Interest Income from Local Currency Financial Assets</b>		
Sri Lanka Government Securities	20,333,567	8,749,944
Other Loans and Advances	687,124	573,609
<b>Total Interest Income from Local Currency Financial Assets</b>	<b>21,020,691</b>	<b>9,323,553</b>
<b>Total Interest Income from Financial Assets</b>	<b>35,890,526</b>	<b>22,370,867</b>

### 32. GAIN/(LOSS) FROM UNREALIZED PRICE REVALUATIONS

	2016 Rs. 000	2015 Rs. 000
Foreign Securities	3,166	397,078
Gold	8,306,063	(17,305,760)
Forex & Currency SWAPS	5,719,563	(11,565,555)
Interest Rate Swaps	(1,637)	2,017
Embedded Derivatives-Currency Options	(4,288,112)	(6,381,575)
<b>Total Gain/(Loss) from Unrealized Price Revaluations</b>	<b>9,739,043</b>	<b>(34,853,795)</b>

### 33. INTEREST EXPENSE ON FINANCIAL LIABILITIES

	2016 Rs. 000	2015 Rs. 000
<b>Interest Expense on Foreign Currency Financial Liabilities</b>		
Amount Payable to Asian Clearing Union	174,504	38,009
IMF Related Liabilities	1,180,604	1,394,723
Derivatives	396	341,117
Other Foreign Payable	2,598,331	1,848,888
<b>Total Interest Expense on Foreign Currency Financial Liabilities</b>	<b>3,953,835</b>	<b>3,622,737</b>
<b>Interest Expense on Local Currency Financial Liabilities</b>		
Securities Sold Under Agreements to Repurchase	345,835	4,067,059
Standing Deposit Facility	1,519,585	4,582,318
Bond Borrowing	-	82,711
Abandoned Property	332,395	187,896
<b>Total Interest Expense on Local Currency Financial Liabilities</b>	<b>2,197,815</b>	<b>8,919,984</b>
<b>Total Interest Expense on Financial Liabilities</b>	<b>6,151,650</b>	<b>12,542,721</b>

Bank has a net sterilization gain of Rs. (9,366.62) Mn (2015 cost of rupees - Rs. 4,354.36 Mn) in its activities to inject liquidity to the market due to the deficit liquidity position. The sterilization cost/(gain) is composed of the interest expenses incurred on securities sold under agreement to repurchase, interest expense on Bond Borrowing and interest expense on Standing Deposit Facility netted off with interest income earned on the securities purchased under agreement to resale (Reverse Repurchase) included under interest income from Sri Lanka Government Securities and USD/LKR derivative gain included in the derivative gain under interest income from foreign currency financial assets, as discussed below:

	2016 Rs. 000	2015 Rs. 000		2016 Rs. 000	2015 Rs. 000
Interest expenses incurred on securities sold under agreement to repurchase	345,835	4,067,059	<b>36. ADMINISTRATION AND OTHER EXPENSES</b>	Repairs and Maintenance	680,000
Interest expense on Bond Borrowing	-	82,711		Operating Expenses for Reuters, Bloomberg, SWIFT etc.	154,937
Interest expense on Standing Deposit Facility	1,519,585	4,582,318		Travelling	97,552
<b>Less:</b>				Rental Expenses	5,106
Interest income earned on the securities purchased under agreement to resale	(2,471,022)	(16,317)		Printing	26,476
USD / LKR Derivative Gain	(8,761,019)	(4,361,415)		Audit Fees	7,768
	<u>(9,366,621)</u>	<u>4,354,356</u>		Remuneration to Members of the Monetary Board	1,084
				Interest Subsidy on CBSL Provident Fund	-
				Advertising Cost	73,073
				Consultancy, Communication, Advisory and Professional Fees	219,502
<b>34. OTHER INCOME</b>			Miscellaneous Expenses	346,038	
	2016 Rs. 000	2015 Rs. 000	<b>Total Administration and Other Expenses</b>	<u>1,468,009</u>	<u>1,611,537</u>
Dividend Income - Related Party	37,259	31,214			
- Others	1,818	1,050	<b>37. WITHHOLDING TAX</b>		
Gain on Disposal of Property, Plant & Equipment	424	2	Bank is not liable for the income tax as per the Inland Revenue (Amendment) Act No. 10 of 2006 section 7b (xvi) and the Withholding Tax paid by the bank is treated as the final tax paid to the Inland Revenue Department (IRD). From 2013 Bank is not liable to pay Economic Service Charge.		
Amortization of Deferred Grant	34	409	As per the Inland Revenue (Amendment) Act, No. 10 of 2007, dividend or interest will be liable to 10% withholding tax at the time of payment or crediting. The withholding tax on the interest income on the Government Securities is based on the weighted average yield rate of the closest primary auction adjusted to the days to maturity.		
Licensing Fees of Financial Institutions	519,900	490,350	During the period an amount of Rs. 1,834.35 Mn (2015 - Rs. 1,788.16 Mn) was expensed in relation to such withholding tax, payable on interest income of Rs. 15,623.62 Mn (2015 - Rs. 8,859.71 Mn) & dividend income of Rs. 39.08 Mn (2015 - Rs. 6.21 Mn).		
Rent Income	455,514	381,491			
Charges collected from RTGS Participants	112,863	128,768			
Miscellaneous Income	380,449	544,158			
<b>Total Other Income</b>	<u>1,508,261</u>	<u>1,577,442</u>			
Miscellaneous income includes amortization gain of Rs. 1.40 Mn (2015 - Rs. 1.24 Mn) on debentures in Sri Lanka Savings Bank Ltd and Rs. 6.17 Mn (2015 - Rs. 5.73 Mn) of gain on amortization of PRGF Deposit of SDR 788,783 with IMF over remaining period of 02 years (Note 07).					
<b>35. PERSONNEL EXPENSES</b>			<b>38. RECONCILIATION OF OPERATING PROFIT WITH OPERATING CASH FLOW</b>		
	2016 Rs. 000	2015 Rs. 000	Reported Net Profit / (Loss) from Operating Activities	22,179,519	(19,601,819)
Wages and Salaries	4,258,884	4,201,583	Add / (Less) Non-Cash Items		
Defined Contribution Plan Costs	629,786	629,357	Depreciation & Amortization	520,961	557,158
Post Employee Defined Benefit Plan Costs	1,479,963	1,329,578	Interest Received - Local Currency - Investment Portfolio	(20,333,567)	(8,749,944)
<b>Total Personnel Expenses</b>	<u>6,368,633</u>	<u>6,160,518</u>	Gross Unrealised Foreign Exchange (Gain) / Loss	(12,107,722)	(26,557,419)
			Profit on Sale of Fixed Assets	(1,400)	(1,236)
			Other Provision	2,713,774	(89,185)

Deferred Grants	(27)	(409)	<b>40. NET ISSUES/(WITHDRAWALS) OF CIRCULATION CURRENCY ON BANK AND FINANCIAL INSTITUTIONS TRANSACTIONS</b>			
Losses on revaluation	378,907	-				
Amortization of PRGF Deposit	(6,165)	(5,726)				
Amortization expense of Fixed Income Securities	807,349	845,385				
<b>Add/ (Less) Movements in Other Working Capital Items</b>						
(Increase)/Decrease in Inventories	(2,694,897)	200,516				
(Increase)/Decrease in Interest Receivable	(4,576,657)	775,068				
Increase/(Decrease) in Miscellaneous Liabilities	(723,637)	(2,029,813)				
Increase/(Decrease) in Interest Payable	32,460	(2,165,490)				
(Increase)/Decrease in Other Receivable	(26,455)	59,130				
<b>Add/(Less) Investing and Financing Activities</b>						
Net Unrealised Market Value Changes	(9,857,403)	36,983,579				
<b>Net Cash Flow from Operating Activities</b>	<b>(23,694,960)</b>	<b>(19,780,205)</b>				
<b>39. NET ISSUES/(WITHDRAWALS) OF CIRCULATION CURRENCY ON GOVERNMENT TRANSACTIONS</b>						
	2016 Rs. 000	2015 Rs. 000				
Purchases of Sri Lanka Government Securities	246,320,577	(21,450,406)				
Interest Received – Local Currency – Sri Lanka Government Securities	(18,094,641)	(8,876,023)				
Increase/(Decrease) in Advances to GOSL	(67,824,900)	7,233,700				
(Increase) /Decrease in Balances with Government and Government Entities	(22,741)	(116,192)				
	<b>160,378,295</b>	<b>(23,208,921)</b>				
<b>42. CONCENTRATIONS OF FUNDING</b>						
The Bank's significant end-of-year concentrations of funding were as follows:						
	Total Rs. 000	Sri Lanka Government Rs. 000	Sri Lanka Public Rs. 000	Sri Lanka Commercial Banks Rs. 000	Supranational Financial Institutions Rs. 000	Other Rs. 000
<b>As at 31 December 2016</b>						
<b>Foreign Currency Financial Liabilities</b>						
Banks and Financial Institutions	45,566,681	-	-	-	180,696	45,385,985
Derivative Financial Instruments	14,573,675	-	-	14,573,664	11	-
Asian Clearing Union	79,863,615	-	-	-	79,863,615	-
IMF	269,540,596	-	-	-	269,540,596	-
Other	96,250,032	34,417,259	-	1,169,177	440,328	60,223,268
<b>Total Foreign Currency Financial Liabilities</b>	<b>505,794,599</b>	<b>34,417,259</b>	<b>-</b>	<b>15,742,841</b>	<b>350,025,246</b>	<b>105,609,253</b>
<b>Local Currency Financial Liabilities</b>						
Deposits of Banks and Financial Institutions	303,251,290	-	-	293,896,364	-	9,354,926
Deposits of Government and Government Entities	450,884	450,837	47	-	-	-
Securities Sold Under Repurchase Agreements	70,054,436	-	-	67,552,907	-	2,501,529
Balances of Employee Benefit Plans	51,744	-	-	-	-	51,744
Currency in Circulation	552,777,865	-	552,777,865	-	-	-
Other Payables	8,563,548	46,218	-	182,000	-	8,335,330
<b>Total Local Currency Financial Liabilities</b>	<b>935,149,767</b>	<b>497,055</b>	<b>552,777,912</b>	<b>361,631,271</b>	<b>-</b>	<b>20,243,529</b>
<b>Total Financial Liabilities</b>	<b>1,440,944,366</b>	<b>34,914,314</b>	<b>552,777,912</b>	<b>377,374,112</b>	<b>350,025,246</b>	<b>125,852,782</b>
<b>Other Liabilities</b>						
Deferred Grants	80	-	-	-	-	80
Pension and Other Post - Employment Benefit Plans	2,429,153	-	-	-	-	2,429,153
Miscellaneous Liabilities and Accruals	193,297	62,449	-	-	-	130,848
<b>Total Other Liabilities</b>	<b>2,622,530</b>	<b>62,449</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,560,081</b>
<b>Total Liabilities</b>	<b>1,443,566,896</b>	<b>34,976,763</b>	<b>552,777,912</b>	<b>377,374,112</b>	<b>350,025,246</b>	<b>128,412,863</b>

**Comparative Figures as at 31 December 2015 are as follows:**

<b>As at 31 December 2015</b>	<b>Total Rs. 000</b>	<b>Sri Lanka Govern- ment Rs. 000</b>	<b>Sri Lanka Public Rs. 000</b>	<b>Sri Lanka Commercial Banks Rs. 000</b>	<b>Supranational Financial Institutions Rs. 000</b>	<b>Other Rs. 000</b>
<b>Foreign Currency Financial Liabilities</b>						
Banks and Financial Institutions	12,048,241	-	-	-	175,949	11,872,292
Derivative Financial Instruments	24,280,308	-	-	24,280,059	-	249
Asian Clearing Union	68,887,459	-	-	-	68,887,459	-
IMF	251,644,344	-	-	-	251,644,344	-
Other	217,924,142	49,479,048	-	1,124,395	643,303	166,677,396
<b>Total Foreign Currency Financial Liabilities</b>	<b>574,784,494</b>	<b>49,479,048</b>	<b>-</b>	<b>25,404,454</b>	<b>321,351,055</b>	<b>178,549,937</b>
<b>Local Currency Financial Liabilities</b>						
Deposits of Banks and Financial Institutions	181,726,732	-	-	181,720,741	-	5,991
Deposits of Government and Government Entities	428,142	428,041	101	-	-	-
Securities Sold Under Repurchase Agreements	105,491,006	-	-	105,491,006	-	-
Balances of Employee Benefit Plans	7,212	-	-	-	-	7,212
Currency in Circulation	491,699,948	-	491,699,948	-	-	-
Other Payable	6,824,992	48,135	-	182,000	-	6,594,857
<b>Total Local Currency Financial Liabilities</b>	<b>786,178,032</b>	<b>476,176</b>	<b>491,700,049</b>	<b>287,393,747</b>	<b>-</b>	<b>6,608,060</b>
<b>Total Financial Liabilities</b>	<b>1,360,962,526</b>	<b>49,955,224</b>	<b>491,700,049</b>	<b>312,798,201</b>	<b>321,351,055</b>	<b>185,157,997</b>
<b>Other Liabilities</b>						
Deferred Grants	106	-	-	-	-	106
Pension and Other Post Employment Benefit Plans	10,942,541	-	-	-	-	10,942,541
Miscellaneous Liabilities and Accruals	199,325	26,364	-	-	-	172,961
<b>Total Other Liabilities</b>	<b>11,141,972</b>	<b>26,364</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,115,608</b>
<b>Total Liabilities</b>	<b>1,372,104,498</b>	<b>49,981,588</b>	<b>491,700,049</b>	<b>312,798,201</b>	<b>321,351,055</b>	<b>196,273,605</b>

**43. RISK MANAGEMENT**

The Central Bank of Sri Lanka (CBSL) has two statutory objectives, i.e., economic and price stability and financial system stability. The CBSL has been assigned with wide statutory powers to implement economic and financial policies to secure its objectives. The Monetary Board, the Governing Board of the CBSL is responsible for making all policy decisions related to the management, operations and administration of the Bank. The CBSL's operations and policies are not aimed towards generating profits. However, it is exposed to a number of risks in the course of carrying out its functions. Therefore, the bank's management ensures that strong and effective risk management and control systems are in place. In this regard, the Monetary Board has delegated the task of risk management to departments and committees with a view to ensure effective management and control of risks. Therefore, risk management is a responsibility of all levels of decision making at the CBSL.

Managing risks at the CBSL is conducted under a 'Three Lines of Defense' model. Accordingly, the responsibility of the 'First Line of Defense' rests with the respective departments. The risks coming under the 'First Line of Defense' are operational in nature, so that such risks are managed by departments where they are originated. The 'First Line of Defense' would ensure proper internal risk management systems and controls are in place. The Risk Management Department (RMD) as the 'Second Line of Defense' is responsible for assessing, controlling and monitoring of financial risks and independently reporting to the Governor. Internal Audit Department is entrusted with the responsibility of performing the risk assurance function as the 'Third Line of Defense'.

The two major dimensions of risks are financial risks and non-financial risks. Financial Risk includes market risk (interest rate risk and foreign exchange risk), credit risk and liquidity risk. The RMD carries out risk assessments, monitoring and reporting of financial risks relating to the CBSL's foreign reserves portfolio while the International Operations Department (IOD) of the CBSL manages the foreign reserves portfolio. A comprehensive set of guidelines incorporating risk mitigation policies are followed by IOD in managing reserves portfolio. Financial risk assessments relating to international reserves are independently reported to the Governor and the Monetary Board.

Interest rate risk or the exposure of the Bank's foreign assets portfolio to movements in the interest rate is monitored through modified duration of the portfolio as well as Value at Risk (VaR) for a time horizon of 10 days and a confidence level of 99 per cent. The foreign exchange risk or the capital loss as a consequence of fluctuations in the exchange rates is managed mainly through diversification of investment currencies. In order to mitigate liquidity risk, limits to asset classes, a maximum purchasing limit over total amount issued by the issuers of the securities are considered in the Strategic Assets Allocation (SAA). In the management of foreign reserves, minimizing liquidity risk is the prime consideration in order to maintain an effective foreign exchange intervention capability. Policies for managing the credit, interest rate, foreign exchange and liquidity risks are outlined in sections 43.1, 43.2, 43.3 & 43.4, respectively.

A Counterparty Credit Risk Management System (CCRMS) is used to manage the credit risk of the foreign assets portfolio based on the credit ratings of

the investments and the counterparties. In addition, Money Market Counterparties' Credit Default Swaps (CDS) /Stock prices are monitored by the RMD on a continuous basis.

Assessing, monitoring and reporting of financial risk pertaining to investments by internal investment funds of the Central Bank is also carried out by the RMD. Internal Investment Fund of the CBSL is currently managed under the Finance Department as the "Front Office" and the RMD monitors the risks pertaining to the investments of the internal fund on an ongoing basis. RMD submits status reports of the fund independently to the Governor on an ongoing basis, provides Finance Department with risk related inputs to improve the Investment Process and Investment Policy Statement, etc., to ensure capital preservation and the adequacy of liquidity of the fund at all times.

Non-Financial risk includes legal risk, compliance risk, human resource risk, fraud risk, strategic and policy risk and other operational risks. Monitoring non-financial risk would ensure a risk compliance of work procedures, rules and guidelines as well as proper risk governance of the bank. In view of this, Non-Financial Risk Management Committee (NFRMC) at its quarterly meetings, oversees the non-financial risk of the Bank. The Committee is chaired by the Governor and selected key departments that have relatively high exposure to risk, are members of the committee. The Director of Internal Audit Department acts as an observer. The principle objective of NFRMC is to assist the Monetary Board in its responsibility to identify, assess (in terms of impact and likelihood) and monitor non-financial risk of the Bank, in order to safeguard Bank's reputation and mitigate any losses and damages. The Committee also reviews and assesses the quality, integrity and effectiveness of the risk management process and internal control procedures.

The internal controls and the risk management process are audited annually by the IAD of the Bank. It examines the adequacy of the procedures and the Bank's compliance with the procedures. All departments are subject to periodic internal audit review. The IAD reports administratively to the Governor who is the chairman of the Monetary Board and functionally to the Monetary Board Advisory Audit Committee (AAC).

AAC is chaired by an appointed member of the Monetary Board. AAC advises the Monetary Board on matters relating to the integrity of the financial statements of the Bank, including its annual and any other reports, interim management statements and any other formal announcements relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain, internal controls and risk management systems, the adequacy and effectiveness of the compliance function of the Bank, the effectiveness of the internal audit function of the Bank and related matters and external audit related matters. The recommendations of AAC and progress of IAD are reported to the Monetary Board quarterly.

The Bank is subject to an external audit by the Auditor General under the Monetary Law Act sections 42 & 43.

The Auditor General in turn has obtained the services of a firm of Chartered Accountants M/s Ernst & Young to carry out an audit under International Standards of Auditing to ensure compliance with the International Financial Reporting Standards.

#### 43.1 Credit Risk

##### (a) Concentrations of credit Exposure by geographical area

The Bank's significant end-of-year concentrations of credit exposure by geographical area (based on the entity's country of ownership) were as follows:

	2016 Rs. 000	2015 Rs. 000
Sri Lanka	450,026,855	266,095,014
USA	238,171,318	314,591,946
Japan	42,458,692	47,722,367
Britain	53,470,592	170,829,879
Europe	130,405,122	101,096,757
Supranational Financial Institutions	373,327,138	336,791,479
Other	98,710,669	57,917,502
<b>Total Financial Assets</b>	<b>1,386,570,386</b>	<b>1,295,044,944</b>

##### (b) Concentrations of Credit Exposure by Institutions

The Bank's significant end-of-year concentrations of credit exposure by Institution type were as follows:

	2016 Rs. 000	2015 Rs. 000
Governments	843,824,011	903,134,670
Supranational Financial Institutions	373,327,138	336,791,480
Foreign Banks and Financial Institutions	159,700,398	48,696,315
Sri Lanka Banks & Financial Institutions	3,838,531	909,033
Other	5,880,308	5,513,446
<b>Total Financial Assets</b>	<b>1,386,570,386</b>	<b>1,295,044,944</b>

##### (c) Credit Exposure by Credit Rating

The following table represents the credit ratings of respective financial assets or issuers, based on the ratings of Standard and Poor's and Fitch Ratings. Under Standard & Poor's ratings and Fitch Ratings, AAA is the highest quality rating possible and indicates the lowest expectations of credit risk. It is assigned only in the case of exceptionally strong capacity for timely payment of financial commitment. AA is very high quality grade, indicating very low expectation of credit risk, and A is an upper medium grade, indicating a low expectation of credit risk; BBB is the lowest investment grade rating, indicating that there is currently a low expectation of credit risk and exhibits adequate protection parameters, ratings lower than AAA can be modified by + or - signs to indicate relative standing within the major categories. NR indicates that Standard and Poor's or Fitch Rating have not rated the entity.

<b>Credit Exposure by Credit Rating</b>		<b>Credit Rating</b>	<b>2016 Rs.000</b>	<b>%</b>	<b>2015 Rs.000</b>	<b>%</b>
<b>Cash &amp; Cash Equivalents</b>						
Federal Reserve Bank - USA/Reserve Bank of Australia/Bank for International Settlements/Bank of Japan/Deutsche Bundesbank/Bank of England/Sveriges Riks Bank/Bank of Canada/Reserve Bank of New Zealand						
			310,794,899	22.41%	553,410,725	42.73%
	AAA	53,182,289		3.84%	-	-
	AA	7,536		0.00%	3,435	0.00%
	AA-	50,185,913		3.62%	-	-
	A+	8,002,830		0.58%	2,127,405	0.16%
	A	946,070		0.07%	1,531,225	0.12%
	A-	138,110		0.01%	1,734	0.00%
	BBB+	37		0.00%	202,837	0.02%
	BBB-	29,187		0.00%	1,325	0.00%
	NR	496,866		0.04%	195,999	0.02%
			423,783,737	30.56%	557,474,685	43.05%
<b>Foreign Currency Trading/ Available for Sale Securities</b>						
Federal Reserve Bank - USA/Reserve Bank of Australia/Bank for International Settlements/ Bank of Japan/Deutsche Bundesbank/Bank of England/Sveriges Riks Bank/Bank of Canada/Reserve Bank of New Zealand						
			8,820,628	0.64%	11,714,884	0.90%
	AAA	123,208,858		8.89%	180,207,061	13.92%
	AA+	185,264,513		13.36%	117,813,693	9.10%
	AA	4,523,696		0.33%	922,677	0.07%
	AA-	20,567,813		1.48%	15,356,209	1.19%
	A+	22,509,922		1.62%	22,574,134	1.74%
	A	3,119,014		0.22%	-	-
	A-	(120,419)		-0.01%	-	-
	BBB+	542,589		0.04%	-	-
	NR	9,990,623		0.72%	27,452,563	2.12%
			378,427,237	27.29%	376,041,221	29.04%
Securities at Fair Value Through Profit or Loss						
	A	13,396,168		0.97%	11,792,926	0.91%
			13,396,168	0.97%	11,792,926	0.91%
<b>Derivative Financial Instruments</b>						
Federal Reserve Bank - USA/Reserve Bank of Australia/Bank for International Settlements/ Bank of Japan /Deutsche Bundesbank/Bank of England /Sveriges Riks Bank/Bank of Canada/Reserve Bank of New Zealand						
			-	-	99	0.00%
	A	-		-	49	0.00%
	A-	-		-	1,886	0.00%
Locally Rated						
	AA+	2,377		0.00%	1,652	0.00%
	AA	156,660		0.01%	459	0.00%
	AA-	39,843		0.00%	-	-
			198,880	0.01%	4,145	0.00%
IMF Related Assets						
	AAA	117,008,339		8.44%	83,636,350	6.46%
			117,008,339	8.44%	83,636,350	6.46%
Other Receivables						
	AAA	532		0.00%	344	0.00%
	AA-	2,299,102		0.17%	-	-
	A+	224,742		0.02%	-	-
	A	127		0.00%	2,370	0.00%
	A-	120,772		0.01%	-	-
	BBB+	237,320		0.02%	-	-
	BBB-	-		-	4	0.00%
Locally Rated						
	AAA	2,247,000		0.16%	2,357	0.00%
	NR	1,045,455		0.08%	-	-
			6,175,050	0.45%	5,075	0.00%
<b>Total Foreign Currency Financial Assets</b>						
			938,989,411	67.72%	1,028,954,402	79.45%

<b>43.1 Credit Risk (Continued)</b>					
	Credit Rating	2016 Rs.000	%	2015 Rs.000	%
<b>Local Currency Financial Assets</b>					
Sri Lanka Government Securities	B+	351,426,470	25.35%	102,866,995	7.94%
Provisional Advances to Government	B+	83,306,771	6.01%	151,131,672	11.67%
Loans to Banks	AA+	244,284	0.02%	503,989	0.04%
	AA	4,040	0.00%	6,328	0.00%
	AA-	7,902	0.00%	14,715	0.00%
	A+	17,775	0.00%	32,314	0.00%
	A-	25,195	0.00%	33,101	0.00%
	BBB	3,626	0.00%	6,835	0.00%
	BB+	62,341	0.00%	85,759	0.01%
	B+	515	0.00%	1,422	0.00%
	B	3,500	0.00%	4,860	0.00%
	NR	114,865	0.01%	197,034	0.02%
Equity Investments in Financial and Other Institutions	NR	41,095	0.00%	41,095	0.00%
Other Assets	AA+	533,300	0.04%	-	-
	AA	167,600	0.01%	-	-
	A	6,500	0.00%	-	-
	A-	56,400	0.00%	-	-
	B+	5,697,917	0.41%	5,671,508	0.44%
	B	10,000	0.00%	10,000	0.00%
	NR	5,850,879	0.42%	5,482,915	0.42%
<b>Total Local Currency Financial Assets</b>		<b>447,580,975</b>	<b>32.28%</b>	<b>266,090,542</b>	<b>20.55%</b>
<b>Total Financial Assets</b>		<b>1,386,570,386</b>	<b>100.00%</b>	<b>1,295,044,944</b>	<b>100.00%</b>
<b>(d) Summary by Major Credit Category</b>					
<b>Foreign Currency Financial Assets</b>					
Federal Reserve Bank - USA/Reserve Bank of Australia/Bank for International Settlements/ Bank of Japan/ Deutsche Bundesbank/Bank of England/ Sveriges Riksbank/Bank of Canada/Reserve Bank of New Zealand		319,615,527	23.05%	565,125,708	43.64%
IMF Related Assets		117,008,871	8.44%	83,636,694	6.46%
	AAA	176,391,148	12.72%	180,207,061	13.92%
	AA+/-	262,848,573	18.96%	134,096,014	10.35%
	A+/-	48,337,336	3.49%	38,031,730	2.94%
	BBB+/-	809,132	0.06%	204,166	0.02%
	NR	10,487,489	0.76%	27,648,561	2.13%
Locally Rated	AAA	2,247,000	0.16%	2,357	0.00%
	AA+	2,377	0.00%	1,652	0.00%
	AA	156,660	0.01%	459	0.00%
	AA-	39,843	0.00%	-	-
	NR	1,045,455	0.08%	-	-
<b>Total Foreign Currency Financial Assets</b>		<b>938,989,411</b>	<b>67.72%</b>	<b>1,028,954,402</b>	<b>79.45%</b>
<b>Local Currency Financial Assets</b>	AA+	777,584	0.06%	503,989	0.04%
	AA	171,640	0.01%	6,328	0.00%
	AA-	7,902	0.00%	14,715	0.00%
	A+	17,775	0.00%	32,314	0.00%
	A	6,500	0.00%	-	-
	A-	81,595	0.01%	33,101	0.00%
	BBB	3,626	0.00%	6,835	0.00%
	BB+	62,341	0.00%	85,759	0.01%
	B+	440,431,674	31.76%	259,671,597	20.05%
	B	13,500	0.00%	14,860	0.00%
	NR	6,006,838	0.43%	5,721,044	0.44%
<b>Total Local Currency Financial Assets</b>		<b>447,580,975</b>	<b>32.28%</b>	<b>266,090,542</b>	<b>20.55%</b>
<b>Total Financial Assets</b>		<b>1,386,570,386</b>	<b>100.00%</b>	<b>1,295,044,944</b>	<b>100.00%</b>

### 43.2 Interest Rate Risk

#### (a) Foreign Currency Interest Rate Sensitivity

**Interest rate risk is the risk of loss arising from the changes in interest rates.**

The interest rate sensitivity of the Fixed Income Securities portfolio, except the investment in Reserve Advisory Management Program (RAMP), measured by the potential loss incurred due to a rise in interest rate by 10 basis points is another risk measure used by the Bank. Sensitivity of the risk exposure of the segmented Fixed Income Securities Portfolio is given below:

Portfolio Segment	Potential Loss ( USD Mn)	
	2016	2015
Trading and Available for Sale	5.16	8.35
RAMP	0.03	-

RMD manages the interest rate risk of the foreign assets portfolio by employing the following strategies:

- i) While the interest rate sensitivity measures the effect of a change in the interest rates on the foreign assets portfolio, the Bank uses Modified Duration (MD) as a measurement of interest rate risk which considers interest rates as well as the duration of an investment. The MD measures the change in price of a security for a given change in the interest rates (yield). A higher MD indicates a higher risk. Hence, the bank set an appropriate MD from time to time considering the developments in the financial markets, portfolio characteristics and the risk appetite of the bond portfolio. The MDs of the foreign assets portfolio are tabulated below:

#### Modified Duration

Investment Segment	Modified Duration	
	2016	2015
Capital Market (Fixed Income Securities)	2.26	3.28
RAMP	1.42	-

- ii) Since the MD does not account for large changes in prices, another measure used for management of interest rate risk of the foreign reserves portfolio is convexity. Convexity measures the extent of deviation in bond price-yield curve from a straight line representing duration. It allows improving the duration approximation for bond price changes. Convexity is a change in Duration for a change in yield. It measures the predictive error of Modified Duration. In other words, it is the second derivative of a security's price with respect to its yield.

#### Convexity of the segmented Fixed Income Securities portfolio

Portfolio Segment	Potential Loss (USD Mn)	
	2016	2015
Trading and Available for Sale	0.99	0.19
RAMP	0.04	-

#### iii) Value at Risk (VaR)

VaR summarizes in a single number, the downside risk of the portfolio, under normal market conditions, from financial market movements. Therefore, VaR is the maximum loss over a target horizon such that there is a low, pre-specified probability that the actual loss will be larger. VaR gives a number, in terms of money, which can be aggregated across risks and positions. The Bank uses historical simulation method to calculate VaR number for 10 days period at 99% confidence interval. The historical method for estimating VaR is sometimes referred to as the historical simulation method. As an example to calculate the 5% daily VaR using the historical method is to accumulate a number of past daily returns, rank the returns from highest to lowest, and identify the lowest 5% of returns. The highest of these lowest 5% of returns is the 1-day, 5% VaR.

Portfolio Segment	Value at Risk (VaR) USD Mn	
	2016	2015
Trading and Available for Sale	36.02	69.82
RAMP	0.65	-

#### iv) Trading & Open Position Limits

Bank assigns specific dealer limits on intra-day and overnight position limits for individual dealers by way of "Dealing Authority".

Interest rate risk measures related to the investments in the Reserve Advisory Management Program (RAMP) is reported to the Foreign Reserve Management Committee on a regular basis.

#### (b) Local Currency Interest Rate Sensitivity

The local Treasury bills portfolio is recorded in the Statement of Financial Position of the Bank at amortized cost as it represents loans provided to the Government of Sri Lanka. This portfolio is not an investment portfolio, as the Bank does not purchase Treasury bills with the intention of earning an interest income. The Bank purchases or sells Treasury bills to inject rupee liquidity into the domestic market or to absorb liquidity from the market in the course of carrying out its monetary policy operations in relation to one of its core objectives, maintaining economic and price stability. Hence, the volume of Treasury bills in the Bank's portfolio is determined by its monetary policy operations. In addition, the basic interest rates in the rupee market, the Repo rate and the Reverse Repo rate are policy rates determined by the Bank in the course of implementing its monetary policy. Moreover, the Bank's actions in injecting rupee liquidity or absorbing liquidity from the market have a significant impact on general rupee market interest rates. Thus, changes in the interest income earned from the Treasury bill portfolio, which arise from changes in the volume of the Bank's Treasury bill portfolio, as well as changes in interest rates, are primarily a consequence of the bank's monetary policy actions, rather than due to investment decisions. Therefore, the Bank does not consider interest rate sensitivities arising from local currency assets.



**43.2 Interest Rate Risk (Continued)**

(c) Assets and liabilities will mature or re-price within the following Periods

Foreign Currency Interest Rate Sensitivity Gap:	Weighted Avg. Int. Rate %	2016 Total Rs. 000	6 Months or Less Rs. 000	6 to 12 Months Rs. 000	1 to 2 Years Rs. 000	2 to 5 Years Rs. 000	Over 5 Years Rs. 000
<b>Interest Sensitive Foreign Currency Financial Assets</b>							
Cash & Cash equivalents	0.6352	423,783,737	423,783,737	-	-	-	-
Securities at Fair Value through Profit or Loss and Available for Sale Investments	1.1792	378,427,237	82,598,844	37,282,832	100,641,826	117,752,141	40,151,594
IMF related assets	0.0228	9,940,219	9,940,219	-	-	-	-
<b>Total Interest Sensitive Foreign Currency Financial Assets</b>		<b>812,151,193</b>	<b>516,322,800</b>	<b>37,282,832</b>	<b>100,641,826</b>	<b>117,752,141</b>	<b>40,151,594</b>
<b>Non Interest Sensitive Foreign Currency Financial Assets</b>							
IMF Related assets		107,068,121	-	-	-	145,906	106,922,215
Derivative Financial Instruments		198,880	198,880	-	-	-	-
Other Receivables		6,175,049	6,175,049	-	-	-	-
Securities at Fair Value through Profit or Loss		13,396,168	13,396,168	-	-	-	-
<b>Total non Interest Sensitive Foreign Currency Financial Assets</b>		<b>126,838,218</b>	<b>19,770,097</b>	<b>-</b>	<b>-</b>	<b>145,906</b>	<b>106,922,215</b>
<b>Total Foreign Currency Financial Assets</b>		<b>938,989,411</b>	<b>536,092,897</b>	<b>37,282,832</b>	<b>100,641,826</b>	<b>117,898,047</b>	<b>147,073,809</b>
<b>Interest Sensitive Foreign Currency Financial Liabilities</b>							
IMF	0.2440	82,976,654	27,750,312	6,937,578	-	18,108,285	30,180,479
Asian Clearing Union	0.5100	79,863,615	79,863,615	-	-	-	-
RBI SWAP	2.9973	59,920,000	59,920,000	-	-	-	-
<b>Total Interest Sensitive Foreign Currency Financial Liabilities</b>		<b>222,760,269</b>	<b>167,533,927</b>	<b>6,937,578</b>	<b>-</b>	<b>18,108,285</b>	<b>30,180,479</b>
<b>Non Interest Sensitive Foreign Currency Financial Liabilities</b>							
Banks and Financial Institutions		45,566,681	45,566,681	-	-	-	-
Derivative Financial Instruments		14,573,675	5,088,148	3,564,938	3,931,574	1,989,015	-
IMF		186,563,942	-	-	-	-	186,563,942
Commercial Banks' Capital in Foreign Currency		1,169,177	-	-	-	-	1,169,177
Other Foreign Liabilities		35,160,855	35,160,855	-	-	-	-
<b>Total non Interest Sensitive Foreign Currency Financial Liabilities</b>		<b>283,034,330</b>	<b>85,815,684</b>	<b>3,564,938</b>	<b>3,931,574</b>	<b>1,989,015</b>	<b>187,733,119</b>
<b>Total Foreign Currency Financial Liabilities</b>		<b>505,794,599</b>	<b>253,349,611</b>	<b>10,502,516</b>	<b>3,931,574</b>	<b>20,097,300</b>	<b>217,913,598</b>
<b>Foreign Currency Interest Rate Sensitivity Gap</b>		<b>589,390,924</b>	<b>348,788,873</b>	<b>30,345,254</b>	<b>100,641,826</b>	<b>99,643,856</b>	<b>9,971,115</b>

<b>43.2 Interest Rate Risk (Continued)</b>							
	Weighted Avg. Int. Rate %	2016 Total Rs. 000	6 Months or Less Rs. 000	6 to 12 Months Rs. 000	1 to 2 Years Rs. 000	2 to 5 Years Rs. 000	Over 5 Years Rs. 000
<b>Interest Sensitive Local Currency Financial Assets</b>							
Sri Lanka Government Securities	9.1639	320,605,082	233,255,698	87,349,384	-	-	-
Treasury Bill and Bond Reverse Repo	8.5000	30,821,388	30,821,388	-	-	-	-
Loans to Banks	8.4016	484,043	182,396	107,091	125,390	61,511	7,655
Other Assets - Staff Loans	3.5355	5,603,510	92,230	92,417	192,376	621,059	4,605,428
- Others	10.0070	5,081,970	653,033	179,925	818,650	2,066,410	1,363,952
<b>Total Interest Sensitive Local Currency Financial Assets</b>		<b>362,595,993</b>	<b>265,004,745</b>	<b>87,728,817</b>	<b>1,136,416</b>	<b>2,748,980</b>	<b>5,977,035</b>
<b>Non Interest Sensitive Local Currency Assets</b>							
Provisional Advances to Government		83,306,771	83,306,771	-	-	-	-
Other Assets		1,637,116	1,637,116	-	-	-	-
Investment in Equity Securities - Available for Sale		41,095	-	-	-	-	41,095
<b>Total Non Interest Sensitive Local Currency Assets</b>		<b>84,984,982</b>	<b>84,943,887</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>41,095</b>
<b>Total Local Currency Assets</b>		<b>447,580,975</b>	<b>349,948,632</b>	<b>87,728,817</b>	<b>1,136,416</b>	<b>2,748,980</b>	<b>6,018,130</b>
<b>Interest Sensitive Local Currency Financial Liabilities</b>							
Securities sold under Repurchase Agreements	7.4282	21,383,724	21,383,724	-	-	-	-
Standing Deposit Facility	7.0000	48,670,712	48,670,712	-	-	-	-
<b>Total Interest Sensitive Local Currency Financial Liabilities</b>		<b>70,054,436</b>	<b>70,054,436</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Non Interest Sensitive Local Currency Liabilities</b>							
Deposits of Banks and Financial Institutions		303,251,290	303,251,290	-	-	-	-
Deposits of Government and Government Entities		450,884	450,884	-	-	-	-
Balances of Employee Benefit Plans		51,744	51,744	-	-	-	-
Currency in Circulation		552,777,865	552,777,865	-	-	-	-
Other Payables		8,563,548	8,563,548	-	-	-	-
<b>Total Non Interest Sensitive Local Currency Financial Liabilities</b>		<b>865,095,331</b>	<b>865,095,331</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Local Currency Financial Liabilities</b>		<b>935,149,767</b>	<b>935,149,767</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Local Currency Interest Rate Sensitivity Gap</b>		<b>292,541,557</b>	<b>194,950,309</b>	<b>87,728,817</b>	<b>1,136,416</b>	<b>2,748,980</b>	<b>5,977,035</b>

**43.2 Interest Rate Risk (Continued)**

Comparative figures as at 31 December 2015 were as follows:

<b>Foreign Currency Interest Rate Sensitivity Gap:</b>	<b>Weighted Avg. Int. Rate %</b>	<b>2015 Total Rs. 000</b>	<b>6 Months or Less Rs. 000</b>	<b>6 to 12 Months Rs. 000</b>	<b>1 to 2 Years Rs. 000</b>	<b>2 to 5 Years Rs. 000</b>	<b>Over 5 Years Rs. 000</b>
<b>Interest Sensitive Foreign Currency Financial Assets</b>							
Cash & Cash equivalents	0.31	557,474,685	557,474,685	-	-	-	-
Securities at Fair Value through Profit or Loss and Available for Sale Investments	1.54	376,041,221	51,900,181	50,000,041	51,436,286	138,190,639	84,514,074
IMF Related assets	0.04	10,523,672	10,523,672	-	-	-	-
<b>Total Interest Sensitive Foreign Currency Financial Assets</b>		<b>944,039,578</b>	<b>619,898,538</b>	<b>50,000,041</b>	<b>51,436,286</b>	<b>138,190,639</b>	<b>84,514,074</b>
<b>Non Interest Sensitive Foreign Currency Financial Assets</b>							
IMF Related assets		73,112,678	-	-	-	138,622	72,974,056
Derivative Financial Instruments		4,145	2,259	-	1,886	-	-
Receivables		5,075	5,075	-	-	-	-
Securities at Fair Value through Profit or Loss		11,792,926	11,792,926	-	-	-	-
<b>Total Non Interest Sensitive Foreign Currency Financial Assets</b>		<b>84,914,824</b>	<b>11,800,260</b>	<b>-</b>	<b>1,886</b>	<b>138,622</b>	<b>72,974,056</b>
<b>Total Foreign Currency Financial Assets</b>		<b>1,028,954,402</b>	<b>631,698,798</b>	<b>50,000,041</b>	<b>51,438,172</b>	<b>138,329,261</b>	<b>157,488,130</b>
<b>Interest Sensitive Foreign Currency Financial Liabilities</b>							
IMF	0.00	99,720,675	37,825,083	27,509,152	34,386,440	-	-
Asian Clearing Union	0.23	68,887,459	68,887,459	-	-	-	-
RBI SWAP	2.45	158,766,606	158,766,606	-	-	-	-
<b>Total Interest Sensitive Foreign Currency Financial Liabilities</b>		<b>327,374,740</b>	<b>265,479,148</b>	<b>27,509,152</b>	<b>34,386,440</b>	<b>-</b>	<b>-</b>
<b>Non Interest Sensitive Foreign Currency Financial Liabilities</b>							
Banks and Financial Institutions		11,750,164	11,750,164	-	-	-	-
Derivative Financial Instruments		24,280,307	9,568,328	6,609,542	1,610,234	5,831,868	660,335
IMF		151,923,669	-	-	-	-	151,923,669
Commercial Banks' Capital in Foreign Currency		1,124,395	-	-	-	-	1,124,395
Other Foreign Liabilities		58,331,218	58,331,218	-	-	-	-
<b>Total Non Interest Sensitive Foreign Currency Financial Liabilities</b>		<b>247,409,753</b>	<b>79,649,710</b>	<b>6,609,542</b>	<b>1,610,234</b>	<b>5,831,868</b>	<b>153,708,399</b>
<b>Total Foreign Currency Financial Liabilities</b>		<b>574,784,493</b>	<b>345,128,858</b>	<b>34,118,694</b>	<b>35,996,674</b>	<b>5,831,868</b>	<b>153,708,399</b>
<b>Foreign Currency Interest Rate Sensitivity Gap</b>		<b>616,664,838</b>	<b>354,419,390</b>	<b>22,490,889</b>	<b>17,049,846</b>	<b>138,190,639</b>	<b>84,514,074</b>

**43.2 Interest Rate Risk (Continued)**

Comparative figures as at 31 December 2015 were as follows:

	Weighted Avg. Int. Rate %	2015 Total Rs. 000	6 Months or Less Rs. 000	6 to 12 Months Rs. 000	1 to 2 Years Rs. 000	2 to 5 Years Rs. 000	Over 5 Years Rs. 000
<b>Interest Sensitive Local Currency Financial Assets</b>							
Sri Lanka Government Securities	6.5802	102,731,967	58,490,040	44,241,927	-	-	-
Treasury Bill and Bond Reverse Repo	7.5000	135,028	135,028	-	-	-	-
Loans to Banks	8.3863	886,357	215,559	190,756	285,486	183,562	10,994
Other Assets - Staff Loans	3.6405	5,133,899	39,486	40,127	80,721	260,253	4,713,312
- Others	8.4145	4,313,154	760,877	338,215	360,205	2,327,611	526,246
<b>Total Interest Sensitive Local Currency Financial Assets</b>		<b>113,200,405</b>	<b>59,640,990</b>	<b>44,811,025</b>	<b>726,412</b>	<b>2,771,426</b>	<b>5,250,552</b>
<b>Non Interest Sensitive Local Currency Assets</b>							
Provisional Advances to Government		151,131,671	151,131,671	-	-	-	-
Other Assets		1,717,370	1,717,370	-	-	-	-
Investment in Equity Securities - Available for Sale		41,095	-	-	-	-	41,095
<b>Total Non Interest Sensitive Local Currency Assets</b>		<b>152,890,136</b>	<b>152,849,041</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>41,095</b>
<b>Total Local Currency Assets</b>		<b>266,090,541</b>	<b>212,490,031</b>	<b>44,811,025</b>	<b>726,412</b>	<b>2,771,426</b>	<b>5,291,647</b>
<b>Interest Sensitive Local Currency Financial Liabilities</b>							
Securities sold under Repurchase Agreements	6.4233	23,650,000	23,650,000	-	-	-	-
Standing Deposit Facility	6.0000	81,815,000	81,815,000	-	-	-	-
<b>Total Interest Sensitive Local Currency Financial Liabilities</b>		<b>105,465,000</b>	<b>105,465,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Non Interest Sensitive Local Currency Liabilities</b>							
Deposits of Banks and Financial Institutions		181,726,732	181,726,732	-	-	-	-
Deposits of Government and Government Entities		428,142	428,142	-	-	-	-
Balances of Employee Benefit Plans		7,212	7,212	-	-	-	-
Currency in Circulation		491,699,948	491,699,948	-	-	-	-
Other Payables		6,850,998	6,850,998	-	-	-	-
<b>Total Non Interest Sensitive Local Currency Financial Liabilities</b>		<b>680,713,032</b>	<b>680,713,032</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Local Currency Financial Liabilities</b>		<b>786,178,032</b>	<b>786,178,032</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Local Currency Interest Rate Sensitivity Gap</b>		<b>7,735,405</b>	<b>(45,824,010)</b>	<b>44,811,025</b>	<b>726,412</b>	<b>2,771,426</b>	<b>5,250,552</b>

**43.3 Foreign Currency Risk**

Foreign currency activities result mainly from the Bank's holding of foreign currency assets under its foreign reserve management function. Volatility of the foreign exchange markets may expose the Bank to exchange risk. The Monetary Board and Foreign Reserves Management Committee (FRMC) have set percentage holdings of different currencies in its International

Reserves. In deciding on the currency allocation, public debt repayment requirements are given due consideration. Accordingly, the Bank holds most major currencies such as US Dollars, Sterling Pounds, Japanese Yen, Euro, Australian Dollars and New Zealand Dollars. Compliance with limits established for foreign currency positions are monitored.

