

PART III

PART III

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BANKING ACT NO. 30 OF 1988
AS AMENDED BY BANKING (AMENDMENT) ACT NO.33 OF 1995

Amendment to Direction dated 7th May 1998 issued by the Monetary Board of the Central Bank of Sri Lanka, under Section 76J(1) of the Banking Act No. 30 of 1988 as amended by the Banking Amendment Act No. 33 of 1995 in respect of deposits.

Sgd. Sunil Mendis
Governor

Colombo
03 January 2005

AMENDMENT TO LICENSED SPECIALISED BANK (DEPOSITS) DIRECTIONS

Sub section (b) of Section 4 of the above Direction is repealed with immediate effect.

02/04/002/0012/002

Bank Supervision Department
16 February 2005

To: CEOs of Licensed Commercial Banks
Secretary General/SLBA

Dear Sirs,

BANKING (AMENDMENT) ACT NO. 2 OF 2005

As you may be aware, the Banking Amendment Bill has been passed by the Parliament as Banking Amendment Act No. 2 of 2005.

Please find enclosed the following:

- ♦ The limits approved by the Monetary Board in terms of Section 47(4)
- ♦ The Determination made by the Monetary Board in terms of Section 47(3)(4)(5) and (6)
- ♦ The Directions issued in terms of Section 46(1)

Please acknowledge receipt.

Yours faithfully,
Sgd. Director of Bank Supervision

BANKING ACT

Directions issued by the Monetary Board of the Central Bank of Sri Lanka under Section 46(1) of the Banking Act No. 30 of 1988 as amended by Banking (Amendment) Act No. 2 of 2005.

Sgd. Sunil Mendis
Governor

Colombo
11 February 2005

DIRECTIONS

In the exercise of the powers conferred by Section 46(1) of the Banking Act No. 30 of 1988 as amended by Banking (Amendment) Act No. 2 of 2005, the Monetary Board issues the following Directions:

1. All licensed commercial banks are hereby required to comply with the provisions of the following directions issued by the Monetary Board under subsection (1) of Section 46 of the Banking Act, which

were in force on 9th February, 2005 being the day immediately preceding the date on which the Banking (Amendment) Act No. 2 of 2005 came into force.

- a) Direction No. 2 of 1999 (Single Borrower Limit) issued under Section 46(1)(c) on 11th October, 1999, as amended by the Amendment to Direction No. 2 of 1999 (Single Borrower Limit) issued on 18th November, 2003.
 - b) Direction No. 1 of 1998 (Share Capital Ownership) issued on 22nd October, 1998 under Section 46(1)(d) of the Banking Act.
2. The above-mentioned directions (a) and (b) shall be read and construed as if they had been issued under subsection (1) of Section 46 of the Banking Act No. 30 of 1988 as amended by Banking (Amendment) Act No. 2 of 2005.

BANKING ACT

Determination made by the Monetary Board of the Central Bank of Sri Lanka under section 47(3), (4), (5) and (6) of the Banking Act No. 30 of 1988 as amended by Banking (Amendment) Act No. 2 of 2005.

Sgd. Sunil Mendis
Governor

Colombo
11 February 2005

DETERMINATION

1. The Monetary Board, by virtue of the provisions of section 47(3), (4), (5) and (6) of the Banking Act, has approved the following as security to be obtained by a licensed commercial bank in granting accommodation to a director or to a close relation of such director or to any concern in which director has a substantial interest, as the case may be:

- (a) Sir Lanka Government Guarantees;
- (b) Bank Guarantees;
- (c) Guarantees of International Financial Institutions; such as the World Bank, IMF, IFC, ADB, USAID etc.

In the case of accommodation secured by items (a), (b) or (c) above, the accommodation granted should not exceed 100% of the guarantee.

- (d) Government or Central Bank Securities provided that the accommodation granted would not exceed 90 percent of the face value or market value, whichever is lower of such securities;
- (e) Cash Deposits in any commercial bank held under lien to the order of the lending bank provided that the accommodation granted would not exceed 90 percent of such cash deposits;
- (f) Life Insurance Policies issued in Sri Lanka and assigned to the lending bank provided that the accommodation granted would not exceed 75 percent of the surrender value of such policy;
- (g) Immovable property held on a freehold basis and on which a primary mortgage has been taken by the lending bank provided that the accommodation granted would not exceed 60 percent of the value of such property.
- (h) Immovable property held on a leasehold basis provided that –
 - (i) the lease has been granted by a statutory body;
 - (ii) the unexpired period of lease is at least 50 years;
 - (iii) there is no prohibition on the mortgage of the leasehold rights contained in the Deed of Lease, or if the Deed of Lease requires the prior approval of the Lessor for the mortgage of the leasehold rights such approval has been obtained from the Lessor;
 - (iv) a primary mortgage has been taken on the leasehold rights by the lending bank;
 and provided further that the accommodation granted does not exceed 60 percent of the value of such property.
- (i) Shares of Public Companies quoted on the Colombo Securities Exchange provided that the accommodation granted would not exceed 50 percent of the market value of such shares;
- (j) Mortgage of Stock-in-Trade provided that the accommodation granted would not exceed 30% of the market value of such Stock-in-Trade.

- (k) In the case of a concern where a substantial interest is held by a Banking Institution as defined in section 127 of the Monetary Law Act, other than a licensed commercial bank, immovable property held on a freehold basis and on which a secondary mortgage has been taken by a lending bank, provided that the total accommodation granted on the primary mortgage and the secondary mortgage does not exceed 60% of the value of such property; and
 - (l) Pledge of non-perishable goods of a commercial nature which are readily marketable, excluding all manufactured foods and other items with a limited shelf life, provided that the accommodations granted would not exceed 40 percent of the market value of such goods.
2. For the purposes of Section 47(5), in respect of accommodation granted by a licensed commercial bank to a concern in which a director of such bank has a substantial interest, where the substantial interest held in the concern by such director -
- (i) exceeds one million rupees but does not exceed 10 percent of its paid up capital or is the existence of a guarantee or indemnity for a sum less than 10 percent of that capital, where the concern is a company.
 - (ii) Is the existence of a guarantee or indemnity for a sum less than 10 percent of the total capital subscribed by all its partners, where the concern is a firm.

Such security as the licensed commercial bank considers adequate having regard to the creditworthiness of such concern should be obtained. Such accommodation should be reported to the Director, Bank Supervision, within one week of disbursement of such accommodation.

ORDER PUBLISHED UNDER SECTION 47(4) OF THE BANKING ACT NO. 30 OF 1988 AS AMENDED BY BANKING (AMENDMENT) ACT NO. 2 OF 2005

In terms of Section 47(4) of the Banking Act No. 30 of 1988 as amended by Banking (Amendment) Act No. 2 of 2005, the Monetary Board of the Central Bank of Sri Lanka has approved the following limits in respect of accommodation granted by a licensed commercial bank to a director or to a close relation of such director with effect from 11th February, 2005.

- a) In the case of accommodation secured by cash or near cash collateral (items (a) to (e) of the Determination issued by the Monetary Board in terms of Section 47(3) of the Banking Act No. 30 of 1988 as amended by Banking (Amendment) Act No. 2 of 2005, upto the limit of the security permitted in terms of the said Determination.
- b) In the case of accommodation secured by other types of approved securities, upto Rupees Five Hundred Thousand (Rs. 500,000/-)
- c) In the case of accommodation by way of issue of a credit card, upto Rupees Five Hundred Thousand (Rs. 500,000/-), provided that such accommodation is on the same terms and condition as for other customers of the respective bank.

Sgd. Sunil Mendis
Governor

Colombo
11 February 2005

02/04/004/0010/001

Bank Supervision Department
18 February 2005

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

Dear Sir,

SUBMISSION OF THE MONTHLY & QUARTERLY COMPLIANCE REPORTS

I refer to the BSD Circular dated 26 October 2001 and the discussion on the above subject at the meeting of the CEOs of Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs) held on 17.02.2005.

As agreed, all banks are hereby informed that the CEO of the respective bank should sign the Compliance Reports submitted to this Department on a monthly and quarterly basis.

This will be effective for the Compliance Reports to be submitted for the month of February 2005 onwards.

Yours faithfully,

Sgd. Director of Bank Supervision

c.c. - Secretary General/SLBA

02/04/003/0400/001

Bank Supervision Department

18 February 2005

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

Dear Sir,

PUBLIC DISCLOSURE BY PUBLICATION OF BANK ACCOUNTS IN THE PRESS

Reference our Circulars BS/62/97 dated 29.01.1999 and 02/04/003/0400/001 dated 30.01.2003 on the above subject, and the discussion at the meeting of the CEOs of Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs) on 17.02.2005.

All LCBs and LSBs are hereby informed that as agreed, the following statutory and prudential ratios should also be disclosed in the publication of quarterly and annual publication of financial statements in the press:

- The Statutory Capital Adequacy Ratio
- The Statutory Liquid Assets Ratio (Domestic Banking Unit and Off-shore Banking Unit to be indicated separately)
- Non-performing Advances Ratio (Gross NPA Ratio and the Net NPA Ratio)

This circular will be applicable for the financial statements of banks commencing from the 1st Quarter of 2005.

Yours faithfully,

Sgd. Director of Bank Supervision

c.c. - Secretary General/SLBA

Bank Supervision Department

7 March 2005

To: All Licensed Commercial Banks

Dear Sir/Madam,

BANKING ACT (SINGLE BORROWER LIMIT) DIRECTIONS NO.2 OF 2005

I enclose herewith the above Directions, which would take effect from today.

Please acknowledge receipt.

Yours faithfully,

Director of Bank Supervision

**BANKING ACT NO. 30 OF 1988 AS AMENDED BY BANKING (AMENDMENT)
ACT NO. 33 OF 1995 AND BANKING (AMENDMENT) ACT NO. 2 OF 2005**

Directions issued by the Monetary Board of the Central Bank of Sri Lanka under Section 46(1)(c) of the Banking Act No. 30 of 1988 as amended by the Banking (Amendment) Act No. 33 of 1995 and Banking (Amendment) Act No. 2 of 2005.

