

PART II

PART II

ACCOUNTS AND OPERATIONS OF THE CENTRAL BANK OF SRI LANKA

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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.



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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'.

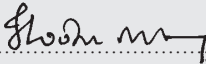
H.M.Gamini Wijesinghe

Auditor General

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

	Note	2016 Rs. 000	2015 Rs. 000
Assets			
Foreign Currency Financial Assets			
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
Total Foreign Currency Financial Assets		938,989,411	1,028,954,402
Local Currency Financial Assets			
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
Total Local Currency Financial Assets		447,580,975	266,090,542
Total Financial Assets		1,386,570,386	1,295,044,944
Foreign Currency Non-Financial Assets			
Gold	13	111,009,339	97,723,836
Non-Financial Assets			
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
Total Non-Financial Assets		142,639,711	131,154,536
Total Assets		1,529,210,097	1,426,199,480
Liabilities and Equity			
Foreign Currency Financial Liabilities			
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
Total Foreign Currency Financial Liabilities		505,794,599	574,784,494
Local Currency Financial Liabilities			
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
Total Local Currency Financial Liabilities		935,149,767	786,178,032
Total Financial Liabilities		1,440,944,366	1,360,962,526
Other Liabilities			
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
Total Other Liabilities		2,622,530	11,141,972
Total Liabilities		1,443,566,896	1,372,104,498
Equity			
Capital Funds		50,000,000	50,000,000
Reserves		35,643,201	4,094,982
Total Equity		85,643,201	54,094,982
Total Liabilities and Equity		1,529,210,097	1,426,199,480

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
Operating Income :			
Income from Foreign Currency Financial Assets			
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
Total Income from Foreign Currency Financial Assets		26,364,199	(15,120,229)
Expenses on Foreign Currency Financial Liabilities			
Interest Expense	33	(3,953,835)	(3,622,737)
Total Expenses on Foreign Currency Financial Liabilities		(3,953,835)	(3,622,737)
Net Foreign Exchange Revaluation Gain / (Loss)		(6,775,246)	10,589,267
Foreign Currency Investment Income / (Loss)		15,635,118	(8,153,699)
Income from Local Currency Financial Assets			
Interest Income	31	21,020,691	9,323,553
Interest Expense	33	(2,197,815)	(8,919,984)
Total Income / (Expense) from Local Currency Financial Assets		18,822,876	403,569
Other Income	34	1,508,261	1,577,442
Total Net Operating Income / (Loss)		35,966,255	(6,172,688)
Operating Expenses:			
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)
		(6,368,633)	(6,160,518)
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)	-
Total Operating Expenses		(11,952,388)	(11,640,974)
Profit/(Loss) Before Tax		24,013,867	(17,813,662)
Withholding Tax	37	(1,834,348)	(1,788,157)
Net Profit/(Loss) for the Year		22,179,519	(19,601,819)

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)
Other Comprehensive Income (OCI)		
OCI to be re-classified to Profit / (Loss) in subsequent period		
Net Fair Value Gain / (Loss) on Available for Sale Securities	2,022,241	(624,957)
OCI not to be re-classified to profit/(loss) in subsequent period		
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)
Total Comprehensive Income/(Loss)	36,723,914	(27,483,854)

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
As at 1 January 2015	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	-
As at 1 January 2016	50,000,000	5,986,602	39,714,048	(41,605,668)	54,094,982
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	-
As at 31 December 2016	50,000,000	9,022,907	30,530,509	(3,910,215)	85,643,201