### 43.3 Foreign Currency Risk (Continued)

#### Net Exposure to Foreign Currencies

As at 31 December 2016, the Central Bank of Sri Lanka's net exposure to major currencies were as follows:

As at 31 December 2016	Currency									Total All Currencies Rs. 000
	United States Dollars Rs. 000	Euro Rs. 000	Japanese Yen Rs. 000	Sterling Pound Rs. 000	SDR Rs. 000	Australian Dollars Rs. 000	Canadian Dollars Rs. 000	New Zealand Dollars Rs. 000	Other Currencies Rs. 000	
<b>Foreign Currency Financial Assets</b>										
Cash & Cash Equivalents	60,672,511	(52,620,544)	(44,196,304)	92,331,449	-	134,790,117	(9,651,058)	(5,876,338)	248,333,904	423,783,737
Securities at Fair Value through Profit or Loss and Available for Sale Investments	243,152,847	44,267,349	21,813,382	11,527,275	-	21,471,379	9,797,465	9,687,691	30,106,017	391,823,405
Derivative Financial Instruments	-	-	-	-	-	-	-	-	198,880	198,880
IMF Related Assets	-	-	-	-	117,008,340	-	-	-	-	117,008,340
Other Receivables	6,053,745	120,772	-	-	532	-	-	-	-	6,175,049
<b>Total Foreign Currency Financial Assets</b>	<b>309,879,103</b>	<b>(8,232,423)</b>	<b>(22,382,922)</b>	<b>103,858,724</b>	<b>117,008,872</b>	<b>156,261,496</b>	<b>146,407</b>	<b>3,811,353</b>	<b>278,638,801</b>	<b>938,989,411</b>
Proportion	33.00%	-0.88%	-2.38%	11.06%	12.46%	16.64%	0.02%	0.41%	29.67%	100%
<b>Foreign Currency Financial Liabilities</b>										
Banks and Financial Institutions	45,566,531	10	-	139	-	-	1	-	-	45,566,681
Derivative Financial Instruments	11	-	-	-	-	-	-	-	14,573,664	14,573,675
Asian Clearing Union	79,863,615	-	-	-	-	-	-	-	-	79,863,615
IMF	-	-	-	-	269,540,596	-	-	-	-	269,540,596
Other	95,804,614	-	-	-	-	-	-	-	445,418	96,250,032
<b>Total Foreign Currency Financial Liabilities</b>	<b>221,234,771</b>	<b>10</b>	<b>-</b>	<b>139</b>	<b>269,540,596</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>15,019,082</b>	<b>505,794,599</b>
Proportion	43.74%	0.00%	0.00%	0.00%	53.29%	0.00%	0.00%	0.00%	2.97%	100%
<b>Net Foreign Currency Exposure</b>	<b>88,644,332</b>	<b>(8,232,433)</b>	<b>(22,382,922)</b>	<b>103,858,585</b>	<b>(152,531,724)</b>	<b>156,261,496</b>	<b>146,406</b>	<b>3,811,353</b>	<b>263,619,719</b>	<b>433,194,812</b>

Cash & Cash Equivalents include the foreign transactions entered into for buying and selling of various currencies which the trade dates have been occurred in the current financial year and value dates to be fallen in the next financial year. Those transactions were as follows:

#### As at 31 December 2016

	Sri Lanka Rupees Rs. 000	United States Dollars Rs. 000	Euro Rs. 000	Sterling Pound Rs. 000	Japanese Yen Rs. 000	Australian Dollars Rs. 000	Swedish Krona Rs. 000
Purchases	399,872,823	(15,716,215)	(985)	(62,622)	(4,876)	(6,352,618)	-
Sales	(26,858,576)	(377,765,524)	5,375,438	19,321,868	4,876	30,444	(960)
FX Forward Contra Account - Near Leg	(1,667)	-	-	-	-	-	-
Forward contra account	2,158,595	-	-	-	-	-	-

**43.3 Foreign Currency Risk (Continued)**

As at 31 December 2015, the Central Bank of Sri Lanka's net exposure to major currencies were as follows:

As at 31 December 2015	Currency									
	United States Dollars Rs. 000	Euro Rs. 000	Japanese Yen Rs. 000	Sterling Pound Rs. 000	SDR Rs. 000	Australian Dollars Rs. 000	Canadian Dollars Rs. 000	New Zealand Dollars Rs. 000	Other Currencies Rs. 000	Total All Currencies Rs. 000
<b>Foreign Currency Financial Assets</b>										
Cash & Cash Equivalents	176,922,656	(43,264,954)	(14,336,028)	88,586,921	-	126,101,239	(10,249,157)	(5,866,491)	239,580,499	557,474,685
Securities at Fair Value through Profit or Loss and Available for Sale Investments	203,115,851	52,346,338	19,947,895	23,753,864	-	28,241,778	10,036,752	8,790,359	41,601,310	387,834,147
Derivative Financial Instruments	1,886	-	148	-	-	-	-	-	2,111	4,145
IMF Related Assets	-	-	-	-	83,636,350	-	-	-	-	83,636,350
Other Foreign Receivables	2,374	2,357	-	-	344	-	-	-	-	5,075
<b>Total Foreign Currency Financial Assets</b>	<b>380,042,767</b>	<b>9,083,741</b>	<b>5,612,015</b>	<b>112,340,785</b>	<b>83,636,694</b>	<b>154,343,017</b>	<b>(212,405)</b>	<b>2,923,868</b>	<b>281,183,920</b>	<b>1,028,954,402</b>
Proportion	36.93%	0.88%	0.55%	10.92%	8.13%	15.00%	-0.02%	0.28%	27.33%	100%
<b>Foreign Currency Financial Liabilities</b>										
Banks and Financial Institutions	12,046,056	376	-	1,766	-	43	-	-	-	12,048,241
Derivative Financial Instruments	249	-	-	-	-	-	-	-	24,280,059	24,280,308
Asian Clearing Union	68,613,251	274,208	-	-	-	-	-	-	-	68,887,459
IMF	-	-	-	-	251,644,344	-	-	-	-	251,644,344
Other	209,792,285	7,483,464	-	-	-	-	-	-	648,393	217,924,142
<b>Total Foreign Currency Financial Liabilities</b>	<b>290,451,841</b>	<b>7,758,048</b>	<b>-</b>	<b>1,766</b>	<b>251,644,344</b>	<b>43</b>	<b>-</b>	<b>-</b>	<b>24,928,452</b>	<b>574,784,494</b>
Proportion	50.53%	1.35%	0.00%	0.00%	43.78%	0.00%	0.00%	0.00%	4.27%	100%
<b>Net Foreign Currency Exposure</b>	<b>89,590,926</b>	<b>1,325,693</b>	<b>5,612,015</b>	<b>112,339,019</b>	<b>(168,007,650)</b>	<b>154,342,974</b>	<b>(212,405)</b>	<b>2,923,868</b>	<b>256,255,469</b>	<b>454,169,908</b>

Cash & Cash Equivalents include the foreign transactions entered into for buying and selling of various currencies which the trade dates have been occurred in the current financial year and value dates to be fallen in the next financial year. Those transactions were as follows:

As at 31 December 2015	Sri Lanka Rupees Rs. 000	United States Dollars Rs. 000	Euro Rs. 000	Sterling Pound Rs. 000	Japanese Yen Rs. 000	Australian Dollars Rs. 000
Purchases	364,801,652	17,874,539	(985)	(62,622)	67,254	(6,352,618)
Sales	(60,385,247)	(351,208,306)	5,375,438	19,321,868	(67,106)	30,444
FX Forward Contra Account - Near Leg	7,732	-	-	-	-	-
Forward contra account	10,597,957	-	-	-	-	-

#### 43.4 Contractual maturities of un-discounted cash flows of Financial Assets and Liabilities

As at 31<sup>st</sup> December 2016 contractual maturities of un-discounted cash flows of financial assets & liabilities are as follows:

As at 31 December 2016	Less than 6 months	6 Months -1 Yr	1-2 Yrs	2-5 Yrs	Over 5 Yrs	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
<b>Foreign Currency Financial Assets</b>						
Cash & Cash Equivalents	423,783,737	-	-	-	-	423,783,737
Securities at Fair Value through Profit or Loss	18,588,564	5,033,982	12,151,636	8,087,248	-	43,861,430
Available for Sale Investments	54,001,291	39,271,443	104,459,788	120,422,348	38,708,398	356,863,268
IMF Related Assets	9,940,219	-	-	145,906	106,922,214	117,008,339
Other Receivables	6,175,049	-	-	-	-	6,175,049
<b>Total un-discounted Foreign Financial Assets</b>	<b>512,488,860</b>	<b>44,305,425</b>	<b>116,611,424</b>	<b>128,655,502</b>	<b>145,630,612</b>	<b>947,691,823</b>
<b>Local Currency Financial Assets</b>						
Sri Lanka Government Securities	267,791,962	94,425,980	-	-	-	362,217,942
Provisional Advances to Government	83,306,771	-	-	-	-	83,306,771
Loans to Banks	194,137	114,307	132,090	64,456	8,108	513,098
Equity Investments in Financial and Other Institutions	-	-	-	-	41,095	41,095
Other Assets	16,201,304	645,307	1,684,900	4,588,533	6,697,731	29,817,775
<b>Total un-discounted Local Financial Assets</b>	<b>367,494,174</b>	<b>95,185,594</b>	<b>1,816,990</b>	<b>4,652,989</b>	<b>6,746,934</b>	<b>475,896,681</b>
<b>Total un-discounted Financial Assets</b>	<b>879,983,034</b>	<b>139,491,019</b>	<b>118,428,414</b>	<b>133,308,491</b>	<b>152,377,546</b>	<b>1,423,588,504</b>
<b>Foreign Financial Liabilities</b>						
Banks and Financial Institutions	44,456,357	418,671	793,905	2,337,833	3,461,514	51,468,280
Asian Clearing Union	79,863,615	-	-	-	-	79,863,615
IMF	27,750,312	6,937,578	-	10,060,159	224,792,547	269,540,596
Other	95,125,637	-	-	-	1,124,395	96,250,032
<b>Total un-discounted Foreign Financial Liabilities</b>	<b>247,195,921</b>	<b>7,356,249</b>	<b>793,905</b>	<b>12,397,992</b>	<b>229,378,456</b>	<b>497,122,523</b>
<b>Local Currency Financial Liabilities</b>						
Deposits of Banks and Financial Institutions	303,251,290	-	-	-	-	303,251,290
Deposits of Government and Governmental Entities	450,884	-	-	-	-	450,884
Securities Sold Under Repurchase Agreements	70,081,240	-	-	-	-	70,081,240
Balances of Employee Benefit Plans	51,744	-	-	-	-	51,744
Currency in Circulation	552,777,865	-	-	-	-	552,777,865
Other Payables	8,563,548	-	-	-	-	8,563,548
<b>Total un-discounted Local Financial Liabilities</b>	<b>935,176,571</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>935,176,571</b>
<b>Total un-discounted Financial Liabilities</b>	<b>1,182,372,492</b>	<b>7,356,249</b>	<b>793,905</b>	<b>12,397,992</b>	<b>229,378,456</b>	<b>1,432,299,094</b>
<b>Net un-discounted Financial Assets/ (Liabilities)</b>	<b>(302,389,458)</b>	<b>132,134,770</b>	<b>117,634,509</b>	<b>120,910,499</b>	<b>(77,000,910)</b>	<b>(8,710,590)</b>

As at 31 December 2016	Less than 6 months	6 Months -1 Yr
	Rs. 000	Rs. 000
Derivative Financial Assets	279,092,132	93,922,515
Derivative Financial Liabilities	279,934,575	92,340,465

#### Foreign Currency Conversions

All future cash flows related to Foreign Currency Financial Assets & Liabilities are converted to reporting currency using the rate of exchange prevailing at the reporting date.

**43.4 Contractual maturities of un-discounted cash flows of Financial Assets and Liabilities (Continued)**

As at 31 December 2015, contractual maturities of un-discounted cash flows of financial assets and liabilities are as follows:

As at 31 December 2015	Less than 6 months	6 Months -1 Yr	1-2 Yrs	2-5 Yrs	Over 5 Yrs	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
<b>Foreign Currency Financial Assets</b>						
Cash & Cash Equivalents	557,474,685	-	-	-	-	557,474,685
Securities at Fair Value through Profit or Loss	43,171,272	-	-	-	-	43,171,272
Available for Sale Investments	29,321,065	52,530,133	56,153,333	145,590,515	85,886,120	369,481,166
IMF Related Assets	10,523,672	-	-	138,622	72,974,056	83,636,350
Other Receivables	5,075	-	-	-	-	5,075
<b>Total un-discounted Foreign Financial Assets</b>	<b>640,495,769</b>	<b>52,530,133</b>	<b>56,153,333</b>	<b>145,729,137</b>	<b>158,860,176</b>	<b>1,053,768,548</b>
<b>Local Currency Financial Assets</b>						
Sri Lanka Government Securities	104,889,169	-	-	-	-	104,889,169
Provisional Advances to Government	151,131,671	-	-	-	-	151,131,671
Loans to Banks	237,733	207,777	304,647	194,165	11,852	956,174
Equity Investments in Financial and Other Institutions	-	-	-	-	41,095	41,095
Other Assets	2,675,835	524,731	709,055	3,125,543	5,270,055	12,305,219
<b>Total un-discounted Local Financial Assets</b>	<b>258,934,408</b>	<b>732,508</b>	<b>1,013,702</b>	<b>3,319,708</b>	<b>5,323,002</b>	<b>269,323,328</b>
<b>Total un-discounted Financial Assets</b>	<b>899,430,177</b>	<b>53,262,641</b>	<b>57,167,035</b>	<b>149,048,845</b>	<b>164,183,178</b>	<b>1,323,091,876</b>
<b>Foreign Financial Liabilities</b>						
Banks and Financial Institutions	13,012,853	294,833	186,752	121,023	413,161	14,028,622
Asian Clearing Union	68,887,459	-	-	-	-	68,887,459
IMF	44,702,372	20,631,864	34,386,440	-	151,923,668	251,644,344
Other	216,799,748	-	-	-	1,124,394	217,924,142
<b>Total un-discounted Foreign Financial Liabilities</b>	<b>343,402,432</b>	<b>20,926,697</b>	<b>34,573,192</b>	<b>121,023</b>	<b>153,461,223</b>	<b>552,484,567</b>
<b>Local Currency Financial Liabilities</b>						
Deposits of Banks and Financial Institutions	181,726,732	-	-	-	-	181,726,732
Deposits of Government and Governmental Entities	428,142	-	-	-	-	428,142
Securities Sold Under Repurchase Agreements	105,607,860	-	-	-	-	105,607,860
Balances of Employee Benefit Plans	7,212	-	-	-	-	7,212
Currency in Circulation	491,699,948	-	-	-	-	491,699,948
Other Payables	6,910,166	-	-	-	-	6,910,166
<b>Total un-discounted Local Financial Liabilities</b>	<b>786,380,060</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>786,380,060</b>
<b>Total un-discounted Financial Liabilities</b>	<b>1,129,782,492</b>	<b>20,926,697</b>	<b>34,573,192</b>	<b>121,023</b>	<b>153,461,223</b>	<b>1,338,864,627</b>
<b>Net un-discounted Financial Assets/ (Liabilities)</b>	<b>(230,352,315)</b>	<b>32,335,944</b>	<b>22,593,843</b>	<b>148,927,822</b>	<b>10,721,955</b>	<b>(15,772,751)</b>
<b>As at 31 December 2015</b>						
	<b>Less than 6 months Rs. 000</b>	<b>6 Months -1 Yr Rs. 000</b>				
Derivative Financial Assets	181,916,705	122,504,814				
Derivative Financial Liabilities	189,611,926	122,520,743				



### 43.5 Liquidity Risk

Liquidity risk is the difficulty that an entity will encounter in raising funds at short notice to meet commitments associated with financial instruments. Liquidity risk is also the risk that an entity will have to sell a financial asset quickly at much less than its fair value.

a) Liquidity is a key consideration in determining the composition of the Bank's foreign currency assets. This reflects the potential requirement to liquidate foreign reserves for intervention purposes and to settle other commitments such as public debt and IMF Loan repayments when the need arises. The Bank has adopted the following measures aimed at ensuring quick access to funds:

- Liquid asset ratios based on the liquidity characteristics of securities held
- Limits on maximum proportion of reserves that may be held in one currency and with one counterparty

b) In order to reduce the level of liquidity risk arising out of the local currency activities, particularly open market operations, the Bank uses highly liquid marketable instruments such as Treasury Bills & Treasury Bonds as collateral. It manages the daily liquidity position of the banking system by way of infusing into or withdrawal from the system, using instruments such as repo / reverse repo, CBSL securities & USD /LKR Swaps.

### 44. MATURITY ANALYSIS OF ASSETS & LIABILITIES

As at 31 December 2016	Less than	Over 12	Total
	12 months	months	
	Rs. 000	Rs. 000	Rs. 000
<b>Assets</b>			
Cash & Cash Equivalents	423,783,737	-	423,783,737
Securities at Fair Value through Profit or Loss	9,948,121	33,330,634	43,278,755
Available for Sale Investments	88,536,415	260,008,235	348,544,650
Derivative Financial Instruments	198,880	-	198,880
IMF Related Assets	9,940,219	107,068,121	117,008,340
Other Foreign Receivables	6,175,049	-	6,175,049
Sri Lanka Government Securities	351,426,470	-	351,426,470
Provisional Advances to Government	83,306,771	-	83,306,771
Loans to Banks	289,487	194,556	484,043
Other Assets	2,781,887	9,540,709	12,322,596
Equity Investments in Financial and Other Institutions	-	41,095	41,095
Gold	-	111,009,339	111,009,339
Inventories	-	6,114,861	6,114,861
Other Receivables and Prepayments	6,830,387	396,414	7,226,801
Property, Plant and Equipment	-	18,132,390	18,132,390
Intangible Assets	-	156,320	156,320
<b>Total Assets</b>	<b>983,217,423</b>	<b>545,992,674</b>	<b>1,529,210,097</b>
<b>Liabilities</b>			
Banks and Financial Institutions	45,566,681	-	45,566,681
Derivative Financial Instruments	14,573,675	-	14,573,675
Asian Clearing Union	79,863,615	-	79,863,615
IMF	34,687,890	234,852,706	269,540,596
Other	95,125,637	1,124,395	96,250,032
Deposits by Banks and Financial Institutions	303,251,290	-	303,251,290
Balances with Government and Governmental Entities	450,884	-	450,884
Securities Sold Under Agreement to Repurchase	70,054,436	-	70,054,436
Balances with Employee Benefit Plans	51,744	-	51,744
Currency in Circulation	552,777,865	-	552,777,865
Other Payables	8,563,548	-	8,563,548
Deferred Grants	34	46	80
Pension and Other Post Employment Benefit Plans	-	2,429,153	2,429,153
Miscellaneous Liabilities and Accruals	182,544	10,753	193,297
<b>Total Liabilities</b>	<b>1,205,149,843</b>	<b>238,417,053</b>	<b>1,443,566,896</b>
<b>Net</b>	<b>(221,932,420)</b>	<b>307,575,621</b>	<b>85,643,201</b>

**44. MATURITY ANALYSIS OF ASSETS & LIABILITIES**

As at 31 December 2015	Less than 12 months	Over 12 months	Total
	Rs. 000	Rs. 000	Rs. 000
<b>Assets</b>			
Cash & Cash Equivalents	557,474,685	-	557,474,685
Securities at Fair Value through Profit or Loss	35,779,665	-	35,779,665
Available for Sale Investments	77,913,482	274,141,000	352,054,482
Derivative Financial Instruments	2,259	1,886	4,145
IMF Related Assets	10,523,672	73,112,678	83,636,350
Other Foreign Receivables	5,075	-	5,075
Sri Lanka Government Securities	102,866,967	-	102,866,967
Provisional Advances to Government	151,131,671	-	151,131,671
Loans to Banks	406,315	480,042	886,357
Other Assets	2,896,103	8,268,349	11,164,452
Equity Investments in Financial and Other Institutions	-	41,095	41,095
Gold	97,723,836	-	97,723,836
Inventories	-	3,419,964	3,419,964
Other Receivables and Prepayments	9,487,315	4,860,496	14,347,811
Property, Plant and Equipment	-	15,422,315	15,422,315
Intangible Assets	-	240,610	240,610
<b>Total Assets</b>	<b>1,046,211,045</b>	<b>379,988,435</b>	<b>1,426,199,480</b>
<b>Liabilities</b>			
Banks and Financial Institutions	12,048,241	-	12,048,241
Derivative Financial Instruments	16,177,870	8,102,438	24,280,308
Asian Clearing Union	68,887,459	-	68,887,459
IMF	65,334,235	186,310,109	251,644,344
Other	217,924,142	-	217,924,142
Deposits by Banks and Financial Institutions	181,726,732	-	181,726,732
Balances with Government and Governmental Entities	428,142	-	428,142
Securities Sold Under Agreement to Repurchase	105,465,000	-	105,465,000
Balances with Employee Benefit Plans	7,212	-	7,212
Currency in Circulation	491,699,948	-	491,699,948
Other Payables	6,850,998	-	6,850,998
Deferred Grants	34	72	106
Pension and Other Post Employment Benefit Plans	-	10,942,541	10,942,541
Miscellaneous Liabilities and Accruals	175,377	23,948	199,325
<b>Total Liabilities</b>	<b>1,166,725,390</b>	<b>205,379,108</b>	<b>1,372,104,498</b>
<b>Net</b>	<b>(120,514,345)</b>	<b>174,609,327</b>	<b>54,094,982</b>

**45. PENSION AND OTHER POST EMPLOYMENT BENEFIT PLANS**

The Bank operates six defined benefit plans which cover all eligible employees. Under the Employees' Retirement Pension Scheme (old), employees who joined the Bank prior to 1 January 1998 and complete 10 years of service become eligible to the schemes. The employees who have joined the Bank after 1st January 1998 and complete 10 years of service become eligible for the new pension scheme. These Pension Schemes are non-contributory pension schemes where the cost of benefits is wholly borne by the Bank. The Widows' and Orphans' Pension Scheme for male employees and Widowers' and Orphans' Pension Scheme for female employees are open to employees of the Bank who had joined prior to 1 January 1998. Eligible

Employees under these plans who were recruited before 1 August 1994 contribute 5% of the monthly basic salary & employees who were recruited on or after 01 August 1994 10% of monthly basic salary.

The Bank also provides gratuity benefits to employees who have completed five years of service in the Bank and who are not eligible for a monthly pension payment under the Employees' Retirement Pension Schemes. In order to meet this liability, a provision is carried forward in the Statement of Financial Position, equivalent to the liability calculated using the actuarial valuation.

The Bank has a Post-Employment Medical Benefit Scheme which provides reimbursement of certain medical expenses incurred by retired employees on account of themselves or their spouses and by widows/widowers.

The Bank employed an Independent Actuary M/s K. A. Pandit, Consultant & Actuary (Mumbai) to re-assess the defined benefit obligations and the current service costs attributable to the Employees' Retirement Pension Schemes, Widows' and Orphans' Pension Scheme, Widowers' and Orphans' Pension Scheme, Gratuity Scheme and Medical Benefit Scheme during the year.

Funds of the Employee Retirement Pension Schemes, Widows' and Orphans' Pension Scheme, Widowers' and Orphans' Pension Scheme are managed separately and separate books are maintained. However, Gratuity Scheme and Medical Benefit Scheme are not separated

from the books of accounts of the Bank. Further, investments and investment income are recorded separately for these funds in the Bank books and the income earned from the investments are transferred back to these funds and reinvested without being distributed.

The total fair value of plan assets of Rs.36,145.06 Mn (2015 – Rs. 36,912.71 Mn) exceed the total present value of all benefit obligations of Rs. 36,065.09 Mn (2015 – Rs. 45,682.71 Mn) at the end of the reporting period resulting in a surplus of Rs. 79.97 Mn (2015 – Deficit of Rs. 8,770.00 Mn).

## 2016

Benefit Liability/(Asset)	Employee Retirement Pension Scheme Rs. 000	Employee Retirement Pension Scheme - New Rs. 000	Widows' and Orphans' Pension Scheme Rs. 000	Widowers' and Orphans' Pension Scheme Rs. 000	Gratuity Scheme Rs. 000	Medical Benefit Scheme Rs. 000	Total 2016 Rs. 000
Present Value of Benefit Obligation	27,484,329	609,976	4,957,084	825,792	131,774	2,056,133	36,065,088
Fair Value of Plan Assets	(25,408,311)	(2,444,748)	(5,144,789)	(1,828,245)	(152,419)	(1,166,543)	(36,145,055)
<b>Benefit Liability/ (Asset) non-current</b>	<b>2,076,018</b>	<b>(1,834,772)</b>	<b>(187,705)</b>	<b>(1,002,453)</b>	<b>(20,645)</b>	<b>889,590</b>	<b>(79,967)</b>

The balance shown under Pension and Other Post Employment Benefit Plans in Statement of Financial Position differs from the net liability as per the actuary due to the following reasons:

- The net asset position of the Widows' and Orphans' Pension Scheme and Widowers' and Orphans' Pension scheme are not reflected in the accounts due to the remote possibility of distributing any residual balance of the fund to the Bank.
- For both gratuity and medical benefit schemes, the accounts represent the gross liability position and not the net liability as per actuary, since the Bank does not keep relevant assets in a separate fund (internally maintained).

There are uncollateralized investments under Pension, Widows' and Orphans' scheme, Widowers' and Orphans' scheme, Gratuity and Medical Benefit support fund worth of Rs. 445.53 Mn for which 100% provision has been made and thus not included in the value of plan assets. Even without the value of such investments, bank has a net asset position under its pension liability as per actuarial valuation.

Movement in the Benefit Liability / (Asset)	Employee Retirement Pension Scheme Rs. 000	Employee Retirement Pension Scheme - New Rs. 000	Widows' and Orphans' Pension Scheme Rs. 000	Widowers' and Orphans' Pension Scheme Rs. 000	Gratuity Scheme Rs. 000	Medical Benefit Scheme Rs. 000	Total 2016 Rs. 000
At 1 January 2016	9,055,520	(1,245,041)	819,399	(612,924)	(33,574)	786,620	8,770,000
Benefit Expense	1,232,222	(72,429)	81,940	(61,292)	24,042	112,275	1,316,758
Amount recognized in Other Comprehensive Income	(7,765,143)	(345,098)	(1,055,189)	(316,344)	(11,113)	7,038	(9,485,849)
Contribution Paid	(446,581)	(172,204)	(33,855)	(11,893)	-	(16,343)	(680,876)
<b>At 31 December 2016 - non-current</b>	<b>2,076,018</b>	<b>(1,834,772)</b>	<b>(187,705)</b>	<b>(1,002,453)</b>	<b>(20,645)</b>	<b>889,590</b>	<b>(79,967)</b>

Benefit Expense	Employee Retirement Pension Scheme Rs. 000	Employee Retirement Pension Scheme - New Rs. 000	Widows' and Orphans' Pension Scheme Rs. 000	Widowers' and Orphans' Pension Scheme Rs. 000	Gratuity Scheme Rs. 000	Medical Benefit Scheme Rs. 000	Total 2016 Rs. 000
Interest Cost on Benefit Obligation	905,552	(124,504)	81,940	(61,292)	(3,358)	78,662	877,000
Past Service Cost	326,670	52,075	-	-	27,400	33,613	439,758
<b>Benefit Expense</b>	<b>1,232,222</b>	<b>(72,429)</b>	<b>81,940</b>	<b>(61,292)</b>	<b>24,042</b>	<b>112,275</b>	<b>1,316,758</b>
<b>Actual Return on Plan Assets</b>	<b>877,139</b>	<b>12,576</b>	<b>268,269</b>	<b>89,924</b>	<b>(6,438)</b>	<b>(37,029)</b>	<b>1,204,441</b>
<b>Actual Return on Plan Assets as a % of Average Balance</b>	<b>3.40%</b>	<b>0.53%</b>	<b>5.17%</b>	<b>5.03%</b>	<b>-3.89%</b>	<b>-2.91%</b>	<b>3.30%</b>
<b>Excess of Interest Earned Over Benefit Paid</b>	<b>(1,158,329)</b>	<b>12,576</b>	<b>(114,825)</b>	<b>69,041</b>	<b>(25,769)</b>	<b>(231,229)</b>	<b>(1,448,535)</b>

<b>45. Pension and Other Post-Employment Benefit Plans (Continued)</b>							
<b>Changes in Fair Value of Plan Assets</b>	<b>Employee Retirement Pension Scheme Rs. 000</b>	<b>Employee Retirement Pension Scheme-New Rs. 000</b>	<b>Widows' and Orphans' Pension Scheme Rs. 000</b>	<b>Widowers' and Orphans' Pension Scheme Rs. 000</b>	<b>Gratuity Scheme Rs. 000</b>	<b>Medical Benefit Scheme Rs. 000</b>	<b>Total 2016 Rs. 000</b>
Fair Value of Plan Assets at the beginning of the year	26,120,059	2,259,968	5,225,759	1,747,311	178,188	1,381,429	36,912,714
Actual Return on Plan Assets	877,139	12,576	268,269	89,924	(6,438)	(37,029)	1,204,441
Contribution Received	446,581	172,204	33,855	11,893	-	16,343	680,876
Benefits Paid	(2,035,468)	-	(383,094)	(20,883)	(19,331)	(194,200)	(2,652,976)
<b>Fair value of Plan Assets at the end of the year</b>	<b>25,408,311</b>	<b>2,444,748</b>	<b>5,144,789</b>	<b>1,828,245</b>	<b>152,419</b>	<b>1,166,543</b>	<b>36,145,055</b>
<b>2015</b>							
<b>Benefit Liability/(Asset)</b>	<b>Employee Retirement Pension Scheme Rs. 000</b>	<b>Employee Retirement Pension Scheme-New Rs. 000</b>	<b>Widows' and Orphans' Pension Scheme Rs. 000</b>	<b>Widowers' and Orphans' Pension Scheme Rs. 000</b>	<b>Gratuity Scheme Rs. 000</b>	<b>Medical Benefit Scheme Rs. 000</b>	<b>Total 2015 Rs. 000</b>
Present Value of Benefit Obligation	35,175,579	1,014,927	6,045,158	1,134,387	144,614	2,168,049	45,682,714
Fair Value of Plan Assets	(26,120,059)	(2,259,968)	(5,225,759)	(1,747,311)	(178,188)	(1,381,429)	(36,912,714)
<b>Benefit Liability/ (Asset) non-current</b>	<b>9,055,520</b>	<b>(1,245,041)</b>	<b>819,399</b>	<b>(612,924)</b>	<b>(33,574)</b>	<b>786,620</b>	<b>8,770,000</b>
<b>Movement in the Benefit Liability / (Asset)</b>	<b>Employee Retirement Pension Scheme Rs. 000</b>	<b>Employee Retirement Pension Scheme-New Rs. 000</b>	<b>Widows' and Orphans' Pension Scheme Rs. 000</b>	<b>Widowers' and Orphans' Pension Scheme Rs. 000</b>	<b>Gratuity Scheme Rs. 000</b>	<b>Medical Benefit Scheme Rs. 000</b>	<b>Total 2015 Rs. 000</b>
At 1 January 2015	4,609,763	-	(874,652)	(869,130)	97,453	635,601	3,599,035
Benefit Expense	852,981	1,014,927	(87,465)	(86,913)	(200,806)	115,379	1,608,103
Amount recognized in Other Comprehensive Income	4,922,631	(103,601)	1,815,056	356,027	105,625	161,340	7,257,078
Contribution Paid	(1,329,855)	(2,156,367)	(33,540)	(12,908)	(35,846)	(125,700)	(3,694,216)
<b>At 31 December 2015 - Non-Current</b>	<b>9,055,520</b>	<b>(1,245,041)</b>	<b>819,399</b>	<b>(612,924)</b>	<b>(33,574)</b>	<b>786,620</b>	<b>8,770,000</b>
<b>Benefit Expense</b>	<b>Employee Retirement Pension Scheme Rs. 000</b>	<b>Employee Retirement Pension Scheme-New Rs. 000</b>	<b>Widows' and Orphans' Pension Scheme Rs. 000</b>	<b>Widowers' and Orphans' Pension Scheme Rs. 000</b>	<b>Gratuity Scheme Rs. 000</b>	<b>Medical Benefit Scheme Rs. 000</b>	<b>Total 2015 Rs. 000</b>
Interest Cost on Benefit Obligation	460,977	-	(87,465)	(86,913)	9,746	63,561	359,906
Current Service Cost	392,004	-	-	-	28,390	51,818	472,212
Past Service Cost	-	1,014,927	-	-	-	-	1,014,927
Curtailement	-	-	-	-	(238,942)	-	(238,942)
<b>Benefit Expense</b>	<b>852,981</b>	<b>1,014,927</b>	<b>(87,465)</b>	<b>(86,913)</b>	<b>(200,806)</b>	<b>115,379</b>	<b>1,608,103</b>
Actual Return on Plan Assets	2,116,753	103,601	431,654	156,161	18,660	125,149	2,951,978
Actual Return on Plan Assets as a % of Average Balance	8.40%	8.40%	8.40%	9.35%	12.00%	9.44%	8.53%
Excess of Interest Earned Over Benefit Paid	516,650	516,650	137,995	140,097	9,609	(13,165)	894,787
<b>Changes in Fair Value of Plan Assets</b>	<b>Employee Retirement Pension Scheme Rs. 000</b>	<b>Employee Retirement Pension Scheme -New Rs. 000</b>	<b>Widows' and Orphans' Pension Scheme Rs. 000</b>	<b>Widowers' and Orphans' Pension Scheme Rs. 000</b>	<b>Gratuity Scheme Rs. 000</b>	<b>Medical Benefit Scheme Rs. 000</b>	<b>Total 2015 Rs. 000</b>
Fair Value of Plan Assets at the beginning of the year	24,273,554	-	5,054,224	1,594,306	132,733	1,268,894	32,323,711
Actual Return on Plan Assets	2,116,573	103,601	431,654	156,161	18,660	125,149	2,951,798
Contribution Received	1,329,855	2,156,367	33,540	12,908	35,846	125,700	3,694,216
Benefits Paid	(1,599,923)	-	(293,659)	(16,064)	(9,051)	(138,314)	(2,057,011)
<b>Fair value of Plan Assets at the end of the year</b>	<b>26,120,059</b>	<b>2,259,968</b>	<b>5,225,759</b>	<b>1,747,311</b>	<b>178,188</b>	<b>1,381,429</b>	<b>36,912,714</b>

The principal assumptions used in determining Employee Benefit Obligations for all the plans are shown below:

	2016	2015
Discount Rate	13.00%	10.00%
Expected Rate of Return on Assets	13.00%	10.00%
Future Salary Increases	8.50%	8.50%
Rate of Salary Increase - Pension New	6.50%	6.50%
Future Pension Increases	7.50%	7.50%
Attrition Rate	2.00%	2.00%
Medical Cost Inflation Rate	3.00%	3.00%
Average Remaining years of Service		
CBSL Pension	27 Years	27 Years
CBSL Pension - New	41 Years	41 Years
W & OP Pension Scheme	27 Years	27 Years
WR & OP Pension Scheme	27 Years	27 Years
Gratuity Scheme	20 Years	20 Years
CBSL Medical Benefit Scheme	32 Years	32 Years
Retirement Age	60 Years	60 Years

Sensitivity Analysis at 0.5% (31-12-2016)	Employee Retirement Pension Scheme Rs. 000	Employee Retirement Pension Scheme-New Rs. 000	Widows' and Orphans' Pension Scheme Rs. 000	Widowers' and Orphans' Pension Scheme Rs. 000	Gratuity Scheme Rs. 000	Medical Benefit Scheme Rs. 000
<b>Projected benefit obligation on current assumptions</b>	<b>27,484,329</b>	<b>609,976</b>	<b>4,957,084</b>	<b>825,792</b>	<b>131,774</b>	<b>2,056,133</b>
Effect of "+" change in discount rate	(1,120,339)	(63,235)	(223,313)	(46,688)	(4,572)	(66,121)
Effect of "-" change in discount rate	1,207,556	72,190	243,228	51,001	4,876	70,826
Effect of "+" change in attrition rate	-	-	-	-	26,335	12,733
Effect of "-" change in attrition rate	-	-	-	-	(28,715)	(13,395)
Effect of "+" change in salary escalation rate	154,116	54,441	12,097	4,791	5,061	-
Effect of "-" change in salary escalation rate	(150,130)	(49,497)	(11,789)	(4,675)	(4,776)	-
Effect of "+" change in Medical Cost Inflation	-	-	-	-	-	71,939
Effect of "-" change in Medical Cost Inflation	-	-	-	-	-	(67,155)
Effect of "+" change in Rate of Pension Escalation	1,103,394	-	241,807	48,302	-	-
Effect of "-" change in Rate of Pension Escalation	(1,035,401)	-	(224,268)	(44,771)	-	-

#### 46. FAIR VALUE DISCLOSURES

##### a) Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When a financial instrument is traded in an organised and liquid market that is able to absorb a significant transaction without moving the price against the trader, quoted market values represent the fair value.

The Bank uses the following hierarchy for determining

and disclosing the fair value of assets and liabilities by valuation technique :

Level 1: Quoted (un-adjusted) prices in active markets for identical assets or liabilities;

Level 2 : Other techniques for which all inputs which have a significant effect on the recorded fair value are observable , either directly or indirectly;

Level 3 : Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data;

The following table shows an analysis of assets and liabilities recorded at fair value hierarchy:

31 December 2016	Level 1 Rs. 000	Level 2 Rs. 000	Level 3 Rs. 000	Total Rs. 000
<b>Financial Assets</b>				
Securities at Fair Value through Profit or Loss	43,278,755	-	-	43,278,755
Available for Sale Investments	348,544,650	-	-	348,544,650
Derivatives	-	198,880	-	198,880
	<u>391,823,405</u>	<u>198,880</u>	-	<u>392,022,285</u>
<b>Foreign Currency Non-Financial Assets</b>				
Gold	111,009,339	-	-	111,009,339
	<u>111,009,339</u>	-	-	<u>111,009,339</u>
<b>Local Currency Financial Assets</b>				
Sri Lanka Government Securities	-	320,640,852	-	320,640,852
	-	<u>320,640,852</u>	-	<u>320,640,852</u>
<b>Other Non-Financial Assets</b>				
Land	-	-	8,976,339	8,976,339
Building	-	-	7,695,682	7,695,682
	-	-	<u>16,672,021</u>	<u>16,672,021</u>
<b>Financial Liabilities</b>				
Embedded Derivatives - Currency Options	-	-	5,911,812	5,911,812
Derivatives	-	8,661,863	-	8,661,863
	-	<u>8,661,863</u>	<u>5,911,812</u>	<u>14,573,675</u>

31 December 2015	Level 1 Rs. 000	Level 2 Rs. 000	Level 3 Rs. 000	Total Rs. 000															
<b>Financial Assets</b>																			
Securities at Fair Value through Profit or Loss	35,779,665	-	-	35,779,665															
Available for Sale Investments	352,054,482	-	-	352,054,482															
Derivatives	-	4,145	-	4,145															
	<u>387,834,147</u>	<u>4,145</u>	<u>-</u>	<u>387,838,292</u>															
<b>Foreign Currency Non-Financial Assets</b>																			
Gold	97,723,836	-	-	97,723,836															
	<u>97,723,836</u>	<u>-</u>	<u>-</u>	<u>97,723,836</u>															
<b>Local Currency Financial Assets</b>																			
Sri Lanka Government Securities	-	102,799,824	-	102,799,824															
	<u>-</u>	<u>102,799,824</u>	<u>-</u>	<u>102,799,824</u>															
<b>Other Non-Financial Assets</b>																			
Land	-	-	5,879,064	5,879,064															
Building	-	-	7,930,666	7,930,666															
	<u>-</u>	<u>-</u>	<u>13,809,730</u>	<u>13,809,730</u>															
<b>Financial Liabilities</b>																			
Embedded Derivatives - Currency Options	-	-	10,290,162	10,290,162															
Derivatives	-	13,990,146	-	13,990,146															
	<u>-</u>	<u>13,990,146</u>	<u>10,290,162</u>	<u>24,280,308</u>															
<b>Land &amp; Building</b>																			
<b>Valuation Method</b>																			
Land is valued using market approach with direct comparison method, whereby assets are compared to recent sales with no added or nominal added improvement value, making adjustments for points of difference to derive the fair value.																			
Depreciated Current Replacement Cost (DRC) method is used in valuing all the buildings except Central Point, White Aways and Lloyds Building, considering that the assets controlled by the public sector entities that provide service to the community are not traded on an open liquid market.																			
Income approach is used to value the other buildings which values the property based on estimated future income, profits or cash flow that are converted (discounted) to a single current amount.																			
<b>Derivatives</b>																			
Derivative valuation models use forward prices (calculated by extrapolating the forward points available in the market) and discount rates calculated based on zero coupon yield curves of the respective currencies as of the valuation date. If the instrument that is valued contains a margin, adjustments are made to the forward prices and/ or the interest rates to represent the impact of the margin rate.																			
<b>Embedded Derivatives - Currency Options</b>																			
Fair value of the embedded derivative products was calculated using Black-Scholes model.																			
<b>Level 3</b>																			
<table border="1"> <thead> <tr> <th></th> <th>2016 Rs.000</th> <th>2015 Rs.000</th> </tr> </thead> <tbody> <tr> <td>Balance as at 1 January</td> <td>10,290,162</td> <td>16,350,511</td> </tr> <tr> <td>Derivative Liabilities</td> <td>(4,378,349)</td> <td>(6,060,349)</td> </tr> <tr> <td>Balance as at 31 December</td> <td><u>5,911,813</u></td> <td><u>10,290,162</u></td> </tr> <tr> <td>Total unrealised gains included in earnings</td> <td>4,378,349</td> <td>6,159,141</td> </tr> </tbody> </table>						2016 Rs.000	2015 Rs.000	Balance as at 1 January	10,290,162	16,350,511	Derivative Liabilities	(4,378,349)	(6,060,349)	Balance as at 31 December	<u>5,911,813</u>	<u>10,290,162</u>	Total unrealised gains included in earnings	4,378,349	6,159,141
	2016 Rs.000	2015 Rs.000																	
Balance as at 1 January	10,290,162	16,350,511																	
Derivative Liabilities	(4,378,349)	(6,060,349)																	
Balance as at 31 December	<u>5,911,813</u>	<u>10,290,162</u>																	
Total unrealised gains included in earnings	4,378,349	6,159,141																	
Significant unobservable inputs used																			
Discount Rate 10%																			
Volatility 5%																			
<b>Sensitivity Analysis</b>																			
<table border="1"> <thead> <tr> <th rowspan="2"></th> <th colspan="2">Discount Rate</th> <th colspan="2">Volatility</th> </tr> <tr> <th>9% Rs.000</th> <th>11% Rs.000</th> <th>4% Rs.000</th> <th>6% Rs.000</th> </tr> </thead> <tbody> <tr> <td>Embedded Derivatives - Currency Options</td> <td>6,016,743</td> <td>5,811,071</td> <td>5,910,742</td> <td>5,940,987</td> </tr> </tbody> </table>						Discount Rate		Volatility		9% Rs.000	11% Rs.000	4% Rs.000	6% Rs.000	Embedded Derivatives - Currency Options	6,016,743	5,811,071	5,910,742	5,940,987	
	Discount Rate		Volatility																
	9% Rs.000	11% Rs.000	4% Rs.000	6% Rs.000															
Embedded Derivatives - Currency Options	6,016,743	5,811,071	5,910,742	5,940,987															
<b>Deferred Asset on Embedded Derivatives</b>																			
<table border="1"> <thead> <tr> <th></th> <th>2016 Rs.000</th> <th>2015 Rs. 000</th> </tr> </thead> <tbody> <tr> <td>Balance as at 1 January</td> <td>13,292,126</td> <td>25,832,842</td> </tr> <tr> <td>Premium Amortised during the year</td> <td>(8,666,461)</td> <td>(12,540,716)</td> </tr> <tr> <td>Balance as at 31 December</td> <td><u>4,625,665</u></td> <td><u>13,292,126</u></td> </tr> </tbody> </table>						2016 Rs.000	2015 Rs. 000	Balance as at 1 January	13,292,126	25,832,842	Premium Amortised during the year	(8,666,461)	(12,540,716)	Balance as at 31 December	<u>4,625,665</u>	<u>13,292,126</u>			
	2016 Rs.000	2015 Rs. 000																	
Balance as at 1 January	13,292,126	25,832,842																	
Premium Amortised during the year	(8,666,461)	(12,540,716)																	
Balance as at 31 December	<u>4,625,665</u>	<u>13,292,126</u>																	
<b>b). Repurchase and Reverse-Repurchase Agreements</b>																			
The reported value of repurchase and reverse-repurchase agreements is considered to approximate their fair value due to the short term nature of the agreements. The carrying value of Sri Lanka Government Securities sold under agreements to repurchase as at																			

31 December 2016 was Rs.21,383.72 Mn (2015 – Rs 23,662.52 Mn) and provided Standing Deposit Facility of Rs. 48,670.71 Mn (2015 – Rs 81,828.49 Mn). The carrying value of Sri Lanka Government Securities purchased under agreements to resell as at 31 December 2016 was Rs. 30,821.39 Mn (2015 – Rs 135.03 Mn).