Sunil Mendis

Governor

Colombo

7 March 2005

BANKING ACT (SINGLE BORROWER LIMIT) DIRECTIONS NO. 2 OF 2005

1. These Directions may be cited as the Banking Act (Single Borrower Limit) Directions No. 2 of 2005 and shall have effect from 7th day of March, 2005.
2. A licensed commercial bank shall not grant accommodation exceeding thirty per cent (30%) of the capital funds of such bank as at the end of its preceding financial year to any one customer belonging to a category referred to in Section 46(1)(c)(i) of the Banking Act No.30 of 1988 as amended by Banking (Amendment) Act No.33 of 1995 and Banking (Amendment) Act No.2 of 2005 (hereinafter referred to as the "Act") or in the aggregate to customers belonging to the categories in respect of whom accommodation is required to be aggregated in terms of Section 46(1)(c)(ii) of the Act.
3. If accommodation granted to any one customer belonging to a category referred to in Section 46(1)(c)(i) or in the aggregate to any customers belonging to the categories in respect of whom accommodation is required to be aggregated in terms of Section 46(1)(c)(ii) exceeds fifteen per cent (15%) of the capital funds of the licensed commercial bank, accommodation granted in aggregate to all such customers should also not exceed fifty per cent (50%) of total accommodation of such bank as at the end of the preceding financial year.
4. For the purpose of computing the maximum amount of accommodation that could be granted under paragraphs 2 and 3, the existing facility limits or the outstanding amounts of all accommodation, whichever is more, and granted before or after the date on which these Directions take effect shall be taken into account.
5. The Single Borrower Limit in respect of accommodation granted by a Domestic Banking Unit and an Off-Shore Banking Unit of a licensed commercial bank to any one customer belonging to a category referred to in Section 46(1)(c)(i) of the Act or in the aggregate to customers belonging to the categories in respect of whom accommodation is required to be aggregated in terms of Section 46(1)(c)(ii) of the Act shall, when aggregated, not exceed the limits specified in paragraphs 2 and 3.
6. Accommodation granted against the security of the items (i) to (iv) indicated below to any customers belonging to the categories referred to in Section 46(1)(c)(i) or Section 46(1)(c)(ii) of the Act shall be excluded from the Single Borrower Limit:
 - (i) Cash.
 - (ii) Government/Central Bank Securities.
 - (iii) Treasury/Central Bank Guarantees.
 - (iv) Guarantees issued by Asian Development Bank, International Development Association, World Bank or other Institutions acceptable to the Central Bank of Sri Lanka.
7. A licensed commercial bank may grant accommodation in excess of the limits specified in paragraphs 2 and 3:
 - (i) to the Ceylon Petroleum Corporation;
 - (ii) to the Ceylon Electricity Board;
 - (iii) to the Co-operative Wholesale Establishment; or
 - (iv) to a customer/customers to whom accommodation is to be granted for use directly in an infrastructure development project provided that
 - (a) the customer/customers has/have been awarded a contract to directly engage in an infrastructure development project;
 - (b) such project is funded to the extent of at least fifty per cent (50%) by sources outside Sri Lanka or by a consortium of licensed commercial banks and/or licensed specialised banks excluding the bank granting the accommodation; and

- (c) such licensed commercial bank has certified in writing to the Director of Bank Supervision prior to disbursement of the accommodation that it has satisfied itself that the conditions at (a) and (b) have been met.
8. Where a licensed commercial bank increases its capital funds subsequently through:
- funds realised from a new share issue or a rights issue or new assigned capital, the Single Borrower Limits under paragraphs 2 and 3 may be calculated on the basis of the increased capital funds from the date on which the proceeds of the share issue, rights issue or new assigned capital were received by the bank and accounted for in its books;
 - current year's profits by capitalising such profits, the Single Borrower Limits under paragraphs 2 and 3 may be calculated on the basis of the increased capital funds, provided that such increase in the capital funds is certified by the External Auditor.
9. If a licensed commercial bank incurs losses during the current year or if its capital funds are reduced for any reason including payment of dividends or repatriation of profits, the Single Borrower Limits under paragraphs 2 and 3 should be calculated on the basis of the reduced capital funds.
10. Licensed commercial banks incorporated outside Sri Lanka who had hitherto based their Single Borrower Limits on their advances in accordance with the Banking Act (Single Borrower Limit) Directions No. 2 of 1999 and the Circular on Single Borrower Limit dated 16 July, 2004, and have insufficient capital funds to maintain the Single Borrower Limits as stipulated in these directions to meet the current accommodation are granted time till 30 June, 2005 to infuse at least fifty per cent (50%) of the shortfall of capital funds and till 31 December, 2005 to infuse the balance capital funds to comply with the Single Borrower Limits stipulated by these Directions.
11. Where any licensed commercial bank contravenes these Directions, such bank shall not repatriate profits or pay dividends as long as it continues to contravene such Directions.
12. These Directions replace the Banking Act (Single Borrower Limit) Directions No. 2 of 1999 as amended on 24 December, 2002 and 18 November, 2003 and the Circular dated 16 July, 2004 issued to licensed commercial banks incorporated outside Sri Lanka on Single Borrower Limit.

Bank Supervision Department

17 March 2005

To : CEOs of Licensed Specialised Banks

Dear Sir,

ACCOMMODATION TO DIRECTORS & RELATED COMPANIES

As intimated to you at the Meeting of the CEOs of Licensed Commercial Banks (LCBs) & Licensed Specialised Banks (LSBs) held on 17.03.2005, the Directions to LSBs on the above subject have been amended to be consistent with the Directions issued to the LCBs in this regard.

Please find enclosed the amendment to the Direction issued under Section 76J(1) of the Banking Act.

Yours faithfully,

Sgd. Director of Bank Supervision

c.c. : Secretary General/SLBA

BANKING ACT NO. 30 OF 1988 AS AMENDED BY BANKING (AMENDMENT) ACT NO. 33 OF 1995 AND ACT NO. 2 OF 2005

Amendment to the directions issued by the Monetary Board of the Central Bank of Sri Lanka under Section 76J(1) of the Banking Act No. 30 of 1988 as amended by Act No. 33 of 1995 and Act No. 2 of 2005.

Sgd. Sunil Mendis
Governor

Colombo
17 March 2005

AMENDMENT TO DIRECTIONS UNDER SECTION 76(I)(1)
ACCOMMODATION TO DIRECTORS AND RELATED COMPANIES

Direction on Accommodation to Directors and Related Companies dated 21.11.97 issued by the Monetary Board is hereby amended as follows:

1. By the repeal of sub section 1.1 and substitution therefor of the following:

- 1.1 "any of its directors or to a close relation of such director exceeding Rupees Five Hundred Thousand (Rs. 500,000/-), and except where such accommodation is provided by the issue of a credit card, such accommodation is secured by such specified security as set out in section 7 below.

Where the accommodation is provided by the issue of a credit card, the limit applicable shall be Rupees Five Hundred Thousand (Rs. 500,000/-) provided that such accommodation is on the same terms and conditions as for other customers of the respective bank.

However, where the accommodation is secured by the security specified at subsection 7.1 to 7.5 below, accommodation may be granted upto the limit of the security permitted in the relevant subsection."

2. By the insertion of section 6.1 immediately after section 6:

- 6.1 "Where any accommodation is granted by a licensed specialised bank under section 1 during the course of any financial year, such accommodation shall be disclosed in the accounts for that financial year and for each subsequent financial year till such accommodation has been repaid or settled in full."

The above amendment will be operative with immediate effect.

BANKING ACT NO. 30 OF 1988 AS AMENDED BY BANKING (AMENDMENT)
ACT NO. 33 OF 1995 AND BANKING (AMENDMENT) ACT NO. 2 OF 2005

Directions issued by the Monetary Board of the Central Bank of Sri Lanka under Section 76J(1) of the Banking Act No. 30 of 1988 as amended by the Banking (Amendment) Act No. 33 of 1995 and Banking (Amendment) Act No. 2 of 2005.

Sgd. Sunil Mendis
Governor

Colombo
18 March 2005

BANKING ACT (SINGLE BORROWER LIMIT)
DIRECTIONS NO. 3 OF 2005

1. These Directions may be cited as the Banking Act (Single Borrower Limit) Directions No. 3 of 2005 and shall have effect from the 21st day of March, 2005.
2. A licensed specialised bank having an equity capital as defined in the Banking Act shall not grant accommodation exceeding thirty per cent (30%) of the capital funds of such bank as at the end of its preceding financial year:
 - 2.1 to any one company, public corporation, firm, association of persons or individuals;
 - 2.2 in the aggregate to:
 - 2.2.1 an individual, his close relations or to a company or firm in which he has a substantial interest;
 - 2.2.2 a company and any or more of the following
 - 2.2.2.1 its subsidiaries;
 - 2.2.2.2 its holding company;
 - 2.2.2.3 its associate company;

- 2.2.2.4 a subsidiary of its holding company; or
 - 2.2.2.5 a company in which such company or its subsidiary, or its holding company, or a subsidiary of its holding company has a substantial interest
3. If accommodation granted to any one customer belonging to a category referred to at paragraph 2.2.1 or in the aggregate to any customers belonging to the categories in respect of whom accommodation is required to be aggregated in terms of paragraph 2.2.2 above exceeds fifteen per cent (15%) of the capital funds of the licensed specialised bank, accommodation granted in aggregate to all such customers should also not exceed fifty per cent (50%) of total accommodation of such bank as at the end of the preceding financial year.
 4. For the purpose of computing the maximum amount of accommodation that could be granted under paragraphs 2 and 3, the existing facility limits or the outstanding amounts of all accommodation, whichever is more, and granted before or after the date on which these Directions take effect shall be taken into account.
 5. Accommodation granted against the security of the items 5.1 to 5.4 indicated below to any customers belonging to the categories referred to in paragraph 2.1 above or paragraph 2.2 above shall be excluded from the Single Borrower Limit:
 - 5.1 Cash.
 - 5.2 Government/Central Bank Securities.
 - 5.3 Treasury/Central Bank Guarantees.
 - 5.4 Guarantees issued by Asian Development Bank, International Development Association, World Bank or other Institutions acceptable to the Central Bank of Sri Lanka.
 6. A licensed specialised bank may grant accommodation in excess of the limits specified in paragraphs 2 and 3:
 - 6.1 to the Ceylon Petroleum Corporation;
 - 6.2 to the Ceylon Electricity Board;
 - 6.3 to the Co-operative Wholesale Establishment; or
 - 6.4 to a customer/customers to whom accommodation is to be granted for use directly in an infrastructure development project provided that:
 - 6.4.1 the customer/customers has/have been awarded a contract to directly engage in an infrastructure development project;
 - 6.4.2 such project is funded to the extent of at least fifty per cent (50%) by sources outside Sri Lanka or by a consortium of licensed commercial banks and/or licensed specialised banks excluding the bank granting the accommodation; and
 - 6.4.3 such licensed specialised bank has certified in writing to the Director of Bank Supervision prior to disbursement of the accommodation that it has satisfied itself that the conditions at 6.4.1 and 6.4.2 have been met.
 7. Where a licensed specialised bank increases its capital funds subsequently through:
 - 7.1 funds realised from a new share issue or a rights issue, the Single Borrower Limits under paragraphs 2 and 3 may be calculated on the basis of the increased capital funds from the date on which the proceeds of the share issue or the rights issue were received by the bank and accounted for in its books;
 - 7.2 current year's profits by capitalising such profits, the Single Borrower Limits under paragraphs 2 and 3 may be calculated on the basis of the increased capital funds, provided that such increase in the capital funds is certified by the External Auditor.
 8. If a licensed specialised bank incurs losses during the current year or if its capital funds are reduced for any reason including payment of dividends, the Single Borrower Limits under paragraphs 2 and 3 should be calculated on the basis of the reduced capital funds.
 9. Where any licensed specialised bank contravenes these Directions, such bank shall not pay dividends as long as it continues to contravene such Directions.
 10. These Directions replace the Banking Act (Single Borrower Limit) Directions dated 21.11.1997 as amended on 18 November 2003.