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
Cash Flow from Operating Activities			
Receipts:			
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
Disbursements:			
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
Net Cash Flow from/(used in) Operating Activities	38	(23,694,960)	(19,780,205)
Cash Flows from Investing Activities			
Receipts:			
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)
Disbursements:			
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)
Net Cash Flow from / (used in) Investing Activities		(149,815,312)	10,514,118
Cash Flow from Financing Activities			
Receipts :			
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
Disbursements:			
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)
Net Increase/(Decrease) in Circulating Currency		22,224,180	118,958,333
Disbursements:			
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
Net Cash Flow from / (used in) Financing Activities		30,836,920	50,169,845
Net Increase/(Decrease) in Cash and Cash Equivalents		(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
Cash and Cash Equivalents at 31 December	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
Securities at Fair Value through Profit or Loss		
-Investment in Foreign Securities	29,882,588	23,986,740
-Gold (Un-Allocated)	13,396,167	11,792,925
	43,278,755	35,779,665
Available for Sale Investments		
-Investment in Foreign Securities	341,225,162	344,668,225
-Unit Investment	7,319,488	7,386,257
	348,544,650	352,054,482
Total Investment in Foreign Securities	391,823,405	387,834,147

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
Total	198,880	14,573,675	462,593,555	4,145	24,280,308	543,325,210

- 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
Total IMF Related Assets	117,008,340	83,636,350

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
Less:		
Provision for Doubtful Receivables	(27,302)	(27,302)
Net Receivable	484,043	886,357
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	-	-
At the end of 31 December	27,302	27,302

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
Total Investments	41,095	41,095

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
	12,322,596	11,164,424

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
Less: Allowance for Slow Moving Items	(45,000)	(45,000)
	6,056,106	3,367,372
Stationery and Sundry Inventory	58,557	52,259
Medical Center Stock	198	333
Total Inventories at Lower of Cost or Net Realizable Value	6,114,861	3,419,964

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
Land & Building							
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	-	-	-
Building on Leasehold Land							
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
	16,672,021	12,706,908

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

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
	45,566,681	12,048,241

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
	54,067,582	25,465,330
	221,251,832	217,257,904
Total IMF Related Liabilities	269,540,596	251,644,344

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
Current SBA	0.244	2017	34,687,890	65,334,236
			34,687,890	65,334,236
Non-current EFF SBA	0.244	2026 2017	48,288,764	-
			-	34,386,440
			48,288,764	34,386,440
Total Interest bearing loans			82,976,654	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)	364,794	1,413,418
Moragahakanda Development Project Loan under Escrow Agreement (b)	5,857,173	11,957,787
DST - PRP III under Escrow Agreement (c)	13,245,476	21,701,612
DST - PRP III Phase II under Escrow Agreement (d)	12,754,696	14,406,230
DST Special Dollar A/C - Small & Medium Enterprises (SME) and Green Energy Global Loan (e)	2,195,121	-
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)	291,768	720,312
DST - NORAD Waso Asia Project of the University of Peradeniya (g)	6,409	-
Amount due to Reserve Bank of India (RBI) under SAARC swap facility (h)	59,920,000	158,468,530
Other Foreign Liabilities	1,614,595	1,772,788
	96,250,032	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
Deposits by Banks :		
- 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>
Deposits by Financial Institutions :		
- Related Parties	477	729
- Others	9,354,449	5,262
	<u>9,354,926</u>	<u>5,991</u>
Total Deposits by Banks and Other Financial Institutions	<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
	11,318,213	9,730,531
Notes:		
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
	541,459,652	481,969,417
Total Currency in Circulation	552,777,865	491,699,948

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
	8,563,548	6,824,992

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)
As at 31 December	80	106

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
As at 1 January 2016	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)
As at 31 December 2016	2,925,000	-	2,489,920	2,000,000	1,552,900	12,381,876	3,280,813	2,000,000	1,000,000	2,900,000	30,530,509

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
IFRS Profit/(Loss)	22,179,519
Less:	
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
Distributable Profit/(Loss) as per MLA, Profit Distribution Policy of the Bank and other adjustments - Realised Profit/(Loss)	14,529,911
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
Interest Income from Foreign Currency Financial Assets		
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
Total Interest Income from Foreign Currency Financial Assets	14,869,835	13,047,314
Interest Income from Local Currency Financial Assets		
Sri Lanka Government Securities	20,333,567	8,749,944
Other Loans and Advances	687,124	573,609
Total Interest Income from Local Currency Financial Assets	21,020,691	9,323,553
Total Interest Income from Financial Assets	35,890,526	22,370,867