### c). Currency in Circulation

The fair value of Currency in Circulation is considered to be its face value as reported in the Financial Statements.

### d.) Deposits

The carrying value of deposits are considered to approximate their fair value as they are payable on demand.

### (e) Determination of Fair Value and Fair Value Hierarchy

Set out below is a comparison, by class, of the carrying value and fair value of bank's financial assets and liabilities other than those with carrying values that are reasonable approximation of fair value.

	Carrying Amount		Fair Value	
	2016 Rs. 000	2015 Rs. 000	2016 Rs. 000	2015 Rs. 000
<b>Foreign Currency Financial Assets</b>				
Foreign Currency Trading/ Available for Sale Securities	391,823,405	387,834,147	391,823,405	387,834,147
Derivative Financial Instruments	198,880	4,145	198,880	4,145
<b>Local Currency Financial Assets</b>				
Sri Lanka Government Securities	351,426,470	102,866,967	320,640,852	102,799,824
Loans to Banks	484,043	886,357	460,376	839,898
Other Assets	12,322,596	11,164,452	9,573,218	7,973,781
<b>Foreign Currency Non Financial Assets</b>				
Allocated Gold	111,009,339	97,723,836	111,009,339	97,723,836
<b>Foreign Currency Financial Liabilities</b>				
Derivative Financial Instruments	14,573,675	24,280,308	14,573,675	24,280,308

### 47. COMPARATIVE INFORMATION

	2015 Rs. 000
<b>As reported previously:</b>	
<b>Local Currency Financial Assets</b>	
Sri Lanka Government Securities	102,866,967
Other Assets	11,164,452
<b>Local Currency Financial Liabilities</b>	
Securities Sold Under Repurchase Agreements	105,465,000
Other Payables	6,850,998

	2016 Rs. 000	2015 Rs. 000
<b>Current Presentation:</b>		
<b>Local Currency Financial Assets</b>		
Sri Lanka Government Securities	351,426,470	102,866,995
Other Assets	12,322,596	11,164,424
<b>Local Currency Financial Liabilities</b>		
Securities Sold Under Repurchase Agreements	70,054,436	105,491,006
Other Payables	8,563,548	6,824,992

Interest receivable on Reverse Repo investments amounting to Rs. 0.03 Mn which was classified under Other Assets in 2015 have now been included in Sri Lanka Government Securities for better presentation. Similarly, interest payable on Repo Agreements and Standing Deposit Facility amounting to Rs. 26.01 Mn which was classified under Other Payables in 2015 have now been included in Securities Sold Under Repurchase Agreements.

**48. RELATED PARTIES****48.1 Transactions with State and State Controlled Entities**

In the normal course of its operations, the Bank enters into transactions with related parties. Related parties include the Government of Sri Lanka (State as the ultimate owner of the CBSL), various government departments, and State controlled entities. Particulars of transactions, and arrangements entered into by the Bank with the State and State controlled entities which are individually significant and for other transactions that are collectively, but not individually, significant as per IAS 24 -Amended Related Party Disclosures are as follows:

Nature of the Transaction	2016 Rs 000	2015 Rs 000
<b>Transactions:</b>		
Outright purchases of Government Securities	8,065,953	-
Outright sales of Government Securities	37,375,643	66,059,197
CBSL and Government Securities Purchased / Sold under Agreement to Repurchase / Sales	6,215,152,910	8,558,487,853
Cost of Printing currency notes, for the year ended 31 December (c)	3,162,625	1,954,763
Payments for Goods, Services and Taxes, during the year ended 31 December (d)	1,229,032	762,417
Paid Surplus to Government, during the year (Note 30)	5,000,000	-
Gross Foreign Exchange Transactions during the year, (f)		
Sales	55,884,998	234,753,399
Purchases	68,112,483	-
USD/LKR Derivatives	737,197,729	836,162,191
Funds Received in respect of Abandoned Property during the year	275,236	114,971
Consultancy, Communication, Advisory and Professional Fees (g)	28,038	155,428
<b>Balances:</b>		
Sri Lanka Government Securities held by CBSL (h)	320,605,082	102,731,967
Provisional Advances to Government (Note 9)	83,306,771	151,131,671
Loans given under Susahana Phase I and II, Provincial Development Credit Scheme, Saubaghya Loan Scheme, Awakening North Loan Scheme (phase II), Resumption of Economic Activities in the East (phase II) and Repair of Damaged Houses in North and East	112,652	352,864
Government Securities held for specific purposes	5,208,837	4,292,385
RTGS Balances with Banks and Financial Institutions	183,836,224	115,013,766
Nostro Balance with BOC London	168,790	195,999
Receivable from Treasury and other Ministries	1,401,497	1,378,695
Payable to Treasury (Note 20)	291,768	8,203,776
Payable to Ministry of National Policies and Economic Affairs (Note 20)	32,222,139	49,479,048
Current Account Balances with Government and Government Entities as at 31 December	198,936	176,637
Other Balances (k)	1,121,491	1,124,350

a) Empowered by the sections 28-33 of the MLA the Bank Supervision Department of Bank carries out regulatory and supervisory functions of the banks licensed by the Monetary Board of CBSL. As at 31 December 2016, 03 Licensed Commercial Banks and 04 Licensed Specialised Banks which had been funded by the government or has a significant influence, came under the supervision of the department.

The Department of Supervision of Non-Bank Financial Institutions of the Bank carries out its regulatory and supervisory functions in respect of Non-Bank Financial Institutions. Accordingly, related entities of state controlled or government funded Non-bank Financial Institutions are under the supervision of this department.

b) As per Section 113 of Monetary Law Act, the Monetary Board and the Bank are vested with the function of public debt management. Accordingly, as the agent of the Government, the Public Debt Department (PDD) of the bank issues securities to the domestic market to meet the budgetary requirements and services both foreign

and domestic debt. The PDD deals with public debt management and debt market development. It manages the government debt to ensure that financing needs of the government and its payment obligations are met.

c) The Bank has the sole right and authority to issue currency in Sri Lanka as per section 49 of the Monetary Law Act. Accordingly, the Currency Department of the Bank functions as the sole issuing authority of the legal tender in Sri Lanka. Printing of the currency notes is carried out by De La Rue Lanka Currency and Security Print (Pvt) Ltd., of which 40% shareholding is owned by the Government.

d) In carrying out the normal operations, the Bank enters into transactions to obtain various goods and services with government entities or entities in which government has significant influence or control.

e) The Bank commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets and liabilities on behalf of government, trusts, retirement benefit plans and other institutions, as explained in Note 50.



- f) In accordance with the provisions of Monetary Law Act, International Operations Department of the Bank monitors the development in the domestic foreign exchange market and overnight net foreign exchange open positions of commercial banks. In monitoring the domestic foreign exchange market developments, the Bank is on both sides of the market to moderate the excessive volatility in the exchange rate of Sri Lanka Rupee. The amounts of purchases and sales of foreign exchange represents results of such monitoring activities.
- g) This amount represents the payments made by the Bank for consultancy and professional fees on United Nations human rights investigations. These payments were recorded under administration expenses.
- h) The Domestic Operations Department of the Bank performs its direct functions of implementing the Bank's monetary policy mainly through open market operations as per sections 90-92 of the MLA No 58 of 1949 (amended) and enforcing Statutory Reserve Requirement as per sections 93-98 of MLA and functions as the banker to both commercial banks where government has shareholdings and certain other financial institutions and governmental entities. The aggregate balances arising from this function as at 31 December 2016 are given in Note 21 and 22. Interest earned on the government securities is given in Note 31.
- i) The Bank also has custodial arrangements with one State-controlled bank, for which no charges were levied.
- j) As per the circular issued by Director of Bank Supervision, the banks who do not maintain the minimum advance limit of 10% to agriculture, contribute the shortfall to Refinance Fund operated by RDD of the bank. As at 31 December 2016, Rs. 64.48 Mn loans were outstanding under the refinance scheme, from People's Bank - Rs. 25.57 Mn (2015 - Rs.99.42 Mn), Bank of Ceylon - Rs. 7.71 Mn (2015 - 21.21 Mn), Pradeshiya Sanwardana Bank - Rs.23.42 Mn (2015 - Rs.64.63 Mn) and Lankaputhra Development Bank Rs.7.78 Mn (2015 - Rs.15.19 Mn) and for which RDD has received an interest of Rs. 97.36 Mn.
- k) Other Balances include the transactions carried out with the government, government departments and state controlled entities that are not individually significant.

#### 48.2 Transactions with Key Managerial Personnel

Key Managerial Personnel of the Bank are the members of the Monetary Board that includes Governor (Monetary Law Act restricts such members' positions as director, officer, employee or shareholder of any banking institution.), Deputy Governors, Assistant Governors and Director Internal Audit. Particulars of transactions with Key Managerial Personnel were as follows:

#### 48.3 Compensations to the Key Managerial Personnel

	2016 Rs 000	2015 Rs 000
Short Term Employee Benefits	123,948	107,904

In addition to above compensation, the Bank also provides non cash benefits to Key Managerial Personnel in terms of the employment contracts with them.

#### 48.4 Other Transactions with Key Managerial Personnel

	2016 Rs 000	2015 Rs 000
Loans to Key Managerial Personnel	57,793	46,600

All the loans are adequately secured and carry interest rates ranging from 2%-7% depending on the loan category and are repayable monthly.

#### 48.5 Transactions with Post-Employment Benefit Plans

	2016 Rs 000	2015 Rs 000
Contributions paid and payable	69,511	68,382

The Bank contributed various amounts to Pension and Other Post Retirement Plans as disclosed in Note 45 and paid Rs. 559.67 Mn (2015 - Rs. 559.38 Mn) to Employees Provident Fund. In the normal course of business the Bank provides banking and financial services to its post employment plans. Amounts of balances with such plans are given in Note 24.

## 49. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

### 49.1 Financial Guarantee Contracts

The Bank acting as an agent of the government or its agencies and institutions, provides guarantees to various parties on the strength of counter guarantees issued to Bank by the General Treasury. There were no such outstanding guarantees as at 31 December 2016.

### 49.2 Credit Guarantees

The Regional Development Department (RDD) of the Bank performs the functions of providing refinance out of loan proceeds from external lines of credit to participating financial institutions for financing small and medium enterprises, issuing credit guarantees on loans to such enterprises, collecting guarantee premia, administering credit guarantee funds and undertaking post credit inspection and follow up action to ensure proper utilization of loan funds with a view of preventing defaults. During the year, RDD continued to provide refinance facilities under which the Bank provided guarantees against losses arising to a participating credit institution, which grants credit under this arrangement. This is not a guarantee on default by recipient of loans but against loss, which means that participating credit institutions should submit claims only in respect of amounts in loss after having pursued recovery action. The amount of contingent liabilities arising out of this arrangement are given below.

**Local commercial banks - in respect of credit guarantees.**

	Currency of Guarantee	Outstanding Guarantee Amount	
		2016 Rs. 000	2015 Rs. 000
<b>Related Parties</b>	Rupees		
- Bank Funded Projects		54,799	2,310,793
- Government Funded Projects		1,878,523	3,978,055
<b>Others</b>	Rupees		
- Bank Funded Projects		5,311	220,609
- Government Funded Projects		213,748	315,680
<b>Total Credit Guarantees</b>		<b>2,152,381</b>	<b>6,825,138</b>

**49.3 Fiduciary Activities**

The Bank carries out fiduciary activities under the provisions of the MLA. Acting in such capacity results in holding or placing of funds on behalf of various parties. However, the Bank does not expect any liability to arise on account of such activities.

**49.4 Legal Claims**

The Bank is a defendant in a case where legal action instituted by stakeholders of the entity involved, claiming Rs.35 Mn. This case is being contested by the Bank and no provision has been made in the financial statements.

The Bank is a plaintiff in 02 cases claiming Rs. 16.57 Mn for the damages and no provisions for such fines have been made in the financial statements.

Further, there were a number of legal proceedings outstanding against the Bank as at 31 December 2016 and no provision has been made as the Bank is of the opinion that it is unlikely that any significant loss will arise.

**49.5 Commitments**

a) As at 31 December 2016, the Bank has capital commitments amounting to Rs. 148.30 Mn (2015 – Rs. 405.53 Mn ), in respect of the acquisition of Property, Plant and Equipment.

b) As at 31 December 2016 outstanding forward exchange transactions are as follows:

Forward exchange contracts		2016	2015
		Rs 000	Rs 000
Forward Exchange Sales	USD	2,501,145	2,416,415
	SEK	58	-
	USD	15,998	249,810

**49.6 Assets Pledged**

In order to facilitate the securities settlement process, AUD 35.0 Mn -Carrying value - AUD 36.02 Mn (2015 - AUD 35.0 Mn -Carrying value - AUD 36.29 Mn) were pledged by the Bank to Euro Clear and obtained a credit

facility of USD 30.0 Mn (2015 – USD 30.0 Mn). The pledged securities are held in a separate account at Euro Clear.

These securities are presented in the statement of financial position as “Financial Assets Available For Sale”. The Bank conducts these transactions under the terms that are usually based on the “Collateral Agreement Governing Secured Borrowings by Participants in the Euroclear System” and “General Conditions Governing Extensions of Credit to Participants in the Euroclear System” guidelines.

**50. TRUST AND CUSTODIAL ACTIVITIES**

The bank commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets and liabilities on behalf of the GOSL, trusts, retirement benefit plans and other institutions. The significant trust activities performed by the Bank are as follows:

- The bank handles disbursements and repayments of various foreign loans and grants under foreign funded development projects and credit schemes on behalf of the GOSL. It also collects counterparty funds under various foreign loans and grants on behalf of the GOSL and invests such funds in treasury bills on requests made by donor agencies.
- The bank is the custodian of the Employees Provident Fund (EPF). In terms of the statute, the functions of the Monetary Board consist of receiving contributions, surcharges, income from investments, maintaining proper accounts of registered members of EPF, investing surplus funds and payment of benefits to the members.
- The bank administered the Deposit Insurance Scheme, which was a voluntary deposit insurance scheme opened to banking institutions licensed by the CBSL and cooperative societies registered under the Cooperative Societies Law No 5 of 1972, which carry on banking business and with effect from 01st October 2010 funds of this scheme have been transferred to the Sri Lanka Deposit Insurance scheme which was formed as per gazette No:1673/11 dated 28 September 2010.

d) As per the Gazette No:1673/11 dated 28 September 2010, the Bank has established a Mandatory Deposit Insurance Scheme named Sri Lanka Deposit Insurance Scheme w. e. f. 01 October 2010 as an act of national interest to protect the funds of depositors.

All LCBs, LSBs and Licensed Finance Companies (LFCs) shall be the members of this Scheme. Accordingly, 77 institutions are members of this Scheme. The deposits to be insured include the demand, time and savings deposit liabilities of the member institutions excluding all borrowing instruments and specific exclusions as per section 5.2 of the said gazette notification. The deposit insurance fund has been created with the transfer of

Rs. 350.20 Mn of the investments of Voluntary Deposit Insurance Scheme and Rs. 1,168.31 Mn of investments made out of collections of abandoned property of LCBs. As at 31 December 2016, the fund size is Rs.34.30 Bn (provisional). Currently, the amount of compensation payable per-depositor per-institution is limited to Rs.0.30 Mn or its equivalent in the case of foreign currency deposits. The payment of compensation shall not be a liability of the Monetary Board or the Bank 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 Bank shall not be responsible for any liability that exceeds the total amount lying to the credit of the fund.

The Deposit Insurance Unit established in the Bank Supervision Department is responsible for operation and management of the scheme 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 and shall maintain books and accounts distinctly separate from the Financial Statements of the Bank. The Auditor General should be the Auditor of this unit.

With effect from 22 November 2013, this scheme was renamed as “Sri Lanka Deposit Insurance and Liquidity Support Scheme” and the Deposit Insurance Fund was

renamed as “Sri Lanka Deposit Insurance and Liquidity Support Fund”.

- e) The Bank carries out regulatory and supervisory functions in respect of LFCs and attends to related matters under the authority delegated to it by the Monetary Board. While carrying out such functions, with respect to failed LFCs, various actions are taken including the vesting of assets of persons responsible for the unviable and insolvent condition of such companies, with the Monetary Board as a form of security.
- f) As per the Circular issued by Director Bank Supervision, the banks who do not maintain the minimum advance limit of 10 % to agriculture are required to contribute the shortfall to Refinance Fund operated by RDD of the Bank. RDD refines such amounts collected through Bank of Ceylon, Peoples’ Bank, Pradeshiya Sanwardena Bank and Lankaputhra Development Bank to agriculture under Viskam Refinance Scheme. The total collections outstanding as at 31 December 2016 amounted to Rs. 554.26 Mn (2015 - Rs. 40.11 Mn). As at 31 December 2016, RDD has granted Rs. 64.48 Mn (2015 - Rs. 200.45 Mn) loans under the refinance scheme and received an interest of Rs. 97.36 Mn for loans given. Further, Rs.193.86 Mn (2015 - Rs. 188.18 Mn) of income was earned from the investments.

**50. TRUST AND CUSTODIAL ACTIVITIES (Continued)**

g) On behalf of the Monetary Board of the Bank, RDD acts as the exclusive agent of the GOSL with regard to the projects funded by GOSL and foreign donors. RDD also implements the CBSL funded projects.

**Concluded Projects**

Name of the Project	Total Allocation of the Fund (Mn.)		Purpose of the Loan	Refinance Granted to PFIs (Rs. Mn.)	Salient Features	Warranties & Assurance	General Conditions	Special Conditions	
Tea Development Project	USD	24.50	To increase tea small holders income and improve the natural environment in the project areas.	2,550.90	Collection of recoveries from Participating Financial Institutions (PFIs) as per scheduled date to be transferred to Deputy Secretary to the Treasury (DST).				
Second Perennial Crop Development Project	SDR	11.56	To commercialise of the perennial crop sector, increase production, nursery development post harvest handling, processing and marketing.	1,453.11					
Plantation Sector Reform Project	USD	40.00	To support policy and institutional reforms in the plantation sub-sector to increase the productivity and profitability and maintain the competitive advantage of the plantation industry of Sri Lanka.	5,200.00					
Susahana Finance & Leasing Company	LKR	352.69	To provide credit facilities to the resumption of enterprises affected by Tsunami.	351.06					
Small Business Revival Programme	LKR	2,656.00	To provide credit facilities to the resumption of Small and Medium Enterprises (SMEs) affected by Tsunami.	2,663.40					
Small Business Revival Programme – Revolving Fund	LKR	150.00	To provide credit facilities to the resumption of SMEs affected by Tsunami.	122.72					
Skill Development Project	LKR	94.31	To improve quality and relevance of skill training programmes to build high quality workforce and address skill mismatching.	94.59					
Urban Environment Infrastructure Development Project	USD	4.00	To improve environmental facilities, health and sanitary conditions of the people living in urban and semi – urban areas.	369.15					
Housing Guarantee Low Income Housing Shelter Project	USD	25.00	To assist low income community in the country to build houses, and renovate and expand their residencies.	1,362.00					
Urban Development Low Income Housing Project	SDR	15.10	To provide capital to support low income households for housing improvement.	1,915.76					
North Western Province Water Resource Development Project	USD	1.80	To improve economic, social and nutritional well-being of the people living in the project areas.	102.76					
Mathale Regional Economic Advancement Project	SDR	2.00	Permanent rising and sustaining of income of small entrepreneurs.	249.06					
Mid Country Perennial Crop Development Project	SDR	11.56	To provide credit facilities to the production of perennial crops in the mid country area.	642.00					
Agriculture Rehabilitation Project	SDR	17.05	To rehabilitate persons and property affected by the civil disturbances in the Northern and Eastern provinces and five bordering districts.	843.00					
Small Holder Tea Development Project	USD	12.60	To develop small holder tea sector and rehabilitate tea facilities.	645.93					
Poverty Alleviation Micro Finance Project	YEN	1,368.00	To set up of an effective credit delivery mechanism for channeling formal credit to income generating activities.	1,402.45					
Small Farmers Landless Credit Project	USD	17.40	To establish a cost effective and sustainable micro credit delivery system to generate employment and improve saving habits among the low income receiving people.	345.69					
Kegalle Integrated Rural Development Project	SDR	1.50	To uplift the standard of living of people in the project areas by promoting income generating activities.	148.00					
Southern Province Rural Development Project	SDR	27.90	To improve the quality of the life of the people in the Southern Province.	564.00					
EIB Contract B	EUR	10.00	To reconstruct SMEs directly affected by Tsunami.	1,553.27					
Susahana	LKR	3,000.00	To provide credit facilities to resume Micro Small and Medium Enterprises (MSMEs) affected by Tsunami.	2,750.00					Collection of recoveries from PFIs as per scheduled date to be transferred to Finance Department (FD).
Susahana Phase II	LKR	500.00	To provide credit facilities to resume MSMEs affected by the Tsunami.	105.54					
Awakening North	LKR	2,000.00	To extend credit to agriculture, livestock, micro and small enterprises in the Northern Province.	2,000.00					Collection of recoveries from PFIs as per scheduled date to be transferred to relevant A/Cs of the RDD
Resumption of Economic Activities in the Eastern Province	LKR	1,000.00	To grant loans to SME sectors' activities in the Eastern Province.	1,000.00					
Awakening North - Phase II	LKR	2,154.25	To extend credit to agriculture, livestock, micro and small enterprises in the Northern Province.	2,361.00					
Second Perennial Crops Development Project - Revolving Fund	LKR	1,200.00	To provide credit facilities to develop the perennial crops sector in the country.	1,199.82					
Matale Regional Economic Advancement Project - Revolving Fund	LKR	77.00	To raise the income of rural and farm families and to provide funds for medium scale entrepreneurs to create non-farm enterprises and to expand existing projects in the Matale District.	77.00					
Sabaragamuwa Province Integrated Rural Development Project - Revolving Fund	LKR	100.00	To enhance and start new income generating activities in the Sabaragamuwa Province.	100.00					

Construction Sector Development Project	EUR	9.00	To strengthen the financial and technical capacities of private local businesses to effectively participate in construction and public work in post Tsunami reconstruction.	1,399.73				
Sabaragamuwa Province Integrated Rural Development Project - Phase II	LKR	70.00	To enhance and start new income generating activities in the Sabaragamuwa Province.	70.00				
Post Tsunami Coastal Rehabilitation Resource Management Project	SDR	2.09	To assist communities adversely affected by Tsunami disaster to recover their assets and re-establish the foundation of their usual economic activities, while diversifying into new profitable income generating activities.	190.77				
Poverty Alleviation Micro Finance Project II (Probodini)	YEN	2,381.00	To enhance the living standard of households whose monthly income is less than Rs. 15,000/= in project location.	3,213.20				
Self Employment Promotion Initiative	LKR	250.00	To provide financial assistance to trained youth who passed out from recognized vocational training institutions in the country for establishment of their own self employment projects.	232.39				
Viskam (Special Loan Scheme for Agriculture Sector Development)	LKR	1,325.60	To ensure the availability of credit for investment, diversification and improvement of commercial agribusiness in the country.	881.00	When the mandatory requirements are fulfilled by contributory banks, funds will be returned.			
Provincial Development Credit Scheme	LKR	2,900.00	To provide credit facilities to medium and long term projects in the SME sector in the country.	2,900.00	Collection of recoveries from PFIs as per scheduled date to be transferred to FD.			
Dry Zone Livelihood Support & Partnership Programme	LKR	252.95	To provide facilities to income generating activities in Anuradhapura, Moneragala, Kurunegala and Badulla Districts.	252.95				
Resumption of Economic Activities in the Eastern Province - Phase II	LKR	1,078.27	To extend credit to agriculture, livestock, micro and small enterprises in the Eastern Province.	1,000.00	Collection of recoveries from PFIs as per scheduled date to be transferred to FD.			
Resumption of Economic Activities in the Eastern Province - Phase III	LKR	1,000.00	To extend credit to agriculture, livestock, micro and small enterprises in the Eastern Province.	1,428.47				
Repair of Damaged Houses in the North and East	LKR	600.00	To provide credit facilities for repairing the damaged houses that were damaged during the conflict in the Northern and Eastern Provinces.	600.00				
National Agribusiness Development Programme	USD	32.90	To assist smallholder, producers and the landless, especially the youth by increasing the income of the beneficiaries in the market/value chain development and providing financing and training for employment.	113.13				

### Ongoing Projects

Name of the Project	Total Allocation of the Fund (Mn.)	Purpose of the Loan	Refinance Granted to PFIs (Rs. Mn.)	Salient Features	Warranties & Assurance	General Conditions	Special Conditions
Tea Development Project – Revolving Fund	LKR 1,100.00	To provide credit facilities to develop the tea sector in the country.	964.87				
Small Plantation Entrepreneurship Development Project	SDR 2.60	To enhance the living standard of the low income communities in Moneragala, Kandy, Kegalle and Nuwera Eliya.	487.66				
Poverty Alleviation Micro Finance Project II (Probodini)– Revolving Fund	LKR 2,764.84	To enhance the living standard of households whose monthly income is less than Rs. 15,000/= in project location.	5,646.90				
National Agribusiness Development Programme (NADeP) - Microfinance	LKR 743.00	To improve income level and social conditions of the poor in selected project areas.	730.70				
Value Chain Development Capital Agriculture Loan Scheme Under the "Out-Grower Farmers Loan Scheme" of the National Agribusiness Development Programme (NADeP)	LKR 469.00	To increase the production, productivity, quality and value addition of agriculture produce.	-				
Value Chain Development Seasonal Agriculture Loan Scheme Under the "Out-Grower Farmers Loan Scheme" of the National Agribusiness Development Programme (NADeP)	LKR 154.10	To increase the production, productivity, quality and value addition of agriculture produce.	-				
Tharuna Diriya - NADeP	LKR 225.00	To reach village level poor youth to help improve their livelihood by providing them with credit facilities to start small businesses and other forms of self-employment projects making them entrepreneurs.	19.60	Collection of recoveries from PFIs as per scheduled date to be transferred to relevant accounts of the RDD	No Warranties and assurances	Financial Statements should be audited by the external auditors	The rights and obligations of the agreements will not be assigned, amended, abrogated or waived without the agreement of all relevant parties
Small Farmers and Landless Credit Project - Revolving Fund	LKR 345.69	To promote the intensification of agricultural production by small farmers and the establishment of small scale non-farming rural enterprises.	1,542.69				
Dry Zone Livelihood Support & Partnership Programme - Revolving Fund	LKR 252.90	To provide facilities to income generating activities in Anuradhapura, Moneragala, Kurunegala and Badulla Districts.	252.49				
Poverty Alleviation Micro Finance Project – Revolving Fund	LKR 1,031.28	To strengthen the economic conditions of low income families.	3,752.96				
Saubhagya	LKR 18,890.89	To extend credit to MSMEs and disaster affected MSMEs.	18,890.89				
Self Employment Promotion Initiative Phase II (SEPI II)	LKR 75.00	To provide financial assistance to trained youth who completed certificate or Diploma in National Vocational Qualification (NVQ)	74.90				

**51. INTEREST IN OTHER ENTITIES**

The Loan Schemes which include Susahana, Susahana Phase II, Provincial Development Loan Scheme, Saubaghya Loan Scheme, Awakening North Loan Scheme (phase II), Resumption of Economic Activities in the East (phase II) and Repair of Damaged Houses in North and East operated by RDD are funded by the Bank and the capital and interest due are recorded as assets of the Bank and income is taken into income of the Bank.

Bank also earns a stated percentage, to cover administrative expenses from some GOSL funded projects operated by RDD.

The contingent liabilities arising out of Bank issuing credit guarantees for the projects operated by RDD are disclosed in Note 49.2.

**52. EVENTS OCCURRING SUBSEQUENT TO REPORTING DATE**

There were no material events occurring subsequent to reporting date that require adjustment or disclosure in the financial statements.

## 2. BANK SUPERVISION

Bank Supervision Department (BSD) was established by Section 28 of the Monetary Law Act (MLA) with specific powers and duties to conduct continuous supervision and examinations of banks. In addition, bank regulation and supervision are governed by the provisions of the Banking Act, No. 30 of 1988 as amended. Further, the Monetary Board is empowered to issue prudential directions on the manner in which any aspect of business of banks is to be conducted to ensure the soundness of the banking system. All banks are required to comply with several other prudential regulations imposed by the Monetary Board.

The major functions of BSD are the conduct of continuous supervision and periodical examination of licensed banks and the administration of the Sri Lanka Deposit Insurance and Liquidity Support Scheme (SLDILSS). In addition, BSD is also engaged in several activities for awareness and capacity building in the banking sector. As at the end of 2016, the banks falling under the regulatory and supervisory purview of the Monetary Law Act and the Banking Act comprised 25 licensed commercial banks (LCBs) and 7 licensed specialised banks (LSBs). The list of these banks is provided in Annex II-1.

The main functions and activities performed by BSD during 2016 are summarised below.

### 2.1 Issuance of Prudential Regulations

Prudential regulations issued are provided in Part III of this Report. A summary of the major prudential regulations is given below:

- (a) **Reporting on Cyber Security Events:** Commencing January 2016, all licensed banks are required to report Cyber Security Events to BSD within one day of the incident and on a quarterly basis.
- (b) **Display of Interest Rates, Exchange Rates, Service Charges, Fees and Commissions:** Licensed banks were required to display fees charged from customers, for fund transfers through Lanka Settle System, Sri Lanka Inter Bank Payment System and Common Electronic Fund Transfer Switch in all branches and in the web sites of licensed banks. These requirements were imposed in addition to the displaying of interest rates of deposits and lending products, exchange rates, other fees and commissions.
- (c) **Annual Licence Fee**  
Licence fee for the calendar year 2017 was determined based on the total assets of licensed banks as at the end of 2016 was determined.
- (d) **Secondary Market Trading of Government Securities and Reporting**  
Licensed banks were required to use the Bloomberg Trading Platform (FIQ) designed for Sri Lanka, to

promote the secondary market for government securities. The Circular was issued jointly with the Public Debt Department.

### (e) Capital Requirements Under Basel III

Commencing 01 July 2017, licensed banks are required to maintain a minimum capital ratio in respect of risk weighted assets according to guidelines based on 'Basel III: A Global Regulatory Framework For More Resilient Banks and Banking Systems'. The minimum ratio for licensed banks with assets above Rs. 500 billion will be 11.75 per cent to be increased up to 14.00 per cent by 01 January 2019. Requirement for licensed banks with assets below Rs. 500 billion will be 11.25 per cent to be increased up to 12.50 per cent by 01 January 2019.

## 2.2 Approvals granted by the Monetary Board

### (a) Branches and Other Banking Outlets

During the year, approvals were granted for the opening of 67 new branches, 51 Student Savings Units (SSU) and 3 mobile banking units, relocating 97 branches and installing 146 Automated Teller Machines (ATMs). Accordingly, at the end of 2016, there were 3,614 bank branches, 3,045 SSUs and 3,843 ATMs in operation. During 2016, approval was granted for 1 LCB to open a subsidiary in Maldives, for another LCB to open a branch in Bangladesh and to commence a banking subsidiary for Microfinance in Myanmar.

### (b) Other Regulatory Approvals

Approvals were granted for 7 banks to include debentures under Tier II capital for capital adequacy purposes while 6 banks were permitted to exceed the regulatory limit for foreign borrowings. Further, permission was also granted for 3 banks to exceed the material interest in shareholding and for 4 banks to exceed the maximum amount of accommodation.

## 2.3 Conduct of Continuous Supervision

- (a) Continuous supervision is an on-going monitoring mechanism on the affairs of individual banks which serves as an early warning system to ascertain the operational efficiency and long term sustainability of the entire banking industry, and enables the implementation of corrective measures where necessary.
- (b) Continuous monitoring and preparation of reports were carried out during the year for areas such as, exposure to the top 20 corporate customers, exposure to subsidiaries, associates, other investee entities, top 20 groups/customers and exposure to the construction sector, to ascertain early detection of specific assets or liability bubbles and concentrations in the banking industry or a particular bank.

- (c) Continuous supervision was conducted based on periodic financial and performance information submitted by banks through the web based Finnet System. Approximately, 30 statutory returns are submitted monthly/quarterly for each bank through Finnet, covering financial and prudential information. A revised Finnet return to report distribution and performance of individual bank branches was introduced during the year. Initiatives were taken to revamp the BSD database in consultation with the IT Department to facilitate better report generation. In addition, the progress on addressing supervisory concerns identified during statutory examinations of banks within specified time targets were monitored on a quarterly basis.
- (d) A summary of the banking sector performance from 2014 to 2016 is given in the table below. A detailed assessment is provided in Chapter 8 on Financial Sector Performance and System Stability.

**Table II-1**  
**Banking Sector Highlights**

	2014	2015(a)	2016(b)
<b>Banking Sector Indicators (Rs. Bn)</b>			
Total Assets	6,972	8,077	9,047
Total Loans and Advances	3,895	4,715	5,541
Total Investments	1,953	2,368	2,291
Total Deposits	4,686	5,403	6,296
Total Borrowings	1,448	1,758	1,696
Capital Funds	568	637	707
Net Profit (After Tax)	88	97	116
Number of Branches	3,546	3,549	3,614
Number of ATM's	3,276	3,477	3,843
<b>Prudential Ratios (in percentage)</b>			
Total Capital Adequacy Ratio	16.6	15.4	14.3
Statutory Liquid Assets Ratio	39.5	33.9	30.0
Non-Performing Loans Ratio (Gross)	4.2	3.2	2.6
Return on Equity	16.6	16.2	17.3
Return on Assets	1.4	1.3	1.4

(a) Revised

(b) Provisional

#### 2.4 Conduct of Periodic Examinations

- (a) BSD conducted 44 examinations during 2016 including 12 that continued from the previous year. Examinations of 38 banks were completed in 2016 through formal discussions with the management of the respective banks and the submission of reports to the Monetary Board while 06 examinations were in the process of being completed. Major concerns raised at examinations included low efficiency, issues on corporate governance, lapses in systems and controls, under-estimation of non-performing loans and provision for bad and doubtful loans, and potential credit risk. In addition, several examinations with limited scope were conducted on areas such as, document verification, investments in government securities, corporate governance, customer complaints and foreign exchange transactions.

- (b) Examination methodology focuses on the sustainability assessments of the banks based on findings relating to financial efficiency, business risk management indicators and adequacy of risk management systems. Supervisory concerns are communicated to respective Board sub-committees with overall responsibility of the Board for resolution of such concerns by taking appropriate measures. Further, several meetings were held with the Board of Directors of the banks to discuss specific findings to ensure proper oversight and timely implementation of corrective actions.

#### 2.5 Administration of the Sri Lanka Deposit Insurance and Liquidity Support Scheme

- (a) As at 31 December 2016, the Scheme comprised 77 member institutions with a total fund of approximately Rs. 34 billion (unaudited). Carrying values of the investments in government securities by the fund and the loan granted to a member institution during the year 2014 under the liquidity support facility for restructuring, as at 31 December 2016 were Rs. 26 billion and Rs. 6 billion, respectively.
- (b) Licensed banks which maintained a capital adequacy ratio of 14 per cent or above at the end of the immediately preceding financial year were required to pay a premium of 0.10 per cent per annum on the total amount of all eligible deposits and all other banks were charged a premium of 0.125 per cent per annum. The premium applicable for licensed finance companies was 0.15 per cent per annum. Premia and penalties collected from member institutions during the year amounted to Rs. 6.9 billion.
- (c) With effect from 01 January 2015, the deposit insurance coverage per depositor per institution is Rs. 300,000.

**Table II-2**  
**Financial Highlights of the Sri Lanka Deposit Insurance and Liquidity Support Scheme**

Item	Amount Rs.mn	
	As at 31.12.2015	As at 31.12.2016(a)
Size of the Fund	25,418	34,257
Total Income	7,373	9,593
Total Expenditure	504	753
Profit for the Year (Before Tax)	6,869	8,840
Investment in Government Securities	18,123	25,700
Loans and Receivables	6,227	6,179
Available for Sale Reserve	259	(665)

(a) Provisional

#### 2.6 Awareness and Capacity Building of the Banking Sector

##### (a) Capacity Building

BSD continued its contribution to capacity building of the industry by enhancing the knowledge in the



areas of corporate governance, risk management, banking business and laws and regulations pertaining to banking and finance. During the year 2016, senior officers of BSD served as resource persons at the Centre for Banking Studies of the Central Bank of Sri Lanka and other external institutions, both local and foreign.

#### (b) Meetings with Banks

BSD continued to function as the Secretariat for the meetings of the Governor with Chief Executive Officers of banks serving as a forum for the exchange of views between the Central Bank and the banking sector on matters relating to the developments in the Sri Lankan economy and the banking sector, and regulatory and supervisory improvements. A meeting was held with the Chairmen of banks to apprise them of banking sector performance, developments in the local and global regulatory frameworks and economic and monetary

developments to facilitate their decision making. Regular meetings with senior management to discuss the bank specific matters, to ensure proper oversight and timely implementation of corrective action, and meetings with the Board appointed committees of banks chaired by the Deputy Governor was held to strengthen the supervisory framework and sustainability of the system.

#### (c) Public Awareness Programmes

During 2016, 47 public awareness sessions were conducted by BSD along with the Department of Supervision of Non-Bank Financial Institutions with the attendance of over 5,600 participants, on financial institutions authorised by the Central Bank to accept deposits from the public and the dangers of engaging in schemes administered by prohibited Institutions. A public notice was published in 16 newspapers in all three languages and resource persons were provided by the department for a radio programme on unlawful investment schemes.

### Annex II - 1 List of Licensed Banks

Licensed Commercial Banks	
1.	Amana Bank PLC
2.	Axis Bank Ltd
3.	Bank of Ceylon
4.	Cargills Bank Ltd
5.	Citibank, N.A.
6.	Commercial Bank of Ceylon PLC
7.	Deutsche Bank AG
8.	DFCC Bank PLC
9.	Habib Bank Ltd
10.	Hatton National Bank PLC
11.	ICICI Bank Ltd
12.	Indian Bank
13.	Indian Overseas Bank
14.	MCB Bank Ltd
15.	National Development Bank PLC
16.	Nations Trust Bank PLC
17.	Pan Asia Banking Corporation PLC
18.	People's Bank
19.	Public Bank Berhad
20.	Sampath Bank PLC
21.	Seylan Bank PLC
22.	Standard Chartered Bank
23.	State Bank of India
24.	The Hongkong & Shanghai Banking Corporation Ltd
25.	Union Bank of Colombo PLC
Licensed Specialised Banks	
26.	Housing Development Finance Corporation Bank of Sri Lanka
27.	Lankaputhra Development Bank Ltd
28.	Pradeshiya Sanwardhana Bank
29.	National Savings Bank
30.	Sanasa Development Bank PLC
31.	State Mortgage & Investment Bank
32.	Sri Lanka Savings Bank Ltd

### 3. CENTRE FOR BANKING STUDIES

Centre for Banking Studies (CBS) being the training and human resource development arm of the Central Bank of Sri Lanka, delivered several training programmes, seminars and workshops aimed at enhancing knowledge base in the areas of Economics, Banking and Finance among financial sector personnel in Sri Lanka and the South Asia region in 2016. Programmes offered in the year 2016 covered the areas of financial sector operations including international financial operations, investment and treasury management, risk management, legal and regulatory aspects of financial management, technical and physical skills and human resource management to address both local and regional demand. Courses have been designed and updated by a panel of experts with academic and professional qualifications blended with long experience and exposure. In addition, CBS has designed and offered a number of courses in collaboration with a few reputed international financial training institutes and universities, including The South East Asian Central Banks (SEACEN) Centre, Reserve Bank of India, Deutsche Bundesbank and International Monetary Fund (IMF).

During the year 2016, CBS offered a number of pertinent and timely programmes covering a wide spectrum of topics related to the financial sector in line with Central Bank Corporate Strategic Objective of building capacity and support. The training services offered by CBS were not limited to Central Bank and included a number of programmes, seminars and workshops offered to build the capacity of different stakeholders. Not content with offering only a wide spectrum of courses, CBS identified the importance of upgrading the quality of its offerings and performed extensive and in-depth evaluations of the events conducted, and introduced appropriate measures to improve of the quality of its service delivery. Accordingly, during the year 2016,

CBS looked towards enhancing its evaluation outcome to a minimum of 75 per cent level, both in terms of the quality of its training programmes and infrastructural facilities. CBS was able to reach this level as the majority of participants' feedback, confirmed that the training provided by CBS was beneficial for them to their organisations and considered the cost and time well spent.