02/04/002/0012/002

Bank Supervision Department
31 March 2005*To: The CEOs of Licensed Commercial Banks (Domestic) and
Licensed Specialised Banks*

Dear Sir,

APPOINTMENT OF DIRECTORS OF BANKS
(SECTION 42 OF THE BANKING ACT NO.30 OF 1988 AS AMENDED)

In terms of Section 42(1) of the Banking Act a person who is to be appointed, elected or nominated as a director of a licensed commercial bank or who continues as a director of such bank must be a fit and proper person to hold such office and should not be prevented from doing so by the provisions of the Banking Act or by any other written law. The Act also sets out specific matters to be taken into consideration in determining whether a person is fit and proper.

Further, in terms of Section 42(4) of the Act, all banks are required to notify the Director of Bank Supervision, details of proposed/appointed/elected/nominated directors for approval under Section 42(5). Boards of licensed commercial banks should ensure that adequate information relating to any person who is to be appointed, elected or nominated to the Board of Directors is made available to the Board before such appointment, election or nomination takes place. Furthermore, it is necessary that relevant information in respect of current directors should also be available to the Board of Directors.

For this purpose we annex hereto a draft affidavit to be obtained from all directors and persons nominated for election or appointment as directors of the bank or to be nominated to the Board. In addition to the affidavit, a declaration may also be obtained from such person to enable the bank to ascertain compliance by directors of the bank with other provisions of the Act. For this purpose a draft declaration as in Annex 2 may be used. The Secretary of each bank shall submit a copy of the affidavit and the declaration in respect of each such person to be appointed, to the Director of Bank Supervision, together with the information specified in sub-section (4) of Section 42, by the bank when approval for appointment, election or nomination of a director is sought.

With respect to current directors, the declaration and affidavit should be obtained and copies furnished to the Central Bank in respect of each director holding office, by 30 April 2005. Thereafter, the declaration and affidavit should be obtained and copies furnished to the Central Bank annually, before the Annual General Meeting of the respective bank in respect of every continuing director.

Yours faithfully,

Director of Bank Supervision

c.c. – Mr Upali De Silva
Secretary General - Sri Lanka Bankers Association
Level 8, Ceylinco House 69, Janadhipathi Mawatha
Colombo 01

**AFFIDAVIT TO BE SUBMITTED IN TERMS OF SECTION 42(2) OF THE
BANKING ACT**

I, of Being a [Buddhist solemnly, sincerely and truly declare and affirm/ Christian/Catholic make oath and state/ Muslim make oath and state] as follows :

- (a) I am the [affirmant / deponent] abovenamed and I [am a director / have been elected as a director / have been nominated as a director] of which is a licensed commercial bank / licensed specialized bank, licensed under the Banking Act No. 30 of 1988.
- (b) I [affirm/state] that I possess the following academic and/or professional qualifications :
- (c) I [affirm/state] that the effective experience that I possess in banking, finance, business or administration or of any other relevant discipline is as follows :
- (d) I [affirm/state] that there is no finding of any regulatory or supervisory authority, professional association, any Commission of Inquiry, tribunal or other body established by law in Sri Lanka or abroad, to the effect that I have committed or have been connected with the commission of, any act which involves fraud, deceit, dishonesty or any other improper conduct;

- (e) I [affirm/state] that as such I am not subject to any investigation or inquiry in Sri Lanka or elsewhere by any regulatory authority, or supervisory authority, professional association, any Commission of Inquiry, tribunal or other body established by law in Sri Lanka or abroad, that I have committed or have been connected with the commission of, any act which involves fraud, deceit, dishonesty or any other improper conduct;
- (f) I [affirm/state] that I have not been convicted by any Court in Sri Lanka or abroad in respect of a crime committed in connection with financial management or of any offence involving moral turpitude;
- (g) I [affirm/state] that I am not an undischarged insolvent nor have I been declared a bankrupt in Sri Lanka or abroad;
- (h) I [affirm/state] that I have not failed, to satisfy any judgment or order of any court whether in Sri Lanka or elsewhere, or to repay a debt;
- (i) I [affirm/state] that I have not been declared by a competent court in Sri Lanka or abroad, to be of unsound mind;
- (j) I [affirm/state] that I have not been removed or suspended by an order of a regulatory or supervisory authority from serving as a director, Chief Executive Officer or other officer in any bank or financial institution or corporate body, in Sri Lanka or abroad;
- (k) I [affirm/state] that I have not been a director, Chief Executive Officer or held any other position of authority in any bank or financial institution –
 - (i) whose license has been suspended; or
 - (ii) which has been wound up or is being wound up, or which is being compulsorily liquidated; whether in Sri Lanka or elsewhere.
- (l) I [affirm/state] that to the best of my knowledge I am a fit and proper person [to hold office as a director / to be appointed, nominated or elected as a director] of a licensed commercial bank / licensed specialised bank in terms of the provisions of Section 42 of the Banking Act as amended by Banking (Amendment) Act No. 2 of 2005.

The averments contained herein
were read over to the [affirmant/deponent
who having understood the contents
hereof and having accepted same as
true, swore to and placed his/her signature
at Colombo on thisday of

Before me

JUSTICE OF THE PEACE

Annex 2

Name of Bank:

**Declaration to be submitted in terms of Section 42 of the Banking Act by persons proposed to be/
appointed/elected/nominated as a Director of a Licensed Bank
(with enclosures as appropriate as of)**

1. Personal Details

- 1.1 Full name:
- 1.2 NIC No./Passport No.:
- 1.3 Permanent Address:
- 1.4 Present Address:
- 1.5 Occupation:

2. List of close relations in terms of Section 86 of the Banking Act:

- 2.1 Name in full of spouse:
- NIC No./Passport No. :

2.2 Names of dependent children:

Full NameNIC No./ Passport No.

- 1.
- 2.
- 3.
- 4.

3. List of entities in which director/prospective director has a substantial interest in terms of Section 86 of the Banking Act
4. Name/s of Licensed Bank/s in which he/she is or has been a member of the Board of Directors (give details of period during which such office was held)
5. Accommodation, if any, presently availed by him/her or by his close relations at 2 above, and by entities at 3 above from the bank, and collateral

Declaration:

I confirm that the above information is to the best of my knowledge and belief true and complete. I undertake to keep the bank fully informed, as soon as possible, of all events which take place subsequently which are relevant to the information provided above.

Date:

Signature

Any other explanation/information in regard to the information furnished above and other information considered relevant for assessing the suitability of the proposed/appointed director.

Remarks of Board of Directors of the Bank

Date

Signature of Company Secretary

02/17/402/0073/001

Bank Supervision Department
12 April 2005

To: CEOs of all Licensed Commercial Banks

Dear Sir,

ENHANCEMENT OF MINIMUM CAPITAL REQUIREMENTS OF BANKS

As intimated to you at the meeting held on 08.04.2005, as part of its responsibility to maintain financial system stability and in the interest of a strong and sound banking system, the Monetary Board of the Central Bank of Sri Lanka has decided to require all licensed commercial banks to increase their capital to Rs. 2,500 mn. For this purpose capital shall mean the Tier 1 capital (Core Capital) as defined by the Directions dated 22.08.1997 issued by the Monetary Board under Section 19(2) and 19(7) of the Banking Act as amended from time to time. Commercial banks that do not currently meet this requirement may enhance their capital in the following manner.

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

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

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

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

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

Please acknowledge receipt.

Yours faithfully,

Sgd. Director of Bank Supervision

Copy to: Mr Upali de Silva
Secretary General
Sri Lanka Banks' Association (Gte) Ltd.
Level 8, Ceylinco House
Colombo 1

02/17/402/0073/001

Bank Supervision Department
12 April 2005

To: CEOs of all Licensed Specialised Banks

Dear Sir,

ENHANCEMENT OF MINIMUM CAPITAL REQUIREMENTS OF BANKS

As intimated to you at the meeting held on 08.04.2005, as part of its responsibility to maintain financial system stability and in the interests of a strong and sound banking system, the Monetary Board of the Central Bank of Sri Lanka has decided to require all licensed specialised banks to increase their capital to Rs. 1,500 mn. For this purpose capital shall mean the Tier 1 capital (Core Capital) as defined by the Directions dated 21.11.1997 issued by the Monetary Board under Section 76J(1) of the Banking Act as amended from time to time. Specialised banks that do not currently meet this requirement may enhance their capital in the following manner.

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

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

The Monetary Board has also decided that with immediate effect the required equity capital for a new specialized bank should be Rs. 1,500 mn.

The enhanced capital requirements will not apply to the Regional Development Banks for the time being.

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

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

Please acknowledge receipt.

Yours faithfully,

Sgd. Director of Bank Supervision

Copy to: Mr Upali de Silva
Secretary General
Sri Lanka Banks' Association (Gte) Ltd.
Level 8, Ceylinco House
Colombo 1

INTRODUCTION OF PRODUCTS BASED ON ISLAMIC PRINCIPLES

The recent amendments to the Banking Act permit banks to introduce banking products based on Islamic principles. Several banks have requested permission from CBSL in this regard.

In order to ensure that all banking operations, be it conventional banking or Islamic Banking, are conducted in a prudential manner, the following regulatory framework will apply:

1. The Islamic Banking operations should be conducted strictly within the existing regulatory framework applicable to the licensed banks.
2. The respective banks should maintain separate books of accounts for their Islamic Banking Operations.
3. Data on Islamic Banking should be included under a separate column in the statutory returns submitted to CBSL in order to enable a clear demarcation between the accounts relating to conventional banking and Islamic Banking.
4. The prudential regulations that apply to conventional banking operations will apply equally to Islamic Banking business and banks are advised to strictly follow the existing regulations. If any deviations are observed, such banks will be required to immediately cease the continuation of the relevant operations.

The CBSL will write individually to the banks that have inquired in this regard.

Distributed at the meeting of the CEOs of LCBs and LSBs held on 19 May 2005

Bank Supervision Department

29 July 2005

To: the CEOs of Licensed Commercial Banks

Dear Sirs,

REQUEST TO MAINTAIN CAPITAL IN FOREIGN CURRENCY

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

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

Please acknowledge receipt.

Yours faithfully,

Sgd. Director of Bank Supervision

02/04/002/0101/002

Bank Supervision Department
11 August 2005*To: the CEOs of Licensed Commercial Banks*

Dear Sirs,

SINGLE BORROWER LIMIT DIRECTION NO. 4 OF 2005

As announced at the Meeting of the CEOs of Licensed Commercial Banks and Licensed Specialised Banks, the Direction amending the existing Direction No. 2 of 2005 on the Single Borrower Limit is enclosed herewith. Please acknowledge receipt.

Yours faithfully,
Sgd. Director of Bank Supervision

**BANKING ACT NO. 30 OF 1988 AS AMENDED BY BANKING (AMENDMENT)
ACT NO. 33 OF 1995 AND BANKING (AMENDMENT) ACT NO. 2 OF 2005**

Direction issued by the Monetary Board of the Central Bank of Sri Lanka under Section 46(1)(c) of the Banking Act, No. 30 of 1988 as amended by the Banking (Amendment) Act No. 33 of 1995 and Banking (Amendment) Act No. 2 of 2005.