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)
Total Gain/(Loss) from Unrealized Price Revaluations	9,739,043	(34,853,795)

33. INTEREST EXPENSE ON FINANCIAL LIABILITIES

	2016 Rs. 000	2015 Rs. 000
Interest Expense on Foreign Currency Financial Liabilities		
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
Total Interest Expense on Foreign Currency Financial Liabilities	3,953,835	3,622,737
Interest Expense on Local Currency Financial Liabilities		
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
Total Interest Expense on Local Currency Financial Liabilities	2,197,815	8,919,984
Total Interest Expense on Financial Liabilities	6,151,650	12,542,721

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		
Interest expense on Bond Borrowing	-	82,711		
Interest expense on Standing Deposit Facility	1,519,585	4,582,318		
Less:				
Interest income earned on the securities purchased under agreement to resale	(2,471,022)	(16,317)		
USD / LKR Derivative Gain	(8,761,019)	(4,361,415)		
	<u>(9,366,621)</u>	<u>4,354,356</u>		
34. OTHER INCOME				
	2016 Rs. 000	2015 Rs. 000		
Dividend Income - Related Party	37,259	31,214		
- Others	1,818	1,050		
Gain on Disposal of Property, Plant & Equipment	424	2		
Amortization of Deferred Grant	34	409		
Licensing Fees of Financial Institutions	519,900	490,350		
Rent Income	455,514	381,491		
Charges collected from RTGS Participants	112,863	128,768		
Miscellaneous Income	380,449	544,158		
Total Other Income	<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).				
35. PERSONNEL EXPENSES				
	2016 Rs. 000	2015 Rs. 000		
Wages and Salaries	4,258,884	4,201,583		
Defined Contribution Plan Costs	629,786	629,357		
Post Employee Defined Benefit Plan Costs	1,479,963	1,329,578		
Total Personnel Expenses	<u>6,368,633</u>	<u>6,160,518</u>		
36. ADMINISTRATION AND OTHER EXPENSES				
	2016 Rs. 000	2015 Rs. 000		
Repairs and Maintenance	773,239	680,000		
Operating Expenses for Reuters, Bloomberg, SWIFT etc.	134,648	154,937		
Travelling	116,658	97,552		
Rental Expenses	4,994	5,106		
Printing	27,468	26,476		
Audit Fees	7,846	7,768		
Remuneration to Members of the Monetary Board	3,605	1,084		
Interest Subsidy on CBSL Provident Fund	47,877	-		
Advertising Cost	80,519	73,073		
Consultancy, Communication, Advisory and Professional Fees	68,058	219,502		
Miscellaneous Expenses	203,097	346,038		
Total Administration and Other Expenses	<u>1,468,009</u>	<u>1,611,537</u>		
37. WITHHOLDING TAX				
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.				
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.				
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).				
38. RECONCILIATION OF OPERATING PROFIT WITH OPERATING CASH FLOW				