The year 2016 was a very exciting year for CBS as it was able to conduct 101 training programmes consisting of 46 calendar programmes, 49 special tailor-made programmes, 4 certificate programmes and 2 international programmes. Further, with the view of enhancing financial literacy among the general public and helping the government's march towards creating a knowledge economy, CBS conducted five public lectures, three programmes for university students, and four school programmes during the year. There were more than 5,000 participants from all over the Island and 150 participants from countries like Nepal, Bangladesh, Seychelles, Pakistan, Maldives and Papua New Guinea. In addition, CBS was instrumental in offering two television series titled "Thakshilawa" and "Ariwootroo" targeting the Advanced Level students in 2016. Considering the nation's crucial need for developing the regions, CBS conducted fourteen programmes aiming at the development of living standards of people living in the regions in collaboration with Regional Offices, Regional Office Management Department and Regional Development Department of Central Bank during the year.

CBS published the "Programme Calendar 2017" with careful assessment of the present and future training needs to equip professionals, especially in the financial sector, with knowledge and skills to discharge their duties more effectively and efficiently. By offering courses with a high level of acceptance by both the participants and participating institutions, CBS was able to increase its income during the year.

#### 4. COMMUNICATIONS

During 2016, the Communications Department (CMD) strengthen its role by extending its support to accomplish the mission of the Central Bank in maintaining economic and price stability and financial system stability, to achieve sustainable growth targets, through the dissemination of information to its stakeholders, by way of external and internal communication approaches, public awareness programmes, quiz programmes through electronic media and the Library and Information Centre.

##### External Communications

CMD initiated revamping the Central Bank website with the assistance of Information Technology Department (ITD). The aim of creating a website with state of the art features, posed a major challenge to the department during the year. A Task Force chaired by the Deputy Governor in charge

of CMD was established and CMD together with ITD organised several rounds of discussions and held one-to-one departmental meetings with relevant departments to develop content for the website. The new website which is in all three languages Sinhala, Tamil and English is due to be launched in 2017.

As the main communication gateway and the premier information source for all stake holders of the Central Bank, the popularity of the existing corporate website www.cbsl.gov.lk was evidenced from the increase in the number of visits by 3.3 percent in 2016 over 2015 as given in Table II-3. The subscribers to the e-mail alert service and the SMS alert service also increased.

**Table II-3**  
**Details of External Communications**

Type of media	2015	2016
CBSL website visits (in million)	145	150
YouTube (CBSL video uploads)	33	54
e-mail Alert Service subscribers (as at end of the year)	2,392	2,406
SMS Alert Service subscribers	1,073	1,003

During the year 2016, CMD issued 1,185 press releases (including 264 key releases such as Monetary Policy Review, External Sector Performance, and Inflation etc.), 14 Gazette notifications and 169 notices in the media (including advertisements).

In addition, 20 press briefings on various important policy matters relevant to the Bank were held during 2016. Further, CMD facilitated the Bank's events such as the 20th Commemoration of the victims of the Central Bank bomb attack, presentation of Annual Report 2015 and the Central Bank 66th anniversary oration on "Financial Sector Reforms in India" delivered by Mrs. Arundhati Bhattacharya, Chairperson of the State Bank of India.

CMD participated in the "Colombo International Book Fair" (CIBF) held at the Bandaranaike Memorial International Conference Hall Colombo from 16.09.2016 to 25.09.2016 with the objective of enhancing public awareness on Central Bank policies, activities, programmes on regional development and other related matters through the sale and distribution of Central Bank publications.

##### Internal Communications

To enable the senior management to be well informed of the current affairs of the economy, the financial sector and matters relevant to the Bank, CMD submitted 9,311 news clips, articles and public opinions extracted from fifteen national newspapers published in three languages, to the senior management.

CMD continued publishing the official internal newsletter, "Kavuluwa" (meaning "window") with two issues during the year.

## Public Awareness

CMD successfully conducted the competitive written examination which is the preliminary round of the television Quiz programme "Econ Icon Season III" for which 420 Sinhala medium and 204 Tamil medium schools from all districts of the country had participated. From each medium, 16 schools were selected to take part in the inter-school TV Quiz Programme conducted through a popular TV channel. TV recordings of the first, second and semifinal rounds were completed and commenced telecasted in from October 2016. The Grand Finale was to be held in early 2017.

Further, CMD coordinated 128 educational and awareness programmes covering diverse topics such as Objectives and Functions of the Central Bank, Sri Lankan economy etc. for 7,216 participants as given in Table II-4, while 18 programmes were coordinated outside the Central Bank Head Office.

**Table II-4**  
**Details of Public Awareness Programmes**  
**Conducted in 2016**

Institution	No. of Programmes	No. of Participants
Schools	91	5,909
Universities	7	383
Sri Lanka Armed Forces and Defense University	6	190
Foreign Delegates (National Defense Colleges)	3	58
Ambassadors Designate and Foreign Service Officers	3	51
School Teachers	18	625
<b>Total</b>	<b>128</b>	<b>7,216</b>

CMD resource persons participated in the "Arivootru" (meaning "Spring of Knowledge") TV Programme conducted by the Centre for Banking Studies (CBS) of the Central Bank. Further, CMD assisted with 04 awareness programmes initiated by Regional Offices (Eastern and Southern) by providing resource persons and publications.

CMD carried out sales of Central Bank publications amounting to Rs. 6.07 million during the year through its sales counter at the Economic History Museum, the CBS Library of Rajagriya, in Regional Offices and at the CIBF. CMD also distributed 11,591 copies of different publications free of charge among school and Public Libraries throughout the country.

## Tamil Translation Services

The Tamil Translation Unit continued to provide its invaluable services to enable all communications including major publications of the Central Bank to be released in Tamil language, thereby contributing its share to the CMD's mission of providing information in all three languages.

## Coverage of Major Events of the Bank

The Photographic Unit provided visual media; both still and video photography. The Unit covered 379 events of the Bank,

and maintained high professional standards by delivering all related services including editing, printing and framing of photographs, editing videos, preparing albums and CDs.

## Printing Press

CMD provided the services of designing, typesetting and printing to meet the printing requirements of the Central Bank with high quality standard. In this respect, the Central Bank's Printing Press completed a total of 214 printing assignments of the Bank in 2016. These include periodicals such as Satahana (04 Volumes), News Survey (03 Volumes), Kurippedu (02 Volumes), Bulletin (only type setting for web uploading), Sendewa, books such as "Arthika Vidya Muladharmaha Prathipatti" (reprint) authored by Mr. P Samarasiri, Deputy Governor, "An introduction to Principles of Economics" (reprint) in Sinhala and Tamil authored by Mr. C P A Karunatileke, Assistant Governor, Data Folders, Step by Step Guide to Doing Business in Sri Lanka (reprint), 66th Anniversary Oration booklet, Economic and Social Statistics of Sri Lanka. Further, printing and supplying of various forms, business cards of bank officers, stationery etc. of the Bank were also undertaken.

## Library and Information Centre

The Library and Information Centre (LIC) made its services available to the Bank staff as well as to permitted external users such as university students and researchers. It served them with a collection of 30,000 books, 19,000 reports, 1,935 CD's inclusive of new additions of 570 books, 100 reports, 60 CDs during the year and with over 45,000 journal issues. LIC also continued its subscriptions to the online databases, 'ScienceDirect' and 'EconLit' which provide access to a vast knowledge of information especially on economics, management and finance. In addition, LIC subscribed to several other online resources on subjects relevant to central banking activities. Among them, access had already been given to [www.centralbanking.com](http://www.centralbanking.com), and in 2016 access was given to [www.risk.net](http://www.risk.net) and [www.ft.com](http://www.ft.com) to all staff with authorised access to internet.

The total number of foreign and local journals subscribed by LIC were 88 and 16, respectively. LIC continued to compile electronic bulletins such as Recent Additions (i.e. new books), Current Contents, International News Alert, Local Press and notes on Economics, Banking and Finance related reports and disseminated them via the intranet "Mansala". Local Press was compiled to cover English Sinhala and Tamil Newspapers to comply with language policy wherever possible. A Selective Dissemination of Information service was also provided to appropriate officers of the Bank.

LIC continued its services to the banking and economics libraries in Sri Lanka by providing useful information through emails and inter library loans. Further, LIC was an active member of the Global Central Bank and Financial Institutions Library & Information Professionals' Network (CBFA List) which shares information resources and

experience among the central banks and other international financial institutions across the globe. A Digital Library Service was also maintained giving access to the Bank staff through the Library's Intranet website.

## 5. CURRENCY

The Monetary Law Act No.58 of 1949 (MLA), vests in the Monetary Board the sole right and authority to issue currency which is the legal tender in Sri Lanka. The Currency Department (CRD) of the Central Bank of Sri Lanka handles functions relating to this statutory responsibility of the Monetary Board. CRD carries out the key tasks relating to printing of currency notes, minting of coins, issuing currency notes and coins to meet public demand, accepting currency deposits from Licensed Commercial Banks (LCBs), withdrawing unfit currency notes and coins from circulation, assisting law enforcement authorities to deal with instances of violations of the provisions of MLA with respect to the legal tender and conducting public awareness programmes to enhance public knowledge in proper use of currency preserving its quality.

### 5.1. Currency Issuance (Management)

#### a) Currency in Circulation

Demand for currency notes and coins increased in 2016 in line with the economic growth and inflation in Sri Lankan economy, notwithstanding the continued facilitation of technology driven non-cash modes of payment. Accordingly, the value of total currency in circulation increased by 12.4 per cent to Rs. 552.2 billion as at 31.12.2016 over the previous year as shown in Table II-5.

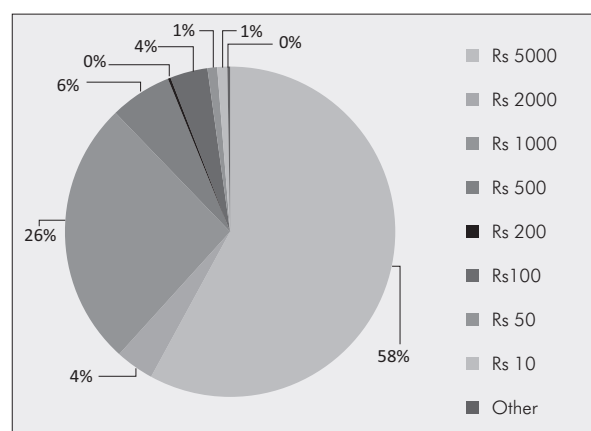
**Table II - 5**  
Currency in Circulation (as at end of the year)

Item	Value (Rs. bn)					Change (%)				
	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
Notes	311.2	332.4	408.8	482.0	541.5	8.4	6.8	23.0	17.9	12.3
Coins*	6.3	6.8	7.5	9.1	10.7	13.5	7.5	10.7	21.3	17.3
<b>Total</b>	<b>317.5</b>	<b>339.2</b>	<b>416.3</b>	<b>491.1</b>	<b>552.2</b>	<b>8.5</b>	<b>6.8</b>	<b>22.7</b>	<b>18.0</b>	<b>12.4</b>

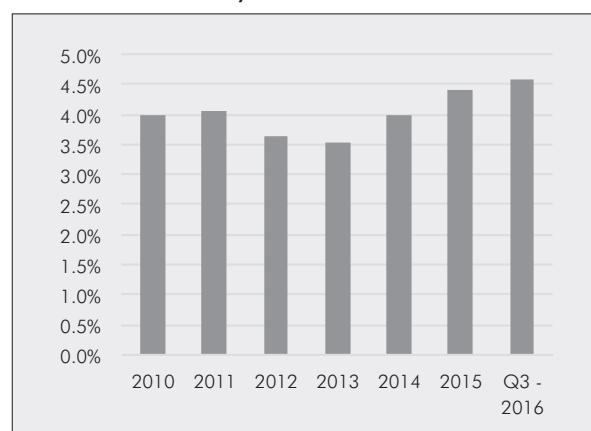
\* The commemorative coins are excluded

The value of currency notes in circulation, which was the main part (98 per cent) of the currency in circulation in Sri Lanka, increased by 12.3 per cent to Rs 541.5 billion in 2016. Among the currency notes, the denominations of Rs 5,000 and Rs 1,000 together accounted for approximately 84 per cent of the total value of currency notes in circulation as at 31.12.2016 as given in Chart II-1. The ratio of currency held by the public (in circulation) to GDP, which was 4 per cent in 2010, was around 4.6 per cent at end 2016 demonstrating an increasing demand for currency as an important mode of payment in the country.

**Chart II-1**  
Value of Bank Notes in Circulation



**Chart II-2**  
Currency in Circulation/GDP



#### b) Currency Issuance

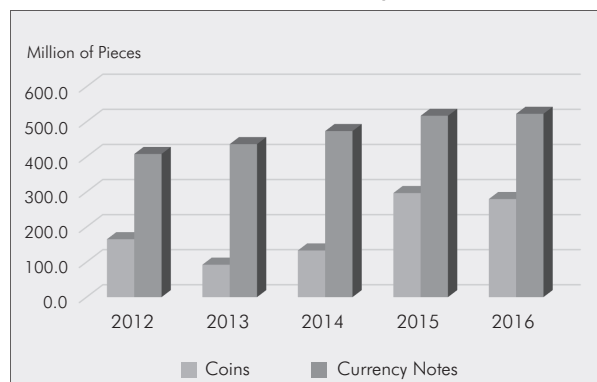
The CRD continued to ensure regular supply of currency notes and coins to meet the demand for currency in the country through currency operations through LCBs and the special public counter established at the Pettah Branch of Bank of Ceylon. Currency notes and coins issued by CRD for circulation of the country during the year 2016, amounted to Rs. 594.0 billion and Rs. 1.6 billion, respectively (Table II-6).

**Table II - 6**  
Currency Notes and Coins issued to LCBs

Item	Value (Rs. bn)			Change (%)		
	2014	2015	2016	2014	2015	2016
Notes	431.8	503.4	594.0	7.4	16.6	18
Coins	0.8	1.6	1.6	41.1	112.8	0
<b>Total</b>	<b>432.6</b>	<b>505.0</b>	<b>595.6</b>	<b>7.5</b>	<b>16.7</b>	<b>17.9</b>

During 2016, CRD was able to continuously meet the demand for coins in the country without a shortage by supplying a substantial number of pieces of coins into circulation since 2015 (Chart II-3). CRD continued issuance of coins through the public counter at the Pettah Branch of Bank of Ceylon.

**Chart II-3**  
**Currency Issues - Number of Pieces**  
**of Coins and Currency Notes**



### c) Acceptance of Deposits of Currency from LCBs

In currency operations, CRD accepted currency deposits from LCBs, primarily for the maintenance of the statutory reserve requirement imposed by the Central Bank as a monetary policy tool. The deposits were mainly in the form of both serviceable (fit) and unserviceable (unfit) currency notes as given in Table II-7. In 2016, currency deposits of LCBs with CRD increased by 24.2 per cent when compared to the previous year.

**Table II - 7**  
**Currency Deposits by LCBs (During the Year)**

Item	Value (Rs. bn)			Change (%)		
	2014	2015	2016	2014	2015	2016
Notes	354.7	429.6	534.5	(6.9)	21.1	24.2

Note : The value of coins deposited by LCBs with Central Bank is not significant.

### d) Clean Note Policy

CRD continued with its effort to ensure regular supply of good quality (fit) currency notes and disposal of soiled (unfit) currency notes. In 2016, CRD destroyed 179.2 million pieces of unserviceable currency notes deposited by LCBs amounting to a face value of Rs. 57.4 billion and reissued in to circulation 279.4 million pieces of serviceable currency notes amounting to Rs 455.6 billion.

CRD conducted meetings with cash managers of LCBs to discuss issues and barriers in improving efficient and effective currency management and operations among LCBs and matters relating to developments in the currency sorting and handling practices to extend the effective life of currency notes. Further, the LCBs were informed on the strict law enforcement on currency notes mutilation, alteration and defacement and instructed them to educate their staff on identifying wilfully mutilated, altered or defaced currency notes and to educate the public to refrain from wilful mutilation, alteration and defacement.

### e) Issue of Commemorative Coins and Sales of Commemorative Collector Items

During 2016, CRD received five requests to issue commemorative coins. Four of these requests were

considered favourably and issuance of two coins would take place in 2017. Further, commemorative collector items were sold through the Central Bank Regional Offices and the Economic History Museum in Fort, Colombo.

### 5.2 Currency Printing and Minting

In order to meet the demand for currency notes in the economy, ensure good quality notes in circulation, and to ensure sufficient contingency stocks, CRD made arrangements to print 775 million pieces of currency notes. In addition, arrangements were made to mint 575 million pieces of coins during 2016.

CRD has taken steps to reduce the cost of minting coins by changing the metal type of Rupee 1 (minted after 2005) and Rupees 5 coins from brass plated steel to stainless steel. Further, arrangements were made to design a new set of circulation standard coins from stainless steel metal for the denominations of Rupee 1, Rupees 2, Rupees 5 and Rupees 10 reducing the sizes of coins with the objectives of reducing the cost of minting and easy handling.

### 5.3 System Improvements

In 2016, actions was taken to complete the procurement and installation of an offline currency note disintegrator. The new disintegrator has facility efficiently facilitates bulk disintegration of damage and unfit currency notes in a safe and environment friendly manner. Further, automation of currency processing has been introduced by installing a shrink wrapping system to securely handle the output of two fully automated currency note processing machines by minimizing manual intervention.

### 5.4 Assistance Provided to Law Enforcement Authorities

In 2016, CRD took the following actions to assist law enforcement authorities regarding violation of the provisions of MLA on counterfeiting of currency;

- Closely co-operated with the Counterfeit Currency Bureau of the Criminal Investigation Department (CID) of the Sri Lanka Police and law enforcement authorities pertaining to counterfeiting attempts. 2,612 counterfeit notes were detected in 2016.
- Endorsed and issued 162 certificates with the signature of the Governor as conclusive evidence for imitation of currency notes to facilitate proceedings in courts.
- Attended 12 court cases to give evidence on currency counterfeiting cases.

### 5.5 Public Awareness

CRD continued its public awareness programmes at various levels in order to educate the general public, police officers, staff of LCBs and other financial institutions, teachers and students and public officials etc., and displayed currency museums as follows.

- Conducted 42 seminars/workshops on the clean note policy, security features of currency notes and identification

of counterfeit notes and good handling practices of currency notes and coins at the Center for Banking Studies, various LCBs, police stations and national schools, etc.

- b) Displayed mobile currency museum at three exhibitions in Colombo 02, Kalutara and Galle.
- c) Facilitated about 9,470 visitors mainly school children, tourists and general public at the three currency museums of the Central Bank and distributed information material and leaflets highlighting the clean note policy and consequences of counterfeiting currency notes to educate the public.

### 5.6 Approvals for Reproduction of Currency

During 2016, four approvals were granted for reproduction of currency notes in advertisements, in terms of the policy approved by the Monetary Board for such reproduction.

## 6. DOMESTIC OPERATIONS

### 6.1 Functions of Domestic Operations Department (DOD)

DOD is entrusted with several functions, as provided for in the Monetary Law Act (MLA). They are (a) conducting Open Market Operations (OMO), (b) regulation of the reserves of commercial banks, (c) acting as the banker to and the official depository of the government, government agencies and other institutions acting on behalf of the government, (d) directing provisional advances to the government, (e) maintaining accounts for direct dealers and direct participants, (f) provision of intraday credit to the participants and (g) engaging in credit operations with banking institutions, as and when necessary.

### 6.2 Implementation of Monetary Policy

The Department continued to implement monetary policy with the objective of maintaining short-term interest rates at a level commensurate with the prevailing monetary policy stance of the Central Bank. Accordingly, the average weighted call money rate (AWCMR) was maintained at an appropriate level within the policy rate corridor formed by the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR), with minimum volatility, although it breached the upper bound of the policy rate corridor on certain days during 2016.

In steering the AWCMR towards the desired level, the DOD relied on OMO as the main monetary operation tool, while standing facilities were also continuously made available to market participants. In addition, the Statutory Reserve Requirement (SRR) also played a crucial role in making permanent adjustments to the liquidity position of the market. In 2016, commercial banks, given the period of two weeks for reserve calculation and maintenance, effectively managed their daily liquidity, minimising volatility in interest rates in the call money market.

### 6.3 Behavior of Short Term Interest Rates

The inter-bank money market had a high level of excess liquidity at the beginning of the year mainly due to Treasury bill purchases by the Central Bank. This excess liquidity was absorbed on a temporary basis through short-term and long-term repo auctions and on a permanent basis by way of outright sales of Treasury bills. In addition, the Central Bank increased the SRR applicable to all rupee deposit liabilities of commercial banks by 1.50 percentage points to 7.50 per cent with effect from 16 January 2016, by way of which Rs. 52 billion was absorbed. Foreign exchange related transactions of the Central Bank meanwhile also drained rupee liquidity. Hence, the excess rupee liquidity in the domestic money market declined gradually and there was a deficit in market liquidity by end March 2016. The deficit in market liquidity continued until the latter part of December. During this period, the Central Bank conducted reverse repo auctions on most of the days. Money market liquidity turned positive again during the latter part of December, mainly due to foreign exchange related transactions of the Central Bank and foreign loan disbursements, and by end December 2016, excess market liquidity amounted to Rs. 39.2 billion compared to an excess of Rs. 81.7 billion at end December 2015.

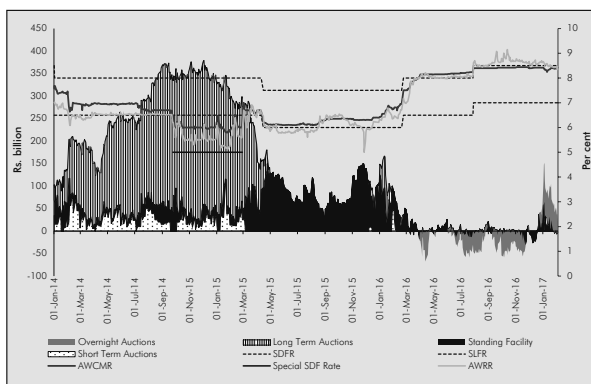
The Central Bank raised its policy interest rates, viz., the SDFR and SLFR, by 50 basis points each on 19 February 2016 and 28 July 2016 to 7.00 per cent and 8.50 per cent, respectively. The AWCMR which was at 6.40 per cent at end 2015 showed an upward trend at the beginning of 2016. It increased rapidly towards the upper bound of the policy rate corridor following the initial policy rate adjustment of the year. With further declines in market liquidity, from end March the AWCMR breached the upper bound of the corridor, as a result of the distortion created by the tax applicable to interest income from secondary market transactions in government securities, and hovered around 8.20 per cent until the next policy interest rate change in July. Since a significantly large market interest rate adjustment was realised with the previous policy rate revision, a relatively lower adjustment in the AWCMR was seen within the corridor following the policy rate change in July. At end 2016, the AWCMR was 8.42 per cent. The average daily call market volume was Rs. 14.5 billion in 2016 and fluctuated in a range of Rs. 2.99 billion and Rs. 25.05 billion. A few banks resorted to borrowing persistently in the call money market. In terms of the distribution of call borrowing, around 77 per cent of the total borrowing was accounted for by 4 banks.

The Average Weighted Repo Rate (AWRR) followed the movements in the AWCMR closely. It increased gradually during the first quarter of 2016 and hovered around 8.00 per cent thereafter until the policy interest rates were increased

in July. Having increased in response to the tightening of the monetary policy stance, it recorded the highest level of 9.15 per cent by mid-October. While it also fluctuated with the level of market liquidity, at end 2016, it stood at 8.62 per cent. The AWRR excluding the transactions of one primary dealer (which had to effect transactions at off-market rates due to a solvency problem) remained close to the upper bound of the policy rate corridor, i.e., 8.50 per cent, in the latter part of December 2016.

The notional tax credit on repo transactions, which created issues in short term interest rates, will be removed with effect from 01 April 2017, in line with the implementation of the relevant proposals in the national Budget for 2017. This will ensure that the policy rate corridor will provide the effective upper and lower bounds for the AWCMMR.

**Chart II-4**  
**Market Liquidity, the AWCMMR and the AWRR**



### 6.3.1 Open Market Operations (OMO)

#### (a) Liquidity Forecast

DOD makes a market liquidity forecast on a daily basis to determine the type of monetary operation required on a particular day. This forecast is based on several factors such as the transactions of the Central Bank with the government and Licensed Commercial Banks (LCBs), foreign loan receipts and repayments by the government, the Central Bank's purchases of proceeds of the international and domestic issues of foreign currency denominated bonds by the government, currency withdrawals from and deposits with the Central Bank by LCBs, changes in the holdings of Treasury bills by the Central Bank and foreign exchange purchases and sales of the Central Bank in the domestic foreign exchange market. Based on the outcome of such daily forecasts and other relevant factors, the following OMOs were conducted.

#### (b) Overnight Auctions

##### (i) Repo Auctions

Overnight repo auctions were conducted on 11 occasions in 2016 with an offered amount of Rs. 272.0 billion. At two auctions, all bids were

rejected, while a total volume of Rs. 151.82 billion was accepted at nine auctions at weighted average yield rates ranging between 7.42 per cent and 7.50 per cent.

##### (ii) Reverse Repo Auctions

Overnight reverse repo auctions were conducted on most of the days in 2016. DOD conducted 136 reverse repo auctions with an offered volume of Rs 4,252 billion, of which, bids amounting to Rs 3,949.72 billion were accepted at 134 auctions at weighted average yield rates ranging between 6.59 per cent and 8.50 per cent. At 2 reverse repo auctions, all bids were rejected due to the high rates offered by participating institutions (PIs).

#### (c) Short Term Auctions

##### (i) Repo Auctions

Short-term auctions are conducted as a strategy to absorb liquidity up to one week on a same day settlement basis. DOD conducted 3 short-term repo auctions where a total of Rs. 80.0 billion was offered, of which only Rs. 47.0 billion was accepted at weighted average yield rates ranging between 6.29 per cent and 6.50 per cent.

##### (ii) Reverse Repo Auctions

DOD did not conduct short-term Reverse Repo auctions during the year.

#### (d) Long Term Auctions

##### (i) Repo Auctions

Longterm repo auctions were carried out only in January 2016. A total of 14 long term repo auctions were conducted with a total offered volume of Rs. 165.0 billion while bids were accepted only at 9 auctions amounting to Rs. 53.10 billion at weighted average yield rates ranging between 6.37 per cent and 6.55 per cent. The tenure of the long term repo auctions varied between 11 days and 28 days.

##### (ii) Reverse Repo Auctions

DOD did not conduct any long term Reverse Repo Auctions during the year.

#### (e) Outright Transactions

DOD conducted auctions for the outright sale of Treasury bills during the first two months of 2016 to absorb excess liquidity on a permanent basis. DOD conducted 9 outright sales auctions offering Rs. 60.0 billion and bids amounting to Rs. 39.60 billion were accepted at 6 auctions at weighted average yield rates ranging from 6.47 per cent to 6.77 per cent. At 3 auctions, all bids were rejected due to low rates offered by the PIs.

Due to the deficit in market liquidity that prevailed, auctions for outright purchases of Treasury bills were conducted to

inject liquidity into the market on a permanent basis from the latter part of November 2016 onwards. DOD conducted 78 outright purchase auctions with an offered volume of Rs.165 billion, and bids amounting to Rs. 15.8 billion at 15 auctions were accepted at weighted average yield rates ranging between 8.65 per cent and 9.95 per cent. At 16 auctions, all bids were rejected due to the high rates offered by the Pls. For the balance auctions, there was no response from the market.

### 6.3.2. Standing Facility

Standing facilities were provided throughout the year at the SDFR and the SLFR to Pls which were unable to meet their short term liquidity requirements fully through the inter-bank money market and daily OMO auctions. SDF transactions amounted to a daily average of Rs. 23.1 billion and a total of Rs. 5,572.7 billion during the year 2016. The total volume lent under the SLF was Rs. 3,208.3 billion in 2016 with a daily average volume of Rs. 15.8 billion.

### 6.3.3. Statutory Reserve Requirement

The SRR is the minimum amount of reserves that each commercial bank is required to hold in terms of the regulations of the Central Bank, in the reserve account with the Central Bank, in proportion to the total rupee deposit liabilities of each bank. DOD was responsible for both administering the maintenance of SRR and monitoring compliance by commercial banks. With the objective of constraining undue expansion of monetary aggregates which could fuel future inflation in the economy, the SRR was revised upward by 1.50 percentage points to 7.50 per cent in December 2015 to be effective from 16 January 2016. As a result, about Rs. 52.0 billion of excess liquidity was absorbed from the money market at the beginning of 2016.

### 6.3.4. Bank Rate

The Central Bank's rate of interest (Bank rate) on short term advances to LCBs, stipulated under Section 87 of the MLA, remained unchanged at 15 per cent. However, no bank resorted to borrowing from the Central Bank at that rate.

## 6.4 Banker to Commercial Banks and the Government

### 6.4.1. Accounts of Financial Institutions

Performing the functions relating to the Central Bank's role as the banker to banks, the DOD continued to provide current account facilities to LCBs and Primary Dealers (PDs) for Government Securities to ensure an efficient interbank payment and settlement system. At the end of 2016, the Central Bank maintained accounts for 25 LCBs and 8 PDs. These accounts were operated on a Real Time Gross Settlement (RTGS) basis.

### 6.4.2 Government Accounts

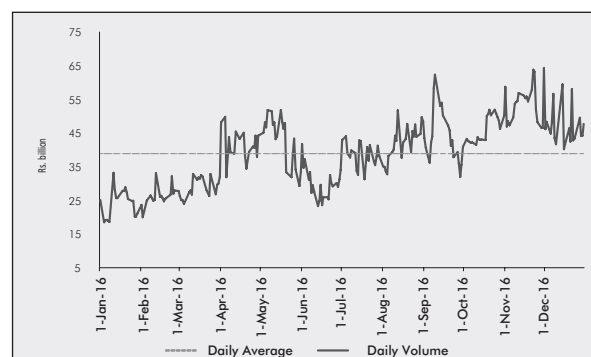
Performing the functions relating to the Central Bank's role as the banker to the Government, the DOD continued to maintain the accounts of government departments, agencies and statutory boards, and provided the required banking facilities to them. The total number of accounts maintained by the Central Bank amounted to 61 as at end 2016. Accordingly, the DOD handled 22,730 transactions amounting to Rs. 14,963.3 billion, during the year, on behalf of the Government. More than 90 per cent of such transactions were in relation to the Deputy Secretary to the Treasury (DST) Account, the Public Debt Department's Current Account, the Inland Revenue Commissioner's VAT Refund Account and the President's Fund Account.

In terms of Section 89 of the MLA, the Central Bank provides provisional advances to the Government, free of charge, with a ceiling of 10 per cent of the estimated government revenue approved by the Parliament for a given fiscal year. At the beginning of 2016, the amount of the provisional advance was increased by Rs. 31.9 billion to Rs. 185.1 billion based on the government's revenue estimated for the year 2016 and approved by the Parliament, compared to that of Rs. 153.2 billion for the year 2015.

### 6.5 Provision of Intra-Day Liquidity Facility (ILF)

DOD ensured smooth and efficient functioning of the RTGS system by providing ILF to Pls. This facility was provided free of charge against the collateral of Treasury bills and Treasury bonds, which were valued at their current market prices with a sufficient hair cut to absorb any variations in market prices during the day.

Chart II-5  
ILF Drawn in 2016



The total value and average daily value of ILF drawn during the year amounted to Rs. 9,351 billion and Rs. 38.8 billion, respectively. This shows an increase in ILF utilisation over that of the previous year which amounted to a total of Rs. 5,594 billion with an average of Rs. 23.3 billion.

### 6.6 Supervision of Money Brokers

The Money Broking Regulation No. 1 of 2013 was issued under Section 10 (c) of the MLA, to be effective from 15



February 2013, considering the importance of the Money Brokers' role in the price discovery process in the money markets (money, foreign exchange and government securities). A total of 9 companies were issued the "Certificate of Authorisation" under this regulation and were designated as "Authorised Money Brokers". As per regulation 20 of the Money Broking Regulation No.01 of 2016, the DOD introduced an online system for money brokers to report all data relating to transactions handled by them in order to improve the monitoring of money market activities. Accordingly, all transactions in the money market mediated through money brokers, relevant quotes together with the names of counterparties are required to be updated on a real time basis. DOD conducted 9 on-site examinations of 9 money broking companies during the year while 6 meetings were held with Boards of Directors of these companies. The number of authorised money brokers remained unchanged during 2016.

#### List of Money Brokers

1. Bartleet Mecklai & Roy (Pvt) Ltd
2. First Alliance Money Brokers (Pvt) Ltd
3. George Steuart Investments (Pvt) Ltd
4. MVS Money Brokers Ltd
5. Navara Forex & Money Brokers Ltd
6. Piggot Chapman & Company (Pvt) Ltd
7. SMB Money Brokers (Pvt) Ltd
8. Taprobane Investments (Pvt) Ltd
9. Vishwin Money & Exchange Brokers Ltd

## 7. ECONOMIC RESEARCH

Economic Research Department (ERD) is one of the key departments legally established at the time of the inception of the Central Bank of Sri Lanka under the Monetary Law Act (MLA) of 1949. According to Section 25 of the MLA, the responsibilities of preparing data and conducting economic research, for the guidance of the Monetary Board and the Governor in formulating, implementing, and executing policies and measures and for the information of the public, in the subjects of money and banking and other economic subjects of general interest are vested with the ERD. ERD carried out its duties in the areas of monetary policy and external sector policies to support the Central Bank's efforts in maintaining economic and price stability, as well as facilitating the Bank's role as the economic policy advisor to the government. ERD continued to conduct research on topical issues, publish statutory publications on behalf of the Central Bank, disseminate information and data to all stakeholders of the economy including the general public, and maintain a close relationship with international organisations on behalf of the government.

### 7.1 Maintaining Economic and Price Stability

In order to fulfill its responsibility of facilitating the Central Bank in the maintenance of economic and price stability, ERD continued to closely monitor the trends and developments in the external, fiscal, monetary and real sectors of the domestic economy as well as the global economy. Comprehensive analyses were compiled based on this ongoing surveillance, macroeconomic statistics and macroeconomic projections, and submitted with timely policy recommendations to the Monetary Policy Committee (MPC), enabling the MPC to provide forward looking guidance to the Monetary Board on the direction of monetary policy that is conducive to the creation of economic growth in a low inflation environment. As key inputs for this decision making process, ERD continued to provide projections of the path of headline and core inflation, estimations of potential output and output gap measures and the movements of broad money and credit aggregates. The Monetary Board was also provided with ongoing appraisals of potential risks to the achievement of the projected path of key macroeconomic variables stemming from both domestic and international volatilities, and appropriate policy measures were proposed. Subsequent to the announcement in the Annual Report 2015 of the Central Bank's pursuit of an enhanced monetary policy framework, ERD continued to engage in the formal appraisal of key economic stakeholders on the proposed transition plan towards a Flexible Inflation Targeting (FIT) framework over the medium term. As an essential element of this transition, ERD jointly worked with a technical team from the International Monetary Fund (IMF) during 2016 to build a Forecasting and Policy Analysis System (FPAS). Accordingly, three Technical Assistance missions were coordinated by ERD and attended by selected staff members in the Economic Policy Advisory cluster of the Central Bank. The focus of these missions was on the strengthening of technical capabilities of the Central Bank staff on macroeconomic model building and forecasting. In order to continue phased implementation of this system, an inter-departmental Modelling and Forecasting Unit (MFU) was formed in May 2016 with ERD staff holding several key responsibilities. As a cornerstone in the implementation of FPAS, MFU jointly prepared medium-term projections with the IMF team, and presented its findings and policy recommendations at a special MPC meeting. In recognition of the need for institutional commitment for the continuation of these efforts, the Modelling and Forecasting Division (MFD) was permanently established in ERD. The MFD is entrusted with the responsibilities of further developing and implementing the FPAS, preparing a Financial Programme for Sri Lanka, and conducting model based policy analysis and research along with other Divisions in ERD. During the year, ERD also commenced upgrading the compilation of monetary statistics in line with the IMF's latest Monetary and Financial Statistics Manual. Accordingly, ERD coordinated a Technical Assistance mission from the IMF in July 2016

wherein the standardised reporting formats (SRFs) for the Central Bank and other depository corporations were introduced and staff were oriented into the process of developing an integrated monetary database that will meet the analytical needs of the Central Bank. Following technical assistance, the Central Bank commenced the reporting of monetary and financial statistics based on SRFs to the IMF.

## 7.2 Maintaining External Sector Stability

With the view of supporting the maintenance of external sector stability of the economy, ERD continued to collect, compile and analyse economic statistics related to international trade and finance while conducting comprehensive assessments of the domestic economy and global economic developments and providing appropriate policy recommendations. Developments in the external sector, as reflected in the external sector statistics and the movements of nominal and real exchange rates were also reported to the MPC and the Monetary Board on a monthly basis to be considered and addressed in tandem with other sectoral developments. Apart from analysing and providing observations on various external sector related matters, ERD continued to evaluate monetary policy implications of a number of foreign loans that were obtained by the government, as per the provisions of the MLA.

Further, ERD played a key role in informing the Monetary Board on the potential risks in the external sector through regular and occasional Board Papers. Having provided technical inputs for securing the three-year Extended Fund Facility (EFF) of SDR 1.1 billion (approximately USD 1.5 billion) from the IMF in June 2016, ERD formally updated the Monetary Board on the progress in relation to the performance criteria, indicative targets and structural benchmarks agreed upon under the Programme.

Numerous initiatives undertaken by ERD in the past to improve the compilation and dissemination of external sector statistics were continued during the year. ERD continued to publish Balance of Payments (BOP) statistics and International Investment Position (IIP) statistics in the BPM6 format on a quarterly basis, while making timely submissions relevant to Quarterly External Debt Statistics (QEDS) of the World Bank and direct investment data to the Coordinated Direct Investment Survey (CDIS), while publishing the International Reserve Data Template (RDT). During the year, ERD also successfully disseminated data according to the Advance Release Calendar, which is one of the essential SDDS requirements. In order to ensure accuracy and timeliness of data, ERD conducted several surveys as part of the Annual International Investment Survey (AIIS) and continued to broaden its coverage to reach 1,600 companies in 2016. These surveys collected data on foreign assets and liabilities of the private sector and statistics related to the services sector. The monthly survey on inward remittances of foreign exchange was also continued.

## 7.3 Providing Proactive Policy Advice

In 2016, ERD continued to provide proactive policy advice to the senior management and to the government mainly on monetary policy, exchange rate policy and fiscal sector related issues. As in previous years, the ERD submitted the *September 15<sup>th</sup> Report* to the Hon. Minister of Finance in accordance with Section 116(1) of the MLA. While highlighting the developments in the economy over the first nine months of the year, this confidential report also identified issues in the economy and made policy prescriptions to serve as a policy guide in the preparation of the government's budget. In addition, ERD provided policy assessment and advice to the Hon. Minister of Finance as statutorily required under various sections of the MLA.

The ERD staff continued to actively serve as members in numerous committees and boards of several external institutions. These included committees and boards of national importance such as those related to the Hector Kobbekaduwa Agrarian Research and Training Institute (HARTI), National Science Foundation, Ceylon Electricity Board, Tender Boards and Technical Evaluation Committees on International Sovereign Bond issuances and in securing Foreign Currency Term Financing Facility, Government Finance Statistics (GFS) Coordinating Committee, Non-Conventional Renewable Energy (NCRE) Tariff Committee, Water Supply and Sanitation Coverage Committee and in the Team to Study Co-operative Rural Banks.

Further, in addition to serving in the MPC of the Central Bank which is coordinated by ERD, senior officers of ERD continued to engage in sharing their expertise at a number of internal committees such as the Market Operations Committee (MOC), the Domestic Debt Management Committee (DDMC), Investment Oversight Committee (IOC)/ Investment Committee (IC), Foreign Reserve Management Committee (FRMC), Library Advisory Committee (LAC) and Research Publications Committee (RPC). They also continued to serve in several inter-departmental teams to provide their technical expertise and experience.

## 7.4 Statutory Publications and Dissemination of Data and Information

The primary responsibility of releasing statutory publications of the Central Bank is vested with ERD. Accordingly, two key annual publications were completed by ERD with the contribution and support of other departments. Fulfilling the requirements of Section 35 of the MLA, *Annual Report 2015* was published in all three languages within the specified time frame with comprehensive analysis on economic developments, issues and challenges and policy priorities covering all areas of the economy along with accounts and operations of the Central Bank, major administrative measures taken by the Monetary Board and major legal enactments related to central banking, and statistical appendices. The interim review of the economy, *Recent*

*Economic Developments: Highlights of 2016 and Prospects for 2017*, was also published in all three languages in November 2016. In addition, in December 2016, the ERD prepared the *Road Map: Monetary and Financial Sector Policies for 2017 and Beyond*, which was announced at the beginning of 2017.

Meanwhile, ERD continued to compile and disseminate a vast array of data and information for the benefit of all the stakeholders of the economy. This includes monthly statistical bulletins encompassing data related to all sectors of the economy, inputs to monthly and weekly economic indicators, and monthly press releases on the monetary policy stance of the Central Bank and external sector developments, among other regular data updates through the Central Bank website. Apart from these, ERD also issued press releases on several events in the economy which were of interest to the public.

### 7.5 Engaging in Policy Research and Knowledge Sharing

As a premier economic research institution in the country, ERD engaged in several policy related research activities on current economic issues and policies to apprise the MPC and the Monetary Board. The senior management was regularly updated on the state of the economy, issues, challenges and vulnerabilities, and potential policy direction through information series board papers, monetary policy board papers, observation reports and presentations.

The Research Advisory Panel (RAP), an internal committee responsible for all research related tasks, continued to facilitate enhancing the research culture within the Department and the Central Bank as a whole. ERD continued the publication of the Central Bank's official research publication, *Staff Studies*, including research outcomes of officers attached to ERD and other Departments. In addition, a number of ERD seminars were conducted within the Department by sector specialists to encourage knowledge sharing on technical and contemporary developments in the field of economics. Further, six groups of interns from various higher education institutes visited ERD during the latter part of the year and all the Divisions of ERD actively engaged in educating them on practical aspects of economics and central banking. In collaboration with Human Resources Department/Training and Development Department, ERD organised Economic Fora and Public Lectures on various topics of interest to central bankers and the general public while facilitating the recommencement of Structured High Level Training Programmes by the Central Bank.

The RAP successfully organised the 9th International Research Conference (IRC) of the Central Bank, providing a forum for distinguished researchers and academics to present their work on contemporary macroeconomic issues. IRC 2016 was held under the theme of "Sustainable Development and Macroeconomic Policies in a Challenging Global

and Domestic Environment." The keynote address was delivered by Dr. Montek Singh Ahluwalia, former Deputy Chairman of the Planning Commission of the Republic of India. As in previous years, IRC 2016 continued to attract a large number of high quality research papers from distinguished academic and policy making institutions in Advanced and Emerging Market Economies as well as in Sri Lanka. After a rigorous review process, eight research papers, including two research papers from ERD, were selected to be presented at the conference. A special feature of the conference was the guest presentation delivered by Professor Lalith Samarakoon on "A Blueprint for Developing the Sri Lankan Financial Markets". At IRC 2016, the *Dr D S Wijesinghe Memorial Award* for the Best Research Paper was awarded to Dr. Sujeetha Jegajeevan, an ERD officer. The *Conference Proceedings of IRC 2015* were also released at this Conference.

The staff of ERD continued publishing their research in local and international publications. A Chapter titled *Autoregressive conditional duration model with an extended distribution* in the book *Causal Inference in Econometrics* (Springer International Publishing) was co-authored by Dr. Rasika Yatigammana and a Paper titled *Determinants of commercial bank retail interest rate adjustments: evidence from a panel data model* published in the *Journal of International Financial Markets, Institutions and Money* was co-authored by Dr. R.A. Anil Perera. ERD officials, including the Director of Economic Research and Additional Directors, served as paper presenters and discussants at various research fora. Officers of ERD served as resource persons at training programmes held in Sri Lanka and abroad, including the *Programme on Applied Econometrics* in Maldives and the *Workshop on Compilation of Direct Investment* in Thailand. Two officers of ERD also presented their research related to monetary policy and macroeconomic modelling at the inaugural Research Week organised by the SEACEN Centre, while officers contributed to joint research publications compiled by the SEACEN Centre and SAARCFINANCE.