Sgd. Sunil Mendis
Governor

Colombo
10 August 2005

**BANKING ACT (SINGLE BORROWER LIMIT)
DIRECTION NO. 4 OF 2005**

The Banking Act (Single Borrower Limit) Directions No. 2 of 2005 is hereby amended as follows.

1. Paragraph 4 of the said Directions is repealed and replaced with the following:

“4. For purposes of paragraphs 2 and 3, in determining whether accommodation exceeds 30% of the capital funds or 15% of the capital funds of a licensed commercial bank, the existing facility limits or the outstanding amounts of all accommodation, whichever is more shall be taken into account.

For purposes of paragraph 3, the total accommodation of a licensed commercial bank as at the end of the preceding financial year shall mean the outstanding amount of all accommodation as at the end of the preceding financial year.”

2. Paragraph 6 of the said Directions is repealed and replaced with the following:

“6. (1) Accommodation granted against the security of the following items to customers belonging to the categories referred to in Section 46(1)(c)(i) or Section 46(1)(c)(ii) of the Act shall be excluded from the computation of the Single Borrower Limit:

- (a) Cash;
- (b) Government/Central Bank Securities;
- (c) Treasury/Central Bank Guarantees;
- (d) Guarantees issued by the Asian Development Bank, International Development Association and the World Bank.
- (e) Subject to the terms and conditions stipulated in subparagraphs (3) and (4) below;
 - (i) Accommodation granted against the security of a guarantee or similar instrument, as determined to be acceptable by the Director of Bank Supervision issued by a bank which is incorporated outside Sri Lanka or a Licensed Commercial Bank incorporated in Sri Lanka or a Licensed Specialised Bank incorporated in Sri Lanka; or
 - (ii) Accommodation granted against the security of a guarantee or an indemnity or an undertaking issued by the head office of a Licensed Commercial Bank which is incorporated outside Sri Lanka,

(3) A guarantee or similar instrument issued by an institution listed under subparagraph (e) above shall be acceptable subject to the following terms and conditions:

- (a) The institution shall be a highly rated institution with a credit rating of A- and above (or equivalent), rated by a credit rating agency acceptable to the Monetary Board of the Central Bank of Sri Lanka.
- (b) The percentage of the value of accommodation that may be excluded from the computation of the single borrower limit shall be as follows:

<u>Credit rating</u>	<u>% of principal value exempted</u>
AAA to AA- (or equivalent)	80%
A+ to A- (or equivalent)	50%

- (c) The aggregate of all accommodation excluded on the above basis shall not exceed 100 per cent of the capital funds of the bank.
- (d) The bank concerned shall be satisfied that the credit rating assigned to the bank providing the guarantee is current and has not fallen due for review, and that the Director of Bank Supervision shall be notified of any change with immediate effect and the accommodation granted should be revised accordingly at the earliest credit review.

(4) In addition to the terms and conditions stipulated under subparagraph (3) above, an undertaking or an indemnity issued by the Head Office of a Licensed Commercial Bank incorporated outside Sri Lanka shall be acceptable subject to the following terms and conditions:

- (a) To consider an exclusion from the Single Borrower Limit for an accommodation granted under Paragraph 6(e)(ii) above, the approval of the Director of Bank Supervision of the Central Bank of Sri Lanka should be obtained prior to the granting of such accommodation.
- (b) In the event of default of the customer on whose behalf the undertaking/indemnity is issued, the head office shall immediately remit the amount guaranteed to the domestic banking unit in Sri Lanka, and the branch will not repatriate any profits or head office expenses until such amount has been received by the Colombo branch of the bank concerned."

3. Paragraph 7(iv) of the said Directions shall be repealed and replaced with the following:

"(iv) to a customer/customers to whom accommodation is to be granted for the use of funds directly in an infrastructure development project provided that,

- (a) the infrastructure development project is a project as described in Annex I hereto;
- (b) the customer/customers has/have been awarded a contract to directly engage in an infrastructure development project;
- (c) such project is funded to the extent of at least fifty per cent (50%) by sources outside Sri Lanka or by a consortium of licensed commercial banks and/or license specialised banks excluding the bank granting the accommodation; and
- (d) such licensed commercial bank has certified to the Director of Bank Supervision of the Central Bank of Sri Lanka prior to the disbursement of the accommodation that it has satisfied itself that the conditions (a), (b) and (c) above stipulated herein have been met.
- (e) Lending for infrastructure projects in terms of this sub paragraph shall not exceed fifty per cent (50%) of the capital funds of the bank as at the end of the preceding financial year."

4. These Directions will be effective with immediate effect.

Annex I

The definition of infrastructure lending that would qualify for exemption under paragraph 7(iv) of the Direction on Single Borrower Limit

Accommodation extended by banks to an infrastructure facility as specified below will qualify for exemption from the Single Borrower Limit under Section 7(iv) of the Direction. A credit facility provided to a company engaged in:

- Developing or
- Operating and maintaining or
- Developing, operating, upgrading and maintaining any infrastructure facility that is a project in any of the following sectors, or any infrastructure facility of a similar nature :
 - i. a road, including toll road, a bridge or a rail system;
 - ii. a highway project including other activities being an integral part of the highway project;

- iii. a port, airport, inland waterway or inland port;
- iv. a water supply project, irrigation project, water treatment system, sanitation and sewerage system or solid waste management system;
- v. telecommunication services whether basic or cellular, including radio paging, network of trunking, broadband network and internet services;
- vi. an industrial park or special economic zone;
- vii. generation or generation and distribution of power
- viii. transmission or distribution of power by laying a network of new transmission or distribution lines.
- ix. construction relating to projects involving agro-processing and supply of inputs to agriculture;
- x. construction of educational institutions and hospitals
- xi. any other infrastructure facility of similar nature

02/08/006/0001/002

Bank Supervision Department
11 August 2005

To: the CEOs of Licensed Specialised Banks

Dear Sirs,

ANNUAL LICENSE FEES OF LICENSED SPECIALISED BANKS

Please find enclosed the Determination made by the Monetary Board with regard to the annual license fee of Licensed Specialised Banks which will be effective from 01 January 2006.

Yours faithfully,

Sgd. Director of Bank Supervision

BANKING ACT

Determinations made by the Monetary Board of the Central Bank of Sri Lanka under Section 76D. (6) of the Banking Act.

Sgd. Sunil Mendis
Governor

Colombo
10 August 2005

DETERMINATION NO. 2 OF 2005

- 1 By virtue of the provisions of Section 76D. (6), the Monetary Board has determined that with effect from 1st January, 2006 every Licensed Specialized Bank shall pay an annual licence fee of Rs. 100,000/- for each calendar year.
- 2 Every Licensed Specialized Bank shall pay the respective licence fee to the Central Bank of Sri Lanka by 31st January each year.
- 3 Every Licensed Specialized Bank licensed in future, shall pay the annual licence fee for the first calendar year of operations before the issue of the licence.

02/04/002/0018/001

Bank Supervision Department
12 August 2005*To: CEOs of Licensed Commercial Banks*

Dear Sirs,

REQUEST TO MAINTAIN CAPITAL OF BANKS IN FOREIGN CURRENCY

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

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

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

- ♦ US Dollars
- ♦ Pounds Sterling
- ♦ Euro

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

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

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

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

4. Reporting procedure

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

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

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

6. Submission of capital plans

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

Yours faithfully,
Sgd. Director of Bank Supervision

02/04/003/0401/001

Bank Supervision Department
30 September 2005*To : the CEOs of all Licensed Commercial Banks and
Licensed Specialised Banks*

Dear Sirs,

**PUBLIC DISCLOSURE BY PUBLICATION OF QUARTERLY FINANCIAL
STATEMENTS OF BANKS IN THE PRESS**

As discussed at the meeting of the CEOs of LCBs held on 28 July 2005, the format for publication of quarterly financial statements in the press has been revised in consultation with the representative of banks, and is attached herewith, along with the suggested Sinhala and Tamil translations.

2. The revision is aimed at increasing the transparency of banking operations, and to align the publication requirements with those of other regulators. Accordingly, the formats have been drafted incorporating the disclosure requirements of the Securities and Exchange Commission (SEC)(in respect of listed banks) and the Sri Lanka Accounting Standards, as far as possible. In addition, selected performance indicators, including key prudential ratios have been included, as agreed with the banks.
3. The information published should be in respect of the entire bank, i.e. including the off-shore banking unit and in the case of LCBs incorporated in Sri Lanka, any branches abroad.
4. The new format contains two parts viz;
 - Part I : The format for the summarized balance sheet, income statement, and the statement of changes in equity and reserves and selected performance indicators
 - Part II : Instructions for Preparation of Bank Accounts for publication in the press
5. Balance Sheet information should be reported as at end of the relevant quarter. Comparative figures to be published should be based on the audited financial statements for the previous financial year.
 - 5.1 The reporting period in respect of the income statement should be the cumulative position as at the end of the relevant quarter in the financial year. Comparative figures should be in respect of the same reporting period in the previous financial year.
 - 5.2 In the case of selected performance indicators, the relevant ratios as at the reporting date should be reported while the comparative ratios should be based on the audited financial statements for the previous financial year.
6. The publication should be made within two months from the end of each quarter, at least once in an English, Sinhala and Tamil newspaper. If the bank publishes its annual audited financial statements within two months from the end of the financial year, the requirement to publish the financial statements for the fourth quarter in terms of these instructions would not be mandatory.
7. The licensed commercial banks incorporated abroad may report information pertaining to the global operations of the parent bank, in the column for reporting the information on the Group. Such information may be reported in the currency of the home country or in US Dollars. In view of the heterogeneous character of group accounts of foreign banks, the banks are requested to make every endeavour to publish all items given in the agreed format.
8. The disclosure requirements contained herein specify the minimum requirements to be adopted by the banks and all banks are encouraged to make additional disclosures for the benefit of the general public. In addition, the banks listed on the Colombo Stock Exchange should comply with any additional regulations imposed by the SEC with regard to publication of financial information.
9. The revised publication format will be effective for publication of banks' financial statements from the 3rd quarter of 2005 onwards.
 - 9.1 The codes indicated in the formats are for cross reference with the definitions in the instructions and not for publication.
10. The circular dated 30 January 2003 on the publication of quarterly financial statements is hereby rescinded.

Please acknowledge receipt of this circular.