	2016 Rs. 000	2015 Rs. 000		
Reported Net Profit / (Loss) from Operating Activities	22,179,519	(19,601,819)		
Add / (Less) Non-Cash Items				
Depreciation & Amortization	520,961	557,158		
Interest Received - Local Currency - Investment Portfolio	(20,333,567)	(8,749,944)		
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)	40. NET ISSUES/(WITHDRAWALS) OF CIRCULATION CURRENCY ON BANK AND FINANCIAL INSTITUTIONS TRANSACTIONS			
Losses on revaluation	378,907	-		2016	2015	
Amortization of PRGF Deposit	(6,165)	(5,726)		Rs. 000	Rs. 000	
Amortization expense of Fixed Income Securities	807,349	845,385				
Add/ (Less) Movements in Other Working Capital Items						
(Increase)/Decrease in Inventories	(2,694,897)	200,516	(Increase)/Decrease in Deposits by Banks and Financial Institutions	(121,524,559)	(20,944,825)	
(Increase)/Decrease in Interest Receivable	(4,576,657)	775,068		(121,524,559)	(20,944,825)	
Increase/(Decrease) in Miscellaneous Liabilities	(723,637)	(2,029,813)				
Increase/(Decrease) in Interest Payable	32,460	(2,165,490)	41. CLOSING CASH AND CASH EQUIVALENTS			
(Increase)/Decrease in Other Receivable	(26,455)	59,130		2016	2015	
Add/(Less) Investing and Financing Activities				Rs. 000	Rs. 000	
Net Unrealised Market Value Changes	(9,857,403)	36,983,579	Foreign Currency Assets			
Net Cash Flow from Operating Activities	(23,694,960)	(19,780,205)	Cash Balances with Foreign Banks	423,783,737	557,474,685	
				423,783,737	557,474,685	
39. NET ISSUES/(WITHDRAWALS) OF CIRCULATION CURRENCY ON GOVERNMENT TRANSACTIONS						
	2016	2015				
	Rs. 000	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)				
	160,378,295	(23,208,921)				
42. CONCENTRATIONS OF FUNDING						
The Bank's significant end-of-year concentrations of funding were as follows:						
	Total	Sri Lanka Government	Sri Lanka Public	Sri Lanka Commercial Banks	Supranational Financial Institutions	Other
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
As at 31 December 2016						
Foreign Currency Financial Liabilities						
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
Total Foreign Currency Financial Liabilities	505,794,599	34,417,259	-	15,742,841	350,025,246	105,609,253
Local Currency Financial Liabilities						
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
Total Local Currency Financial Liabilities	935,149,767	497,055	552,777,912	361,631,271	-	20,243,529
Total Financial Liabilities	1,440,944,366	34,914,314	552,777,912	377,374,112	350,025,246	125,852,782
Other Liabilities						
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
Total Other Liabilities	2,622,530	62,449	-	-	-	2,560,081
Total Liabilities	1,443,566,896	34,976,763	552,777,912	377,374,112	350,025,246	128,412,863