Considering the importance of enhancing awareness of changes related to the Balance of Payments Manual – 6th edition (BPM6) among all stakeholders, during the year, ERD prepared a booklet outlining the changes resulting from BPM6 and explaining other key aspects of external sector statistics. The booklet is expected to be published in 2017. Further, Mr. Amila Wijayawardhana, an ERD officer, was selected as a BOP Expert by the IMF to conduct short term training in other central banks, based on his extensive experience in compilation of Sri Lanka's External Sector Statistics.

An information series note on *Exchange Rate and Economic Impact of Depreciation* was also published during the year, in all three languages, to educate the general public about the fundamentals of exchange rate determination and the

economic implications of market based determination of exchange rate in Sri Lanka.

Meanwhile, ERD actively engaged in the dissemination of knowledge in collaboration with the Communications Department (CMD), the Centre for Banking Studies (CBS) and Regional Offices of the Central Bank, for the use of university students, school teachers and students, and other government and private institutions. The public lectures on Annual Report 2015, in all three languages, were conducted by senior officers of ERD. A large number of educational events were conducted by officers of ERD in the areas of objectives and functions of the Central Bank, monetary policy, fiscal policy, external sector policies and recent economic developments. Also, experienced ERD officers with doctoral and masters level academic qualifications assisted internal postgraduate aspirants in developing research skills through the preparation of high-quality research papers and conducting short term courses on macroeconomics, microeconomics and mathematics to fulfill the requirements of the postgraduate scholarship scheme of Central Bank. At the request of the Training and Development Department, ERD officials evaluated 17 research proposals and 11 completed research papers in addition to research papers forwarded by the SEACEN Centre. These officers also evaluated 80 research proposals received for IRC 2016.

Several senior officers of ERD served as resource persons for the televised educational lecture series, *Thakshilawa* and *Arivootru*, conducted in the Sinhala and Tamil languages, respectively, organised by the CMD. Department staff also supported the CMD in the organisation of the inter-school quiz competition, *Econ Icon* held in both the Sinhala and Tamil languages. ERD also actively contributed to the organisation of the *Inter-Bank Quiz Competition* of the Institute of Bankers of Sri Lanka.

### 7.6 Maintaining International Relations

ERD continued to serve as the focal point of contact for multilateral financial international organisations, such as the IMF, SEACEN, SEANZA, and SAARCFINANCE, on behalf of the Central Bank and the Government of Sri Lanka, while assisting in coordination efforts between the Government and the World Bank, Asian Development Bank and other key international agencies.

Meanwhile, ERD coordinated two IMF staff missions with respect to the EFF Programme and a regular Article IV Consultation. ERD staff jointly worked with coordinators of other central banks in the region on a number of SAARCFINANCE activities. The SAARCFINANCE Chairmanship was conferred upon the Governor of the Central Bank at the 31st SAARCFINANCE Group Meeting held in Peru in 2015, and accordingly, the Central Bank hosted the 23rd SAARCFINANCE Coordinators'

Meeting and the meeting of researchers under the SAARCFINANCE Collaborative Research Studies in April 2016 and also the 24th SAARCFINANCE Coordinators' Meeting in September 2016, with ERD being the organising Department. These meetings were attended by SAARCFINANCE Coordinators, researchers and other senior officials from member country central banks and Ministries of Finance. ERD also facilitated the launch of SAARCFINANCE Database (SFDB) at the SAARCFINANCE Governors' Symposium held in May 2016 at the Reserve Bank of India, and a Working Group on SFDB was later formed comprising three officers from ERD to study the feasibility and modalities of expanding the database to promote research on SAARC economies. Economic updates and macroeconomic statistics continued to be provided by ERD to several international organisations, such as the IMF, World Bank, and international sovereign rating agencies as well as international investors. ERD coordinated the preparation of presentations for various investor fora highlighting recent developments of the economy, trends and movements of key macroeconomic variables and on economic outlook.

## 8. EMPLOYEES' PROVIDENT FUND

Employees' Provident Fund (EPF) was established under the Employees' Provident Fund Act No.15 of 1958. All the administrative powers and functions of the Fund are vested with the Commissioner of Labour while all the powers, duties and responsibilities of the fund management are vested with the Monetary Board of the Central Bank of Sri Lanka as the custodian of the Fund in terms of the provisions of the Act. The Monetary Board has empowered the Employees' Provident Fund Department of Central Bank to act as the operational arm in performing its functions.

### 8.1 Functions of the Department

EPF Department is responsible for the collection of member contributions and surcharges, maintenance of general accounts and member accounts, crediting interest to member accounts, payment of benefits to beneficiaries of the Fund, investment of surplus funds and charging the expenditure incurred by the Monetary Board and Commissioner of Labour in the performance of their duties and functions. The EPF Department continued to engage in the above activities as per the policies and directions approved by the Monetary Board in 2016 as well, while maintaining close collaboration with the Commissioner of Labour.

### 8.2 Performance of the Activities

#### (a) Value of the Fund, Member Balances and Refunds

The total value of the Fund increased by 10.6 per cent to Rs. 1,841.5 billion as at end 2016 compared to Rs.1,664.9 billion as at end 2015, due to the income

generated from investments and net contributions (after deducting refunds from contributions) received. Total liability to the members including member interest stood at Rs. 1,810.6 billion as at end 2016 recording a 11.4 per cent increase from Rs.1,625.5 billion as at end 2015 (Table II-8). The contribution increased by 15.4 per cent to Rs. 118.3 billion in 2016 compared to Rs. 102.5 billion recorded in the previous year, while the total refunds made to the members and their legal heirs in 2016 amounted to Rs. 108.4 billion, which was an increase of 39.3 per cent over 2015 as a result of payment under the 30 per cent withdrawal facility for housing and medical requirements. Accordingly, the net contribution decreased to Rs. 9.9 billion compared to Rs. 24.7 billion recorded in 2015. The net income of the Fund increased to Rs. 175.9 billion in 2016 compared to Rs. 156.9 billion during previous year registering a growth of 12.1 per cent.

**Table II - 8**  
**Selected Key Information of the Fund**

Item	2015	2016(a)	Change (%)
Total value of the Fund (Rs.bn)	1,664.9	1,841.5	10.6
Total liability to members (Rs.bn)	1,625.5	1,810.6	11.4
Total number of member accounts (mn)	16.9	17.1	1.2
Contributing member accounts (mn)	2.6	2.4	(7.7)
Non-contributing member accounts (mn)	14.3	14.7	2.8
Total contributions (Rs.bn)	102.5	118.3	15.4
Total refunds (Rs. bn)	77.8	108.4	39.3
Net contribution (Rs.bn)	24.7	9.9	(59.9)
Number of refunds	136,815	187,147	36.8
Net Income (Rs.bn)	156.9	175.9	12.1

(a) Provisional

Source: EPF Department, Central Bank of Sri Lanka

## (b) Investment of the Fund and Return

### (i) Investment Portfolio:

The total investment portfolio (book value) of the Fund grew by 10.5 per cent to Rs. 1,772.2 billion in 2016 from Rs. 1,604.2 billion in 2015 (Table II-9). The investment policy of the Fund continued to focus on providing a longterm positive real rate of return to the members while ensuring the safety of the Fund and maintaining a sufficient level of liquidity to meet refund payments and other expenses of the Fund.

The investment portfolio consisted of 93.1 per cent in government securities, 4.6 per cent in equity and 2.1 per cent in corporate debentures and trust certificates. The remaining 0.2 per cent was in high liquid assets such as reverse repurchase agreements on government securities and Standing Deposit Facility to meet day to day liquidity requirements. The maturity profile of the government securities portfolio together with yield rates is given in the Table II-10.

**Table II - 9**  
**Investment Portfolio**

Type of Investment	2015		2016(a)	
	Amount (Rs.bn)	Share (%)	Amount (Rs.bn)	Share (%)
Treasury Bonds & Bills	1,487.0	92.7	1,650.4	93.1
Equity	87.6	5.5	80.9	4.6
Corporate Debts	25.5	1.6	38.1	2.1
Reverse Repos	4.1	0.2	2.8	0.2
<b>Total</b>	<b>1,604.2</b>	<b>100.0</b>	<b>1,772.2</b>	<b>100.0</b>

(a) Provisional

Source: EPF Department, Central Bank of Sri Lanka

**Table II - 10**  
**Maturity Profile of Government Securities Portfolio**  
**(As at end of 2016)**

Maturity	Maturity Value Amount (Rs.mn)(a)	Share (%)	Weighted Average Yield (%)
Less than 1 year	99,049.7	5.57	9.78
1-2 years	195,613.1	11.00	10.71
3-4 years	136,011.2	7.65	10.58
More than 5 years	1,347,602.0	75.78	11.46
<b>Total</b>	<b>1,778,276.0</b>	<b>100.00</b>	<b>11.22</b>

(a) Provisional

Source: EPF Department, Central Bank of Sri Lanka

### (ii) Investment Income:

In 2016, total investment income of the Fund amounted to Rs. 192.9 billion, recording an increase of 12.5 per cent compared to that of the previous year (Table II-11). Interest income was the major source of income (85.8 per cent of the income) to the Fund and it grew by 15.7 per cent to Rs.165.5 billion in 2016 from Rs.143.1 billion in 2015. Amortisation gains from discounted Treasury Bonds also increased by 5.9 per cent to Rs. 28.2 billion in 2016 from Rs. 26.6 billion in 2015. Further, income generated from equity portfolio, which included both capital gains and dividends, increased by 16.0 per cent to Rs. 4,714.6 million in 2016, compared to Rs. 4,065.2 million earned in 2015. Due to the adverse market conditions and the limitation of its secondary market activities, the capital gain on government securities has decreased by 47.8 per cent to Rs. 611.8 million. The impairment of equity investment increased by 76.9 per cent to Rs. 5,231.6 million in 2016. Overall, return on investments of the Fund has recorded 11.4 per cent in 2016 compared to 11.3 per cent recorded in 2015.

**Table II - 11**  
**Income on Investments**

Source of Income	2015		2016(a)	
	Amount (Rs.mn)	Share (%)	Amount (Rs.mn)	Share (%)
Interest	143,055.1	83.4	165,485.4	85.8
Amortisation gains	26,590.8	15.5	28,170.9	14.6
Capital gains from government securities	1,171.4	0.7	611.8	0.3
Marked to market gain/(loss)	(394.0)	(0.2)	(842.0)	(0.4)
Capital gains from equity	552.8	0.3	452.0	0.2
Dividends	3,512.4	2.0	4,262.6	2.2
Impairment of financial assets	(2,956.6)	(1.7)	(5,231.6)	(2.7)
<b>Total</b>	<b>171,531.9</b>	<b>100.0</b>	<b>192,909.1</b>	<b>100.0</b>

(a) Provisional

Source: EPF Department, Central Bank of Sri Lanka

**iii) Expenditure:**

The total operational expenditure of the Fund increased by 24.9 per cent to Rs. 1,487.2 million in 2016 compared to Rs.1,190.6 million in 2015, and as a ratio of total gross income, it increased to 0.77 per cent in 2016, compared to 0.69 per cent in 2015 (Table II-12). Over the years, the Fund has maintained its operational expenditure below 1 per cent of the total gross income.

**Table II-12**  
**Operational Expenditure**

Item	Amount (Rs.mn)		Change (%)
	2015	2016(a)	
Personnel expenses	748.5	861.1	15.0
Administrative expenses	397.2	402.8	1.4
Other expenses	44.9	223.3	397.3
<b>Total</b>	<b>1,190.6</b>	<b>1,487.2</b>	<b>24.9</b>
<b>Total Expenses as a % of Gross Revenue</b>	<b>0.69</b>	<b>0.77</b>	

(a) Provisional

Source: EPF Department, Central Bank of Sri Lanka

**(c) Payment of Interest on Member Balances**

Over the last 10 years, EPF was able to pay consistently high rate of interest to members over and above its statutory minimum rate of 2.5 per cent (Table II-14). A sum of Rs. 171.5 billion was available for distribution as interest to the members of the Fund as at end 2016, compared to Rs.154.4 billion in 2015 (Table II-13). EPF was able to pay an interest rate of 10.5 per cent on member balance for 2016 exceeding the budgeted rate of 10.0 per cent.

**Table II-13**  
**Payment of Interest to Members**

Item	Amount (Rs.mn)		Change (%)
	2015	2016(a)	
Gross revenue	171,855.3	193,071.4	12.3
Total operating expenses	(1,190.6)	(1,487.2)	24.9
Income tax	(13,727.4)	(15,657.2)	14.1
Net income for the year	156,937.3	175,927.0	12.1
Prior year retained profit	311.3	215.6	(30.7)
Interest paid on current year refunds	(2,833.0)	(4,645.8)	64.0
Net income available for distribution (after payment of interest on current year refunds)	154,415.6	171,496.8	11.1
Transfers from/(to) reserves	-	250.0	100.0
Net income available for distribution after transferring from / (to) reserves	154,415.6	171,746.8	11.2
Interest paid on member balances	(154,200.0)	(171,557.4)	11.3
Retained profit	215.6	189.4	(12.2)
Interest rate paid on member balances %	<b>10.5</b>	<b>10.5</b>	

(a) Provisional

Source: EPF Department, Central Bank of Sri Lanka

**Table II - 14**  
**Rate of Interest paid on Member Balances**

Year	Interest Rate Paid (%)	Effective Interest Rate (%) <sup>1</sup>
2006	10.10	10.30
2007	11.20	11.40
2008	13.20	13.44
2009	13.75	13.92
2010	12.50	12.65
2011	11.50	11.58
2012	11.50	11.62
2013	11.00	11.14
2014	10.50	10.60
2015	10.50	10.57
2016 (a)	10.50	10.51

(a) Provisional

Source: EPF Department, Central Bank of Sri Lanka

<sup>1</sup> EIR = (Interest paid to members) / [(Beginning of the year member balances + year end member balances before crediting interest) / 2]**8.3 Member Services****(a) Member Account Statements**

Member account statements for the first half and second half of 2015 were dispatched to the relevant employers during 2016. Issuing of member account statements to the active members of EPF, through their employers for the first half of 2016 was commenced in March 2017.

**Table II - 15**  
**No of Member Statements Issued**

Period	No. of Employers	No. of Statements (Active Members)
2015 1 <sup>st</sup> half	67,821	2,052,866
2015 2 <sup>nd</sup> half	72,144	2,518,454

Source : EPF Department, Central Bank of Sri Lanka

**(b) Housing Loan Facility**

The Housing Loan Scheme, introduced in 1988 with the objective of facilitating the members to obtain housing loans from the participating lending institutions, viz., Housing Development and Finance Corporation Bank, State Mortgage and Investment Bank, Bank of Ceylon, People's Bank, and Co-operative Rural Banks continued in 2016 providing an essential service to the EPF members. Under this scheme, EPF issued 12,780 guarantee certificates to members against their EPF balances to participating lending institutions for the approval of housing loans amounting to Rs,5,414 million (Table II-16). Further, nearly Rs. 2,541 million was deducted from the relevant member accounts and remitted to the participating lending institutions in 2016 to settle the loans in arrears during the year 2015.

**Table II-16**  
**Housing Loan Facility**

Year	Issued Certificates (No.)	Credit Approved (Rs. mn)	Amount Remitted to Lending Institutions (Rs. mn)
2006	15,136	3,049	1,078
2007	12,969	2,872	1,240
2008	12,519	3,008	1,192
2009	10,383	2,680	1,552
2010	13,848	4,512	2,093
2011	20,041	6,355	1,896
2012	11,234	3,973	2,019
2013	16,268	6,914	2,178
2014	17,786	8,021	2,394
2015	13,132	5,489	2,522
2016 (a)	12,780	5,414	2,541

(a) Provisional

Source: EPF Department, Central Bank of Sri Lanka

### (c) Pre-Retirement Refund Scheme

In terms of the provisions in Employees Provident Fund (Amendment) Act, No. 02 of 2012 and the subsequent procedures passed by the Parliament, payments under the 30 per cent EPF pre-retirement refund scheme, has been in operation since 01 July 2015. The scheme is in high demand by beneficiaries and Rs.41 billion has been refunded to over 70,000 beneficiaries by the end of 2016. During 2016, Rs. 33.7 billion has been released to 60,021 beneficiaries under this scheme.

### (d) Image Scanning Project

Image Scanning Project (ISP) was initiated with the view of improving efficiency of services by establishing a near-paperless operating systems in the Department. The phase-I of the project which was commenced in year 2013 was successfully completed during the year 2015. In phase-I of the project the major documents: Master files, Form-D, Re-registration documents and Refund worksheets of the year 2013 were converted to electronic form. The completion of phase-I of the project helped to,

- Enhance the accessibility of documents,
- Decentralise amendments of EPF member details,
- Reduce the storage space and
- Save costs through human resources, stationery requirement, rent cost etc.

The Department commenced phase-II of the project to convert other important and frequently used documents to electronic form and expect it be completed by the end of year 2017. Real time scanning of documents is expected to commence by the second quarter of year 2017, to convert the paper documents received by the Department to electronic form at the point of reception.

### (e) Public Awareness

Improving awareness on EPF operations is one of the main goals of the Department as a means of facilitating moving towards an integrated model. Accordingly, as a major mechanism for achieving the above goal, EPF Department conducted ten mobile services in different areas including Badulla, Mirissa, Kahawatta and Polonnaruwa in 2016. These awareness programs were conducted in collaboration with the Department of Labour and other government organisations such as the Department of Registration of Persons, Registrar General's Department, Police Department and relevant District/Divisional Secretariats. Further EPF Department participated in 8 mobile services organised by the Ministry of National Co-existence, Dialogue and Official Languages covering Colombo District during the year.

At these mobile service programmes members and general public were offered, most of the services provided at the head office i.e. issuing of EPF balance statements, amendment of EPF member details and Accounts, re-registration of member details, promoting online member balance inquiry service and e-return service and providing advice on overall EPF procedures.

As in the previous years, a special awareness programme was conducted for relevant employers, managers and other administrative staff members of respective employers to identify the requirements of the mobile service with the view of enhancing the effectiveness of the mobile service. In addition, awareness activities were conducted in parallel to the mobile services targeting the employers, employees and other stakeholders on the services offered by the EPF using a mix of communication media such as posters, leaflets, video clips, and presentations.

### (f) e-Return System for EPF Payments

Submission of EPF contributions by electronic means (e-Return), a total paperless solution, minimises the cost and delays while enhancing the efficiency of the process of updating member accounts which leads to providing a better service for the members. EPF has taken several measures to strengthen the e-Return system in order to absorb the target group, mainly the employers with 50 or more employees, during 2016. This complies with one of the requirements to achieve the target set under the Ease of Doing Business Index which reflects the convenience of carrying a business that attracts foreign investments to the country.

In early 2016, National Development Bank joined the existing group as a collecting agent and implemented a dedicated on-line payment system for EPF with the facility for data verification. This system validates the member details at the time of uploading the e-Return to the on-line payment system. It prevents manual intervention and avoids the time lags that occur in data processing and member accounts updating. Commercial Bank of Ceylon PLC was also able to re-launch its EPF on-line payment system after amalgamating the data verification facility with the existing system, in mid-2016.

In addition, actions were taken to make the employers aware of the e-Return systems by conducting awareness programmes and sending letters during the year. This has resulted in increasing the number of employers registered under the e-Return System to 6,955 by end 2016 from 6,093 as of end 2015 which covers about 76 per cent of the total 2.4 million active members.

### (g) Re-registration of EPF Members

With the intention of providing an efficient service to EPF members, EPF Department and the Department of Labour launched a special project to re-register EPF members by names as appearing in their National Identity Card (NIC) and assign the NIC number as the Unique Identification (UID) Number, which enables both institutions to use a common Member Centric Database (MCD).

By end 2016, NIC details of approximately 1.8 million active EPF members (contributing members) had been collected. Out of these, 82 per cent of the member accounts (1.4 million accounts) were assigned UIDs, while the details of the remaining members are being processed after verification from their employers due to discrepancies between collected data and the existing data. Registering of new EPF members under NIC details on real time basis was commenced in November 2010. Accordingly, a monthly monitoring system has been put in place to capture the NIC details of all new members whose member contributions are received for the first time. Registration of existing members and registration of new members amounted to 69,326 and total number of registrations transferred to MCD was 76,386 during year 2016.

## 9. EXCHANGE CONTROL

In terms of Section 2 of the Exchange Control Act No. 24 of 1953 (ECA), the Central Bank of Sri Lanka as the agent of the Government, is responsible for carrying out the provisions of such Act. Section 2 of the Act further requires the Monetary Board to establish the Exchange Control Department (ECD) for the purposes of carrying out the provisions of ECA. Section 3 of ECA, empowers the Controller of Exchange (CE) as the head of ECD or on his behalf another designated officer to exercise or perform any powers, duties and functions authorised or required to be exercised or performed by the Central Bank by any provision of ECA, subject to the direction and control of the Governor. Section 3 also permits CE to delegate the granting of such permission to an Authorised Dealer (AD) by issue of Directions to such effect. Any commercial bank may be authorised by the Minister of Finance to act as an AD.

Accordingly, the main functions of ECD are policy formulation in respect of foreign exchange transactions to implement government policies and macro-economic objectives, issuance of Directions to ADs and Gazette Notifications to the general public to grant general permissions for

foreign exchange transactions, granting of approvals for specific foreign exchange transactions, issue of permits to money changing activities, monitoring of foreign exchange transactions and conducting investigations on violations of the provisions of ECA. The main functions and activities performed by ECD during 2016 are summarised below.

### 9.1 Grant of General Permission for Foreign Exchange Transactions

Subsequent to permitting ADs to release foreign exchange for current account transactions without being subject to any restrictions in 1994, the Central Bank has gradually relaxed capital account transactions with the objective of achieving greater efficiency in the conduct of international financial transactions. In 2016 too ECD implemented several policy measures in line with the current macro-economic policy stance to promote competitive advantage of Sri Lanka in global business activities with a view to enhance investor confidence, strengthen Sri Lanka's foreign currency reserves and stabilize the foreign exchange market.

#### 9.1.1 Issuance of Directions to ADs

Directions issued to ADs during 2016 are given in Part III of this Report and a summary is given below.

- a) Holders of Non Resident Foreign Currency Accounts (NRFC), Resident Foreign Currency Accounts (RFC), Resident Non Nationals' Foreign Currency Accounts (RNNFC) and Foreign Exchange Earners' Accounts (FEEA) were permitted to freely remit funds in such accounts outside Sri Lanka and to withdraw foreign currency notes up to USD 10,000 or its equivalent for any purpose. (Directions Nos. 01, 02, 03 and 04 of 2016)
- b) Holders of NRFC, RFC, RNNFC and FEEA were further permitted to utilise funds of such accounts to permitted investments in Sri Lanka in foreign currency and to credit capital, capital gains, other receipts including any unutilised foreign currency arising from such investments. (Directions Nos. 05, 06, 07 and 08 of 2016)
- c) ADs and Primary Dealers appointed as designated agents for Sri Lanka Development Bonds (SLDBs) were permitted to open special foreign currency accounts titled 'Sri Lanka Development Bonds Investment Account' and 'Dollar Account for Bond Investment' for the purpose of acquiring, holding and transferring SLDBs and to purchase US dollars from an AD by eligible investors. (Directions No. 09 of 2016)
- d) ADs were permitted to remit visa collection fees of the Diplomatic Missions and proceeds realised from the sale of vehicles owned by Diplomatic personnel through Diplomatic Rupee Accounts. Further, permission was granted to invest the funds held in Diplomatic Foreign Currency Accounts and Diplomatic Rupee Accounts, in Sri Lanka through Securities Investment Accounts (SIAs). (Directions No. 10 of 2016)



- e) Sri Lankans who have migrated before 12.06.2013 on permanent resident visa were permitted to remit superannuation benefits and current income derived in Sri Lanka after 12.06.2013 through their respective Non Resident Blocked Accounts, without the amount being deducted from the eligible migration allowance. (Directions Nos. 11 and 12 of 2016)
- f) Sri Lankans who obtained permanent residency in another country after 12.06.2013 were permitted to transfer the eligible migration allowance to SIAs for investment in Sri Lanka. (Directions No. 13 of 2016)
- g) Parallel to the new External Commercial Borrowing Scheme (ECBS) introduced for companies incorporated in Sri Lanka to borrow from foreign sources, ADs were permitted to open and operate 'External Commercial Borrowing Accounts' in the name of the eligible borrowers. (Directions No. 14 of 2016)

### 9.1.2 Issuance of Gazette Notifications

During 2016, ECD issued several new Gazette Notifications as summarised below. These Gazette Notifications appear in the Part III of this Report.

- a) Any individual resident in Sri Lanka was permitted to retain in his possession foreign currency up to US dollars 10,000 or its equivalent in any other foreign currencies provided that such foreign currencies are acquired only in terms of the ways specified in the Gazette Notification. (Gazette No. 1950/29 dated 20.01.2016)
- b) Holders of NRFC, RFC, RNNFC and FEEA were permitted to make any payment to a person resident outside Sri Lanka utilising Electronic Fund Transfer Cards (EFTCs) in keeping with the relaxations introduced on use of funds in such accounts. A Gazette was issued rescinding the previous one. (Gazette No. 1950/40 dated 20.01.2016)
- c) NRFC, RFC, RNNFC and FEEA holders, authorised dealers, licensed specialised banks, licensed finance companies who have been permitted to accept deposits in foreign currency and citizens of Sri Lanka who have dual citizenship were permitted to invest in SLDBs issued by the Government of Sri Lanka. (Gazette No. 1957/23 dated 11.03.2016)
- d) The exemption granted in 1993 to retain export proceeds was withdrawn and exporters of goods were required to repatriate export proceeds within 90 days of the date of exportation of goods. Further, the exporters were required to repatriate any such proceeds already retained abroad not later than 01.05.2016. Subsequently, this time was extended to 120 days with effect from 01.08.2016 and a grace period of 30 days may be granted by the Central Bank prior to instituting action against any violation. (Gazette Nos. 1960/66 dated 01.04.2016, 1986/42 dated 29.09.2016 and 1986/43 dated 29.09.2016)
- e) Consequent to the announcement in Budget 2016, a new External Commercial Borrowing Scheme (ECBS) was introduced for companies incorporated in Sri Lanka other than licensed commercial banks, licensed specialised banks, licensed finance companies, specialised leasing companies, companies limited by guarantee and overseas companies, to borrow from foreign sources. (Gazette No. 1970/8 dated 07.06.2016)
- f) The restrictions that prevailed on foreign investments in the areas of money lending and providing security services including security management, assessment, and consultations to individuals or private organisations were removed. (Gazette Nos. 1970/49 dated 10.06.2016 and 1970/50 dated 10.06.2016).

### 9.2 Grant of Special Permission for Foreign Exchange Transactions

- a) 5 companies were permitted to invest US Dollars 37.48 million abroad.
- b) 21 companies were permitted to borrow a sum of US Dollars 204.3 million from abroad.
- c) 100 approvals granted to companies/individuals in relation to issue/register/transfer of shares of non-residents in Sri Lanka.
- d) 237 approvals granted to ADs to process certain foreign exchange transactions that are not covered under the Directions/Operating Instructions issued to ADs.
- e) 33 approvals granted to opening and maintaining Special Foreign Currency Accounts where such transactions cannot be carried out through existing foreign currency accounts.
- f) 11 approvals granted for resident companies to issue bank/corporate guarantees and 6 approvals granted in respect of Shipping and Airline agents to issue and renew bank guarantees.
- g) Issue of permits to engage in money changing business
  - Five new money changing permits were issued in 2016 to 2 limited liability money changing companies, 2 licensed finance companies and a hotel.
  - During the year, the permits issued to 6 limited liability money changing companies were withdrawn due to non-compliance with the annual turnover requirement stipulated in the permit. Further, one limited liability money changing company and a supermarket discontinued their money changing business during 2016.
  - Accordingly, as at 31 December 2016, the total number of Authorised Money Changers (AMCs) stood at 75, comprising 8 licensed finance companies, 2 licensed specialised banks, 2 tourist hotels and 63 other limited liability money

changing companies. The list of AMCs as at 31 December 2016 is in Annex I.

- During 2016, new permits to sell foreign currencies were issued to 2 licensed finance companies. Further, the permit to sell foreign currencies issued to one limited liability money changing company was withdrawn due to the non-compliance with the annual turnover requirement stipulated in the permit to be eligible for selling while one supermarket discontinued its business.
- Accordingly, as at the end of 2016, while 61 AMCs were permitted only to buy foreign currencies, 14 were permitted to buy and sell foreign currencies, comprising 8 licensed finance companies, 2 licensed specialised banks and 4 limited liability money changing companies.

#### h) Transfer of Migrants' Funds

ADs were permitted to open 221 Migrant Blocked Accounts in order to release the migration allowance to Sri Lankans who have obtained permanent residency in another country after 12.06.2013. Further, 377 Sri Lankan migrants who have obtained permanent residency in another country on or before 12.06.2013 were permitted to remit funds outside Sri Lanka through Non Resident Blocked Accounts.

### 9.3 Monitoring and Surveillance/Investigations of Foreign Exchange Transactions

- a) On-site visits and inspections
- 34 on-site inspections were conducted in order to assess compliance of ADs with the directions and other requirements stipulated by CE with regard to sales and purchases of foreign currencies and opening and maintaining of foreign currency accounts.
  - 19 on-site inspections were conducted to ascertain compliance of AMCs with the terms and conditions of the permits issued to them.
  - Further, 15 detections were done with the assistance of Sri Lanka Police Department, to identify several persons who engaged in unauthorised money changing business and were prosecuted in Courts.
- b) Investigations
- 200 investigations were carried out and Rs. 62.45 million paid as penalties were transferred to the Consolidated Fund after concluding 91 investigations. Majority of these investigations were on unauthorised payments made by residents to non-residents, non-compliances by ADs with Directions/Operating Instructions issued by CE, violation of conditions in permits issued to AMCs, unauthorised possession of foreign currencies and issue and transfer of securities contravening the procedure set out in general permissions.

- c) ECD further assisted the law enforcement authorities in litigation and juridical proceedings as and when necessary by providing expert evidence/testimonies.

### 9.4 Enhancing Awareness on Exchange Control Regulations

- a) Several meetings were conducted with Compliance Officers of licensed commercial banks appointed for the purpose of ensuring compliance with the exchange control regulations, representatives of banks and AMCs in order to discuss matters relating to foreign exchange related transactions and to update them with new regulations.
- b) Five awareness programmes on prevailing exchange control regulations were conducted for ADs in collaboration with the Centre for Banking Studies of the Central Bank of Sri Lanka and the Institute of Bankers of Sri Lanka, in order to enhance the knowledge of banks' staff on such regulations enabling them to efficiently and effectively engage in day to day foreign exchange operations and transactions.
- c) Three programmes were launched at the Centre for Banking Studies targeting the general public and other interested parties with a view to enhance knowledge on recent relaxations of capital account transactions.
- d) The official website of ECD ([www.ecd.lk](http://www.ecd.lk)) was duly updated to enhance public awareness on exchange control regulations and ECD continued to provide clarifications for queries raised through emails, telephone calls and visits to the department.

### 9.5 Facilitating the Implementations of the New Foreign Exchange Management Framework

As approved in the Budget 2016, preparatory work to implement a new foreign exchange management framework was underway during the year. ECD submitted observations on the proposed bill and necessary facilitation will be provided continuously to complete the enactment of the proposed Act.

#### Annex II-2 List of Authorised Money Changers (AMCs) as at 31.12.2016

Limited Money Changing Companies	
1	Pushpa Money Changers (Pvt) Ltd
2	Shifaz Money Exchange (Pvt) Ltd
3	Rafeek's Gems (Pvt) Ltd
4	Crown Money Exchange (Pvt) Ltd
5	Daya Authorised Money Changer (Pvt) Ltd
6	Salaka Trust Investment (Pvt) Ltd
7	Salaka Trust Investment (Pvt) Ltd – Branch
8	Data Exchange International (Pvt) Ltd
9	Royal Money Mart (Pvt) Ltd

10	Prasanna Money Exchange (Pvt)Ltd
11	Prasanna Money Exchange (Pvt) Ltd - Branch
12	Swiss Money Exchange (Pvt) Ltd
13	Swiss Money Exchange (Pvt) Ltd – Branch
14	Golden Money Changers (Pvt) Ltd
15	Royal Money Exchange (Pvt) Ltd
16	Royal Money Exchange (Pvt) Ltd – Branch
17	Midna Mini Market (Pvt) Ltd
18	Mayurie Money Changers (Pvt) Ltd
19	Abdeen Money Changers (Pvt) Ltd
20	Jewel Lanka Money Exchange (Pvt) Ltd
21	Dadigama Group (Pvt) Ltd
22	Monte Carlo Exchange (Pvt) Ltd
23	Colombo Money Exchange (Pvt) Ltd
24	New Regal's Money Changer (Pvt) Ltd
25	Devi Forex (Pvt) Ltd
26	City Exchange (Pvt) Ltd
27	A.O.Lakshmi Jewels ( Pvt) Ltd
28	Thomas Cook Lanka (Pvt) Ltd
29	Ravi Forexae (Pvt) Ltd
30	International Exchange (Pvt) Ltd
31	Ariyawansa Enterprises ( Pvt) Ltd
32	M.P. Money Changer (Pvt) Ltd
33	Windsor Money Exchange (Pvt) Ltd
34	Maruthi Money Exchange (Pvt) Ltd
35	Pearl Exci (Pvt) Ltd
36	Capital Exchange (Pvt) Ltd
37	Kamal Enterprises (Pvt) Ltd
38	Vasanthas Int. Money Exchange (Pvt) Ltd
39	Rimha Jewellery (Pvt) Ltd
40	New Natasha (Pvt) Ltd
41	Metro Forex (Pvt) Ltd
42	Keyser Exchange (Pvt) Ltd
43	Arrujina Jewellery (Pvt) Ltd
44	Unic Forex (Pvt) Ltd
45	Red Ruby Jewellers (Pvt) Ltd
46	Bullion Money Exchange (Pvt) Ltd
47	George Michael Holdings (Pvt) Ltd
48	City Exchange (Pvt) Ltd – Branch
49	Aruna Forex (Pvt) Ltd
50	Aswin Exchange (Pvt) Ltd
51	Narmatha Gold Centre (Pvt) Ltd
52	Sharanga Money Exchange (Pvt) Ltd
53	Delta Sarath Holdings (Pvt) Ltd
54	Milano Money Exchange (Pvt) Ltd
55	Majestic Jewellery (Pvt) Ltd
56	Global Village Exchange (Pvt) Ltd

57	Thomas Cook Lanka (Pvt) Ltd – Branch II
58	Kudamadu Money Exchange (Pvt) Ltd
59	Rivindu Enterprises (Pvt) Ltd
60	Thomas Cook Lanka (Pvt) Ltd – Branch III
61	Western Money Exchange (Pvt) Ltd
62	Jayes Investments Ltd
63	Asian Money Exchange (Pvt) Ltd
<b>Licensed Finance Companies</b>	
64	Lanka ORIX Finance PLC
65	Citizens Development Business Finance PLC
66	Senkadagala Finance Company PLC
67	Bimpuh Finance PLC
68	Sinhaputhra Finance PLC
69	Singer Finance (Lanka) PLC
70	Asia Asset Finance PLC
71	LB Finance PLC
<b>Licensed Specialised Banks</b>	
72	National Savings Bank
73	Sanasa Development Bank PLC
<b>Hotels</b>	
74	Pearl City Hotel (Pvt) Ltd
75	Shangri-la's Hambantota Resorts & Spa

## 10. FACILITIES MANAGEMENT

Facilities Management Department (FMD) in 2016 continued the development and maintenance works of the buildings and properties of the Central Bank and provision of facilities and services to enable the Bank to carry out its operations without interruptions and to create a pleasant environment to improve the work efficiency of the Bank. Measures were also taken to improve running efficiency of the vehicle fleet of the bank in order to ensure the safety of the Bank staff, vehicles and third parties.

In 2016, FMD maintained a high degree of operational reliability of all critical services such as electricity, air conditioning, water supply and transport services. The Department was able to achieve the highest reliability in providing these services thereby contributing to achieving uninterrupted business continuity of the Bank.

The evaluation and management of projects by a professional team of officers led to achieving cost efficiency of projects, while outsourcing projects to reputed contractors with close monitoring to achieve time targets and required quality standards.

Renovation of the Whiteaways Building was completed in 2016. The construction of three building blocks with nine additional units for the Holiday Home at Kataragama was completed and declared open on 18 November 2016. The newly constructed Gymnasium on the 10th Floor of the Car Park Building at the Head Office was declared open on 28 June 2016. A new building at the Centre for Banking Studies in Rajagiriya was declared open on 19 August

2016. In addition, FMD completed the construction work of the phase II of the Northern Regional Office Building Complex in Kilinochchi.

Further, a comprehensive retrofit project was formalised by FMD to preserve the structural soundness of the Central Bank Head Office Building and to enhance the reliability and operating efficiency of plant and equipment of the Central Bank Head Office Building.

During 2016, FMD attended to renovation and repair work including the staff Cafeteria of the Central Bank Head Office Building, Regional Offices at Anuradhapura and Matara and the Centre for Banking Studies at Rajagiriya and certain urgent repairs at the Head Office Building. Gardening and landscaping of the Nuwara Eliya Regional Office was also completed.

In addition, FMD performed an evaluation of structural soundness for the safety and proper functioning of the Central Bank Head Office Building and took steps to optimise the energy usage in Central Bank premises.

The Department was able to provide uninterrupted transport facilities for a number of international conferences sponsored by the Central Bank and for ceremonial events organised by the Bank, in addition to the regular transportation functions of the Bank.

## 11. FINANCE

Finance Department (FD) undertakes the financial reporting function of the Central Bank of Sri Lanka in terms of International Accounting Standards / International Financial Reporting Standards and relevant provisions of the Monetary Law Act (MLA). Functions of the FD include preparation of the financial statements of the Central Bank, preparation and monitoring of the annual budget of the Central Bank, maintaining a payment system for internal and external financial transactions of the Central Bank, maintaining systems for internal reporting of financial transactions, management of 16 internal funds, maintaining Fixed Assets Register for the Central Bank and maintaining the database of staff loans.

### 11.1 Preparation of the Financial Statements

- i. **Monthly Balance Sheet:** As per the requirement of the Monetary Law Act, the monthly Balance Sheets for December 2015 and January to November 2016 were prepared.
- ii. **Quarterly Reports:** Quarterly financial performance and positions were reported to the Monetary Board in the year 2016.
- iii. **Annual Financial Statements:** International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) have been adopted for this purpose since 2002. These statements are published in

the Annual Report of the Central Bank. The FD updated accounting systems and procedures to comply with relevant accounting standards and requirements on a continuous basis during the year 2016. Audited Financial Statements of the Central Bank for the year 2016 are presented at the beginning of Part II of the Annual Report.

**Table II - 17**  
**Financial Highlights (Rs. bn)**

Item	2016	2015
Total Assets	1,529.2	1,426.2
Foreign Assets (Including Non Financial Gold)	1,050.0	1,126.7
Local Assets	479.2	299.5
Foreign Liabilities	505.8	574.8
Local Liabilities	937.8	797.3
Equity	85.6	54.1
Total Income	42.1	6.4
Interest Income	35.9	22.4
Exchange gain/(loss)	-6.8	10.6
Marking to Market gain/(loss)-Foreign	9.7	-34.9
Other Income	3.3	8.3
Total Expenses	19.9	26.0
Interest Expenses	6.1	12.6
Operational Expenses	12.0	11.6
Withholding Tax	1.8	1.8
Net profit/ (Loss)	22.2	-19.6
Ratio of Equity to Domestic Assets (%)	17.9	18.1

The change in the assets mix of the total assets between the foreign and local assets in 2016 is noted. The deficit money market liquidity position that prevailed in the latter part of 2016 has mainly resulted in the increase of local assets. Reduction in the foreign reserve due to balance of payment conditions in the country was reflected in the reduction in foreign assets. Similarly, on the liability side, the significance of the local liabilities increased as a result of the increase in the balances held by commercial banks and other financial institutions in line with the increase in the Statutory Reserve Requirement (SRR) by 1.5 per cent in January 2016. Improvement in the net profits in 2016 was a result of market gains due to upward movement of gold market prices and higher interest income from Treasury bill holdings maintained for the purpose of open market operations. The appreciation of Rupee against GBP mainly led to the exchange loss on account of GBP denominated foreign assets, accounting for nearly 8 per cent of foreign reserves during mid of 2016 and the reduction in the rupee depreciation rate against US dollar in 2016. Financial results of the Central Bank are determined by monetary and financial policies of the bank in the public interest under the Monetary Law Act and the other statutes and therefore, operations of the Central Bank are not geared for commercial based financial results whereas cost efficiency is

the prime focus of financial management of the bank. Profits of the Central Bank are distributed in terms of the provisions of the Monetary Law Act and Board approved policies.

### 11.2 Preparation of the Annual Budget

The annual income and expenditure budget and capital budget of the Central Bank for the year 2017 were prepared in line with action plans under the strategic plan of each department of the Central Bank. This process started in August 2016 and was finalised in November 2016. The approval of the Monetary Board for the budget of the Central Bank was obtained in November 2016 and the budget was made available to the departments on the first day of 2017. Quarterly budgetary performance statements for the year 2016 were submitted to the Monetary Board in the interest of effective monitoring of budgetary control.

### 11.3 Payment System for Internal and External Financial Transactions

- All internal payments for employee remunerations, staff loans, operational expenses etc. were made in 2016 within the time targets.
- All external payments to local and foreign suppliers were made as per the procedures laid down under the standing orders of the Central Bank. During the year 2016, the total payments were 4,457 which included 4,186 to local suppliers and 271 to foreign suppliers.
- Nearly 2,752 disbursements amounting to Rs 692.8 bn to the General Treasury and relevant projects and 619 installments amounting to Rs 688.8 billion on repayment of foreign loans were made during the year 2016. In addition, 4 banking arrangements were signed with a foreign bank for projects.

### 11.4 Management of Internal Funds

- A separate unit was established under the FD and commenced operations in March 2016 to centrally manage the investments of Central Bank's internal funds (excluding EPF) as per the decision taken by the Monetary Board. Accordingly, all funds are invested under a Common Investment Policy by the FD and the respective owner Departments perform as the administrator of their funds. Fund Management governance system includes independently operating front office, middle office and back office and decisions are taken at the Investment Committee (IC) chaired by a Deputy Governor. The IC meets to advise and monitor the investments of funds. It had 12 meetings during the year 2016, and reported monthly to the Monetary Board for ratification of investments. Accordingly, FD manages 16 internal funds covering 7 superannuation funds of the staff and pensioners and 4 other funds administered by the FD, Deposit Insurance and Liquidity Support Fund administered by the Bank Supervision Department, 3 funds administered by the Staff Services

Management Department and project funds administered by the Regional Development Department.

- The funds are invested mainly in government securities, fixed deposits in State Banks (Bank of Ceylon, National Savings Bank and People's Bank), high rated corporate debentures and short term reverse repos. The audited financial statements of these funds for 2015 were submitted to the Monetary Board as per the rules of those funds. As at end of 2016, total fund base increased to Rs.79.26 billion.

**Table II - 18**  
**Performance of Funds Management - 2016**

Department	Rs. bn	
	Portfolio value as at 31st Dec 2016 (invested values)	Portfolio value as at 31st Dec 2015 (invested values)
Finance	48.90	45.80
Bank Supervision	27.21	16.99
Regional Development	3.09	3.04
Staff Services Management	0.06	0.06
<b>Total</b>	<b>79.26</b>	<b>65.89</b>

### 11.5 Maintaining Fixed Assets Register

FD maintained all records of the fixed assets of the Central Bank in the Fixed Assets Register in the fixed asset module of the General Ledger System. All changes such as new purchases and locations, change of locations, revaluations, depreciation and disposals were recorded in this register during the year 2016. The register was updated during the year 2016 with 1,187 items procured and 253 disposals.

### 11.6 Maintaining the Database of Staff Loans

FD continuously maintained the loan database of the Central Bank staff with the assistance of the Information Technology Department to facilitate the loan recovery record process and to supply information to employees and to the Management during the year 2016. 2,173 loans amounting to Rs 1.69 bn have been granted to the employees during 2016.