Yours faithfully,
Sgd. Director of Bank Supervision

FORMAT-SUMMERISED BALANCE SHEET

Name of Bank :-

Rupees Thousands

Summarised Balance Sheet

Code	Item	Bank		Group	
		Current Period	Previous Period	Current Period	Previous Period
		As at DD/MM/YY	As at DD/MM/YY (Audited)	As at DD/MM/YY	As at DD/MM/YY (Audited)
On-Balance Sheet Assets					
1.1.1.0.0	Cash in Hand				
1.1.2.0.0	Balances with Central Bank of Sri Lanka/Other Central Banks				
1.1.3.0.0	Due from Banks and Other Financial Institutions				
1.1.4.0.0	Investments - Trading Account				
1.1.4.1.0	Government Securities				
1.1.4.2.0	Other Securities				
1.1.5.0.0	Investments - Held-to-Maturity (Net of provisions made for decline in value of investments)				
1.1.5.1.0	Government Securities				
1.1.5.2.0	Other Securities				
1.1.5.3.0	Less: Provision for decline in value of Investments				
1.1.6.0.0	Investments in Associates and Subsidiaries				
1.1.7.0.0	Total Loans and Advances				
1.1.7.1.0	Total Performing loans and Advances				
1.1.7.1.1	Bills of Exchange				
1.1.7.1.2	Overdrafts				
1.1.7.1.3	Lease Rentals Receivable				
1.1.7.1.4	Other Loans				
1.1.7.2.0	Total Non-performing loans and Advances				
1.1.7.2.1	Bills of Exchange				
1.1.7.2.2	Overdrafts				
1.1.7.2.3	Lease Rentals Receivable				
1.1.7.2.4	Other Loans				
1.1.7.2.5	Interest Receivables				
1.1.7.3.0	Total Gross Loans and Advances				
	Less:				
1.1.7.4.0	Interest in Suspense				
1.1.7.5.0	Specific Loan Loss Provisions				
1.1.7.6.0	General Loan Loss Provisions				
1.1.7.4.0	Net Loans and Advances				
1.1.8.0.0	Other Assets				
1.1.9.0.0	Intangible assets				
1.1.10.0.0	Investment properties				
1.1.11.0.0	Fixed Assets (Net of accumulated depreciation)				
1.1.10.0.0	Total on Balance Sheet Assets				
On-Balance Sheet Liabilities					
1.2.1.0.0	Total Deposits				
1.2.1.1.0	Demand Deposits				
1.2.1.2.0	Savings Deposits				
1.2.1.3.0	Time Deposits				
1.2.1.4.0	Margin Deposits				
1.2.1.5.0	Other Deposits				
1.2.2.0.0	Total Borrowings				
1.2.2.1.0	Borrowings from CBSL				
1.2.2.2.0	Borrowings from Banks and Financial Institutions in Sri Lanka				
1.2.2.3.0	Borrowings from Banks and Financial Institutions Abroad				

1.2.2.4.0	Securities sold under repurchase agreements				
1.2.2.5.0	Subordinated Term Debt				
1.2.2.6.0	Other Borrowings				
1.2.3.0.0	Deferred taxation				
1.2.4.0.0	Current Taxation				
1.2.5.0.0	Other Liabilities				
1.2.6.0.0	Total on Balance Sheet Liabilities				
1.3.0.0.0	Minority Interests				
1.4.0.0.0	Equity Capital and Reserves				
1.4.1.0.0	Share Capital/Assigned Capital				
1.4.2.0.0	Statutory Reserve Fund				
1.4.3.0.0	Total Other Reserves				
1.5.0.0.0	Total On-Balance Sheet Liabilities and Equity Capital and Reserves				
1.6.0.0.0	Off-Balance Sheet Items and Contra Accounts				
1.6.1.0.0	Contingencies				
1.6.2.0.0	Commitments and Contra Accounts				
1.7.0.0.0	Memorandum Information				
1.7.1.0.0	Number of Employees				
1.7.2.0.0	Number of Branches				
Summarised Income Statement					
2.1.0.0.0	Interest Income				
2.1.1.0.0	Interest Income on Loans and Advances				
2.1.2.0.0	Interest Income on Other Interest Earning Assets				
2.2.0.0.0	Less: Interest Expenses				
2.2.1.0.0	Interest Expense on Deposits				
2.2.2.0.0	Interest Expense on Other Interest Bearing Liabilities				
2.3.0.0.0	Net Interest Income				
2.4.0.0.0	Non - Interest Income				
2.4.1.0.0	Foreign Exchange Income				
2.4.2.0.0	Other Income				
2.5.0.0.0	Less: Non - Interest Expenses				
2.5.1.0.0	Personnel Costs				
2.5.2.0.0	Provision for Staff Retirement Benefits				
2.5.3.0.0	Premises, Equipment and establishment Expenses				
2.5.4.0.0	Loss on Trading/Investment Securities				
2.5.5.0.0	Amortization of Intangible Assets				
2.5.6.0.0	Other Operating Expenses				
2.6.0.0.0	Less: Provision for Bad and Doubtful Debts and Loans Written Off				
2.6.1.0.0	Provisions - General				
2.6.2.1.0	Provisions - Specific				
2.6.3.2.0	Recoveries (-)				
2.6.4.3.0	Loans Written Off				
2.7.0.0.0	Less: Provision for Decline in Value of Investments (Net)				
2.8.0.0.0	Operating Profit on Ordinary Activities Before Taxes				
2.9.0.0.0	Less: Value Added Tax on Financial Services				
2.10.0.0.0	Operating Profit on Ordinary Activities Before Corporate Tax				
2.11.0.0.0	Share of Subsidiaries/Associate Companies' Profit				
2.12.0.0.0	Operating Profit Before Corporate Tax				
2.13.0.0.0	Less: Tax on Profits on Ordinary Activities				
2.14.0.0.0	Operating Profit for the Period				

Statement of Changes In Equity and Reserves-Bank

Rupees in Thousands

Code	For the Period Ended (DD/MM/YYYY)	Equity Capital				Reserves						
	Item	Ordinary Voting Shares	Ordinary Non-Voting Shares	Cumulative Redeemable Preference Shares	Assigned Capital	Reserve Fund	Share Premium	Revaluation Reserve	General Reserves	Other Reserves	Income State- ment	Total
3.1.0.0.0	Balance as at DD/MM/YY (Opening Balance)											
3.2.1.0.0	Issue of Shares/Increase of assigned capital											
3.2.2.0.0	Bonus Issue											
3.2.3.0.0	Rights Issue											
3.2.4.0.0	Surplus on revaluation of property											
3.2.5.0.0	Net profit for the period											
3.2.6.0.0	Transfer to reserves during the period											
3.2.7.0.0	Dividend Paid YYYY											
3.2.8.0.0	Profits Transferred to Head office											
3.2.9.0.0	Others											
3.3.0.0.0	Balance as at DD/MM/YY (Closing Balance)											

Statement of Changes In Equity and Reserves-Group

3.1.0.0.0	Balance as at DD/MM/YY (Opening Balance)												
3.2.1.0.0	Issue of Shares/Increase of assigned capital												
3.2.2.0.0	Bonus Issue												
3.2.3.0.0	Rights Issue												
3.2.4.0.0	Surplus on revaluation of property												
3.2.5.0.0	Net profit for the period												
3.2.6.0.0	Transfer to reserves during the period												
3.2.7.0.0	Dividend Paid YYYY												
3.2.8.0.0	Profits Transferred to Head office												
3.2.9.0.0	Others												
3.3.0.0.0	Balance as at DD/MM/YY (Closing Balance)												

Selected Performance Indicators

Code	Item	Current Period	Previous Period	Current Period	Previous Period
		As at DD/MM/YY	As at DD/MM/YY (Audited)	As at DD/MM/YY	As at DD/MM/YY (Audited)
		Bank (Solo Basis)		Group	
4.1.0.0.0	Regulatory Capital Adequacy				
4.1.1.0.0	Core Capital (Tier I Capital), Rs. Mn				
4.1.2.0.0	Total Capital Base, Rs. Mn				
4.1.3.0.0	Core Capital Adequacy Ratio, as % of Risk Weighted Assets (Minimum Requirement, 5%)				
4.1.4.0.0	Total Capital Adequacy Ratio, as % of Risk Weighted Assets (Minimum Requirement, 10%)				
4.2.0.0.0	Assets Quality (Quality of Loan Portfolio)				
4.2.1.0.0	Gross Non - Performing Advances Ratio, % (net of Interest in Suspense)				
4.2.2.0.0	Net Non - Performing Advances Ratio, % (net of interest in suspense and provisions)				
4.3.0.0.0	Profitability				
4.3.1.0.0	Interest Margin, %				
4.3.2.0.0	Return on Assets (before Tax), %				
4.3.3.0.0	Return on Equity, %				
4.4.0.0.0	Regulatory Liquidity				
4.4.1.0.0	Statutory Liquid Assets, Rs.Mn.				
4.4.2.0.0	Statutory Liquid Assets Ratio,% (Minimum Requirement, 20%)				
	Domestic Banking unit				
	Off-Shore Banking Unit				

CERTIFICATION:

We, the undersigned, being the Chief Executive officer and the Financial Controller / Compliance Officer ofBank certify jointly that:-

- (a) the above statements have been prepared in compliance with the format and definitions prescribed by the Central Bank of Sri Lanka
- (b) the information contained in these statements have been extracted from the unaudited financial statements of the bank unless indicated as audited

(Name)

(Sgd) Chief Executive Officer

Date:DD/MM/YY

(Name)

(Sgd) Financial Controller or Compliance Officer

Date:DD/MM/YY

INSTRUCTIONS **FOR** **PREPARATION OF BANK ACCOUNTS FOR PUBLICATION IN THE PRESS**

30/09/2005

Bank Supervision Department
Central Bank of Sri Lanka

DETAILED INSTRUCTIONS

1. Balance Sheet-Amounts in Rupees Thousands

<i>Line Code</i>	<i>Line Item</i>	<i>Instructions</i>
	On-Balance Sheet Assets	
1.1.1.0.0	Cash in Hand	Local and foreign currency notes and coins held by tellers, in ATMs and in vault.
1.1.2.0.0	Balances with Central Bank of Sri Lanka/Other Central Banks	Balance at Central Bank of Sri Lanka/other Central Banks for reserve requirement and other transactions.
1.1.3.0.0	Due from Banks and Other Financial Institutions	Sub-total of items 1.1.3.1.0 to 1.1.3.9.0
1.1.3.1.0	Cash Items in Process of Collection (CIPC)	Local/foreign drafts, cheques and other cash equivalent items such as stocks of valid usable stamps held for customer services, money orders, postal orders and traveler's cheques purchased by bank and payable immediately on presentation.
1.1.3.2.0	Cash advances (net) through Electronic Cards	Cash withdrawn from the bank's ATMs by cardholders (e.g., credit/debit) of other banks less cash withdrawn from ATMs of other banks by cardholders of the bank.
1.1.3.3.0	Gold bullion in hand	Gold bullion held in the vaults of the bank.
1.1.3.4.0	Balances with Licensed Commercial Banks (LCBs) in Sri Lanka	Current accounts maintained at Licensed Commercial Banks (LCBs) in Sri Lanka.
1.1.3.5.0	Balances with Banks and Financial institutions Abroad (Nostro Accounts)	Balances with Banks and Financial Institutions abroad in Nostro accounts (as per Bank's Books) maintained to route foreign currency transactions.
1.1.3.6.0	Balances with Head office, branches abroad (Nostro Accounts)	Balances with Head Office and Branches abroad in Nostro accounts (as per Bank's Books) maintained to route foreign currency transactions.
1.1.3.7.0	Placements with Banks and Financial institutions in Sri Lanka	Overnight placements and short term placements (< 12 Months) at banks and financial institutions in Sri Lanka.
1.1.3.8.0	Placements with Banks and Financial institutions Abroad	Overnight placements and short term placements (< 12 Months) at banks and financial institutions abroad.
1.1.3.9.0	Placement with Head office, branches abroad	Overnight placements and short term placements (< 12 Months) Head office and branches abroad.
1.1.3.10.0	Reverse Repurchase Agreements with Financial institutions	Lending to Central Bank, Commercial and Specialized Banks, Primary Dealers and Finance Companies against debt instruments such as Treasury Bills and Bonds, Commercial Paper, Promissory Notes and Debentures.
1.1.3.11.0	Others	Any other relevant balance not specifically mentioned in any of the above account headings.
1.1.4.0.0	Investments – Trading A/C	Sub-total of items 1.1.4.1.0 and 1.1.4.2.0.
1.1.4.1.0	Government Securities	Sub-total of following items.
1.1.4.1.1	Treasury Bills	Cost of Treasury Bills or Market Value If investment in treasury bills in the trading portfolio are marked to market and carried at that value in the balance sheet.
1.1.4.1.2	Treasury Bonds	Cost of Treasury Bonds or Market Value If investment in treasury bonds in the trading portfolio are marked to market and carried at that value in the balance sheet.
1.1.4.1.3	Sri Lanka Development Bonds	Cost of Sri Lanka Development Bonds.