Comparative Figures as at 31 December 2015 are as follows:

As at 31 December 2015	Total Rs. 000	Sri Lanka Govern- ment Rs. 000	Sri Lanka Public Rs. 000	Sri Lanka Commercial Banks Rs. 000	Supranational Financial Institutions Rs. 000	Other Rs. 000
Foreign Currency Financial Liabilities						
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
Total Foreign Currency Financial Liabilities	574,784,494	49,479,048	-	25,404,454	321,351,055	178,549,937
Local Currency Financial Liabilities						
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
Total Local Currency Financial Liabilities	786,178,032	476,176	491,700,049	287,393,747	-	6,608,060
Total Financial Liabilities	1,360,962,526	49,955,224	491,700,049	312,798,201	321,351,055	185,157,997
Other Liabilities						
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
Total Other Liabilities	11,141,972	26,364	-	-	-	11,115,608
Total Liabilities	1,372,104,498	49,981,588	491,700,049	312,798,201	321,351,055	196,273,605

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
Total Financial Assets	1,386,570,386	1,295,044,944

(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
Total Financial Assets	1,386,570,386	1,295,044,944

(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.

Credit Exposure by Credit Rating		Credit Rating	2016 Rs.000	%	2015 Rs.000	%
Cash & Cash Equivalents						
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%
Foreign Currency Trading/ Available for Sale Securities						
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%
Derivative Financial Instruments						
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%
Total Foreign Currency Financial Assets						
			938,989,411	67.72%	1,028,954,402	79.45%

43.1 Credit Risk (Continued)					
	Credit Rating	2016 Rs.000	%	2015 Rs.000	%
Local Currency Financial Assets					
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%
Total Local Currency Financial Assets		447,580,975	32.28%	266,090,542	20.55%
Total Financial Assets		1,386,570,386	100.00%	1,295,044,944	100.00%
(d) Summary by Major Credit Category					
Foreign Currency Financial Assets					
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%	-	-
Total Foreign Currency Financial Assets		938,989,411	67.72%	1,028,954,402	79.45%
Local Currency Financial Assets	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%
Total Local Currency Financial Assets		447,580,975	32.28%	266,090,542	20.55%
Total Financial Assets		1,386,570,386	100.00%	1,295,044,944	100.00%

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
Interest Sensitive Foreign Currency Financial Assets							
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	-	-	-	-
Total Interest Sensitive Foreign Currency Financial Assets		812,151,193	516,322,800	37,282,832	100,641,826	117,752,141	40,151,594
Non Interest Sensitive Foreign Currency Financial Assets							
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	-	-	-	-
Total non Interest Sensitive Foreign Currency Financial Assets		126,838,218	19,770,097	-	-	145,906	106,922,215
Total Foreign Currency Financial Assets		938,989,411	536,092,897	37,282,832	100,641,826	117,898,047	147,073,809
Interest Sensitive Foreign Currency Financial Liabilities							
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	-	-	-	-
Total Interest Sensitive Foreign Currency Financial Liabilities		222,760,269	167,533,927	6,937,578	-	18,108,285	30,180,479
Non Interest Sensitive Foreign Currency Financial Liabilities							
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	-	-	-	-
Total non Interest Sensitive Foreign Currency Financial Liabilities		283,034,330	85,815,684	3,564,938	3,931,574	1,989,015	187,733,119
Total Foreign Currency Financial Liabilities		505,794,599	253,349,611	10,502,516	3,931,574	20,097,300	217,913,598
Foreign Currency Interest Rate Sensitivity Gap		589,390,924	348,788,873	30,345,254	100,641,826	99,643,856	9,971,115

43.2 Interest Rate Risk (Continued)							
	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
Interest Sensitive Local Currency Financial Assets							
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
Total Interest Sensitive Local Currency Financial Assets		362,595,993	265,004,745	87,728,817	1,136,416	2,748,980	5,977,035
Non Interest Sensitive Local Currency Assets							
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
Total Non Interest Sensitive Local Currency Assets		84,984,982	84,943,887	-	-	-	41,095
Total Local Currency Assets		447,580,975	349,948,632	87,728,817	1,136,416	2,748,980	6,018,130
Interest Sensitive Local Currency Financial Liabilities							
Securities sold under Repurchase Agreements	7.4282	21,383,724	21,383,724	-	-	-	-
Standing Deposit Facility	7.0000	48,670,712	48,670,712	-	-	-	-
Total Interest Sensitive Local Currency Financial Liabilities		70,054,436	70,054,436	-	-	-	-
Non Interest Sensitive Local Currency Liabilities							
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	-	-	-	-
Total Non Interest Sensitive Local Currency Financial Liabilities		865,095,331	865,095,331	-	-	-	-
Total Local Currency Financial Liabilities		935,149,767	935,149,767	-	-	-	-
Local Currency Interest Rate Sensitivity Gap		292,541,557	194,950,309	87,728,817	1,136,416	2,748,980	5,977,035

43.2 Interest Rate Risk (Continued)

Comparative figures as at 31 December 2015 were as follows:

Foreign Currency Interest Rate Sensitivity Gap:	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
Interest Sensitive Foreign Currency Financial Assets							
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	-	-	-	-
Total Interest Sensitive Foreign Currency Financial Assets		944,039,578	619,898,538	50,000,041	51,436,286	138,190,639	84,514,074
Non Interest Sensitive Foreign Currency Financial Assets							
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	-	-	-	-
Total Non Interest Sensitive Foreign Currency Financial Assets		84,914,824	11,800,260	-	1,886	138,622	72,974,056
Total Foreign Currency Financial Assets		1,028,954,402	631,698,798	50,000,041	51,438,172	138,329,261	157,488,130
Interest Sensitive Foreign Currency Financial Liabilities							
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	-	-	-	-
Total Interest Sensitive Foreign Currency Financial Liabilities		327,374,740	265,479,148	27,509,152	34,386,440	-	-
Non Interest Sensitive Foreign Currency Financial Liabilities							
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	-	-	-	-
Total Non Interest Sensitive Foreign Currency Financial Liabilities		247,409,753	79,649,710	6,609,542	1,610,234	5,831,868	153,708,399
Total Foreign Currency Financial Liabilities		574,784,493	345,128,858	34,118,694	35,996,674	5,831,868	153,708,399
Foreign Currency Interest Rate Sensitivity Gap		616,664,838	354,419,390	22,490,889	17,049,846	138,190,639	84,514,074

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
Interest Sensitive Local Currency Financial Assets							
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
Total Interest Sensitive Local Currency Financial Assets		113,200,405	59,640,990	44,811,025	726,412	2,771,426	5,250,552
Non Interest Sensitive Local Currency Assets							
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
Total Non Interest Sensitive Local Currency Assets		152,890,136	152,849,041	-	-	-	41,095
Total Local Currency Assets		266,090,541	212,490,031	44,811,025	726,412	2,771,426	5,291,647
Interest Sensitive Local Currency Financial Liabilities							
Securities sold under Repurchase Agreements	6.4233	23,650,000	23,650,000	-	-	-	-
Standing Deposit Facility	6.0000	81,815,000	81,815,000	-	-	-	-
Total Interest Sensitive Local Currency Financial Liabilities		105,465,000	105,465,000	-	-	-	-
Non Interest Sensitive Local Currency Liabilities							
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	-	-	-	-
Total Non Interest Sensitive Local Currency Financial Liabilities		680,713,032	680,713,032	-	-	-	-
Total Local Currency Financial Liabilities		786,178,032	786,178,032	-	-	-	-
Local Currency Interest Rate Sensitivity Gap		7,735,405	(45,824,010)	44,811,025	726,412	2,771,426	5,250,552

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	
Foreign Currency Financial Assets										
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
Total Foreign Currency Financial Assets	309,879,103	(8,232,423)	(22,382,922)	103,858,724	117,008,872	156,261,496	146,407	3,811,353	278,638,801	938,989,411
Proportion	33.00%	-0.88%	-2.38%	11.06%	12.46%	16.64%	0.02%	0.41%	29.67%	100%
Foreign Currency Financial Liabilities										
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
Total Foreign Currency Financial Liabilities	221,234,771	10	-	139	269,540,596	-	1	-	15,019,082	505,794,599
Proportion	43.74%	0.00%	0.00%	0.00%	53.29%	0.00%	0.00%	0.00%	2.97%	100%
Net Foreign Currency Exposure	88,644,332	(8,232,433)	(22,382,922)	103,858,585	(152,531,724)	156,261,496	146,406	3,811,353	263,619,719	433,194,812

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
Foreign Currency Financial Assets										
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
Total Foreign Currency Financial Assets	380,042,767	9,083,741	5,612,015	112,340,785	83,636,694	154,343,017	(212,405)	2,923,868	281,183,920	1,028,954,402
Proportion	36.93%	0.88%	0.55%	10.92%	8.13%	15.00%	-0.02%	0.28%	27.33%	100%
Foreign Currency Financial Liabilities										
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
Total Foreign Currency Financial Liabilities	290,451,841	7,758,048	-	1,766	251,644,344	43	-	-	24,928,452	574,784,494
Proportion	50.53%	1.35%	0.00%	0.00%	43.78%	0.00%	0.00%	0.00%	4.27%	100%
Net Foreign Currency Exposure	89,590,926	1,325,693	5,612,015	112,339,019	(168,007,650)	154,342,974	(212,405)	2,923,868	256,255,469	454,169,908