### 11.7 Other Operations - Procurement Process

According to the Rules of the Central Bank, the officers of the FD are required to attend all Technical Evaluation Committees and Tender Boards for procurement of goods and services and the Board of Survey. Nearly 259 Tender Boards and 57 Technical Evaluation Committees related to those procurements were attended during the year 2016.

## 12. FINANCIAL INTELLIGENCE UNIT

Financial Intelligence Unit (FIU) was established in 2006 under the Financial Transactions Reporting Act, No. 6 of 2006 (FTRA) as an independent statutory authority. The

FIU, for administrative purposes, has been functioning as a Department within the Central Bank of Sri Lanka since March 2007, in terms of an order made by the Minister of Finance under the FTRA. The key functions of the FIU include collection and receipt of information on financial transactions for the purpose of detecting possible links to Money Laundering (ML) and Terrorist Financing (TF) and other related unlawful activities defined in the FTRA, analysis of suspicious financial transactions relating to above mentioned unlawful activities and dissemination of information of such analyses to relevant law enforcement authorities for investigation. Furthermore, the functions of the FIU are also enforced under the Prevention of Money Laundering Act, No. 5 of 2006 (PMLA) and Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005 (CSTFA).

### **12.1 Receipt, Analysis and Dissemination of Information**

FIU receives information on financial transactions, including suspicious transactions, from Reporting Institutions through a web-based system, "LankaFin", especially designed to assist in reporting on ML and TF. Licensed commercial banks (LCBs), licensed specialised banks (LSBs), licensed finance companies (LFCs), insurance companies, stock brokers (SBs) and money or value transfer service (MVTs) providers continued to report to the FIU on cash transactions and electronic funds transfers (both local and foreign) of Rs. 1.0 million and above each or its equivalent in foreign currencies. In addition, Suspicious Transactions Reports (STRs) were filed with the FIU by the Reporting Institutions in terms of Section 7 of the FTRA. Accordingly, over 9.07 million of cash/funds transfers and 759 STRs were reported during the year 2016. Moreover, Authorised Money Changers (AMCs) also reported their cash transactions exceeding the threshold amount through the Controller of Exchange who monitors and regulates the AMC sector. In 2016, the FIU disseminated 436 STRs to law enforcement and regulatory authorities.

### **12.2 Regulation of Reporting Institutions**

With the issuance of the Financial Institutions (Customer Due Diligence) Rules, No. 1 of 2016 on 27 January 2016, Financial Institutions are required to identify, assess and manage ML and TF risks posed by their customers, products and services, delivery channels etc. and conduct ongoing customer due diligence based on the 'Risk-based Approach (RBA)'. In 2016, the FIU conducted an initial risk assessment of Financial Institutions in terms of the RBA, considering each institution's inherent risks and risk mitigation process. Financial Institutions were categorised into three groups based on their risk levels identified through this assessment and accordingly 13 examinations were conducted under the RBA during 2016.

## **12.3 Domestic and International Cooperation**

### **Memorandum of Understanding**

In 2016, the FIU signed two Memorandums of Understanding (MOUs) domestically with Inland Revenue Department and Department of Immigration and Emigration and four MOUs internationally with Financial Analysis Unit of the Republic of Panama, State Financial Monitoring Service of Ukraine, Israel Money Laundering and Terror Financing Prohibition Authority and Suspicious Transaction Reporting Office of Singapore to exchange/receive information for financial intelligence purposes. Accordingly, the total number of MOUs signed by FIU with foreign counterparts and domestic agencies increased to 32 and 03, respectively as at end 2016.

### **Egmont Group**

FIU obtained assistance from members of the Egmont Group, the Association of the FIUs consisting of 152 member FIUs globally, in order to carry out investigations and collaborated with member countries to gather intelligence on their investigations. Total number of instances that the FIU exchanged information with Egmont members was 62 in the year 2016. Further, the FIU officers participated in the Egmont Group of Financial Intelligence Units' Meetings held in Monaco in February 2016 and the Egmont Policy and Procedures Working Group Inter-sessional Meeting held in Qatar in September 2016.

### **Asia Pacific Group on Money Laundering (APG)**

Sri Lanka is a founder member of the APG. Sri Lanka was represented at the 19th Annual Meeting held in San Diego, USA in September 2016 and 19th Annual Typologies and Technical Seminars held in Jeddah, Saudi Arabia in November 2016 by the FIU and other key stakeholders of Anti-Money Laundering and Countering the Financing of Terrorism of the country (AML/CFT).

### **BIMSTEC Sub-Group on Combating the Financing of Terrorism (BIMSTEC SG-CFT)**

FIU hosted and co-chaired the meeting of the 8th SG-CFT of the Bay of Bengal Initiative for Multi Sectoral Technical and Economic Cooperation (BIMSTEC) held in Colombo during 16-17 March, 2016. The meeting was attended by 35 participants from the BIMSTEC countries.

### **12.4 Institutional Capacity Building and Awareness Programmes**

In continued efforts to enhance the awareness on detecting, analysing and reporting of ML and TF related transactions, 28 awareness/training programmes were conducted during the year, accommodating 1,600 participants from LCBs, LSBs, LFCs and MVTs providers. Further, in 2016, the FIU conducted two special study visit programmes for officers from Bangladesh and Maldives to assist them in building their capacity and

share knowledge of current and emerging regulatory and financial intelligence issues. The annual symposium on AML/CFT was also conducted in December 2016 for 123 officers involved with compliance function of the LCBs, LSBs and LFCs with the assistance of local and foreign resource persons.

### 12.5 Mutual Evaluation and Follow-up Work

In line with the revised recommendations of the Financial Action Task Force (FATF), the third round Mutual Evaluation (ME) on Sri Lanka was conducted during 2014/15 by the APG with the intention of assessing Sri Lanka's AML/CFT compliance vis-à-vis the international AML/CFT standards. The Mutual Evaluation Report (MER) adopted in September 2015 recommended a series of actions to be implemented by Sri Lanka under APG's 'expedite enhanced follow up' process. The FIU introduced the following key measures in order to address the deficiencies highlighted in the MER.

- Adoption of the National AML/CFT Policy for 2015 - 2020 with the approval of Cabinet of Ministers.
- Formulation of an institution-wise action plan in consultation with respective stakeholders based on recommendations of MER and obtaining the approval of Cabinet of Ministers to implement the same.
- Recommendation of amendments to the FTRA and PMLA by a reconstituted Legal Review Committee.
- Issuance of Customer Due Diligence Rules No. 1 of 2016 covering every institution engaged in finance business as defined in the FTRA.
- Finalisation of Customer Due Diligence Rules for the Designated Non-Financial Businesses and Professions (DNFBPs).
- Assessment of financial sector risk and introduction of risk-based AML/CFT supervision.

## 13. HUMAN RESOURCES

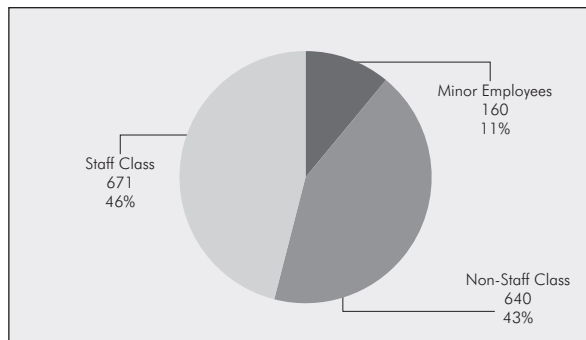
Human Resources Department (HRD) in 2016 undertook various measures such as motivation of existing staff, recruitment of new staff, performance management, promotions, job rotation and grievance handling with the objective of ensuring the availability of a highly productive, motivated and contented team of employees who could contribute towards the achievement of the Central Bank objectives. HRD also continued to maintain a profound relationship among the Central Bank management, all categories of employees and the trade unions, which helped to maintain industrial harmony and thereby improve the overall operational efficiency of the Bank during the year. The structure of the human resources of the Bank with a summary of activities carried out by the HRD during the year are given below.

### 13.1 Human Resources Structure

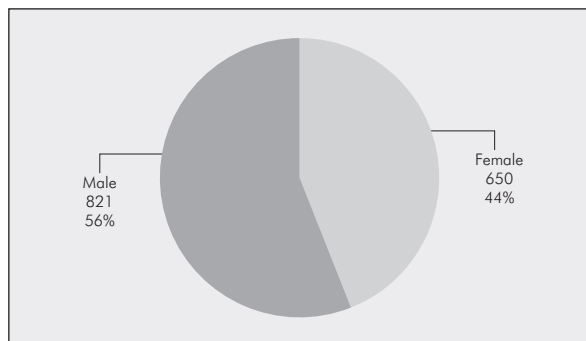
The total number of employees of the Central Bank as at end December 2016 stood at 1,471 consisting of 671 Staff Class (SC), 640 Non-Staff Class (NSC) and 160 Minor Employees (MEE). The class-wise, gender-wise and age-wise composition of the staff are shown in the following charts.

**Chart II - 6**  
**Composition of the Staff as at 31.12.2016**

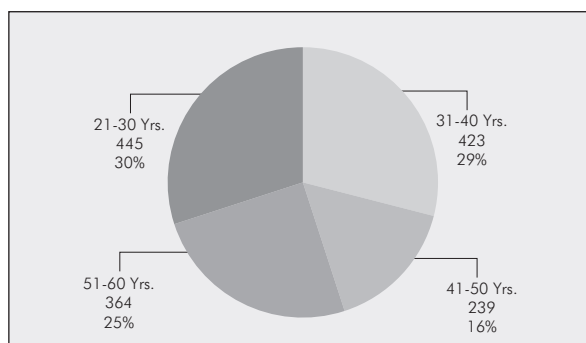
#### (a) Composition of Employees : Class-wise



#### (b) Composition of Employees : Gender-wise



#### (c) Composition of Employees : Age-wise



### 13.2 Educational and Professional Qualifications of the Employees

The Bank maintained a diverse and talented pool of employees mostly among the SC and NSC in 2016. Table II-19 shows the details of the educational and

**Table II - 19**  
**Educational/Professional Qualifications of Officers of Central Bank as at 31.12.2016**

Categories	Educational/Professional Qualifications					
	Postgraduate, First Degree and Professional Qualifications	Postgraduate and First Degree	Postgraduate and Professional Qualifications	First Degree and Professional Qualifications	First Degree	Professional Qualifications
Staff Class	*123	**135	14	127	122	75
Non-Staff Class	15	8	11	33	33	78
<b>Total</b>	<b>138</b>	<b>143</b>	<b>25</b>	<b>160</b>	<b>155</b>	<b>153</b>

\* Includes 5 PhD holders

\*\* Includes 8 PhD holders

professional qualifications possessed by the employees of the Central Bank, at the end of December 2016.

### 13.3 Human Resources Management

#### (a) Recruitments

During the year, HRD recruited a Director to the Security Services Department on contract basis, 79 Banking Assistants (Trainees) and 53 Management Trainees. Out of the 53, 42 were external candidates while 11 were internal candidates.

#### (b) Performance Management

Performance Management system of the Bank comprises 4 steps; i. e. preparation and review of job descriptions of employees, setting goals for individual employees, monitoring of employee performance and evaluation of performance. Under the performance evaluation process, the level of performance of each employee is evaluated by assigning ratings for the performance achieved based on the generic and technical competencies as specified in the evaluation criteria. The final performance of employees are used as one of the requirements in the promotion criteria.

The HRD carried out the employee performance evaluation process as planned during the year. Further, the HRD reviewed the mid-year performance review process of the departments and obtained goals of employees from departments for 2016.

#### (c) Promotions

Promotion of an Assistant Governor as a Deputy Governor, 05 Heads of Department as Assistant Governors and 20 Deputy Heads of Department as Additional Heads of Department were effected during the year 2016. In addition, under the employee promotion scheme of the Central Bank, grade promotions were granted to 50 employees during the year 2016. Accordingly, 19 officers in SC, 31 officers in NSC were promoted in line with the applicable promotion criteria. Class promotions were granted to 32 employees in NSC during the year 2016.

#### (d) Job Rotation

The Central Bank implements the annual job rotation scheme with the objective of providing an opportunity for officers to gain experiences in different areas of the Bank.

Accordingly, in 2016, the HRD effected transfers of 19 SC officers and 31 NSC officers under the annual job rotation scheme, with effect from 01 January 2017.

#### (e) Industrial Harmony

In 2016, HRD continued to perform its role as the facilitator for maintaining a closer dialogue between the Management and trade unions. Accordingly, a number of discussions between the Management and trade unions were arranged during the year on union matters.

#### (f) Grievance Handling

HRD attended to the grievances of employees and pensioners and took appropriate measures to resolve them during the year 2016.

### 13.4 Establishment of New Departments/Regional Offices

1. A new Regional Office was set up in Nuwara Eliya with the view of enhancing regional development activities of the area and facilitating Employees' Provident Fund operations.
2. The Regional Office Management Department (ROMD) was established with effect from 21 November 2016 by amalgamating five Department Level Regional Offices (DLRO) known as DLRO-Upcountry, DLRO-North Central & North Western Provinces, DLRO-Southern Province, DLRO-Northern & Eastern Provinces and DLRO-Western Province to facilitate the acceleration of regional level economic development by carrying out management and supervisory functions of the activities of the Regional Offices (ROO) while strengthening better coordination of ROO with different departments of the Bank, government and non-government institutions.

### 13.5 Renaming of Departments

Financial Sector Research Department was renamed as Macroprudential Surveillance Department with effective from 14 October 2016.

### 13.6 Meetings attended by Governor Abroad during the Year 2016

#### Mr. Lakshman Arjuna Mahendran (1 January to 30 June, 2016) :

1. Attended 46th Annual Meeting of the World Economic Forum 2016 in Davos, Switzerland in January 2016, as a member of the delegation of the Hon. Prime Minister.



2. Attended Meeting with Mr. Angel Gurria, Secretary General of OECD held in Paris, France in February, 2016.
  3. Led the delegation of Sri Lanka Banks' CEOs to attend the People's Republic of China Meetings and Discussions with the Officials of People's Bank of China and other Financial Institutions in the People's Republic of China and also attended meetings with Rating Adviser in Singapore during the month of February, 2016.
  4. Attended the High-Level Conference Advancing Asia Conference in Delhi and attended the Sri Lanka Investment Summit, FinanceAsia in Singapore in March, 2016.
  5. As a member of the Hon. Prime Minister's delegation to the People's Republic of China, attended the Meetings in April, 2016.
  6. Attended the IMF/World Bank Spring Meetings 2016 in Washington, D.C. and attended investor meetings in New York, Boston, San Francisco and Los Angeles during the month of April, 2016.
  7. Attended Meetings with investors in Hong Kong and Singapore during the period, April - May, 2016.
  8. Attended meetings with investors in Singapore in the months of April and May, 2016.
  9. Attended the 32nd Group Meeting of the SAARCFINANCE Governors and SAARCFINANCE Governors' Symposium in Mumbai in May, 2016.
- i. Mr. S R Sumanasekara was promoted and appointed as Acting Additional Director of the Policy Review and Monitoring Department.
  - ii. Mr. M Withana was promoted and appointed as Acting Additional Superintendent of the Employees' Provident Fund Department.
  - iii. Mr. U L Tilakaratne was promoted and appointed as Acting Additional Director of the Regional Development Department.
  - iv. Mr. A A Chandrasena was promoted and appointed as Acting Additional Director of the Internal Audit Department.
  - v. Mr. M R M Abeyratne was promoted and appointed as Acting Additional Director of the Bank Supervision Department.
  - vi. Mr. C A Abeysinghe was promoted and appointed as Acting Additional Director of the Domestic Operations Department.
  - vii. Mr. D M D B Dissanayake was promoted and appointed as Acting Additional Director of the Centre for Banking Studies.
  - viii. Mr. R D W Pallegama was promoted and appointed as Acting Additional Director of the Department of Supervision of Non-Bank Financial Institutions.
  - ix. Mr. W Ranaweera was promoted and appointed as Acting Additional Director of the Department of Supervision of Non-Bank Financial Institutions.
  - x. Miss. K G R K Dheerasinghe was promoted and appointed as Acting Additional Director of the Staff Services Management Department.
  - xi. Mr. J P Gamalath was promoted and appointed as Acting Additional Director of the International Operations Department.
  - xii. Mr. C P S Bandara was promoted and appointed as Acting Additional Superintendent of the Public Debt Department.
  - xiii. Mr. A M Gunathilake was promoted and appointed as Acting Additional Superintendent of the Employees' Provident Fund Department.
  - xiv. Mrs. W A Dilrukshini was promoted and appointed as Acting Additional Director of the Economic Research Department.
  - xv. Mrs. D S W Samaratinga, who had been released to the Ministry of Finance, was appointed as Acting Additional Director.
  - xvi. Mr. J D S J Nanayakkara was promoted and appointed as Acting Additional Superintendent of the Employees' Provident Fund Department.

**Dr. Indrajit Coomaraswamy (3 July to 31 December, 2016):**

1. Attended the 8th Meeting of the SAARCFINANCE Ministers in Islamabad, Pakistan in August, 2016.
2. Attended the IMF/World Bank Annual Meetings 2016 in Washington, D.C. during the month of October, 2016.

**13.7 Promotions/Appointments**

1. Mr. S Lankathilake, Assistant Governor, was appointed as Deputy Governor with effect from 24 January 2016.
2. Promotions and appointments to Staff Class Special Grade were made as follows.
  - i. Miss. K Saravanamuttu was appointed as an Assistant Governor with effect from 05 April 2016.
  - ii. Mr. E A Hettiarachchi was appointed as an Assistant Governor with effect from 05 April 2016.
  - iii. Mr. R A A Jayalath was appointed as an Assistant Governor with effect from 16 April 2016.
  - iv. Mr. K M M Siriwardana was appointed as an Assistant Governor with effect from 12 June 2016.
  - v. Mr. S J A Handagama was appointed as an Assistant Governor with effect from 18 June 2016.
3. The following promotions and appointments to Staff Class Grade IV were made effective from 01 September 2016.

- xvii. Mrs. R D T Gunasekara was promoted and appointed as Acting Additional Superintendent of the Public Debt Department.
- xviii. Mr. K G P Sirikumara was promoted and appointed as Acting Additional Director of the Legal and Compliance Department.
- xix. Dr. C Amarasekara was promoted and appointed as Acting Additional Director of the Economic Research Department.
- xx. Dr. P K G Harischandra, who had been released to the Ministry of Finance, was appointed as Acting Additional Director.
4. Mr. A A M Thassim, Director of the Communications Department, was appointed as Director of the Bank Supervision Department with effect from 05 January 2016.
5. Miss. S H Gunawardena, Acting Director of the Bank Supervision Department, was appointed as the Acting Director of the Communications Department with effect from 05 January 2016.
6. Mr. E A Hettiarachchi, Director of the Facilities Management Department, was appointed to act as the Director of the Security Services Department with effect from 03 February 2016, in addition to his duties in the Facilities Management Department.
7. Mr. P V L Nandasiri, Director of the Legal and Compliance Department, was appointed to act as the Director of the Security Services Department with effect from 12 April 2016, in addition to his duties in the Legal and Compliance Department.
8. Mr. D Kumaratunge, Additional Director of the Economic Research Department, was appointed as the Acting Director of the Payments and Settlements Department with effect from 12 April 2016.
9. Mr. N W G R D Nanayakkara, Director of the Financial Sector Research Department, was appointed to act as the Director of the Policy Review and Monitoring Department with effect from 19 April 2016, in addition to his duties in the Financial Sector Research Department.
10. Mr. H B D Karunaratne, Additional Director of the Domestic Operations Department, was appointed as the Acting Director of the Facilities Management Department with effect from 19 April 2016.
11. Mrs. K N N M Bandara, Additional Director of the Economic Research Department, was appointed as the Acting Superintendent of the Employees' Provident Fund Department with effect from 27 April 2016.
12. Mr. A M N Gunawadana, Director of the Human Resources Department, was appointed as the Director of the Policy Review and Monitoring Department with effect from 23 June 2016.
13. Mr. K M Abeykoon, Director of the Training and Development Department, was appointed as the Director of the Human Resources Department with effect from 23 June 2016.
14. Mrs. D V S Dayawansa, Additional Director of the Regional Development Department, was appointed as the Acting Director of the Regional Development Department with effect from 23 June 2016.
15. Mr. S K Ranasinghe, Additional Director of the Bank Supervision Department, was appointed as the Acting Director of the Training and Development Department with effect from 23 June 2016.
16. Mrs. K M A N Daulagala, Deputy Secretary to the Monetary Board, was appointed as the Director of the Department Level Regional Office - North Central and North Western Provinces with effect from 28 June 2016 and subsequently she was appointed as the Deputy Secretary to the Monetary Board with effect from 07 July 2016.
17. Mr. D M Rupasinghe, Director of the Department Level Regional Office – Upcountry, was appointed to act as the Director of the Department Level Regional Office – North Central and North Western Provinces with effect from 07 July 2016 and subsequently he was appointed to act as the Director of the Department Level Regional Office – Southern Province with effect from 05 August 2016 and subsequently he was appointed to act as Director of the Department Level Regional Office – Northern and Eastern Provinces with effect from 15 September 2016 in addition to his duties in the Department Level Regional Office – Upcountry.
18. Mr. M I Sufiyan, Director of the Department Level Regional Office – Northern and Eastern Provinces, was appointed as the Chief Accountant of the Finance Department with effect from 15 September 2016.
19. Mr. B W Jinasena, Director of the Staff Services Management Department, was appointed to act as the Secretary of the Secretariat Department with effect from 12 October 2016 in addition to his duties in the Staff Services Management Department.

### 13.8 Officers on Release

1. Mr. S R Attygalle, Assistant Governor, to the Ministry of Finance as a Deputy Secretary.
2. Mrs. S Gunaratne, Staff Class Grade IV officer, to the International Monetary Fund as an Alternate Executive Director.
3. Dr. (Mrs.) R A Perera, Staff Class Grade IV officer, to the Ministry of Public Enterprise Development.
4. Mrs. D S W Samaratunga, Staff Class Grade IV officer, to the Ministry of Finance.
5. Dr. P K G Harischandra, Staff Class Grade IV officer, to the Ministry of Finance.

6. Mr. U Hettiarachchi, Staff Class Grade III (1) officer, to the HDFC Bank.
7. Mrs. A Edirisinghe, Staff Class Grade II officer, to the Ministry of Finance.
8. Mrs. S Ratnayake, Staff Class Grade II officer, to the International Monetary Fund as an Administrative Assistant.
9. Mr. N B Janagan, Staff Class Grade I officer, to the Ministry of Finance.
10. Mr. S N W Karunadasa, Driver, to the Ministry of Power & Renewable Energy.

### 13.9 Retirements

1. Mr. B D W A Silva, Deputy Governor, retired from the Bank service with effect from 24 January 2016.
2. Mr. C P A Karunatilake, Assistant Governor, retired from the Bank service with effect from 16 April 2016.
3. Mr. E A Hettiarachchi, Assistant Governor, retired from the Bank service with effect from 26 May 2016.
4. Mrs. R Dheerasinghe, Assistant Governor, retired from the Bank service with effect from 12 June 2016.
5. Mr. D Wasantha, Assistant Governor, retired from the Bank service with effect from 18 June 2016.
6. Mr. H M Ekanayake, Director of the Security Services Department, retired from the Bank service with effect from 01 May 2016.
7. Mrs. R A S M Dayarathna, Director of the Payments and Settlements Department, retired from the Bank service with effect from 11 July 2016.
8. Mr. M J S Abeyasinghe, Director of the Department Level Regional Office – Southern Province, retired from the Bank service with effect from 02 November 2016.
9. Mr. P A Wijeratne, Chief Accountant of the Finance Department retired from the Bank service with effect from 15 December 2016.
10. Mr. M Withana, Acting Additional Superintendent of the Employees' Provident Fund Department, retired from the Bank service with effect from 19 October 2016.

## 14. INFORMATION TECHNOLOGY

Information Technology Department (ITD) continued to provide IT Services to facilitate operations of the Central Bank of Sri Lanka in order to improve the efficiency supported by IT solutions.

During the year, ITD carried out its activities under five major areas, namely, (a) Delivering cost-effective business solutions; (b) Continuous enhancements of the IT infrastructure; (c) Support services to maintain national payment system infrastructure; (d) Strengthening IT security and resilience; (e) Upgrading ICT competencies among the staff.

### (a) Delivering Cost-Effective Business Solutions

ITD carried out 25 IT projects to improve the business processes in the Bank while providing support and maintenance for all existing applications. Out of these, 6 projects were for the Economic Policy Advisory Cluster, 12 projects were for the Financial Sector Regulation and Supervision Cluster and 7 projects were for the Capacity Building and Support Cluster of the Bank. Major projects undertaken during the year were as follows:

- i. Common Electronic Research Database was implemented to collect data from different departments and thereby provide a wide range of social and economic data to facilitate requirements of internal and external researchers.
- ii. A bar code enabled IT solution was introduced to the Currency Department to speed up the process of collecting currency deposits from commercial banks and currency-in-transit (CIT) companies.
- iii. Electronic Leave Management System was introduced to simplify the leave application process and streamline the employees' leave data.
- iv. Employees' Provident Fund (EPF) system was enhanced with automated contribution collection, enabling crediting member contributions the same day to the member's account online with real time validations together with the relevant payment, eliminating costs involved in the present method.
- v. Central Bank Provident Fund and Central Bank Employees' Trust Fund system were reengineered to allow the responsible departments to process the transactions and generate required reports by themselves.

### (b) Continuous Enhancements of the ICT Infrastructure

The following activities were carried out in this regard during the year:

- i. Commenced using Microsoft Advanced Threat Analytics feature to identify suspicious security incidents in personal computers.
- ii. Provided a centralised digital data storage for employees to backup official documents.
- iii. Migrated e-mail server to Microsoft Exchange 2016 in order to retain emails for a longer period and to archive emails centrally
- iv. Restructured the Local Area Network (LAN) of the Bank to accommodate the EPF Department in the Central Bank Head Office

### (c) Support Services to Maintain National Payment System Infrastructure

ITD continued to provide advice and technical expertise to the following national projects during the year:

- i. Upgraded the LankaSettle/LankaSecure application software (CAS/CSS) from version 3.7 to 3.8 to incorporate enhanced business functionalities and to accommodate the new NIC number
- ii. Served in the Technical Evaluation Committee (TEC) for the establishment of an electronic trading platform and a Bond Clearing house with a Central Counter Party Solution.
- iii. Participated in the examinations conducted by the Payments and Settlements Department on eZ cash, m-cash and single purpose stored value travel card systems.

#### **(d) Strengthening IT Security and Resilience**

During the year ITD took several initiatives to minimise the threats and strengthen IT security.

- i. Established the new Disaster Recovery Site (DRS) to conduct business operations of the operational departments
- ii. Set-up an IT security testing lab to conduct information security tests.
- iii. Installed a software solution for information classification and digital rights management to ensure confidentiality of Bank's information. This will be put into operation in the second quarter, 2017.

In addition to the above, ITD continued to assess the security of critical Central Bank information systems regularly by;

- i. Conducting vulnerability assessments and penetration tests and applying relevant protection measures for identified vulnerabilities.
- ii. Facilitating information system audits on requests made by the Department of Internal Audit and external auditors.

#### **(e) Upgrading ICT Competencies among the Staff**

- i. In order to uplift knowledge and skills, the officers of ITD were provided training opportunities both locally and abroad. Accordingly, 47 officers participated in short term training locally and 14 officers attended short term training programs abroad in the areas of Information, Cyber and Network Security, Payment and Settlement Systems, Governance and Leadership and Windows Server Configuration and Administration.
- ii. With the aim of enhancing the IT knowledge of all employees in the Bank, ITD continued to publish awareness banners on Mansala, and circulate security advisory alerts through email.

## **15. INTERNAL AUDIT**

The internal audit function has been in operation since 1951 in the Central Bank with the purpose of providing independent objective assurance and recommendations to add value, and improve the control environment of related operations.

The mission, scope of work, accountability, independence, responsibility and the authority of the Director and the staff of the Internal Audit Department (IAD) have been included in the Internal Audit Charter which was last updated during 2016. IAD conducted audits in line with global standards and industry best practices. A summary of the activities carried out by the Department during 2016 is given below.

### **15.1 Conduct of Audit Assignments**

#### **a) Annual Audit Plan for 2016**

The Annual Audit Plan (AAP) was prepared based on the updated Audit Universe of the Central Bank for the year. In this regard, the list of activities carried out by each department as mentioned in their respective updated operational manuals were compiled, assessed and high risk activities were selected for the AAP, covering the core objectives, ancillary to core objectives, agency functions and other activities of the Central Bank prioritising functions relating to the core objectives and ancillary to core objectives. Information Systems Audits were also included in the AAP. The AAP was implemented with the approval of the Monetary Board subsequent to the recommendations of the Monetary Board Advisory Audit Committee (AAC). Furthermore, initiatives were taken by IAD to prepare a three (03) year Strategic Audit Plan (SAP) as per the recommendations of the IMF Safeguards Mission. Accordingly, SAP for the period of 2018-2020 was prepared during the year.

#### **b) Internal Audit Procedure**

Each audit engagement was carried out in four sequential steps, i.e., planning, performing, communicating and taking resolution actions. During the performing stage, audit evidence were gathered and documented. In line with global standards, a four step process was followed for the communication of audit results; conduct of closing conference in order to get audit observations validated, communication of audit observations in writing, issuing of draft audit report and issuing of final report. Follow-up audits were also conducted at regular intervals to obtain assurances that the agreed audit recommendations were implemented by process owners. All the audit assignments were conducted in line with the International Professional Practices Framework (IPPF) standards of the Institute of Internal Auditors (IIA) and with the ISACA guidelines (Information Systems Audits).

IAD reviewed the systems (including information systems) and internal controls of the departments and their adherence to manuals, policies and procedures. Furthermore, IAD conducted frequent spot audits in a number of departments as per the instructions of the AAC. In line with that, audits were conducted covering numerous departments and highlighted the internal control weaknesses, system deficiencies while

recommending measures to be taken to minimise the risks associated with such observations. Accordingly, it lead to improving the efficiency of the work performed by those departments and minimise the risks of potential frauds, waste, and other material losses to the Bank.

#### c) **Special Assignments**

Special reviews were conducted focusing on the investment procedures carried out by the departments of Central Bank, fund management functions, security measures, other internal controls, and compliance with manuals, policies and procedures upon the requests of the Governor, Monetary Board or AAC. The reviews covered the activities of several departments. In accordance with the review findings, the relevant departments have already taken action to implement the recommendations made by IAD.

#### d) **Reporting the Progress of the Conduct of Audits**

The progress of conducting audit assignments was reported to the AAC and the Monetary Board, quarterly. Activity reports were submitted to the Auditor General on half-yearly basis.

### **15.2 Awareness Programmes and Provision of Training**

IAD arranged a presentation on Information System Audit for the audit staff with the assistance of an Information System Audit expert in the industry during 2016. Further, internal presentations and knowledge sharing sessions were conducted regularly for the benefit of IAD staff. As requested by the Human Resources Department, IAD continued to provide training on internal audit and related disciplines to graduates, undergraduates and the students of the Institute of Chartered Accountants of Sri Lanka in 2016.

### **15.3 Monetary Board Advisory Audit Committee**

AAC is a sub-committee of the Monetary Board, which advises the board policies and issues relating to the audits of the Bank in the areas such as Annual Internal Audit Plan and any interim revision therein, management response to the management letters issued by external auditors etc. Director of the Internal Audit is the Assistant Secretary to the AAC and IAD continued to provide secretarial facilitation for the AAC during the year.

### **15.4 Facilitation for External Audit**

The Auditor General conducts the external audit of the Central Bank and IAD acts as the facilitator to the external audit through the Secretary to the Monetary Board. For the purpose of the audit of financial statements in terms of International Financial Reporting Standards, the Auditor General has appointed M/s. Ernst & Young, Chartered Accountants. Accordingly, IAD provided technical inputs to the Secretary to the Monetary Board to gather required information, analyse the findings, and

handle correspondence.

### **15.5 External Quality Assessment Review (EQAR)**

During the year under review, an EQAR was conducted for the second time by a reputed local audit firm to ascertain whether the IAD functions in conformity with the IPPF standards of the IIA. IMF Safeguards Mission on a visit to Sri Lanka in May 2016, also recommended that the Central Bank carry out such assessment. The review established that IAD executes its responsibilities in a manner that "Partially Conforms" to the IIA Standards.

## **16. INTERNATIONAL OPERATIONS**

In terms of the Monetary Law Act (MLA), the Central Bank is responsible for managing the official foreign exchange reserves of the country. As per MLA, the Monetary Board has vested the responsibilities of international reserves management and monitoring of the domestic foreign exchange market to the International Operations Department (IOD).

The MLA provides the necessary legal framework for international reserves management, specifying area such as maintenance and composition of international reserves, action to preserve the international stability of the Rupee, scope of foreign exchange operations of the Central Bank of Sri Lanka and the powers and responsibilities of the Monetary Board pertaining to international reserves management activities. In this aspect, Section 67 of MLA deals with the parameters in respect of asset types, counterparties, instruments and issuers. The Monetary Board also issues directions with regard to reserves management to enhance safety, liquidity and return.

### **16.1 International Reserves Management**

Investments of international reserves are undertaken in accordance with the Foreign Reserves Management Guidelines approved by the Monetary Board and, under the supervision of the Foreign Reserves Management Committee (FRMC) taking into consideration the safety, liquidity and return objectives. The international reserves are denominated in several key currencies and are mainly invested in fixed income securities (FIS), money market instruments and gold. The FIS portfolio consists of highly rated government securities, government guaranteed securities, securities of government agencies and supranational institutions. Transactions undertaken by IOD for reserve management purposes, are performed with central banks, highly rated commercial banks and investment houses, which are counterparties approved by the management, paying due consideration to the strength and creditworthiness of each counterparty. The key factors considered in determining the asset and currency compositions of the foreign reserves portfolio constitute liquidity requirements, debt service payments, risk management parameters, income generating abilities and specific directions of the Monetary Board.

During the year 2016, the Central Bank joined the Reserve Advisory and Management Programme (RAMP) of the World Bank with the objective of gaining enhanced technical expertise in Reserve Management. RAMP is conducted by World Bank Treasury which provides advisory services and training to state sector investment managers enabling efficient management of foreign currency reserves and other investment portfolios. The primary objective of RAMP is to help World Bank member institutions to upgrade their asset management capabilities, operational infrastructure and human resources capacity.

With the assistance of the World Bank under the RAMP initiative, the Central Bank manages its foreign reserves under a scientific approach which permits assets to be strategically allocated in accordance with the liabilities. This process known as Strategic Asset Allocation (SAA) enables the Central Bank to determine the appropriate asset allocation at any point of time to achieve its long-term investment objectives. The SAA objectives are long-term and these objectives include meeting future payment obligations, preservation and enhancement of capital.

With rate hikes in the United States, investors sought to move their investments from Emerging Markets to Developed Markets for comparatively high return. However, the financial market volatility triggered by concerns of a potential spillover then president - Elect from the post Brexit market uncertainty and the proposed policy changes on international trade and fiscal sectors by the new US president elect, increased the safe haven demands which in turn lead to capital outflows from Asian economies. In this challenging global setting, IOD secured a realised return of US dollar 53 million during the year 2016 through foreign currency trading, money market investments and capital gains and coupon income derived from fixed income securities.

In 2015, the Central Bank and the Reserve Bank of India (RBI) signed currency swap agreements enabling Central Bank to draw US dollar 1,500 million. Under these agreements US dollar 700 million was available under special currency swap agreement in March 2016 for three months. US dollar 400 million out of the above swap agreement was available to Central Bank in April 2015 and was rolled over in the year 2016 four times under the financing facility for South Asian Association for Regional Cooperation (SAARC) member country Central Banks. These facilities helped Central Bank to further strengthen its position in the financial market and bring greater stability to the exchange rate in line with macroeconomic fundamentals and movements of the currencies of major trading partners.

## 16.2 Analysis and Facilitation of Investment Activities

Under Investment Analysis and Facilitation activities the following main functions relating to Central Bank's reserves management are conducted.

### (a) Performance Measurement

IOD assesses performance of its reserve management activities on a monthly, quarterly and annual basis with special emphasis on total return, asset and currency distribution and presents to the FRMC and the Monetary Board together with an analysis of reserve position and its trend. Further, the returns generated through FIS investments are benchmarked against a passively managed portfolio weighted according to the Strategic Asset Allocation (SAA) approved by the Monetary Board. In addition to income comparison, benchmarking helps to determine the effectiveness of active reserves management strategy by showing whether extra risk assumed by dealers is adequately compensated by subsequent extra returns.

### (b) Administration of Treasury Management System (TMS)

IOD, apart from being the main user of the TMS, is responsible for the administration function including housekeeping activities related to TMS and ensures a proper coordination among other user Departments, the software vendor and the local partner. Further, IOD ensures that the TMS is fully connected with internal systems such as Society for Worldwide Interbank Financial Telecommunications (SWIFT), Real Time Gross Settlement (RTGS) and General Ledger (GL) as well as external interfaces such as Bloomberg and Reuters to ensure efficient functioning of TMS related procedures and processes.

### (c) Monitoring of Non- Financial Risks and Compliance

IOD prepares and monitors the non-financial risk profile relating to the reserves management activities and reports relevant risk treatments to the Non-Financial Risk Management Committee (NFRMC) on a quarterly basis.

### (d) Annual Review of Existing Counterparties for Their Adherence/Compliance to Anti Money Laundering (AML) and Combating Financing of Terrorism (CFT)

During 2016, IOD formulated a new Guideline-“Know Your Customer (KYC)/ Customer Due Diligence (CDD) rules for the Central Bank of Sri Lanka for the foreign counterparties” to ensure compliance with rules and regulations and international best practices in relation to AML and CFT with regard to foreign exchange transactions by all counterparties of Central Bank.

## 16.3 Domestic Foreign Exchange Market Developments

The operations of the domestic foreign exchange market were streamlined during 2016 by the IOD through continuous monitoring of its activities, with the objective of curbing excess volatility in the exchange rate. The uncertainties provoked by Brexit and the high expectation of an interest rate hike by the Federal Reserve during the year, led the Dollar to appreciate. Consequently, the increased capital outflows and repatriation of foreign investments in Treasury securities exerted pressure on the

Sri Lankan rupee to depreciate. In 2016, total interbank foreign exchange transaction volume increased to US dollars 14.8 billion from US dollars 13.6 billion recorded in 2015 (Table II-20). Transaction volumes on Tom, Cash and Forward basis have decreased while transactions on Spot basis have significantly increased compared to the previous year. The aggregate limit on the Net Foreign Exchange Open Position of the licensed commercial banks (LCBs) imposed by Central Bank was enhanced to US dollars 197 million by the end of the year. Meanwhile, National Savings Bank was also granted a Net Open Position with effect from 05 December 2016. Further, Central Bank intervention indicated a net sales position of US dollars 768.16 million during the year as compared to the net sales of US dollars 3,249.53 million in 2015 (Table II- 21).

**Table II - 20**  
**Inter-Bank Foreign Exchange Transactions**  
**Volume - 2016**

Month	USD mn				
	Spot	Tom	Cash	Forward	Total
January	393.00	101.00	80.90	575.76	1,150.66
February	301.13	101.50	76.40	696.16	1,175.19
March	226.00	239.20	143.35	829.63	1,438.18
April	138.80	149.50	188.50	701.41	1,178.21
May	98.75	98.75	153.95	781.83	1,133.28
June	316.45	150.55	142.75	794.22	1,403.97
July	144.75	108.50	73.20	794.88	1,121.33
August	112.75	199.85	261.55	614.79	1,188.94
September	234.75	185.70	357.70	661.45	1,439.60
October	210.90	220.60	165.95	709.03	1,306.48
November	102.00	91.00	87.40	716.21	996.61
December	177.22	78.50	159.68	821.63	1,237.03
<b>Total</b>	<b>2,456.50</b>	<b>1,724.65</b>	<b>1,891.33</b>	<b>8,696.04</b>	<b>14,769.50</b>

Source : International Operations Department, Central Bank of Sri Lanka

**Table II - 21**  
**Purchases and Sales of Foreign Exchange by the**  
**Central Bank - 2016**

Month	USD mn		
	Purchases	Sales	Net Purchases/ (Sales)
January	-	303.50	-303.50
February	-	189.05	-189.05
March	10.95	432.06	-421.11
April	14.94	266.45	-251.51
May	123.83	36.20	87.63
June	178.78	194.02	-15.24
July	204.55	53.90	150.65
August	190.77	57.58	133.19
September	131.29	15.20	116.09
October	88.33	163.78	-75.45
November	9.45	116.91	-107.46
December	179.31	71.73	107.58
<b>Total</b>	<b>1,132.22</b>	<b>1,900.38</b>	<b>-768.16</b>

Source : International Operations Department, Central Bank of Sri Lanka

## 17. LEGAL AND COMPLIANCE

The role of the Legal and Compliance Department (LCD) in achieving the core objectives of the Central Bank of Sri Lanka has come to the forefront of strategic agendas in the recent past. LCD, in achieving its objectives i.e. safeguarding legal interests of the Central Bank and ensuring contemporariness of the legal and regulatory framework, played a significant role providing legal input to the Central Bank at the level of policy formulation on the matters of national importance. After the establishment of LCD in June 2015, it has been able to ensure the integrity of the Central Bank in all legal and procedural aspects in co-ordination with government departments, other regulatory authorities and other departments of the bank, in relation to the understanding of legal and implementation issues pertaining to financial system stability, financial market operations and payment systems and for the enforcement of laws applicable to the financial system of the country.

LCD plays a pivotal role in mitigating the legal and reputational risk of the Central Bank, whilst ensuring that the legal and regulatory framework administered by the Central Bank is on par with international standards and best practices.

Pursuant to its establishment, the department was able to handle almost all litigations and other legal issues of the Central Bank arising from time to time, effectively and efficiently. In this respect, continuous support of LCD has been extended to all other affiliated departments of the Central Bank to resolve legal issues confronted by such departments. All contracts, agreements and other key legal instruments executed by such departments were also drafted and/or subject to the review of LCD. Handling all notarial work, particularly on Central Bank Staff (Mortgage) Loan Scheme, was also a key function efficiently carried out by LCD.

LCD provided its observations, recommendations, and/or advice to the financial sector supervisory departments of the Central Bank, particularly when the need arises to take appropriate regulatory and enforcement action against non-compliance of regulated entities of such departments. Further, during this short period after its establishment, LCD has been assisting the Monetary Board of the Central Bank by providing advice, interpretations and recommendations sought by the Monetary Board from time to time, with a view to mitigate legal and other risks arising from its decisions.

Officers of LCD represented the Central Bank in various legal fora and tribunals such as superior courts, Bribery Commission etc., and liaised with the Attorney General's Department in handling legal matters. The officers of the LCD attended as resource persons in several awareness programmes conducted to enhance the financial inclusiveness of the general public on illegal financial schemes, unauthorised finance business etc. In doing so, LCD has largely facilitated ensuring that the functions and activities of the Central Bank are carried out in compliance with applicable laws, rules and regulations.

The project to bring appropriate amendments to the statutes administered by the Central Bank was commenced by LCD last year. The project is being continued, with a view to enhance such statutory requirements, keeping abreast of the global regulatory standards and best practices. In association with this objective, LCD maintained an efficient dialogue and coordination with other regulatory and supervisory authorities to foster the development of a cohesive regulatory approach towards ensuring financial system stability in Sri Lanka.

## 18. MACROPRUDENTIAL SURVEILLANCE

The Department was established in 2007 as Financial System Stability Department and renamed as Financial Stability Studies Department (2011), as Financial Sector Research Department (2014), and as Macroprudential Surveillance Department (MSD) in November 2016. The Department is still in its initial stages in terms of required technical capacity and human resources.