<i>Line Code</i>	<i>Line Item</i>	<i>Instructions</i>
1.1.4.1.4	Other Government Securities	Cost or market value, whichever is lower, of all other government securities held.
1.1.4.2.0	Other Securities	Sub-total of items 1.1.4.2.1 to 1.1.4.2.4
1.1.4.2.1	Shares & Unit Trusts – publicly listed	Cost or market value, whichever is lower, of ordinary and preference shares and shares in unit trusts.
1.1.4.2.2	Shares & Unit Trusts – not listed	Cost or market value, whichever is lower, of unlisted equity shares and unlisted shares in unit trusts.
1.1.4.2.3	Debt Securities	Lower of cost or amount of principal owing on debt instruments; show net of any unearned interest or discount.
1.1.4.2.4	Others	Cost or market value, whichever is lower, of all other securities held.
1.1.5.0.0	Investments – Held-to-Maturity	“Held-to-maturity” securities are securities purchased with the intention of holding to maturity. Sub-total of items 1.1.5.1.0, 1.1.5.2.0 and 1.1.5.3.0
1.1.5.1.0	Government Securities	Sub-total of items 1.1.5.1.1 to 1.1.5.1.4
1.1.5.1.1	Treasury Bills	Cost of Treasury Bills
1.1.5.1.2	Treasury Bonds	Cost of Treasury Bonds
1.1.5.1.3	Sri Lanka Development Bonds	Cost of Sri Lanka Development Bonds
1.1.5.1.4	Other Government Securities	Cost of all other government securities held.
1.1.5.2.0	Other Securities	Sub-total of items 1.1.5.2.1 to 1.1.5.2.4
1.1.5.2.1	Shares & Unit Trusts – publicly listed	Cost of ordinary and preference shares and shares in unit trusts.
1.1.5.2.2	Shares & Unit Trusts – not listed	Cost of unlisted equities and unlisted shares in unit trusts.
1.1.5.2.3	Debt Securities	Lower of cost or amount of principal owing on debt instruments; show net of any unearned interest or discount.
1.1.5.2.4	Others	Cost of all other securities held.
1.1.5.3.0	Less: Provision for decline in value	Total Provision made for decline in value of investments.
1.1.6.0.0	Investments in Associates and Subsidiaries	Total amount of investment in associate and subsidiary companies.
1.1.7.0.0	Total Loans & Advances	Not need to show values under here.
1.1.7.1.0	Total Performing Loans & Advances (Gross)	Sub-total of items 1.1.7.1.1 to 1.1.7.1.4
1.1.7.1.1	Bills of Exchange	Total amount of all type of performing bills of exchange.
1.1.7.1.2	Overdrafts	Total amount of all performing overdrafts.
1.1.7.1.3	Lease Rentals Receivable	Total amount of all type of performing lease receivables net of Unearned lease income and VAT recoverable.
1.1.7.1.4	Other Loans	Total amount of all type of performing other loans. (Term loans, Block loans, Packing credits, Pledge loans, Lending to customer other than financial institutions against debt instruments (Reverse Repo) such as Treasury Bills and Bonds, Commercial Paper, Promissory Notes and Debentures and other loans)
1.1.7.2.0	Total Non-Performing Loans & Advances (Gross)	Sub-total of items 1.1.7.2.1 to 1.1.7.2.5
1.1.7.2.1	Bills of Exchange	Total amount of all type of non-performing bills of exchange.
1.1.7.2.2	Overdrafts	Total amount of all non-performing overdrafts.
1.1.7.2.3	Lease Rentals Receivable	Total amount of all type of non-performing lease receivables.(net of Unearned lease income and VAT recoverable)
1.1.7.2.4	Other Loans	Total amount of all type of non-performing other loans. (Term loans, Block loans, Packing credits, Pledge loans, Lending to customer other than financial institutions against debt instruments and Debentures and other loans)
1.1.7.2.5	Interest Receivable	Uncollected interest due that has not been debited to respective loan/advance accounts
1.1.7.3.0	Total Gross Loans & advances	The aggregate outstanding amounts (capital and interest) of total performing and non-performing loans and advances.
1.1.7.4.0	Interest in Suspense	Interest in suspense which is included in principal balances of loans and advances or interest receivable as per CBSL Directions.
1.1.7.5.0	Specific Loans Loss Provisions	Provisions that have been set aside from earnings before tax for specifically identified loan losses as per CBSL Directions.

<i>Line Code</i>	<i>Line Item</i>	<i>Instructions</i>
1.1.7.6.0	General Loans Loss Provisions	Provisions that have been set aside from earnings before tax for general loan losses.
1.1.7.7.0	Total Net Loans & advances	Loans & advances after netting of interest in suspense and all loan loss provisions from gross loans and advances.
1.1.8.0.0	Other Assets	Sub-total of items 1.1.8.1.0 to 1.1.8.7.0.
1.1.8.1.0	Prepayments and Expendable Supplies	Rental deposits, utility deposits, prepaid expenses applicable to future period, deposits/advance payments for work in progress, consumable stocks.
1.1.8.2.0	Suspense account	Any unidentified differences in account balances and un-reconciled account balances
1.1.8.3.0	Accrued Interest Receivable on placements and Securities	Interest that has accrued but is not yet collected on interest-bearing placements and securities.
1.1.8.4.0	Accounts receivable	Expenses paid on behalf of customers pending reimbursement (not relating to credit exposures), rental receivable, charges and VAT. Any expense incurred on behalf of borrowers should be included under loans unless they are charged to the profit and loss account as an expense.
1.1.8.5.0	Corporate tax paid in advance	Tax paid but has not yet been set off against tax payable.
1.1.8.6.0	Inter branch/Head office balances "due from"(Local)	Net balances (or amalgamated balance) of several accounts such as account maintained with head office and branches for claim vouchers, branch advices and transactions with branches and the head office.
1.1.8.7.0	Others	Any other asset account balances not included in any of the above account headings.
1.1.9.0.0	Intangible Assets	Value of Goodwill, Trade mark/patent, Product development cost and any other intangible assets
1.1.10.0.0	Investment Properties	Total amount of investment properties after adjustment of any additions and disposals during the period and net of Provision for fall in value but does not include foreclosure properties.
1.1.11.0.0	Fixed Assets (net)	Sub-total of fixed assets net of depreciation.
1.1.11.1.0	Land and Buildings	Cost of land, buildings and improvements or fixtures thereto used for banking operations.
1.1.11.2.0	Movable Property, etc.	Cost of all movable property including equipment, vehicles, office machines, depreciable software, etc.
1.1.11.3.0	Provision for depreciation	Total of amounts set aside as depreciation of Fixed Assets.
1.1.10.0.0	Total on Balance Sheet Assets	Total of all on-balance sheet assets
	On-Balance Sheet Liabilities and Equity Capital and Reserves	
1.2.1.0.0	Total Deposits	Sub-total of items 1.2.1.1.0 to 1.2.1.5.0.
1.2.1.1.0	Demand deposits	Credit balances of all type of demand deposits (gross amount without setting off debit balances).
1.2.1.2.0	Savings Deposits	Totals of all type of savings deposits.
1.2.1.3.0	Time Deposits	Term deposits, savings certificates, call deposits etc.
1.2.1.4.0	Margin deposit accounts	Cash advances pledged by bank's customers as security for off balance sheet credit facilities and/or loans not yet released to customers.
1.2.1.5.0	Other Deposits	Any other deposit account balances not included in the above account headings.
1.2.2.0.0	Total Borrowings	Sub-total of items 1.2.2.1.0 to 1.2.2.6.0.
1.2.2.1.0	Borrowings from CBSL	Total of all borrowings from or indebtedness to CBSL (Other than REPO borrowings).
1.2.2.2.0	Borrowings from Banks and Financial Institutions in Sri Lanka	All type of borrowings from banks and financial institutions in Sri Lanka (Other than REPO borrowings).
1.2.2.3.0	Borrowings from Banks and Financial Institutions Abroad	All types of borrowings from foreign Banks and other Financial Institutions abroad.
1.2.2.4.0	Securities sold under Repurchase Agreements	All Borrowings against bank's Treasury bills, bonds and other securities with an agreement to settle prior to the maturity of underlying securities.