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 31st 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
Foreign Currency Financial Assets						
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
Total un-discounted Foreign Financial Assets	512,488,860	44,305,425	116,611,424	128,655,502	145,630,612	947,691,823
Local Currency Financial Assets						
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
Total un-discounted Local Financial Assets	367,494,174	95,185,594	1,816,990	4,652,989	6,746,934	475,896,681
Total un-discounted Financial Assets	879,983,034	139,491,019	118,428,414	133,308,491	152,377,546	1,423,588,504
Foreign Financial Liabilities						
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
Total un-discounted Foreign Financial Liabilities	247,195,921	7,356,249	793,905	12,397,992	229,378,456	497,122,523
Local Currency Financial Liabilities						
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
Total un-discounted Local Financial Liabilities	935,176,571	-	-	-	-	935,176,571
Total un-discounted Financial Liabilities	1,182,372,492	7,356,249	793,905	12,397,992	229,378,456	1,432,299,094
Net un-discounted Financial Assets/ (Liabilities)	(302,389,458)	132,134,770	117,634,509	120,910,499	(77,000,910)	(8,710,590)

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
Foreign Currency Financial Assets						
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
Total un-discounted Foreign Financial Assets	640,495,769	52,530,133	56,153,333	145,729,137	158,860,176	1,053,768,548
Local Currency Financial Assets						
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
Total un-discounted Local Financial Assets	258,934,408	732,508	1,013,702	3,319,708	5,323,002	269,323,328
Total un-discounted Financial Assets	899,430,177	53,262,641	57,167,035	149,048,845	164,183,178	1,323,091,876
Foreign Financial Liabilities						
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
Total un-discounted Foreign Financial Liabilities	343,402,432	20,926,697	34,573,192	121,023	153,461,223	552,484,567
Local Currency Financial Liabilities						
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
Total un-discounted Local Financial Liabilities	786,380,060	-	-	-	-	786,380,060
Total un-discounted Financial Liabilities	1,129,782,492	20,926,697	34,573,192	121,023	153,461,223	1,338,864,627
Net un-discounted Financial Assets/ (Liabilities)	(230,352,315)	32,335,944	22,593,843	148,927,822	10,721,955	(15,772,751)
As at 31 December 2015	Less than 6 months	6 Months -1 Yr				
	Rs. 000	Rs. 000				
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
Assets			
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
Total Assets	983,217,423	545,992,674	1,529,210,097
Liabilities			
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
Total Liabilities	1,205,149,843	238,417,053	1,443,566,896
Net	(221,932,420)	307,575,621	85,643,201

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
Assets			
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
Total Assets	1,046,211,045	379,988,435	1,426,199,480
Liabilities			
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
Total Liabilities	1,166,725,390	205,379,108	1,372,104,498
Net	(120,514,345)	174,609,327	54,094,982

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)
Benefit Liability/ (Asset) non-current	2,076,018	(1,834,772)	(187,705)	(1,002,453)	(20,645)	889,590	(79,967)

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)
At 31 December 2016 - non-current	2,076,018	(1,834,772)	(187,705)	(1,002,453)	(20,645)	889,590	(79,967)

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
Benefit Expense	1,232,222	(72,429)	81,940	(61,292)	24,042	112,275	1,316,758
Actual Return on Plan Assets	877,139	12,576	268,269	89,924	(6,438)	(37,029)	1,204,441
Actual Return on Plan Assets as a % of Average Balance	3.40%	0.53%	5.17%	5.03%	-3.89%	-2.91%	3.30%
Excess of Interest Earned Over Benefit Paid	(1,158,329)	12,576	(114,825)	69,041	(25,769)	(231,229)	(1,448,535)