Purpose of MSD is to assess systemic risks in the financial sector independently in order to achieve financial system stability, which is one of the core objectives of the Central Bank. Main functions of MSD include conducting macroprudential surveillance, development of a database of key variables which could impact financial stability, preparation of annual Financial System Stability Review (FSSR) and contributing to statutory and other periodic reports. Accordingly, during the year, MSD continued to improve its macroprudential surveillance framework, conducted research on topics relating to the development and strengthening of financial system stability, and contributed to periodic statutory and other reports of the Central Bank, as summarised below.

### (a) Macroprudential Surveillance

In line with its mandate, MSD continued to develop a series of financial soundness indicators for financial institutions, financial markets, corporate sector and the macroeconomy on a periodical basis, based on the data provided by relevant departments of the Central Bank and external institutions. These indicators are used to assess the health of aforementioned sub-sectors of the financial system and also to identify early signs of system-wide vulnerabilities, if any, being created. Further, the Department compiled several macroprudential indicators covering financial markets, licensed banks, non-bank financial institutions, corporate sector and the macroeconomy while continuing to improve its early warning indicator models to assess the behaviour of exchange rate, creditworthiness of the corporate sector and the movement of financial sector credit flows. Monthly financial sector risk assessment reports were submitted to the Monetary Policy Committee highlighting the trends and developments in the financial sector as revealed by aforementioned macroprudential surveillance.

### (b) Research on Specific Financial Sector Topics

Research on four specific financial sector topics was conducted during 2016. These were focused on identification of restrictions, if any, for diversification of lending activities of non-bank financial institutions, asset securitisation, orderly resolution of weak financial institutions including dealing with impaired assets and organisational structure of financial sector departments of regional central banks.

### (c) Contribution to Statutory and Other Reports of the Central Bank

MSD contributed and coordinated the preparation of the Chapter on 'Financial Sector Developments and Stability' in the Central Bank Annual Report 2015 and the Chapter on 'Financial Sector Developments and Stability' in the Recent Economic Developments 2016 published by the Central Bank. Further, the Department contributed to the Chapter on 'Financial Sector Developments and Stability' in the September 15 Report submitted to the Ministry of Finance in September 2016, by collating individual reports submitted by relevant departments of the Central Bank and external institutions. These reports provide comprehensive analyses on financial institutions, financial markets and financial infrastructure of the country with particular emphasis on performance, risks and risk management, resource availability and regulatory developments pertaining to each area together with an assessment of potential implications on the overall financial system stability of the country by each sector. The Department also contributed to similar activities of other departments of the Central Bank by way of compiling financial sector data, submitting regular reports and contributing to their publications.

### (d) Other Activities

MSD was involved in initial coordination with the IMF and the World Bank to obtain technical assistance to relevant departments of the Central Bank on the recovery of troubled assets, updating statutes relating to financial sector regulations and financial sector developments.

## 19. PAYMENTS AND SETTLEMENTS

Payments and Settlements Department (PSD) was established in 2002 to discharge the responsibilities entrusted to the Central Bank under Section 62 A of the Monetary Law Act which provides authority to the Central Bank to establish and operate systems for the transfer of funds, settle payment obligations and issue system rules to participating institutions. In addition, with the enactment of the Payment and Settlement Systems Act, No. 28 of 2005, PSD was entrusted with discharging the Central Bank's responsibilities. The main functions of PSD are the operation of the Real Time Gross Settlement (RTGS) System, providing back-office services for international reserve management of the Central Bank and open market operations, management of the SWIFT Communication System, facilitating transactions under the Asian Clearing Union, facilitating the development



of the national payment switch, regulation and oversight of the Payment and Settlement Systems (PSS) of the country. Accordingly, the main activities performed by PSD during 2016 are given below and a detailed analysis of the operations of the Payments and Settlement Systems are given in chapter 8.

### 19.1 Operation of the Real Time Gross Settlement (RTGS) System

- (a) PSD operated the RTGS System, which settles time critical large value inter-participant payments as well as customer payments on real time gross basis, and facilitated and monitored the provisioning of the Intraday Liquidity Facility (ILF) to the Participating Institutions (PIs) which requested extra funds to ensure smooth functioning of the RTGS System. PIs of the RTGS System are the Central Bank, Licensed Commercial Banks, Non-Bank Primary Dealer companies, Employees' Provident Fund and the Central Depository System of the Colombo Stock Exchange. In December 2016, the LankaSettle System, which consists of two components; RTGS System and the LankaSecure System, was upgraded to version 3.8 from 3.7 and started live operations under the new version.
- (b) As at the end of 2016, the number of PIs of the RTGS System was 36. During the year, the RTGS System settled 365,991 transactions with a total value of Rs. 93,378 billion. The average volume and average value of RTGS transactions settled per day were 1,519 and Rs. 387 billion, respectively. With regard to ILF operations, on average, Rs. 38.8 billion per day was released to participants. Adhering to international best practices, the RTGS System availability was maintained at a high level of 99.90 per cent during the year.

### 19.2 Providing Back-Office Services for Financial Transactions of the Central Bank

#### (a) Back-Office Service for Foreign Exchange Transactions

During 2016, back-office service provided to facilitate international reserve management of the Central Bank covered the following:

- i. Settlement of 12,621 transactions relating to foreign exchange trading and funding, money market, fixed income securities, gold trading, Asian Clearing Union and repo/reverse repo amounting to US dollars 343.4 billion during 2016.
- ii. Continued the shift-based working system during the first seven months of 2016, in order to facilitate the settlement of transactions originating from the International Operations Department (IOD).

However, with the discontinuation of proprietary foreign exchange trading activities by IOD, the shift-based working system was discontinued with effect from 10 August 2016.

#### (b) Back-Office Service for Open Market Operations

The back-office functions of open market operations with licensed commercial banks and primary dealers were carried out to facilitate the management of liquidity requirements of the open market participants. Accordingly, during 2016, PSD effected and facilitated 120 repo transactions amounting to Rs. 252 billion, 3,813 Standard Deposit Facility transactions amounting to Rs. 5,573 billion and 2,555 Standing Lending Facility transactions amounting to Rs. 3,208 billion, 4,119 reverse repo transactions amounting to Rs. 3,938 billion, 22 outright sales transactions amounting to Rs. 39.60 billion, and 21 outright purchases transactions amounting to Rs. 15.77 billion.

### 19.3 Management of the SWIFT Communication System

Society for Worldwide Interbank Financial Telecommunication (SWIFT) is the communication platform for exchanging payment instructions and other relevant information in financial transactions in a safe and secure environment. PSD maintains the SWIFT system of the Central Bank, which handles all SWIFT communications of Central Bank with other domestic and international financial institutions in-line with the standards set by the SWIFT headquarters on software, hardware, processes, procedures and risk management controls.

During 2016, total SWIFT messages sent and received were 1,649,068 and 876,294, respectively, facilitating domestic and foreign exchange transactions of the Central Bank. The SWIFT System was upgraded by the service provider to a new version (version 7.1.21) to provide a more efficient service with improved facilities. Accordingly, the Central Bank too successfully installed the new version to be in-line with the international standards introduced by the SWIFT.

### 19.4 Facilitating Transactions under the Asian Clearing Union (ACU)

During 2016, PSD continued to facilitate settlement of international trade transactions among 9 member countries of ACU. The total number of transactions of Sri Lanka effected through the ACU mechanism was 6,510 and the value of transactions was Rs. 478.1 billion. The value of net settlements made by Sri Lanka under the ACU mechanism was Rs. 409.4 billion.

The 45<sup>th</sup> meeting of the ACU Board of Directors was held in Myanmar in June 2016 and the Deputy Governor, the Director of PSD and the Head of ACU Division of PSD participated at the meeting.

### 19.5 Facilitating the Development of the National Payment Switch

The Central Bank continued to facilitate the establishment of the Common Card and Payment Switch (CCAPS) operated by LankaClear (Pvt) Ltd. (LCPL) under the brand name of "LankaPay". CCAPS, has been designated as the National Payment Switch of the country. It consists of five switches i.e. Common ATM Switch (CAS), Common Electronic Fund Transfer Switch (CEFTS), Shared ATM Switch (SAS), Common PoS Switch (CPS) and Common Mobile Switch (CMobS). In order to assist implementation of CCAPS in view of its national importance, PSD monitored the progress of implementation of CCAPS and imposed timelines for joining CCAPS by the Payment and Settlement System Circular No. 07 of 2015. The progress of implementation of CCAPS was as follows at the end of 2016.

- (a) The Common ATM Switch (CAS) which is the first phase of CCAPS, started live operations in July 2013. At end of 2016, the number of CAS members increased to 23 connecting over 3,800 ATMs. CAS provides cash withdrawal facility and balance inquiry for customers from any ATM of member financial institutions. During 2016, CAS settled 31.3 million transactions amounting to Rs. 174 billion.
- (b) The Common Electronic Fund Transfer Switch (CEFTS), which is the second phase of CCAPS, was implemented in August 2015. CEFTS provides facilities to customer for real-time fund transfers using multiple payment channels such as Internet Banking, Mobile Banking, ATM and Kiosks, and over-the-counter. As at end of 2016, 22 financial institutions had joined CEFTS. During 2016, CEFTS facilitated 894,674 transactions amounting to Rs. 69.4 billion.
- (c) The Shared ATM Switch (SAS), which provides switching facility to financial institutions who do not have their own switch to provide ATM services, was launched in August 2015 with one member institution.

### 19.6 Regulation and Oversight of Payment and Settlement Systems (PSS)

PSD continued its regulatory and oversight activities to ensure the security and efficiency of the electronic payment systems. Accordingly, the following major activities were carried out by PSD during 2016.

- (a) According to the terms of the Payment Cards and Mobile Payment Systems Regulations No. 01 of 2013, the Central Bank during 2016 issued licences to two institutions; one is as an issuer of payment cards, and the other is as an issuer of payment cards and operator of a customer account based mobile payment system. Accordingly, the number of licensed service providers increased to 35 at end of 2016.

- (b) Considering the risk associate with mobile phone based e-money systems, PSD conducted on-site supervision of mobile phone based e-money systems operated by licensed service providers and made recommendations to the respective service providers in order to ensure the reliability and smooth functioning of the respective systems.
- (c) Continued off-site surveillance to ascertain compliance of the service providers with the Credit Card Guidelines, Mobile Payment Guidelines and other regulations in order to ensure operations of reliable payment systems to carry out day to day retail payment transactions.
- (d) Evaluated the Business Continuity Plans of the LankaSettle participants and LankaClear (Pvt) Ltd. in order to ensure their readiness to continue business operations in an emergency.

### 19.7 National Payment Council (NPC)

PSD served as the executing arm of NPC, which was set up in 2006 in terms of provisions of the Payment and Settlement Systems Act, No. 28 of 2005, as the industry consultative and monitoring committee on payment systems. NPC consists of members from the relevant departments of the Central Bank, licensed banks, financial sector institutions and associations and mobile payment service providers. During the year, 3 NPC meetings were held and consultative process for preparation of a Road Map for medium-term development of payment systems covering application of new technology, new payment products and system stability and consumer protection focused regulation was continued.

### 19.8 Public Awareness

PSD continued to publish the quarterly "Payments Bulletin" on the Central Bank website for dissemination of information and statistics on payment and settlement systems operating in the country. Further, PSD conducted 11 awareness programmes on a need basis to educate the general public and the banking community on payment systems and other related issues. In order to promote electronic payments, PSD published newspaper advertisements on payment instruments to educate the general public on the retail payment systems that are available to effect their day to day transactions.

## 20. POLICY REVIEW AND MONITORING

Policy Review and Monitoring Department (PRMD) is responsible for coordinating the preparation of the Strategic Plan of the Central Bank of Sri Lanka, monitoring the progress of the same and reporting the results to the management at regular intervals. A brief summary of the activities performed by the PRMD in 2016 is given below.

### 20.1 Preparation of the Strategic Plan, Monitoring the Progress and Reporting to the Management

The Strategic Plan of the Central Bank for 2016 - 2018 under the theme of 'Human Capital Development and Capacity Building' was launched at the Work Commencement Ceremony held on 01 January 2016. Thereafter, copies of the Strategic Plan 2016 – 2018 publication were distributed to all employees to create awareness on the objectives and strategies of the departments as well as the mechanisms to be adopted to achieve the objectives together with Key Performance Indicators which are used to measure the progress of the implementation of the Strategic Plan. Performance review meetings were held at regular intervals with the departments to monitor the progress of the implementation of the Strategic Plan and Progress Reports were submitted to the management.

The preparation of the Strategic Plan of the Central Bank for 2017 - 2021 was commenced in the second half of 2016. The Strategic Planning Retreat, which is the management forum at which the new strategic plan is discussed, was held in November 2016 with the participation of the Governor, Monetary Board members, Monetary Board Advisory Audit Committee members, Corporate Management of the Central Bank, Heads of Department and other relevant officials. The theme for the Strategic Plan 2017 - 2021 was set as "Breaking the Vicious Cycle", highlighting the need for policy measures to overcome the current fiscal and debt dynamics of the country. The Strategic Plan of the Central Bank includes new initiatives, projects and activities expected to be undertaken by the Central Bank to break the vicious cycle and the 2017-2021 plan was made available to the staff.

### 20.2 Submission of Reports to the Ministry of National Policies and Economic Affairs

As per the requests received, the PRMD communicated the Strategic Plan and Performance Reports of Central Bank activities, which were obtained from the relevant Central Bank departments, to the Ministry of National Policies and Economic Affairs, appropriately.

## 21. PUBLIC DEBT

Public Debt Department (PDD) is responsible for discharging statutory responsibilities of the Central Bank of Sri Lanka as agent of the government for the management of public debt in terms of section 113 of the Monetary Law Act. Therefore, in order to meet these responsibilities, the PDD was established on 28 August 1950, at the inception of the Central Bank. The major functions include raising funds to meet the gross borrowing requirement of the government as per the Appropriation Act, meeting the government debt service payments on time, maintaining the LankaSecure system in order to facilitate smooth functioning of settlement of government securities and maintaining the Registry of government securities in the Central Depository System (CDS). In addition, PDD also engages in developing the debt market.

### 21.1 Raising of Funds to meet the Government Gross Borrowing Requirement as Specified in the Appropriation Act.

- The issuance of Treasury bills (T-bills), Treasury bonds (T-bonds), Sri Lanka Development Bonds (SLDBs) and International Sovereign Bonds (ISBs) were the main instruments used for raising funds from domestic and foreign sources for financing the government's gross borrowing requirement in 2016.
- The following abridged analysis highlights the contribution and scope of each source of funds.

**Table II-22**  
**Maturities and Auction Performance**  
**2015 and 2016**

Instrument	2015		2016	
	Issuances Rs. billion	No. of Auctions	Issuances Rs. billion	No. of Auctions
Treasury bills	1,589.5	52	1,635.4	52
Treasury bonds	869.9	36	663.6	23
	Issuances USD million	No. of Auctions	Issuances USD million	No. of Auctions
Sri Lanka Development Bonds (SLDBs)	2,491.4	5	1,365.9	6
International Sovereign Bonds (ISBs)	2,150.0	2	1500.0	1

- Total net foreign outflow of investments in T-bonds and T-bills amounted to US dollars 324.3 million which consisted of foreign inflow of US dollars 45.3 million for T-bills and an outflow of US dollars 369.6 million from T-bonds during the year.
- Tightened monetary policy stance of Central Bank and policy rate hike in the United States, resulted in increased interest rates in both domestic and foreign markets in 2016. In this environment, with the issuance of short to medium term government securities in the domestic market as against issuances of long tenors in 2015 resulted in average time to maturity (ATM) of the outstanding domestic debt stock declining to 5.98 years by end 2016 from 6.28 years at end 2015. Further during 2016, all government securities issuances to the market were auction based.

### 21.2 Servicing of Government Debt

Domestic debt service payments of Rs. 1,042.72 billion and foreign debt service payments of Rs. 292.01 billion, totaling to Rs. 1,334.73 billion was made.

### 21.3 Facilitation of the Settlement of Government Securities

LankaSecure system is used for settlement of primary and secondary market transactions in government securities. The system consists of 33 Dealer Direct Participants (25 licensed commercial banks and 8 primary dealer companies) holding accounts on their behalf and on behalf of other investors who will be their customers and 3 direct participants (including EPF) who hold accounts on their own behalf only. PDD plays a main role in facilitating settlement by ensuring uninterrupted real-

time operation of LankaSecure. The total face value of holdings in scripless securities as at end December 2016 amounted to Rs.4,846.0 billion. This was composed of Rs.792.4 billion in T-bills and Rs.4,053.6 billion in T-bonds.

#### 21.4 Maintenance of the Registry in Government Securities

Facility for real-time updates in the Title Registry of government securities in the CDS, which is maintained at the PDD, has ensured smooth conduct of secondary market activities in government securities. PDD also introduced new account types to SSSS to comply with amendments to LankaSettle System Rules (Version 2.1) issued on 01 August 2013. Periodic statements to CDS account holders on their holdings, transactions and payments have been sent continuously throughout the year. PDD has sent 1,506 statements in electronic form and 23,161 semi-annual statements of holdings, 63,177 monthly statements of transactions and 40,065 payment statements by post to CDS account holders during 2016. In addition, CDS account holders are provided with the facility to view account details online. As at end December 2016, there were 92,065 registered CDS account holders.

#### 21.5 System Reforms

The following system reforms were undertaken in the PDD within the year in order to optimise the service of the Department.

- a) Regulation and supervision of Primary Dealers (PDs), as per the regulation issued under the Local Treasury Bills Ordinance and the Registered Stock and Securities Ordinance to ensure safety of investors of government securities and stability of the PD system was transferred to Department of Supervision of Non-Bank Financial Institutions.
- b) From July 2016, PDD started conducting pre-bid meetings on forthcoming auctions, with all primary dealers, with the expectation that the availability of uniform market information would enhance transparency. In order to further enhance transparency, total accepted amount at an auction was capped at the aggregated offered amount for the T-bill and T-bond auctions during the latter part of the year.
- c) Simultaneously in order to enhance governance, two treasury officials have been appointed as members to the T-bill, T-bond and SLDB Tender committee from August 2016.
- d) PDD provided more information in the auction calendar by incorporating the auction date and tenor during the year. This will be published in collaboration with the Ministry of Finance which will enhance the predictability of the primary auction process and ensure the availability of information well in advance.
- e) PDD has also been able to obtain the technical assistance of US Treasury advisor to improve the debt management strategies of PDD.

#### 21.6 Debt Market Development

The objective of debt management is to ensure government financing comes at the lowest possible cost consistent with a prudent degree of risk. Therefore, PDD is striving to improve the competitiveness in the government securities market by further enhancing transparency and thereby improving market efficiency. The following are the recent developments in the debt market.

- a) Introduction of the Bloomberg trading platform for government securities has resulted in better price discovery, higher transparency and an increased confidence which is reflected by a significant increase in the volume of trading in the secondary market (Trade volume - Rs. 690.77 Billion, Number of transactions - 4,681). Further, the Bloomberg e-Trading Platform will be extended for repurchase transactions, and two-way quotes will be made mandatory.
- b) The PDD is in the process of accessing Euroclearability of government securities in order to improve the settlement and clearance of the government securities to foreign investors. This will enable diversification of the foreign investor base, and improve the ease of accessing the government securities market for foreign investors.
- c) Also Central Bank is in the process of establishing an electronic trading facility with Technical Assistance of US Treasury department and a Central Counterparty Clearing House (CCP) for government securities along with the required regulatory framework.
- d) As a way forward, the IT Department of the Central Bank has upgraded the web based auction system for T-bills and T-bonds. This upgraded version will be implemented once the independent audit is completed. In order to further improve transparency of the auction process, PDD prepared the auction rules that will be published in 2017. PDD is also currently reviewing the auction process with US Treasury assistance to enhance the price discovery process and transparency.

#### 21.7 Coordinating Sovereign Rating Review Missions

PDD facilitated international rating agencies (Fitch Ratings Ltd., Moody's Investor Services, Standard & Poor's) with their 2016 annual rating reviews in order to ensure the availability of international sovereign ratings for Sri Lanka and assessed these rating services for the country.

### 22. REGIONAL DEVELOPMENT

Regional Development Department (RDD) with the objective of supporting achieving inclusive and balanced economic growth, and promoting financial inclusiveness in the country, continued to coordinate, facilitate and implement various refinance, interest subsidy and credit guarantee schemes funded by the Central Bank, Government of Sri Lanka, Donor Agencies and Participating Financial Institutions (PFIs) and delivered a range of credit supplementary services in 2016.

Accordingly, RDD provided affordable finance through concessionary loan and credit schemes for needy individuals and business ventures, in Agriculture, Animal Husbandry and Micro, Small and Medium scale Enterprise (MSME) sectors enabling the beneficiaries of the loan schemes to meet their financial requirements. Further, RDD conducted a series of awareness building and skill development programmes throughout the year with a special focus on those who were outside the formal financial sector and used print, electronic and broadcast media also to raise public awareness of the various loan schemes implemented by the Department.

In 2016, from the policy viewpoint, a number of proposals were made to popularise the refinance schemes implemented by the Central Bank, aiming further development of the MSME sector. These measures, among others include, increasing the repayment period of loans granted under the Commercial Scale Dairy Development Loan Scheme (CSDDL), and revision of minimum loan limit under National Agribusiness Development Programme (NADeP).

### 22.1 Implementation of Loan and Credit Guarantee Schemes

During 2016, RDD continued to broaden financial outreach mainly through the operation of 13 loan and credit guarantee schemes (Table II-23). These schemes include the newly introduced Phase II of the Self-Employment Promotion Initiative Loan Scheme (SEPI-Phase II) funded by GOSL and two other loan schemes established under the NADeP which is funded by International Fund for Agriculture Development (IFAD).

During 2016, loans totaling Rs. 20,809.1 million were disbursed to 136,503 beneficiaries by PFIs through loan schemes implemented by RDD. Out of these disbursements, a majority of 63.3 per cent of loans were granted through the interest subsidy schemes while 36.7 per cent were disbursed through the refinance credit schemes. Of the total loans disbursed in 2016, 46.4 per cent loans were disbursed to the Agriculture and Animal Husbandry sector, while 40.6 per cent and 13.0 per cent were disbursed to the MSME sector and Microfinance sector, respectively.

Status of the loan schemes implemented by RDD in 2016 is given below.

### 22.2. Agriculture and Animal Husbandry Sector

Having identified the contribution made by the Agriculture and Animal Husbandry sector to the economic development of the country, RDD continued to serve this sector by providing concessionary loans through three loan and credit guarantee schemes in 2016. Loans amounting to Rs. 9,660.5 million granted to this sector accounted for 46.4 per cent of the total loan disbursements during 2016.

“Sarusrara” or the New Comprehensive Rural Credit Scheme (NCRCS) which serves the small scale farmers of 33 short-term crop varieties by providing both interest subsidy and credit guarantee for loans granted by PFIs, is the principal scheme that provides loans for this sector.

- The disbursements of Rs. 8,009.2 million granted through the NCRCS accounted for 82.9 per cent of the total loans disbursed to the Agriculture and Animal Husbandry sector. It was an increase of Rs.871.2 million or 12.2 per cent over the amount disbursed in 2015. This increase was achieved amidst the adverse weather conditions that prevailed in the major cultivation areas. From the policy perspective, sugarcane was included as an eligible crop under the NCRCS with effect from September 2016, responding to requests received from the sugarcane farmers.
- Continuing the trend experienced in the past few years, Anuradhapura District received the highest amount of loan disbursements (17 per cent of loan disbursements) under the NCRCS, followed by Pollonnaruwa (12.9 per cent), and Ampara (10.3 per cent) districts. Among the provinces, beneficiaries (31,526 in number) in the North Central Province received the highest amount of loan disbursements (29.9 per cent) in 2016.
- The loan disbursement under the CSDDL which operates as an interest subsidy scheme, increased marginally by 2.2 per cent during 2016. This scheme disbursed Rs. 1,633.5 million among 2,667 beneficiaries in 2016 which is 16.9 per cent of the total disbursements compared to the 14.7 per cent disbursed in 2015.
- In January 2016, considering the income generation pattern of the dairy farmers/entrepreneurs, the maximum grace period of loans granted under the CSDDL was increased to 12 months from 06 months, depending on the requirement of the project. In addition, responding to requests made by farmers and considering the higher gestation period and the relatively longer period taken to transform into commercial scale by the small scale farmers who joined the CSDDL, the repayment period of the CSDDL was also increased to 6 years from 5 years, inclusive of the maximum grace period of 1 year, with effect from February 2017.

### 22.3. Micro, Small and Medium scale Enterprises (MSME) Sector

Identifying the contribution made by the MSMEs to national production, employment generation and innovation, RDD continued to serve this sector in 2016 distributing loans among the existing and potential entrepreneurs under concessionary rates, mainly to relieve them from the burden of the high cost of capital. In 2016, loans totaling Rs. 8,447.2 million were disbursed among 13,810 entrepreneurs who engaged in agriculture, manufacturing and service related activities in the MSME sector.

Loans to the MSME sector were disbursed through five credit schemes, namely, the Saubhagya Loan Scheme (SLS), Self-Employment Promotion Initiative Loan Scheme Phase II (SEPI-II), Smallholder Plantation Entrepreneurship Development Programme (SPeNDP), Working Capital Loan

**Table II-23**  
**Lending Programmes Implemented by the Regional Development Department in 2016**

Amounts in Rs. mn							
	Name of the Project	Source of Funds	Mission of the Loan Scheme	Total Fund Allocation	Funds Disbursed in 2016	Balance to be Disbursed	Interest Rate to Borrowers p.a (year end)
<b>1</b>	<b>Agriculture and Animal Husbandry Sector</b>						
1.1	Tea Development Project -Revolving Fund (TDP-RF)	GOSL	Increasing tea smallholders' income on a sustainable basis and developing the necessary infrastructure to meet the requirements of the export market by modernising tea factories to obtain HACCP* certification.	1,100	17.82	135.13	9%
1.2	New Comprehensive Rural Credit Scheme (NCRCS)	PFI's own funds and Interest Subsidy by GOSL	Uplifting the socioeconomic conditions of micro and small scale farmers who engage in cultivation of paddy and short term crops.	Depends on the demand for funds	8,009.21	N.A.*	7%
1.3	Commercial Scale Dairy Development Loan Scheme (CSDDL)	PFI's own funds and Interest Subsidy by GOSL	Support to achieve self-sufficiency in milk and milk products through promoting commercial scale dairy farms.	Depends on the demand for funds	1,633.49	N.A.*	6%
<b>2</b>	<b>Micro, Small and Medium Enterprises Sector</b>						
2.1	Self-Employment Promotion Initiative Loan Scheme (SEPI) Ph II	GOSL	To provide financial assistance to youth trained by recognised vocational training institutions for establishment of their own self-employment projects.	75	74.90	-	7%
2.2	The Prosperity Loan Scheme ("Saubhagya")	CBSL	To start up or expand any MSME or any MSME affected by disasters.	4,767.12	4,767.12	-	8%
2.3	Smallholder Plantation Entrepreneurship Development Program (SPEDP)	International Fund for Agricultural Development (IFAD)	Enhancing the living standard of the low income community in the 'Hadabima' and 'Mahaweli' resettlement schemes in the mid country area and the poor smallholders in the intermediate zone of the Moneragala District.	63.18	63.18	Concluded	7%
2.4	Dry Zone Livelihood Support and Partnership Programme - Revolving Fund	IFAD	Poverty alleviation and income generation among the poor farmers in the districts of Monaragala, Kurunegala, Badulla and Anuradhapura.	252.9	2.15	0.4	10%
2.5	Working Capital Loan Scheme for Tea Factories	PFI's own funds and Interest Subsidy by CBSL	To assist the registered tea factories to meet their working capital requirements.	Depends on the demand for funds	3,539.83	N.A.*	2%
<b>3</b>	<b>Microfinance Sector</b>						
3.1	National Agribusiness Development Programme (NADeP)						
3.1.1	Microfinance	IFAD	To improve income level and social conditions of the poor in selected project areas.	743	730.70	12.2	6.5%
3.1.2	Tharuna Diriya	IFAD	To reach village level poor youth to help improve their livelihood by providing them with credit facilities to start small business and other forms of self-employment projects making them entrepreneurs.	225	19.70	205.30	6.5%
3.2	Small Farmers & Landless Credit Project - Revolving Fund (SFLCP-RF)	IFAD	Channelling formal credit to income generating activities for the rural poor to improve the economic conditions and general welfare of the beneficiaries.	346	67.34	22	12% - 14%
3.3	Poverty Alleviation Microfinance Project - Revolving Fund (PAMP-RF)	GOSL and JICA	Poverty alleviation through promotion of income generating activities and organising low income groups to link them with formal banking system.	1,031	316.74	Recoveries will be revolved	12%
3.4	Poverty Alleviation Microfinance Project II-Revolving Fund (PAMP II - RF)	GOSL		2,764	1,566.96	Recoveries will be revolved	10%

\* Abbreviations stand for;  
HACCP : Hazard Analysis and Critical Control Points  
N.A. : Not applicable

Scheme for Tea Factories (WCLSTF) and the Dry Zone Livelihood Support and Partnership Programme - Revolving Fund (DZLiSPP-RF).

- The SLS which is considered the leading MSME refinance scheme provided a bulk of loans amounting to Rs. 4,767.1 million or 56.4 per cent of the total loans distributed in the sector serving 13,018 entrepreneurs.
- The WCLSTF which is a government funded interest subsidy scheme introduced in 2015 to assist the registered tea factories to meet their working capital requirements, disbursed Rs. 3,539.8 million among 115 entrepreneurs during 2016. Loans granted under this scheme accounted for 41.9 per cent of the loans disbursed to the entire sector.
- In April 2016, the SEPI-II was launched with the objective of providing financial assistance to trained youth for the establishment of their own self-employment projects. Under this scheme, loans amounting to Rs. 74.9 million were disbursed to youth, who had obtained vocational training qualifications from the special accredited technical institutions to commence small scale enterprises. The remaining SME loan schemes, namely, SPEnDP and DZLiSPP together disbursed Rs. 65.3 million among 505 borrowers during the year.
- RDD together with the Ministry of National Policies and Economic Affairs (MNP & EA) designed a new loan scheme, named "SWASHAKTHI - Towards One Million Jobs" for the MSME Sector Development and Employment Generation. This scheme which is funded by GOSL provides financial support for both new entrants and existing entrepreneurs who engage in income generating activities in the Agriculture and Livestock, Industrial and Services sectors at village level. This new credit plus scheme is operated island-wide. The scheme identifies existing skills and talents of potential entrepreneurs and resources in the villages and provides them with necessary training and technical assistance together with marketing support to emerge as self-empowered micro entrepreneurs. Provision of a special grant to meet the initial expenses for the new entrepreneurs, in addition to the loans given at the rate of interest of 5.5 per cent per annum through PFIs, is the unique feature of this scheme.

#### 22.4. Microfinance Sector

With a view to uplift the living standard of the underprivileged, the microfinance loan schemes of the RDD continued to serve low income earners enabling them to commence income generating activities. These schemes focused on reaching people who were excluded from the formal financial sector. Considering the role played by the financial management in the context of the development of the economy, these schemes paid special attention to increasing the financial literacy of this segment of the society as well. This sector was catered to mainly through the Poverty Alleviation

Micro-Finance Project-Revolving Fund (PAMP-RF), Poverty Alleviation Micro-Finance Project II - Revolving Fund (PAMP II-RF), the Small Farmers & Landless Credit Project-Revolving Fund (SFLCP - RF) and the NADeP. Through these loan schemes, in 2016, loans totaling Rs. 2,701.4 million were disbursed among 32,963 beneficiaries in the microfinance sector contributing 13.0 per cent of the total disbursements.

The PAMP II-RF, which accounted for 58 per cent of the total loan disbursements of the microfinance sector, served 19,268 beneficiaries during 2016. The comparative share in 2015 was 64.9 per cent. The disbursements made under the newly recommenced Microfinance Component of the NADeP (NADeP -Microfinance) loan scheme, which accounted for 27 percent of the loan disbursements in the microfinance sector, attributed to the decline in the relative share of PAMP II-RF in 2016. Despite this decline, the individual performance of the Project improved by registering an increase of 17.7 per cent in 2016.

- In January 2016, the NADeP-Microfinance Loan Scheme, funded by the IFAD, was re-commenced mainly to improve the livelihood of poor communities. The focus group of the NADeP-Microfinance primarily includes women, landless households and other marginalised groups. The programme provides micro credit for income generating activities, such as self-employment in agribusiness, agriculture, fisheries, livestock, trade and services, and small industries. In 2016, loans totaling Rs. 730.7 million were disbursed to 5,839 beneficiaries under the Scheme.
- In response to requests made by individuals to reduce the minimum loan amount under the NADeP-Microfinance loan scheme, the lower band of the loan limit was revised downward to Rs. 10,000 from Rs. 30,000 in April 2016 with the intention of expanding the outreach. Accordingly, beneficiaries are now eligible to obtain loans ranging from Rs. 10,000 - Rs. 300,000 under this scheme.
- In August 2016, the NADeP-Youth Empowerment and Employment Project (NADeP-Tharuna Diriya) loan scheme was launched, with a fund allocation of Rs. 225 million, targeting empowerment and engagement of youth in the development process. The primary objective of this loan scheme is to reach youth at the village level and help them improve their livelihood by providing credit facilities to start small businesses and other forms of self-employment projects. During August-December 2016, loans totaling Rs. 19.7 million were disbursed among 170 number of youth under the Scheme.
- The commencement of "Value Chain Development Capital Agriculture Loan Scheme" and "Value Chain Development Seasonal Agriculture Loan Scheme" under the "Out Grower Farmers Loan Scheme of NADeP was marked in October 2016, with the objective of increasing the production, productivity, quality and the value addition

of agricultural produce. The IFAD has allocated Rs. 623.2 million for these two loan schemes to achieve these objectives.

## 22.5. Other Initiatives

### a. Conducting a Financial Inclusion Survey

With the intention of creating a pathway for improving the availability and accessibility of financial products and services, RDD conducted the first ever island-wide Financial Inclusion Survey in Sri Lanka, in 2016.

Based on the findings of this survey, and considering the contemporary financial inclusion strategies of peer countries, a comprehensive draft of the National Strategy for Financial Inclusion will be developed in 2017. RDD will also oversee National Policy Intervention Strategy – “Access to Finance” under the National Policy Framework for SME Sector Development.

### b. Increasing Access to Finance for MSME Agribusinesses

In order to address the growing concerns of the general public and the government on organic agriculture, the foundation has been laid down to promote commercial scale organic agriculture and dairy entrepreneurs through the establishment of formal agribusiness societies and multi stakeholder enterprises. In this process, it is expected to provide financial and credit plus facilities while facilitating creating linkages between the farmers and entrepreneurs with market channels, and providing financial and technical support to graduate the identified farmers to the upper levels.

### c. Initiating Discussions on Introducing a Loan Scheme for Solar Power Generation

With the intention of promoting solar rooftop power generation in the country, a series of discussions have been initiated to introduce a new loan scheme funded by Asian Development Bank with the collaboration of MNP&EA, Ministry of Power and Renewable Energy, Sustainable Development Authority and other stakeholders. The main focus of this loan scheme is to support the government policy initiative to achieve 200KW electricity generation through solar power by year 2020.

### d. Developing a Partial Credit Guarantee (PCG) Scheme for Agriculture Modernisation Project

The Central Bank initiated actions to introduce the Partial Credit Guarantee Scheme (PCG) under the proposed Agriculture sector Modernisation Project (AMP) funded by the World Bank, with the intention of addressing the emerging and changing needs of intermediary financial service providers. The PCG is an innovative risk sharing tool under the AMP which operates with the objectives of supporting agriculture productivity and efficiency, improving market access and enhancing value addition.

Further, the Matching Grant component of AMP that covers 50 per cent of the project cost is expected to further promote access to finance.

## 22.6. Skills Development and Capacity Building

Identifying the importance of financial literacy and awareness as dynamic parts of the journey towards comprehensive financial inclusion, the RDD in 2016 conducted 172 awareness programmes, mainly focusing on financial literacy, entrepreneurship development, skills development and Training of Trainer (TOT) etc. to educate beneficiaries and other stakeholders.

The financial literacy programmes were intended to create awareness of the drawbacks caused by financial exclusion. Further, these programmes highlighted the recompense of entering and linking with the formal financial sector. The focus groups were educated on good banking habits, financial discipline and new financial instruments and services as well. Moreover, RDD continued this educational process into more practical aspects by forming Self Help Groups to promote financial management and better financial habits.

Details of the programmes conducted by RDD are given in Table II-24.

**Table II - 24**  
**Awareness Programmes Conducted**  
**by RDD during 2016**

Type of Programme	No. of Programmes
Financial Literacy	82
Skills Development	60
Capacity Building	26
Media Campaign	04
Total	172

## 23. REGIONAL OFFICE MANAGEMENT

Regional Offices Management Department (ROMD) was established in November 2016 replacing the five Departmental Level Regional Offices (DLROs) which were established in September 2015. The overall objective of the ROMD is to monitor and supervise the work of the Regional Offices of the Central Bank covering all provinces in the country.

In terms of the section 7 of the Monetary Law Act, a new Regional Office (RO) was established in Nuwara Eliya in January 2016 to promote regional development in the Nuwara Eliya and Badulla Districts. The Nuwara Eliya RO focused on credit delivery as well as providing services to the members of the Employees Provident Fund (EPF) especially working in the plantation sector in the two districts. At present, the total number of Regional Offices stands at seven - Matara, Anuradhapura, Matale, Trincomalee, Jaffna, Kilinochchi and Nuwara Eliya.



### 23.1 Development related Activities

During 2016, the seven Regional Offices (ROs) engaged in developing Micro, Small and Medium Enterprises (MSMEs) and improving the efficiency of credit delivery to promote the rural sector especially agriculture, animal husbandry, fisheries and other identified specific projects in different sectors in the relevant region. The ROs supported the loan beneficiaries and prospective borrowers on 'development credit' through coordinating with commercial and development banks, other registered financial institutions and relevant government agencies to carry out their projects. During the year, 66 credit camps were conducted providing various facilities to 7,327 entrepreneurs and established 3,121 credit links with prospective borrowers.

The necessary knowledge on financial literacy, entrepreneurship development and technological knowhow were provided to borrowers as well as to the members of the grass root level community based organisations through training programmes and workshops. In the areas of financial inclusion, application of new technology and skills development, 145 programmes were conducted covering approximately for 13,570 participants. ROs also conducted programmes on entrepreneurship development plus exposure visits to transfer technology in various fields. Accordingly, 55 entrepreneurship development programmes, 34 exposure visits/technology transfer programmes and 44 best practices programmes were conducted and 4,806, 1,292 and 1,971 participants benefitted through those programmes. Agriculture, fisheries and horticulture were some of the areas selected for technology transfer while a few special programmes were conducted in the fields of LED, hybrid and fibre technology. Further, measures were taken to create awareness and technology transfer on hybrid and organic farming by conducting 12 programmes among 597 individuals. Credit counselling services were also provided to the borrowers, who faced difficulties in repayments of their loan installments due to various reasons. Total beneficiaries of credit counselling amounted to 1,763 individuals. The ROs also assisted borrowers in their marketing efforts arranging marketing linkages, buyer-seller dialogues, trade fairs and exhibitions during the festive seasons.

Two specific meetings were conducted in Galle and Colombo respectively with the Provincial Governors, provincial government authorities and officials of the financial institutions in Southern and Western provinces. The purpose of these meetings was to discuss and identify financial and banking needs of the provinces, issues related to access to finance and financial inclusion in the provinces.

### 23.2 Representing Regional Presence of the Central Bank

The seven ROs in 2016 facilitated expanding the core business activities of Central Bank in the regions through its various departments. The ROs conducted 107 programmes during

the year with respect to countrywide awareness on 'clean note policy', identification of forged notes, unauthorised financial institutions, prohibited schemes, financial intelligence and exchange control and educational programmes for students and teachers. A total of 9,347 individuals participated in the programmes. Out of 107 programmes, 39 were on clean note policy and forged note identification, 50 on unauthorised financial institutions and pyramid schemes and 08 educational seminars for students and teachers. In addition, a programme was conducted on EPF related issues for the benefit of employers and 95 senior plantation sector officials. Special attention was paid to provide services to EPF beneficiaries and 49,495 members availed themselves of these services. The ROs supported the Centre for Banking Studies of the Central Bank to conduct 09 training programmes and 671 staff members of the commercial banks and Financial Institutions outside the Western Province benefitted from these programmes.

## 24. RISK MANAGEMENT

Risk Management Department (RMD) was established on 09 February 2015 under Section 33 of the Monetary Law Act No. 58 of 1949, for the purpose of strengthening the risk management function within a sound risk governance structure in the Central Bank. In this context, the RMD plays the role of the second line of defense in a "three lines of defense" risk management framework that operates in the bank and is engaged in developing an independent and centralised risk management mechanism for the Central Bank. The RMD has undertaken the tasks assigned to the Department in a phase by phase manner and accordingly during the year, the RMD engaged in identifying, assessing, monitoring and reporting financial risks pertaining to international reserves investment and investments by internal investments funds managed by the Finance Department (FD).

The highlights of key functions performed in 2016 were as follows.

### 1. Financial Risks pertaining to International Reserves Management

The types of financial risks in relation to international reserves investments focused by RMD were market risk and credit risk.

#### Market Risk

Market risk is the risk of possible losses due to price fluctuations in the market such as the interest rates and exchange rates. Market risk is captured through measures such as Modified Duration (MD), Interest Rate Sensitivity (IRS) and Value at Risk (VaR). MD measures the percentage change in price to change in yield and IRS is the degree of change in the value of the portfolio in response to the fluctuations in the market interest rates. VaR is used to measure the amount of potential loss in a portfolio of investments over a given time period at a given confidence level.

## Credit Risk

Credit risk is the risk of default that may arise from the failure of the borrower or counterparty in meeting its obligations in accordance with agreed terms. The counterparty credit risk is assessed, monitored, reported and managed under Counterparty Credit Risk Management Guidelines (CCRMG) and ensured that all deals are carried out within the assigned limits. Credit risk of prospective counterparties is assessed based on their financial performances, credit ratings and their market exposures while existing counterparties are evaluated and monitored on a daily basis based on their credit ratings. Several counterparty exposure limits/product limits were revised during the year in line with credit rating changes by Fitch Ratings, Standard and Poor's, and Moody's Analytics. These revised limits are adjusted in the Treasury Management System (TMS) accordingly and communicated to the IOD enabling the dealers to enter in to transactions within the specified limits. In addition, as money market counterparties are more exposed to credit risk than counterparties dealing with fixed income securities, the RMD closely monitors the trends and volatility of Credit Default Swap (CDS) spreads and Stock Prices of active money market counterparties on a daily basis and alerts the IOD of any signs of impending financial weakness (excessive volatility and signs of convergence/divergence), to ensure that the IOD transacts only with financially sound counterparties.

### 2. Technical Assistance from the World Bank (WB) under the Reserves Advisory and Management Programme (RAMP).

With the view of strengthening its risk management activities and reporting capacity, the RMD obtained technical assistance from the WB RAMP mission in the area of risk management pertaining to the investment of international reserves which would enhance the skills development of the Department.

### 3. Strategic Assets Allocation (SAA)

Continuing to discharge its functions, the RMD worked jointly with the IOD to construct a SAA for international reserves management by adopting an Assets and Liability Management approach in line with long term investment objectives to achieve an acceptable balance between risk and return of the investment portfolio. This mechanism would help to optimise international reserves management by segregating into tranches based on varying liquidity requirements over different time horizons. In this process, the RMD revisited the existing Foreign Reserves Management Guidelines (FRMG) and drafted two separate policy documents namely; Investment Policy Statement (IPS) and Investment Guidelines (IG) in line with international standards. In this context, SAA is one of the most important policies that is used for the development of both IPS and IG.

## 4. Global Market Developments

RMD closely monitored global market developments and global events, and evaluated their impact on the international reserves from a risk management perspective. In this regard, the RMD submitted risk escalation reports to the management in the areas of existing systems and controls relating to the payment and settlement system of the bank, potential risk of Brexit on international reserves management of the Central Bank, and potential contagion effects on other banks of the heightened credit risk of a major counterparty of the Central Bank.