<i>Line Code</i>	<i>Line Item</i>	<i>Instructions</i>
1.2.2.5.0	Subordinated Term Debt	Subordinated term debt approved by the Central Bank, as eligible to be considered for capital adequacy purposes and other subordinated term debt.
1.2.2.6.0	Other borrowings	Any other types of borrowings which are not indicated above.
1.2.3.0.0	Deferred taxation	Deferred tax due to timing differences.
1.2.4.0.0	Current Taxation	Total tax payable amount.
1.2.5.0.0	Other Liabilities	Sub-total of items 1.2.5.1.0 to 1.2.5.7.0.
1.2.5.1.0	Charges recovered in advance	Any revenue received in advance, that would be appropriated over a future period of time.
1.2.5.2.0	Taxes Payable	
1.2.5.2.0	Accrued Interest Payable on Deposits	Interest that has accrued but has not yet been credited to customers' LKR-denominated deposit accounts.
1.2.5.3.0	Accrued Interest Payable on Borrowings	Interest that has accrued but has not been paid on LKR-denominated borrowings.
1.2.5.4.0	Other Accrued Expenses and Accounts Payable	Provisions for utility expenses, fines, any taxes in respect of customer accounts or transactions, deposits on safety lockers, excess pawning advances, advance rental deposits, EPF, ETF contributions payable, etc.
1.2.5.6.0	Suspense accounts	Any unidentified differences in account balances and un reconciled account balances, and cheques sent for clearing but not credited to respective customer accounts.
1.2.5.6.0	Inter branch/Head office balances "due to" (local)	Net balances of several accounts such as accounts maintained at head office for claim vouchers, branch advises and other transactions with branches and the head office.
1.2.5.7.0	Others	Any other liability not stated above.
1.2.6.0.0	Total on Balance Sheet liabilities	Sub-total of items 1.2.1.0.0, 1.2.2.0.0, 1.2.3.0.0, 1.2.4.0.0 and 1.2.5.0.0
1.3.0.0.0	Minority Interest	
1.4.0.0.0	Equity Capital and Reserves	Sub-total of items 1.4.1.0.0 to 1.4.3.0.0
1.4.1.0.0	Share Capital/Assigned Capital	Voting and non-voting ordinary shares Issued and fully/partly paid and Preference shares issued and fully/partly paid or capital assigned by the Head Office. (Figure must agree to total equity capital as stated in Statement of Changes In Equity and Reserves)
1.4.2.0.0	Statutory reserve fund	Statutory reserve fund created in terms of S.20 of the Banking Act. (Figure must agree to total statutory reserve fund as stated in Statement of Changes In Equity and Reserves)
1.4.3.0.0	Total Other reserves	Total value of reserves other than Statutory reserve fund. (Figure must agree to total other reserves as stated in Statement of Changes In Equity and Reserves)
1.5.0.0.0	Total On-Balance Sheet Liabilities plus Equity Capital and Reserves	Total of lines 1.2.6.0.0, 1.3.0.0.0 and 1.4.0.0.0
1.6.0.0.0	Off-Balance Sheet Items	Total of contingencies, commitments and contra account.
1.6.1.0.0	Contingencies	Sub-total of items 1.6.1.1.0 to 1.6.1.10.0
1.6.1.1.0	Letters of Credit	The amount of valid, unutilised amount of sight and usance Letter of Credit opened by the bank
1.6.1.2.0	Guarantees, Bonds	Duty guarantees, financial guarantees, performance bonds and bid bonds issued by the bank and remaining in force as at date.
1.6.1.3.0	Shipping Guarantees	Shipping Guarantees issued for LC Bills and non-LC Bills.
1.6.1.4.0	Acceptances	Import bills released to customers against drafts maturing at a later date.
1.6.1.5.0	Underwriting of Shares and Securities	Bank's undertaking to buy shares, commercial papers and other securities if not subscribed by the general public
1.6.1.6.0	Securitisation and Securities Guaranteed/Endorsed	Total amount of loans and advances securitised with recourse and securities guaranteed or endorsed by the bank.
1.6.1.7.0	Forward Contracts	Foreign exchange forward contracts including both purchase and sale agreements.

<i>Line Code</i>	<i>Line Item</i>	<i>Instructions</i>
1.6.1.8.0	Spot Contracts	Foreign exchange spot contracts including both purchase and sale agreements.
1.6.1.9.0	Derivatives	Show value of all derivative contracts including futures, options on interest-rate, foreign-currency and equity related instruments.
1.6.1.10.0	Others	Any other off-balance sheet contingencies.
1.6.2.0.0	Commitments and contra accounts	Sub-total of items 1.6.2.1.0 and 1.6.2.1.0
1.6.2.1.0	Commitments	Commitments assumed by bank such as Un-drawn credit lines and any other off-balance sheet commitments.
1.6.2.1.0	Contra Accounts	All types of contra accounts such as bills /cheques sent for collection, travelers' cheques on hand and any other off-balance sheet contra accounts.
1.7.0.0.0	Memorandum Information	
1.7.1.0.0	Number of Employees	Total Number of staff. (Permanent, casual etc.)
1.7.2.0.0	Number of Branches	Number of branches operated by the Bank.

2. Income Statement-Amounts in Rupees Thousands

2.1.0.0.0	Interest Income	Sub-total of items 2.1.1.0.0 and 2.1.2.0.0
2.1.1.0.0	Loans and Advances	Interest income received or accounted as receivable from customers for different types of credit facilities.
2.1.2.0.0	Interest Income on Other Interest Earning Assets	Interest income received or accounted as receivable for different types of all other interest related assets.
2.2.0.0.0	Interest Expenses	Sub-total of items 2.2.1.0.0 and 2.2.2.0.0
2.2.1.0.0	Deposits	Interest expenditure paid or accounted as payable on all deposits products.
2.2.2.0.0	Interest Expense on Other Interest Bearing Liabilities	Interest expenditure paid or accounted as payable on all types of other interest bearing liabilities.
2.3.0.0.0	Net Interest Income	Net position of interest income (2.1.0.0.0) and Interest expenses (2.2.0.0.0)
2.4.00.0	Non Interest Income	Sub-total of items 2.4.1.0.0 and 2.4.2.0.0
2.4.1.0.0	Foreign Exchange Income	Sub-total of Items 2.4.1.1.0 to 2.4.1.4.0
2.4.1.1.0	Net Gain/(Loss) on Foreign Currency Transactions	Net gains or losses realised on foreign exchange trading.
2.4.1.2.0	Commissions & Fees on Foreign Currency Transactions	Any commission income or fees on foreign currency transactions.
2.4.1.3.0	Net gain/(loss) on FC revaluation	Exchange gain or loss on revaluation of foreign currency denominated assets and liabilities such as spot and forward positions.
2.4.1.4.0	Others	Any other type of Foreign Exchange income not included above.
2.4.2.0.0	Other Income	Sub-total of Items 2.4.2.1.0 to 2.4.2.9.0
2.4.2.1.0	Dividend income from Investments	Dividend income received or accounted as receivable for all types of equity investments.
2.4.2.2.0	Gains on Trading/ Investment Securities	Income derived by selling trading/investment securities above their purchase price
2.4.2.3.0	Capital gain on Treasury Bonds	Amortized amount of income derived by buying treasury bonds at discounted prices.
2.4.2.4.0	Net Gain/(Loss) on Rupee Derivatives	Profit recognized as income on sale of fixed assets.
2.4.2.5.0	Commission on off-balance sheet credit facilities	Commission received or accounted as receivable on issue of LC, LG, SG, export LC advising, guarantees and other off-balance sheet credit facilities.
2.4.2.6.0	Other Commission and Fees	Any commission income for services rendered to customers or on behalf of third parties.
2.4.2.7.0	Charges on services	Income earned in the form of charges on services to customers
2.4.2.8.0	Profit on sale of Fixed Assets	Profit recognized as income on sale of fixed assets.
2.4.2.9.0	Others	Any other income not mentioned above.
2.5.0.0.0	Non Interest Expenses	Sub-total of Items 2.5.1.0.0 to 2.5.6.0.0

<i>Line Code</i>	<i>Line Item</i>	<i>Instructions</i>
2.5.1.0.0	Personnel Costs	All types of expenses such as salaries, reimbursements, and EPF/ETF contribution incurred in respect of employees, excluding cost of training.
2.5.2.0.0	Provision for Staff Retirement Benefits	Provision made for Staff Retirement Benefits.
2.5.3.0.0	Premises, Equipment and establishment Expenses	All type of expenses on premises, equipment and administrative expenses.
2.5.4.0.0	Losses on trading /investment securities	Any loss incurred in selling trading/investment securities below the book value.
2.5.5.0.0	Amortization of Intangible Assets	Total value of amortization of intangible assets. (Goodwill/ (Negative Goodwill etc.)
2.5.6.0.0	Other Operating Expenses	Any other operating expenditure.
2.6.0.0.0	Provision for Bad and Doubtful Debts and Loans Written off	Sub-total of Items 2.6.1.0.0 to 2.6.4.0.0
2.6.1.0.0	Provisions - General	General provision made out of profits for possible loan losses irrespective of performance of the loans.
2.6.2.0.0	Provisions - Specific	Specific provision made out of profits for possible loan losses as per CBCL direction.
2.6.3.0.0	Recoveries (-)	Recoveries made during the reporting period in respect of loans written off or provided for.
2.6.4.0.0	Loans Written off	All loans written off from the credit portfolio during the reporting period.
2.7.0.0.0	Provision for decline in value of investments (net)	Provision for potential fall in the market value of investments.
2.8.0.0.0	Operating Profit on Ordinary Activities before Taxes	Sub-total of total of net interest income, non interest income, non interest expenses, Loan loss provisions, Provision for decline in value of investments (net). (2.3.0.0.0+2.4.0.0.0-2.5.0.0.0-2.6.0.0.0-2.7.0.0.0)
2.9.0.0.0	Value Added Tax on Financial Services	VAT on profits and others.
2.10.0.0.0	Operating Profit on Ordinary Activities before Corporate Tax	Operating Profit on Ordinary Activities Before Taxes (2.8.0.0.0) – Value Added Tax on Financial Services (2.9.0.0.0)
2.11.0.0.0	Share of Subsidiaries/Associate Companies' Profit	Total share of subsidiaries/Associate Companies' Profits.
2.12.0.0.0	Operating Profit before Corporate Tax	Sub total of item 2.10.0.0.0 and 2.11.0.0.0
2.13.0.0.0	Tax on Profits on Ordinary Activities	Tax payable on taxable profits.
2.14.0.0.0	Operating Profits for the period.	Operating Profit Before Corporate Tax (2.12.0.0.0) - Tax on Profits on Ordinary Activities (2.13.0.0.0).

3. Statement of Changes in Equity and Reserves-Amounts in Rupees Thousands

3.1.0.0.0	Opening Balance	Closing balances of the previous financial year.
3.2.1.0.0	Issue of Share/Increase of assigned capital	Voting and non-voting ordinary shares, preference shares issued and fully/partly paid or increase of assigned capital by the Head Office during the period.
3.2.2.0.0	Bonus Issue	Bonus issue during the period.
3.2.3.0.0	Rights Issue	Rights issue during the period.
3.2.4.0.0	Surplus on revaluation of property	Amounts recognized over cost on revaluation of fixed assets during the period.
3.2.5.0.0	Net profit/Loss for the period	Profit or loss for the reporting period.
3.2.6.0.0	Transfer to reserves during the period	Statutory and other transfers made to respective reserve accounts during the period.
3.2.7.0.0	Dividend Paid for the year (YYYY)	Distribution of Profit after tax among shareholders.
3.2.8.0.0	Profits Transfer to Head office	Applicable only for foreign banks.
3.2.9.0.0	Others	Show any other items which are directly impacted on equity and reserves. Indicate these items separately.
3.3.0.0.0	Closing Balance	Closing balances as at reporting period.