45. Pension and Other Post-Employment Benefit Plans (Continued)							
Changes in Fair Value of Plan Assets	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
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)
Fair value of Plan Assets at the end of the year	25,408,311	2,444,748	5,144,789	1,828,245	152,419	1,166,543	36,145,055
2015							
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 2015 Rs. 000
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)
Benefit Liability/ (Asset) non-current	9,055,520	(1,245,041)	819,399	(612,924)	(33,574)	786,620	8,770,000
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 2015 Rs. 000
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)
At 31 December 2015 - Non-Current	9,055,520	(1,245,041)	819,399	(612,924)	(33,574)	786,620	8,770,000
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 2015 Rs. 000
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)
Benefit Expense	852,981	1,014,927	(87,465)	(86,913)	(200,806)	115,379	1,608,103
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
Changes in Fair Value of Plan Assets	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 2015 Rs. 000
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)
Fair value of Plan Assets at the end of the year	26,120,059	2,259,968	5,225,759	1,747,311	178,188	1,381,429	36,912,714

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
Projected benefit obligation on current assumptions	27,484,329	609,976	4,957,084	825,792	131,774	2,056,133
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
Financial Assets				
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>
Foreign Currency Non-Financial Assets				
Gold	111,009,339	-	-	111,009,339
	<u>111,009,339</u>	-	-	<u>111,009,339</u>
Local Currency Financial Assets				
Sri Lanka Government Securities	-	320,640,852	-	320,640,852
	-	<u>320,640,852</u>	-	<u>320,640,852</u>
Other Non-Financial Assets				
Land	-	-	8,976,339	8,976,339
Building	-	-	7,695,682	7,695,682
	-	-	<u>16,672,021</u>	<u>16,672,021</u>
Financial Liabilities				
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															
Financial Assets																			
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>															
Foreign Currency Non-Financial Assets																			
Gold	97,723,836	-	-	97,723,836															
	<u>97,723,836</u>	<u>-</u>	<u>-</u>	<u>97,723,836</u>															
Local Currency Financial Assets																			
Sri Lanka Government Securities	-	102,799,824	-	102,799,824															
	<u>-</u>	<u>102,799,824</u>	<u>-</u>	<u>102,799,824</u>															
Other Non-Financial Assets																			
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>															
Financial Liabilities																			
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>															
Land & Building																			
Valuation Method																			
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.																			
Derivatives																			
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.																			
Embedded Derivatives - Currency Options																			
Fair value of the embedded derivative products was calculated using Black-Scholes model.																			
Level 3																			
<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																	
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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%																			
Sensitivity Analysis																			
<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															
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	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). Repurchase and Reverse-Repurchase Agreements																			
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
Foreign Currency Financial Assets				
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
Local Currency Financial Assets				
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
Foreign Currency Non Financial Assets				
Allocated Gold	111,009,339	97,723,836	111,009,339	97,723,836
Foreign Currency Financial Liabilities				
Derivative Financial Instruments	14,573,675	24,280,308	14,573,675	24,280,308

47. COMPARATIVE INFORMATION

	2015 Rs. 000	
As reported previously:		
Local Currency Financial Assets		
Sri Lanka Government Securities	102,866,967	
Other Assets	11,164,452	
Local Currency Financial Liabilities		
Securities Sold Under Repurchase Agreements	105,465,000	
Other Payables	6,850,998	
Current Presentation:		
	2016 Rs. 000	2015 Rs. 000
Local Currency Financial Assets		
Sri Lanka Government Securities	351,426,470	102,866,995
Other Assets	12,322,596	11,164,424
Local Currency Financial Liabilities		
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
Transactions:		
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
Balances:		
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
Related Parties	Rupees		
- Bank Funded Projects		54,799	2,310,793
- Government Funded Projects		1,878,523	3,978,055
Others	Rupees		
- Bank Funded Projects		5,311	220,609
- Government Funded Projects		213,748	315,680
Total Credit Guarantees		2,152,381	6,825,138

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	-
Forward Exchange Purchases			
	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.