### 5. Contribution to Foreign Reserves Management Committee (FRMC)

RMD continued to perform as an observer at the FRMC and made monthly presentations on the market and credit risks pertaining to the management of international reserves. In addition, the RMD evaluated investment proposals and analysed the impacts of global market developments on international reserves and presented them at the FRMC.

### 6. Daily Market Information

RMD continued to analyse market data and submit to the Governor on a daily basis. This information included market liquidity, behavior of short term interest rates, investment of international reserves, yield curve behaviour of government securities, and treasury fund requirements etc.

### 7. Risk Management pertaining to the Internal Investment Funds

The other important risk management task centralised at RMD was monitoring risks pertaining to the Internal Investment Fund managed by a special unit set up at the FD. Internal Investment Fund consists of rupee funds including Sri Lanka Deposit Insurance and Liquidity Support Fund, Central Bank Pension Fund, Central Bank Provident Fund and other funds held by four departments of the Bank namely, Bank Supervision Department (BSD), FD, Staff Services Management Department (SSMD) and Regional Development Department (RDD). Managing these funds as well as monitoring risks pertaining to investment of these individual funds were carried out by respective departments previously. However, with the transfer of middle office functions relating to investment of the internal funds to the RMD, the RMD commenced monitoring and controlling risks pertaining to the investment of internal fund. Accordingly, the RMD engaged in providing risk related inputs to FD in formulating Investment Policy Statement (IPS), developing benchmarks for investment portfolio in line with objectives of the IPS, and monitoring the credit risk of counterparties based on the published credit ratings. The RMD analysed these investments from the risk management perspective and ensured compliance with the IPS approved by the Monetary Board on a monthly basis where the risk factors associated with investments were highlighted.

## 8. Contribution to Non-Financial Risk Management Committee (NFRMC)

RMD facilitated quarterly meetings of Non-Financial Risk Management Committee (NFRMC) chaired by the Governor. The NFRMC was set up to oversee non-financial risks of the departments which have relatively high exposure to non-financial risks. The Director of RMD continued to serve as the Secretary to the Committee by way of coordinating meetings and compiling risk profiles relating to non-financial risk of the member departments and presenting such information to the NFRMC.

## 25. SECRETARIAT

Secretariat Department (SD) is one of the first departments established at the inception of the Central Bank of Sri Lanka. The main functions of SD are procurement of goods and services, administration of superannuation funds, implementation of leave rules, making payments pertaining to postgraduate studies, foreign trainings and foreign travels of the Central Bank staff, conducting the Board of Survey on obsolete and unserviceable equipment, organising events, providing mail room service, and provision of secretarial and protocol services to the Governor. These functions contribute immensely to the smooth operation of the Central Bank. As at end of 2016, ninety one staff members served in the SD.

### (a) Procurement of Goods and Services

SD procured capital and non-capital goods and services amounting to Rs. 233.2 million during 2016 mainly through tenders within the time schedule. In order to ensure the timely supply of goods and services to the Central Bank, procurement planning was continued in 2016 too. As a result, SD was able to complete 86 per cent of the total procurement requirements of the Central Bank for the year. Further, SD obtained a cost-effective and comprehensive insurance cover for all properties, including Public Liability Insurance.

### (b) Administration of Superannuation Funds

SD continuously administered payments and other correspondence relating to the Central Bank Pension Scheme, Widows' and Orphans' Pension Fund, Widowers' and Orphans' Pension Fund and Central Bank Provident Fund, which involved over 2,000 beneficiaries.

### (c) Implementation of Leave Rules

During 2016, SD arranged leave for 429 employees for private and official travels abroad. The SD handled correspondence relating to services provided to trade unions, clubs, associations, and other organisations during the year.

### (d) Making Payments pertaining to Postgraduate Studies, Foreign Trainings and Foreign Travels of the Central Bank Staff

During 2016, SD made payments pertaining to postgraduate studies of 37 employees and provided 431 training allowances for short term foreign training of employees.

### (e) Conducting the Board of Survey on Obsolete and Unserviceable Equipment, Organising Events, and Providing Mail Room Service

During the year, activities relating to the Board of Survey was conducted at the Central Bank Head Office for the disposal of obsolete and unserviceable office equipment as per the procedure stipulated in the Central Bank Manual. In 2016, the SD coordinated and organised various commemorative events such as New Year Work Commencement Ceremony and Long Service Awards Ceremony, Programme to commemorate those who died at the bomb blast in 1996 and the 66th Anniversary Oration to mark the establishment of Central Bank. The SD has facilitated mailing 67,590 letters and 10,981 couriers locally and internationally through its mail room service in 2016.

### (f) Provision of Secretarial and Protocol Services to the Governor

During the year, SD provided secretarial and protocol assistance to facilitate the performance of functions and duties of the Governor. The secretariat assistance provided included the scheduling of appointments and meetings, preparation and compilation of presentations, speeches, notes, articles, etc., and provision of financial market information, media news and other reports. The protocol assistance included arranging the Governor's local and foreign travels and functions hosted by the Governor and the Deputy Governors, and services provided to VIP visitors of the Governor and the Bank.

## 26. SECURITY SERVICES

Security Services Department (SSD) continued to strengthen the security aspects of the Central Bank to protect its employees, buildings, properties and currency consignments in transit during the year while streamlining certain security surveillance mechanisms in the Central Bank. Strengthening of Security Services involved primarily two areas i.e. system improvements, and training of personnel as summarised below.

### 26.1 System Improvements

#### (a) Fire Suppression System

The installation of a new fire suppression system for the Central Bank Sovereign Study Centre was completed during the year. The replacement of the fire protection and safety system at the Anuradhapura Regional Office Building was also completed. Operational fitness of all fire-fighting equipment located at the Head Office and all other outside premises was checked, repaired and replaced on a regular basis during the year.

#### (b) CCTV Monitoring System

During the year, initiatives were taken to install CCTV monitoring systems for the Central Bank Sovereign Study Centre at Rajagiriya, Car Park Building at the Head Office, all regional offices and holiday bungalows, combine with the system to be upgraded for the Head Office and monitor all movements remotely.

**(c) Business Continuity Plan**

SSD participated and co-operated in all business continuity drills conducted by Payment and Settlement, and Information Technology Departments.

**26.2 Training****(a) Fire Prevention, Fire Fighting and First Aid Programmes**

A two day comprehensive training programme on fire prevention, fire fighting, first-aid and disaster management was conducted for all fire-wardens selected from all departments of Central Bank with the assistance of Fire Services Department of the Colombo Municipal Council, St. John Ambulance and Disaster Management Center. Further, a demonstration on fire fighting and fire-drills was conducted in March 2016 for all employees at the Head Office with the assistance of the Air Force and Colombo Fire Brigade.

**(b) Skills and Competency Building**

Two day residential programme for 29 security officers was conducted at the National Institute of Plantation Management in order to enhance the skills and competencies of the security officers in providing security for important locations, VIP handling, escort duties and public relations. In order to improve the skills of the security officers, SSD arranged several educational programmes for its staff. These educational programmes covered the key areas of security, information technology, motivational attitudinal transformational aspects, customer relationships and leadership.

**(c) Weapon Handling and Live Firing**

Weapon handling and live firing were conducted for all security officers with the co-operation of the Sri Lanka Army during the last quarter of the year.

**27. STAFF SERVICES MANAGEMENT**

Staff Services Management Department (SSMD) continued to improve its welfare facilities extended to all beneficiaries in an efficient and effective manner throughout the year. These welfare facilities included provision of loans under the Staff Housing (Mortgage) Loan Scheme, Provident Fund Loan Scheme and Staff Benefit Scheme; reimbursement of expenses under the Employer Contributory Medical Benefit Scheme (MBS) and provision of Medical Centre and Restaurant facilities. The number of registered beneficiaries under MBS consisting of employees, pensioners, their registered dependents together with widows/widowers was approximately 10,000 as at end 2016.

During 2016, SSMD granted 2,188 loans which included Housing Loans, Provident Fund Loans, Vehicle Loans, Computer Loans and other loans under the Staff Benefit

Scheme. SSMD took measures to grant these loans within a stipulated time frame after receiving the application together with all relevant documents by the applicant. The loan monitoring system introduced by the Department enabled effective supervision of loan disbursement to employees. A system was developed with the assistance of the IT Department to transfer PF Loans to the applicants' bank accounts through SLIPS.

The Central Bank restaurant continued to improve its service in providing food and tea service for Central Bank staff. The improved quality of the food served and the tea service provided by the restaurant was also highly endorsed by the Central Bank staff in a survey conducted by SSMD. Further, measures were taken to improve the environment of the restaurants and restaurant facilities during 2016.

SSMD continued to reimburse medical expenses incurred by all registered beneficiaries under MBS. The total amount of reimbursement of medical expenditure increased by thirty four per cent (34 per cent) in 2016 compared to the previous year. With the approval of the Monetary Board, the reimbursement limits of medical expenditure were increased under MBS with effect from 01.01.2016. The medical facilities at the Medical Centre were made available to the Central Bank employees during working hours by outsourcing such services to a reputed private hospital. Further, medical tests and laboratory service facilities were also provided at the Medical Centre at a reasonable charge. During the year, SSMD conducted three awareness programmes to enhance the knowledge of the Central Bank staff on important health issues. A Health Camp for the employees was successfully conducted in June 2016.

**28. STATISTICS**

Statistics Department (STD) continued to contribute towards the achievement of key objectives of the Central Bank, during 2016 by effectively performing its functions in the economic and Price Stability Cluster. Key activities of the department included estimating and forecasting short term key macroeconomic variables using model and non-model based techniques; collaborating with other departments to produce macroeconomic models using advanced techniques such as Forecasting and Policy Analysis System (FPAS), Bayesian VAR (BVAR) and Factor Augmented VAR (FAVAR) etc. for policy purposes; compiling price and wage indices; the Sri Lanka Prosperity Index (SLPI) and the Provincial Gross Domestic Product (PGDP); collecting and processing data from primary sources, the Country-Wide Data Collection System (CWDCS) in particular, and other secondary sources; conducting surveys and compiling economically important forward looking indicators using the information thus collected to facilitate the monetary policy decision making process; timely dissemination of statistics and information through publications and press releases; maintaining a data repository, initially for internal use, which was subsequently

released to the general public in the form of a data library; and contributing towards improving Sri Lanka's position in key global rankings. In addition, STD engaged in providing resources for capacity building initiatives for local and international organisations, during the year.

### 28.1 Forecasting Key Macroeconomic Variables

To facilitate the core objective of maintaining economic and price stability, STD provided short term forecasts of consumer price inflation and economic growth. These forecasts were submitted to the Monetary Policy Committee (MPC) and the Monetary Board for monetary policy formulation purposes. Moreover, the inflation forecasts are updated frequently in line with realised and perceived changes in variables which impact inflation based on the movements of observed consumer prices, along with the developments in input and output prices as reflected through findings of surveys conducted by the Department.

A range of inflation forecasting methods were used, depending on the time frame of the forecast. Short term inflation forecasts are mainly based on recent price trends, and expected short term price movements associated with market developments. Medium to long term forecasts are based on econometric techniques while continuously exploring new variables that reflect both supply and demand side impact on inflation. In this regard, STD contributed to the construction of several forecasting models for the FPAS of Central Bank jointly with ERD.

The Department of Census and Statistics (DCS) rebased the Colombo Consumer Price Index (CCPI) from 2006/07 to 2013 during the year in order to accommodate the changing expenditure patterns and to incorporate changes of goods and services available in the market. DCS released the rebased CCPI (Base 2013=100) in January 2017. STD re-designed the forecasting methods to suit the new CCPI. Meanwhile, STD continues to monitor the price developments in both NCPI and CCPI for policy making purposes.

Growth forecasts were prepared on a quarterly basis using primary and secondary data related to each sub activity of the economy. Leading economic indicators, survey findings and other information related to sub activities of the economy were used in compiling indicator based forecasts, while model based forecasts employed statistical techniques to improve the accuracy of forecasts. The indicator based forecasting method was further streamlined under the new classification based on the rebasing of GDP to year 2010. Accordingly, new indicators prepared based on survey findings of Central Bank and additional information gathered from outside organisations were incorporated to the process.

In addition to the in-house forecasting framework, STD was involved in the development of the FPAS of Central Bank, jointly with ERD under the technical assistance of IMF. A New Keynesian open economy model for medium term

forecasts of macroeconomic variables including GDP and Inflation was developed under this framework, which would be used for monetary policy analysis, after the conclusion of the model evaluation stage. In addition, FAVAR and BVAR models were developed to generate near term forecasts of inflation and GDP.

### 28.2 Compiling Price and Wage Indices

STD continued constructing Land Price Index (LPI) on a semi-annual basis using valuation data obtained from the Valuation Department for 51 sub-divisions in Colombo, Dehiwala, Homagama, Kaduwela and Kesbawa Divisional Secretariat (DS) divisions. Three separate indices were compiled covering residential, commercial and industrial properties, while arriving at the overall LPI through simple average. In addition, STD has taken several initiatives to improve the coverage of real estate property indices by improving the existing indices both geographically and methodologically, and also by introducing new indices to capture developments in the residential property market, especially the condominium segment. Accordingly, a price index has been constructed during 2016 to monitor price movements in the condominium property market covering Colombo district, for management information.

STD compiles wage rate indices to assess the movements of salaries and wages in the economy. STD compiles nominal and real wage rate indices for public sector employees. Real wage rate indices for formal private sector is based on the nominal wage rate indices of employees in the Wages Boards Trades compiled by the Labour Department. Informal private sector wage movements were analysed in terms of the informal private sector wage rate index compiled based on information collected through the CWDCS. STD initiated compiling a new index that represents wage trends of formal private sector employees.

### 28.3 Compiling the Sri Lanka Prosperity Index (SLPI)

STD compiled SLPI, which is a composite indicator that measures and compares the level of prosperity of the country across its provinces for the year 2015. It comprises three sub-indices, Economy and Business Climate, Wellbeing of the People and Socio-Economic Infrastructure, which are measured using 42 representative variables reflecting the economic and social progression of provinces. A new methodology which closely follows the Legatum Prosperity Index's methodology, i.e. standardising the data to bring all the variables into proportion with one another, instead of normalising the data, has been adopted in the compilation of SLPI since 2014. The Department is continuously exploring for improvements in variables and methodology with the intention of enhancing the representativeness of the index in explaining the overall prosperity of the country. Accordingly, during 2016 a new variable to measure the formal sector employed population as a percentage of total employed, is included in the Economy and Business Climate segment strengthening the quality of the index.

### 28.4 Computing the Provincial Gross Domestic Product (PGDP)

PGDP in nominal terms has been computed and published by STD for the year 2015 as well, by disaggregating the National Accounts estimates of the DCS. In estimating PGDP, the value of each line item in GDP is apportioned using relevant indicators at provincial level. The figures for 2015 and revised estimates for the year 2014 were published in August 2016. STD is constantly exploring suitable indicators at provincial level to apportion the national figures, to improve the reliability of the estimates. In line with this, work in progress (WIP) of animal production activity was added while total civil aviation and total cargo handled in the transportation of goods and passengers was expanded by including warehousing, strengthening the indicators for the Agriculture and Services sectors, respectively. Most applicable variables were used in construction activities under the industry sector for the relevant year during 2016.

### 28.5 Conducting Statistical Surveys

Business Outlook Survey (BOS) continued during 2016 to capture short term market developments and to monitor the current economic situation. The BOS serves as an early warning indicator of future economic developments. The target population of this survey was large scale enterprises covering three major activities (Agriculture, Industry and Services) of the economy. Four rounds of the survey were carried out continuously during the year for each quarter and based on the results of the survey, Business Sentiment Indices (BSI) namely; Business Condition, Profitability, Skilled Labour Availability, Sales, Demand and Capacity Utilisation were computed. The results were presented to MPC and were published quarterly in aggregate form for the information of the general public in the Central Bank website.

Credit Conditions Survey, which was designed to capture demand and supply side developments in the credit market was also continued during the year 2016. This consists of a credit demand survey to capture the demand side developments and a credit supply survey to capture the supply side developments of the credit market. The credit supply survey covers all licensed commercial banks and licensed specialised banks of the country. With regard to the credit demand survey, the target population was Small and Medium Enterprises (SME) of the economy. The survey was conducted in the Western province and in provinces in which Central Bank has regional presence. The results of Credit Conditions Survey were reported to the management on a semi-annual basis for policy related decision making.

Purchasing Managers' Index (PMI) for manufacturing and services activities was compiled on a monthly basis to provide purchasing professionals, business decision-makers and economic analysts with an additional and timely set of data to help better understand industry conditions,

and to use such data as early indicators of manufacturing and service sector activities. With regard to the PMI survey for manufacturing activities, purchasing managers of the manufacturing industries of the economy predominantly concentrated in the Western province is the target population. The survey was carried out during the last week of each month targeting responses from 100 institutions. The PMI-Manufacturing with the sub-indices of New Orders, Production, Employment, Suppliers' Delivery Time and Stock of Purchases, and PMI-Services with sub-indices of New Businesses, Business Activity, Employment, Backlogs of Work and Expectations for Activity were computed assessing the Month on Month change and reported to the MPC and senior management for policy related decision making purposes. A new variable "Prices Charged" was included in the PMI-Manufacturing survey from July 2016 to grasp the producer level price developments in the manufacturing segment. PMI indices were published in the Central Bank website for the information of the general public from June 2016 on a monthly basis.

The Inflation Expectations Survey has been conducted by the Department on a monthly basis since its introduction in 2006. Current survey includes two categories of respondents; Corporate Sector and the Household Sector. STD initiated a re-sampling process of the respondent base during 2016. Respondents provide both quantitative and qualitative information on current inflation perceptions and inflation expectations for a period of 12 months ahead. The results of the survey on monthly basis were reported to the MPC and for policy related decision making purposes.

The Public Sector Employment Survey (PSES) was conducted covering all public sector institutions to ascertain developments in public sector employment and was conducted on a semi-annual basis. Moreover, information collected on the labour force and the labour market were also analysed with respect to employment, unemployment, foreign employment, labour relations, labour market reforms and labour productivity in the country. Collaborative data sharing was carried out with national and international agencies in order to assist policy formulation on related topics.

STD, in collaboration with the other departments of the Central Bank and a few other external agencies contributed to the completion of the 2017 World Bank Global Financial Inclusion and Consumer Protection (FICP) Survey.

STD initiated a survey during the year to develop a Private Health Services Index (PHSI) to monitor developments in private health activities. A census was commenced in the fourth quarter of 2016 to enumerate the number of patients treated by private hospitals and medical centres in Sri Lanka as a part of the exercise to identify a suitable sample to represent the private health activities in the country. Initially, the survey is planned to be conducted on a quarterly basis collecting monthly information on the number of out-patients as well as admissions in private hospitals and medical centres for the compilation of the index.

## 28.6 Administering the Country-Wide Data Collection System

The Country-Wide Data Collection System (CWDCS), which commenced in 1978, was continued during the year 2016 with regular collection of information on retail prices of consumer goods, producer prices of agricultural and fisheries commodities, daily wages of the informal private sector and approximations on future production levels of agriculture and fisheries commodities on a weekly, monthly and quarterly basis. Data were collected through government school teachers, who serve as statistical investigators in 106 data collection centres island-wide. Further, the system utilises services of 7 non-teacher data investigators to report data on wholesale and retail prices from Pettah Market, Maradaghamula Rice Market, Dambulla and Narahenpita Special Economic Centers, and Negombo and Peliyagoda Fish Markets on a daily and weekly basis. In order to strengthen the management information system, the department collects wholesale and retail prices of a range of food commodities from selected markets on a daily basis as well.

Data collected under the system are extensively used for analysing seasonal variations and regional differences in prices and wages; compilation of price indices, PGDP and SLPI; forecasting price movements; evaluation of the impact of policy changes on prices; estimation of national expenditure and income; and dissemination of price and wage data to the general public.

In order to maintain the accuracy and timeliness of the data, the Department carried out regular on-site and off-site supervision of the data reported by the statistical investigators. Accuracy was further verified using the price data collected directly from selected markets in the Colombo District by the officers of the Department.

In line with the usual practice, five CWDCS regional seminars were conducted in Colombo, Matara, Anuradhapura, Kandy and Jaffna during the year 2016 to share experience, to obtain feedback on differences in price developments across identified regions, and to discuss operational issues of the programme. The seminars were also aimed at enhancing the capacity of the statistical investigators.

As in previous years, the data collection process was improved during the year by introducing updated formats for data collection with the view of accommodating recent market developments and economic activities. The data format used for the Early Warning System (EWS) was also revised during the year to make it more informative and user-friendly. Further, with the view of expediting data collection and compilation, electronic data reporting system by Teacher Investigators (TIs) was encouraged and about one fourth of the TIs were able to afford using the e-reporting data system during the year 2016. Moreover, STD has already taken initial steps to revamp the existing CWDCS using technology, aiming at rapid data collection and efficient processing.

## 28.7 Improving Sri Lanka's Position in Global Rankings "Ease of Doing Business" Ranking

As in the past few years, STD continued its efforts in contributing towards the improvement of the "Ease of Doing Business" ranking of Sri Lanka. Since 2016, a new working arrangement was set-up under the Ministry of Development Strategies and International Trade, with the technical assistance of the World Bank (WB), for implementing reforms in line with the overall objective of improving the investment climate. Accordingly, during 2016, STD participated in continuing constant dialogue with the relevant government institutions to keep track of the progress of the ongoing reforms; organising contributors' meetings to make them aware of the most recent developments; facilitating WB missions to discuss with public and private officials working on areas related to the ranking; coordinating Sri Lankan participation at international seminars on improving country position, and most importantly disseminating information in a timely manner to the WB Group on the reforms implemented focusing on variables tracked under this ranking.

### Other Global Rankings

Global Indices namely Worldwide Governance Indicators, The Global Competitiveness Index, Index of Economic Freedom, Human Development Index, Economic Freedom of the World Index, Corruption Perceptions Index, Enabling Trade Index and Country Risk Classification of Organisation for Economic Co-operation and Development (OECD) were monitored continuously and reports on country position and strategies to improve rankings were submitted to the management and other higher authorities when required. Macroeconomic information and data was provided to the compilers of the above mentioned indices on a weekly and a monthly basis.

## 28.8 Dissemination of Statistics

STD annually disseminates a wide range of socio-economic data of current interest to policy makers, researchers, academics, professionals, students and the general public. During the year, the Department released "Economic and Social Statistics of Sri Lanka 2016 – Volume XXXVIII" in August, and "Sri Lanka Socio Economic Data Folder 2016 – Volume XXXIX" in September in all three languages and in electronic format. In addition, STD continued publishing the Monthly and Weekly Economic Indicators promptly, while preparing Daily Price Reports of selected consumer items to strengthen the analysis of price movements of essential food items in key markets that have significant impact on the country's general price level which were made available for the general public via the Central Bank website in 2016. STD contributed to two chapters of the Central Bank Annual Report and Recent Economic Developments, and also to the Monthly Bulletin of Central Bank.

Further, STD has initiated and coordinated developing an electronic database for the benefit of various data users. The system was launched internally during 2016 with technical assistance from Information Technology Department. The e-research database consists of time series data on a variety of topics spanning across Real, Monetary, Fiscal, External, and Financial sectors from nine departments. It facilitates numerous data requirements by enabling the creation of own queries, generating tables, downloading and saving them for future reference. Moreover, steps were taken to launch a further improved version of this database to the general public through the Central Bank website during the early part of 2017.

## 29. SUPERVISION OF MICROFINANCE INSTITUTIONS

Department of Supervision of Microfinance Institutions (DSMI) was established to regulate and supervise the microfinance business as stipulated in the Microfinance Act, No. 6 of 2016 (Microfinance Act). The responsibilities of DSMI include, processing applications for licences to carry on microfinance business, supervising Licensed Microfinance Companies (LMFCs) through periodic statutory examinations and off-site surveillance, submitting regular reports to the Monetary Board on the progress and issues relating to LMFCs, issuing of rules and directions to LMFCs, granting of regulatory approvals to LMFCs, cancelling of licences and winding up of LMFCs, setting of principles, standards and guidelines to Registrar of Voluntary Social Service Organisations (RVSSO) on registration and supervision of Microfinance Non-Governmental Organisations (MNGOs), conducting microfinance sector research, and conducting training and public awareness programmes. The key functions and other activities of DSMI during 2016 are given below.

### I. Issuance of Rules and Directions to LMFCs

The Monetary Board issued 2 Rules, namely licensing criteria and licence fee and 8 Directions on, minimum core capital, statutory reserve, deposits, maintenance of minimum liquid assets, assessment of shareholders, assessment of fitness and propriety of directors and chief executive officer/general manager, regulation of accommodations, and reporting requirements, with effect from 27 October 2016.

### II. Regular Meetings with RVSSO and Others Stakeholders

The Department conducted regular meetings with RVSSO, Non-Governmental Organisations (NGOs) and the Lanka Microfinance Practitioners' Association (LMPA), in order to set principles, standards and guidelines to RVSSO, on the supervision of MNGOs.

### III. Survey on Microfinance Sector

In order to identify regulatory requirements and formulate an effective and efficient regulatory system, a survey was conducted on microfinance institutions, with the assistance of the LMPA.

## IV. Study Visits

Study visits were conducted to several microfinance institutions, in order to become familiar with the current practices, systems and processes adopted by the microfinance industry. Further, international experience on regulating the microfinance sector was also studied with special emphasis on the Asian region, in order to formulate regulations for LMFCs and MNGOs. In addition, DSMI staff visited a regional central bank which have experience in comprehensive microfinance regulation, in order to study their regulatory and supervisory systems.

## V. Awareness and Capacity Building

The Department is also engaged in several other activities on awareness and capacity building of the microfinance industry by conducting awareness programmes for several NGOs, Sanasa Co-operative Societies, Divineguma Banking Societies, on the Microfinance Act and regulations issued thereunder. Further, DSMI made presentations on the same at several awareness programmes organised by LMPA and the National Action Front of Voluntary Services Organisations.

## 30. SUPERVISION OF NON-BANK FINANCIAL INSTITUTIONS

Department of Supervision of Non-Bank Financial Institutions (DSNBFI) is entrusted with the mandate to regulate and supervise licensed finance companies (LFCs) and specialised leasing companies (SLCs) under the provisions of the Finance Business Act, No.42 of 2011 and the Finance Leasing Act, No.56 of 2000, respectively. In addition, the supervision role of the primary dealers (PDs) functions was transferred to DSNBFI during 2016.

The major functions of DSNBFI are conducting statutory examinations (on-site supervision) and continuous surveillance (off-site supervision), preparation and issuance of prudential regulations, regulatory approvals, and investigating into companies carrying on finance business without authority. In addition, DSNBFI is also engaged in several other activities related to conducting awareness programmes, capacity building of the sector, facilitating court proceedings and attending to public complaints.

As at end 2016, there were 46 LFCs, 15 PDs and 70 Registered Finance Leasing Establishments (RFLEs). The names of these LFCs, RFLEs and PDs are provided at the end of this section. Regulatory requirements issued during 2016 are given in Part III of this Report.

### 30.1 Supervision of LFCs and SLCs

#### a. Conduct of Statutory Examinations (On-site Supervision)

- i. In 2016, a supervisory mechanism for LFCs and SLCs mainly focused on the efficiency and sustainability of the institution was implemented. Under this framework



the long term sustainability of the financial institution is critically evaluated with respect to growth of revenue streams, diversification of the product portfolio and ability to adapt to market changes. In addition, the effectiveness of LFCs and SLCs in managing the financial intermediation cost to sustain the business operations is being assessed.

- ii. DSNBFI conducted annual on-site examinations of 30 LFCs/SLCs during 2016. Inadequate loan loss provisioning, lapses on internal controls, non-compliance with the corporate governance direction, high inefficiencies in business operations, potential default risks originated from emerging businesses such as micro finance and sustainability issues of business operations in some institutions were the main findings of the examinations.
- iii. In addition, 6 limited scope examinations were carried out on specific issues and supervisory concerns related to operations such as financial reporting and questionable intercompany transactions.
- iv. The Monetary Board approved time bound action plans and recommendations of these examinations were informed to the respective Board of Directors and follow up action was undertaken continuously to ensure that LFCs and SLCs take corrective measures within the agreed time frames.

#### **b. Conduct of Continuous Surveillance (Off-site Supervision)**

DSNBFI continued to supervise LFCs and SLCs on an on-going basis to assess their financial condition and to identify early warning signs of impending problems, in order to initiate necessary corrective actions. Continuous surveillance was carried out based on periodical financial information submitted by companies, audited reports, management letters, external ratings and press reports. Surveillance reports of all LFCs and SLCs were prepared for necessary regulatory actions except for two LFCs which do not conduct business due to on-going liquidity issues of the companies. Continuous surveillance enabled carrying out the internal supervisory ratings of LFCs and to take measures to rectify concerns arising from such supervision. Further, 4 quarterly performance reports of the LFC/SLC sector were prepared to facilitate the continuous surveillance process.

#### **c. Resolution Actions on Weak LFCs**

During 2016, DSNBFI has taken steps to resolve long outstanding issues of the weak companies with negative capital and inadequate liquidity position. Accordingly, a resolution plan for 3 financially distressed companies was principally approved by the Monetary Board subject to legal and other clearances required for proper implementation. DSNBFI is currently in the process of finalising the detailed plan of action while clearing the requirements stated above. The Board of Directors of 3 companies were reconstituted

with the view to restructuring and stabilising the company. In addition, regular meetings were held with Board of Directors, senior management and external auditors of these companies to monitor the progress while DSNBFI directed Board of Directors to find prospective investors to infuse capital for these weak companies for the purpose of restructuring.

### **30.2 Supervision of PDs**

#### **a. Conduct of Statutory Examinations and Continuous Surveillance**

In view of strengthening and developing the existing supervisory framework for PDs, the Monetary Board decided to transfer the supervisory and regulatory functions of PDs to DSNBFI from Public Debt Department with effect from 03.06.2016. The statutory examination process was strengthened in order to broad base the examination scope and to assess the risk exposures of PDs with a view to strengthen the assessment methodology. Statutory examinations of 2 PDs were completed during 2016, after handing over the supervisory function to DSNBFI since June 2016.

#### **b. Resolution Action on Entrust Securities PLC (ESP)**

A systemic concern arose in 2016 with respect to illiquid financial position as a result of the unsound financial practices of ESP. There were a large number of defaults on repo agreements in government securities. In view of preventing any future disruption to the overall stability of the monetary, banking and financial system, and the government securities market in particular, the Central Bank re-constituted the board of ESP, conducted an extensive investigation with respect to unsound practices and financial irregularities that took place in the Entrust Group, and submitted the findings to the legal enforcement authorities (Financial Crimes Investigation Division). Meanwhile, the Monetary Board in principal has approved settling secured repo and outright transactions along with a resolution plan for the unsecured repo transactions, which is under legal and financial clearance.

### **30.3 Issuance of Prudential Regulation, Policy Formulation and Regulatory Approvals**

#### **a. Issue of Directions and Prudential Requirements**

##### **i. Direction on Opening, Closure and Relocation of Business Places of LFCs/SLCs**

A new regulatory framework was issued to strengthen and streamline the existing policies and practices in respect of the opening, closure and relocation of business places of LFCs/SLCs.

##### **ii. Direction on Maximum Interest Rates on Deposits and Debt Instruments**

The frequency for computing the weighted average yield rates of treasury bills, which was the basis used in deriving the maximum interest rates on deposits and

debt, instruments, was revised from quarterly to half yearly. This was revised with a view to neutralise the impact of sudden changes in the interest rates.

#### **b. Review of Regulatory Framework**

- i. In 2016, DSNBFI reviewed the existing regulatory framework issued for LFCs through a comprehensive study carried out with the view of recommending further improvements. These changes aimed at being in line with the best practices in the banking sector and recent developments in accounting standards. Accordingly, the revisions will be announced to the sector with the consultation of the relevant stakeholders.
- ii. The Monetary Board appointed a committee in 2016 comprising of an Assistant Governor, DSNBFI, Superintendent of Public Debt and other relevant officers of the respective departments to re-visit the regulatory mechanism of PDs and recommend changes to the existing supervisory mechanism. The committee submitted its report to the senior management of the Central Bank for necessary action.

#### **c. Granting of Regulatory Approvals**

- i. During 2016, DSNBFI granted regulatory approvals to LFCs/SLCs to amend the Articles of Associations, form subsidiaries, issue debt instruments, increase share capital, capital infusions by new investors, outsource business operations, appoint new Directors and officers performing executive functions, change registered address, relocate business places, transfer ownership, and open of 101 new branches.
- ii. A leasing licence was granted to Sarvodaya Development Finance Ltd. while the leasing licence of People's Bank was cancelled as requested by the Bank. In addition, the Hongkong and Shanghai Banking Corporation Ltd. withdrew from Primary Dealership.

### **30.4 Investigation on Conduct of Finance Business without Authority**

The department continued to investigate the conduct of finance business without authority as per market information and public complaints. As at end of 2016, there were 14 investigations in progress, whilst consultations were held with Honourable Attorney General on initiating legal action against companies determined as carrying on unauthorised finance businesses.

### **30.5 Public Awareness and Capacity Building of the LFC/SLC Sector**

#### **a. Public Awareness Programmes**

DSNBFI conducted 28 public awareness sessions and broadcasted 9 electronic media advertisements with the view of educating the public on the risk of investing in

unauthorised financial institutions and investments schemes. Around 15,000 leaflets containing lists of Licenced Banks and LFCs with other useful information were distributed among the general public.

#### **b. Capacity Building of the Sector**

DSNBFI conducted few meetings with the Chief Executive Officers of LFCs/SLCs chaired by the Governor with the objective of sharing views between the Central Bank and companies on matters relating to the economy, LFC/SLC sector and regulatory developments. In addition, the Department held continuous meetings with LFCs/SLCs, external auditors and international agencies to discuss company and sector related matters and to implement corrective actions. Further, the senior officers of the Department served as resource persons at the training sessions conducted at the Centre for Banking Studies of the Central Bank of Sri Lanka and regional offices.

### **30.6 Facilitating Court Proceedings on Unauthorised Financial Institutions**

#### **i. Golden Key Credit Card Company Ltd. (GKCC)**

With respect to the modalities submitted by the Central Bank to the Supreme Court for repayment to the Security Deposit Holders of GKCC in 3 tranches, the government is in the process of paying the 3 tranche. The government has provided Rs. 500 mn out of Rs. 4,055 mn required. The government has decided to release the third tranche funds on instalment basis and payments will be made to balance depositors once the funds are received.

#### **ii. Other Unauthorised Financial Institutions**

Based on the case submitted by the depositors of The Finance and Guarantee Property Developers Private Ltd. (FGPDL) and F&G Real Estate Company Ltd. (FGRECL) during 2015, the Supreme Court approved the appointment of 4 members to Boards of FGPDL & FGRECL representing 2 each from the Independent Associations of Depositors of two companies. The Court further ordered the new Board of Directors to proceed with the implementation of the Plan of Action dated 23.10.2013 submitted by the Central Bank. The Supreme Court has revealed that the appointed Boards of FGPDL and FGRECL have failed to comply with the plan of action and directions given by the Supreme Court. Therefore, the Supreme Court decided to appoint 4 new members to the Boards of FGPDL and FGRECL with effect from 30.09.2016. Further, the Supreme Court appointed another director to the Boards of FGPDL and FGRECL on 22.11.2016.

### **30.7. Handling of Public Complaints**

DSNBFI mediated to resolve a large number of complaints received with regard to LFCs/SLCs from the general public mainly with respect to unfair customer practices and

<b>Annex II-3</b>	
<b>Regulated Entities Licensed with the Central Bank of Sri Lanka in Accordance with the Law (As at end 2016)</b>	
<b>Licensed Finance Companies</b>	
1. Abans Finance PLC	24. Mercantile Investments and Finance PLC
2. Alliance Finance Co. PLC	25. Merchant Bank of Sri Lanka & Finance PLC
3. AMW Capital Leasing and Finance PLC	26. Multi Finance PLC
4. Arpico Finance Co. PLC	27. Nation Lanka Finance PLC
5. Asia Asset Finance PLC	28. Orient Finance PLC
6. Associated Motor Finance Co. PLC	29. People's Leasing & Finance PLC
7. Bimputh Finance PLC	30. People's Merchant Finance PLC
8. BRAC Lanka Finance PLC	31. Richard Peiris Finance Ltd.
9. Central Finance Co. PLC	32. Sarvodaya Development Finance Ltd.
10. Central Investments and Finance PLC*	33. Senkadagala Finance PLC
11. Chilaw Finance PLC	34. Serendib Finance Ltd.
12. Citisens Development Business Finance PLC	35. Singer Finance (Lanka) PLC
13. City Finance Corporation Ltd.	36. Sinhaputhra Finance PLC
14. Colombo Trust Finance PLC	37. Siyapatha Finance PLC
15. Commercial Credit and Finance PLC	38. Sofflogic Finance PLC
16. Commercial Leasing & Finance PLC	39. Summit Finance PLC
17. ETI Finance Ltd.	40. Swarnamahal Financial Services PLC
18. HNB Grameen Finance Ltd.	41. The Finance Co. PLC
19. Ideal Finance Ltd.	42. The Standard Credit Finance Ltd.
20. Kanrich Finance Ltd.	43. TKS Finance Ltd.
21. L B Finance PLC	44. Trade Finance & Investments PLC
22. LOLC Finance PLC	45. U B Finance Co. Ltd.
23. Melsta Regal Finance Ltd.	46. Vallibel Finance PLC
* Managed by the managing agent appointed by the Central Bank of Sri Lanka and undergoing restructuring. In the meantime, deposit mobilisation has been suspended.	
<b>Registered Finance Leasing Establishments</b>	
<b>(A) Licensed Commercial Banks</b>	2. Lankaputhra Development Bank Ltd.
1. Amana Bank PLC	3. Pradeshiya Sanwardana Bank
2. Bank of Ceylon	4. Sanasa Development Bank PLC
3. Commercial Bank of Ceylon PLC	5. Sri Lanka Savings Bank Ltd.
4. DFCC Bank PLC	
5. Hatton National Bank PLC	<b>(C) Specialised Leasing Companies</b>
6. MCB Bank Ltd.	1. Assetline Leasing Co. Ltd.
7. National Development Bank PLC	2. Co-operative Leasing Co. Ltd.
8. Nations Trust Bank PLC	3. Isuru Leasing Co. Ltd.
9. Pan Asia Banking Corporation PLC	4. LOLC Micro Credit Ltd.
10. Sampath Bank PLC	5. Newest Capital Ltd.
11. Seylan Bank PLC	6. SMB Leasing PLC
12. Union Bank of Colombo PLC	7. Unisons Capital Leasing Ltd.
<b>(B) Licensed Specialised Banks</b>	<b>(D) All Licensed Finance Companies listed above</b>
1. Housing Development Finance Corporation Bank of Sri Lanka	
<b>Primary Dealers</b>	
1. Acuity Securities Ltd.	9. Pan Asia Banking Corporation PLC
2. Bank of Ceylon	10. People's Bank
3. Capital Alliance Ltd.	11. Perpetual Treasuries Ltd.
4. Commercial Bank of Ceylon PLC	12. Sampath Bank PLC
5. Entrust Securities PLC	13. Seylan Bank PLC
6. First Capital Treasuries PLC	14. Union Bank of Colombo PLC
7. Natwealth Securities Ltd.	15. WealthTrust Securities Ltd.
8. NSB Fund Management Co. Ltd.	

seeking reliefs on loans obtained by making inquiries and directing these queries to respective LFC/SLC for resolution.

### 31. TRAINING AND DEVELOPMENT

With the view of meeting the emerging needs of the Human Capital Development of the Bank, Training and Development Department (TDD) was re-established by the Monetary Board in July 2015. Key functions of the TDD are identifying training needs and preparing strategies to fill training gaps, preparing and implementing an annual training plan, facilitating intellectual capacity building, assisting staff in their postgraduate studies, providing opportunities for foreign/local short-term training for the employees and facilitating knowledge sharing of the staff.

#### Postgraduate Studies

Staff class officers were facilitated to pursue their postgraduate studies during the year 2016 by providing opportunities for 3 officers to embark on PhD programmes and 15 other officers to start their Master's degree programmes in reputed universities in Australia, UK and USA, while 01 officer commenced a PhD programme in a local university in 2016. Meanwhile, 03 officers who completed their PhD programme and 18 officers who completed their Master's degree programmes resumed duties at the Bank during the year. Table II-25 below shows the number of officers who commenced and completed postgraduate studies under the Bank scholarship programme from 2012 to 2016.

#### Short-term Training

With the objective of minimising the competency gaps of Bank employees, TDD provided 1,246 appropriate short-term foreign and local training opportunities to the Bank staff. These training gaps were identified through an annual competency mapping exercise carried out at the end of 2015.

#### Short-term Foreign Training

TDD provided 319 short-term foreign training opportunities during the year by way of specific training programmes, workshops, seminars and study visits conducted by the reputed foreign training institutions and other central banks such as Bank of England, Deutsche Bundesbank, Reserve Bank of India, Bank Negara Malaysia, Bank of Korea and Federal Reserve System of USA. The Bank staff also participated in training programmes offered by

international funding agencies and research organisations such as International Monetary Fund (IMF), World Bank, Asian Development Bank, SEACEN, Bank for International Settlements (BIS) etc. The TDD facilitated 10 study visits abroad in 2016. Table II-26 below shows the details of the short-term foreign training opportunities provided to Bank employees in 2016.

**Table II - 26**  
**Short-term Foreign Training - 2016**

Field	No. of Programmes	No. of Opportunities
Monetary Policy, Economics and Statistics	57	71
Financial System Stability	47	62
Risk Management, Legal and Compliance	27	34
Portfolio Management	27	40
Central Banking	11	14
IT / Payment and Settlement	20	27
Currency Management	8	9
Human Resource Management	5	11
Microfinance	7	15
Other	14	36
<b>Total</b>	<b>223</b>	<b>319</b>

The effectiveness of the short-term foreign training received by the respective officers was continuously evaluated by way of assigning them various assignments to be carried out using the knowledge and exposure gained through the training programmes. These activities were monitored by a training sub-committee appointed by the management. Accordingly, 06 training sub-committees were held and 37 assignments were completed during 2016 by the officers who participated in the short-term foreign training programmes. The details of assignments completed by the officers during 2016 are summarised in Table II-27 below.

**Table II - 27**  
**Completion of Assignments by Participants**  
**of Short-term Foreign Training Programmes During - 2016**

Category	No. of Assignments
Guidelines for supervision of financial institutions	2
Knowledge sharing and public awareness through articles and presentations	64
Proposals for improving systems and processes	8
<b>Total</b>	<b>74</b>

**Table II - 25**  
**Number of Officers Who Commenced and Completed Postgraduate Studies under the Bank Scholarship Programme (2012-2016)**

Studies	2012		2013		2014		2015		2016	
	Commenced	Completed	Commenced	Completed	Commenced	Completed	Commenced	Completed	Commenced	Completed
PhD	4	2	6	0	5	2	3	1	4	3
Master's Degree	18	17	11	19	24	11	19	21	15	18

### Short-term Local Training

TDD provided 927 short-term local training opportunities including meetings, international forums, conferences, summits and symposiums to the Bank staff at the Centre for Banking Studies (CBS) and other reputed local institutions mainly in the areas of economics, statistics, accountancy, banking, IT, legal, auditing, fund management, risk management, secretarial practices, human resources development, supervision of banks & financial institutions, financial markets, foreign exchange, currency, and regional development during the year 2016. The number of officers who participated in the training programmes conducted by the CBS and other institutions were 461 and 466, respectively.

### Workshops and Knowledge Sharing

TDD, in collaboration with the CBS, organised one workshop in 2016 covering the area of Forensic Accounting with the objective of filling important skills gaps of Central Bank officers. In timely manner Further, TDD organised 02 Structured High Level Training Programmes in 2016. In addition, under the Monthly Economic Fora series organised by the TDD in collaboration with other departments, 06 presentations were delivered by industry specialists on different, important current topics in economics, banking and finance during the year, facilitating knowledge enhancement of the Bank employees. In addition, the TDD facilitated 04 presentations conducted by officers who attended foreign trainings and facilitated 09 presentations conducted by officers who reported for duty after postgraduate studies.