*Line Code Line Item**Instructions***4. Selected Performance Indicators****4.1.0.0.0 Regulatory Capital Adequacy**

4.1.1.0.0 Core Capital (Tier 1)

Indicate the aggregate amount of core capital as per capital adequacy requirement.(Indicate the amounts on bank only basis (solo) and group basis separately)

4.1.2.0.0 Total Capital Base

Indicate the aggregate amounts of total capital base as per capital adequacy requirement.(Indicate the amounts on bank only basis (solo) and group basis separately)

4.1.3.0.0 Core Capital Ratio (Tier 1),%

Tier 1 Capital *100

Risk-Weighted Assets

As per capital adequacy Direction.(Indicate the ratios on bank only basis (solo) and group basis separately)

4.1.4.0.0 Total Capital Adequacy Ratio, %

Total Capital Base *100

Risk-Weighted Assets

As per capital adequacy Direction.(Indicate the ratios on bank only basis (solo) and group basis separately)

4.2.0.0.0 Assets Quality (Quality of Loan Portfolio)

4.2.1.0.0 Gross Non - Performing Advances Ratio, %

(Total Gross Non-Performing Loans & Advances-Total Interest in Suspense)(Total Gross Loans & Advances – Total Interest in Suspense) (Bank only)

4.2.2.0.0 Net Non - Performing Advances Ratio, %

(Total Gross Non-Performing Loan & Advances-Total Interest in Suspense-Total Provisions)(Total Gross Loans & Advances – Total Interest In Suspense) (Bank Only)

4.3.0.0.0 Profitability

4.3.1.0.0 Interest Margin, %

Net Interest Income (annualised) *100

Average Value of Total Assets

Net Interest Income: Interest Income less Interest expenses (annualised). Average Value of Total Assets: Monthly average for the reporting date.(Bank only)

4.3.2.0.0 Return on Assets (Before Tax),%

Profits After Tax (annualised) *100

Average Value of Total Assets

Net operating profit on ordinary activities after tax (annualised).Average Value of Total Assets: Monthly average for the reporting date.(Bank only)

4.3.3.0.0 Return on Equity, %

Profits After Tax (annualised) *100

Average Value of Capital Funds

Net operating profit on ordinary activities after tax (annualised).Average Value of Capital Funds: Monthly average for the reporting date.(Bank only)

4.4.0.0.0 Regulatory Liquidity

4.4.1.0.0 Statutory Liquid Assets

Indicate the aggregate amount of average liquid assets as per statutory liquid assets requirement. (For LCBs: Indicate the amounts on the basis of Domestic banking Unit (DBU) and Off-shore Banking Unit (OSBU) separately as per Statutory Liquid Assets requirement)

4.4.2.0.0 Statutory Liquid Assets Ratio, %

For LCBs: Average Liquid Assets/Liabilities Base *100

Indicate the ratio on the basis of Domestic banking Unit (DBU) and Off-shore Banking Unit (OSBU) separately as per Statutory Liquid Assets requirement.

For LSBs: Average Liquid Assets/Total Deposits *100

As per Statutory Liquid Assets requirement.

Bank Supervision Department
10 October 2005

To: All Licensed Specialised Bank
(except National Savings Bank)

Dear Sir,

REVISED DIRECTION ON SINGLE BORROWER LIMIT

As announced at the meeting of the CEOs of Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs) held on 28 July 2005, the Direction no.3 of 2005 on the Single Borrower Limit has been amended to be in line with the new Direction issued to LCBs in this regard.

Please find enclosed the revised Direction no.5 of 2005 issued under Section 76J(1) of the Banking Act.
Please acknowledge receipt.

Yours faithfully,
Sgd. Director of Bank Supervision

BANKING ACT NO. 30 OF 1988 AS AMENDED BY BANKING (AMENDMENT) ACT NO. 33 OF 1995 AND BANKING (AMENDMENT) ACT NO. 2 OF 2005

Direction issued by the Monetary Board of the Central Bank of Sri Lanka under Section 76J(1) of the Banking Act, No. 30 of 1988 as amended by the Banking (Amendment) Act No. 33 of 1995 and Banking (Amendment) Act No. 2 of 2005.

Sgd. Sunil Mendis
Governor

Colombo
10 October 2005

BANKING ACT (SINGLE BORROWER LIMIT) DIRECTION NO. 5 OF 2005

1. The Banking Act (Single Borrower Limit) Directions No. 3 of 2005 is hereby amended as follows.
2. Paragraph 2 of the said Directions is repealed and replaced with the following:
A licensed specialised bank having an equity capital as defined in the Banking Act shall not grant accommodation exceeding thirty per cent (30%) of the capital funds of such bank as at the end of its preceding financial year:
 - 2.1 to any single company, public corporation, firm, association of persons or an individual;
 - 2.2 in the aggregate to:
 - 2.2.1 an individual, his close relations or to a company or firm in which he has a substantial interest;
 - 2.2.2 a company and one or more of the following
 - 2.2.2.1 its subsidiaries;
 - 2.2.2.2 its holding company;
 - 2.2.2.3 its associate company;
 - 2.2.2.4 a subsidiary of its holding company; or
 - 2.2.2.5 a company in which such company or its subsidiary, or its holding company, or a subsidiary of its holding company has a substantial interest
3. Paragraph 4 of the said Directions is repealed and replaced with the following:

"4. For purposes of paragraphs 2 and 3, in determining whether accommodation exceeds 30% of the capital funds or 15% of the capital funds of a licensed specialised bank, the existing facility limits or the outstanding amounts of all accommodation, whichever is more shall be taken into account.

For purposes of paragraph 3, the total accommodation of a licensed specialised bank as at the end of the preceding financial year shall mean the outstanding amount of all accommodation as at the end of the preceding financial year."

4. Paragraph 5 of the said Directions is repealed and replaced with the following:

“5. (1) Accommodation granted against the security of the following items to customers belonging to the categories referred to at paragraph 2.1 or paragraph 2.2 shall be excluded from the computation of the Single Borrower Limit:

- a. Cash;
- b. Government/Central Bank Securities;
- c. Treasury/Central Bank Guarantees;
- d. Guarantees issued by the Asian Development Bank, International Development Association and the World Bank or other Institutions acceptable to the Central Bank of Sri Lanka.
- e. Subject to the terms and conditions stipulated in subparagraphs (2) below, accommodation granted against the security of a guarantee or similar instrument, as determined to be acceptable by the Director of Bank Supervision issued by a bank which is incorporated outside Sri Lanka or a Licensed Commercial Bank incorporated in Sri Lanka or a Licensed Specialised Bank incorporated in Sri Lanka;

5 (2) A guarantee or similar instrument issued by an institution listed under subparagraph (e) above shall be acceptable subject to the following terms and conditions:

- (a) The institution shall be a highly rated institution with a credit rating of A- and above (or equivalent), rated by a credit rating agency acceptable to the Monetary Board of the Central Bank of Sri Lanka.
- (b) The percentage of the value of accommodation that may be excluded from the computation of the single borrower limit shall be as follows:

<u>Credit rating</u>	<u>% of principal value exempted</u>
AAA to AA- (or equivalent)	80%
A+ to A- (or equivalent)	50%

- (c) The aggregate of all accommodation excluded on the above basis shall not exceed 100 per cent of the capital funds of the bank.
- (d) The bank concerned shall be satisfied that the credit rating assigned to the bank providing the guarantee is current and has not fallen due for review, and that the Director of Bank Supervision shall be notified of any change with immediate effect and the accommodation granted should be revised accordingly at the earliest credit review.

5. Paragraph 6.4 of the said Directions shall be repealed and replaced with the following:

“(iv) to a customer/customers to whom accommodation is to be granted for the use of funds directly in an infrastructure development project provided that,

- 5.1 the infrastructure development project is a project as described in Annex I hereto;
- 5.2 the customer/customers has/have been awarded a contract to directly engage in an infrastructure development project;
- 5.3 such project is funded to the extent of at least fifty per cent (50%) by sources outside Sri Lanka or by a consortium of licensed commercial banks and/or license specialised banks excluding the bank granting the accommodation; and
- 5.4 such licensed commercial bank has certified to the Director of Bank Supervision of the Central Bank of Sri Lanka prior to the disbursement of the accommodation that it has satisfied itself that the conditions (a), (b) and (c) above stipulated herein have been met.
- 5.5 Lending for infrastructure projects in terms of this sub paragraph shall not exceed fifty per cent (50%) of the capital funds of the bank as at the end of the preceding financial year.”

6. These Directions will be effective with immediate effect.

Annex I

The definition of infrastructure lending that would qualify for exemption under paragraph 6.4 of the Direction on Single Borrower Limit

Accommodation extended by banks to an infrastructure facility as specified below will qualify for exemption from the Single Borrower Limit under Section 6.4 of the Direction. A credit facility provided to a company engaged in:

- Developing or
- Operating and maintaining or
- Developing, operating, upgrading and maintaining any infrastructure facility that is a project in any of the following sectors, or any infrastructure facility of a similar nature :
 - i. a road, including toll road, a bridge or a rail system;
 - ii. a highway project including other activities being an integral part of the highway project;
 - iii. a port, airport, inland waterway or inland port;
 - iv. a water supply project, irrigation project, water treatment system, sanitation and sewerage system or solid waste management system;
 - v. telecommunication services whether basic or cellular, including radio paging, network of trunking, broadband network and internet services;
 - vi. an industrial park or special economic zone;
 - vii. generation or generation and distribution of power
 - viii. transmission or distribution of power by laying a network of new transmission or distribution lines.
 - ix. construction relating to projects involving agro-processing and supply of inputs to agriculture;
 - x. construction of educational institutions and hospitals
 - xi. any other infrastructure facility of similar nature

Bank Supervision Department
27 October 2005

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

Dear Sir,

SINGLE BORROWER LIMIT

Single Borrower Limit (SBL) Direction No. 4 of 2005 (for Licensed Commercial Banks) and Direction No. 5 of 2005 (for Licensed Specialised Banks) permit the banks to exceed the SBL against guarantees from highly rated banks or the head office of the foreign banks operating in Sri Lanka based on the credit rating of the bank issuing the guarantee.

As announced at the CEOs' meeting held at the Central Bank of Sri Lanka on 20 October 2005, it has been decided to postpone the implementation of the limit on the bank guarantee/undertaking till 01.01.2007 in view of representations made by the banks with regard to difficulties faced by them.

Accordingly, the banks will be permitted to exceed the SBL against a bank guarantee or a guarantee/undertaking/indemnity from the head office up to the full value of such guarantee till 01.01.2007, with immediate effect.

Yours faithfully,
Sgd. Director of Bank Supervision

Circular No. : 35/01/005/0006/09

Domestic Operations Department

28 April, 2005.

To: All Licensed Commercial Banks and
Primary Dealers

**OPERATING INSTRUCTIONS ON PROVISION OF INTRA-DAY LIQUIDITY FACILITY
(ILF) AGAINST SCRIPTLESS GOVERNMENT SECURITIES ON LANKASETTLE**

Further to my Circular No. 35/01/005/006/05 dated 27th January 2004, conveying the above Operating Instructions.

Participating Institutions (PI) are hereby informed that, notwithstanding the provisions contained in the aforesaid Operating Instructions on provision of additional drawdowns of ILF during the Business Day at three designated times, ILF would be provided on the same terms and conditions, at the request of a PI, on case by case basis, even in between the designated times to meet **any urgent intra-day liquidity requirements** of a PI.

Accordingly clause 8 of the aforesaid circular is hereby amended by the insertion of the following paragraph immediately after the existing clause 8 :-

Provided, however, that notwithstanding anything contained herein or in clause 10, the Central Bank may, at its discretion, at the request of a PI, permit additional drawdowns of ILF even in between such designated times to meet any urgent intra-day liquidity requirements of a PI.

Director

Domestic Operations Department.

Ref: 06/04/01/2005

Exchange Control Department

14/02/2005

*Operating Instructions to All Authorised Dealers
And National Savings Bank*

Dear Sirs,

OPERATING INSTRUCTIONS TO AUTHORISED DEALERS

All Authorised Dealers are hereby informed that with effect from 15/02/2005 all remittances received from foreign persons and entities including foreign governments to the Non Governmental Organisations (NGOs) operating in Sri Lanka should be channelled through a Special Account titled "Post Tsunami Inward Remittances Account" (PTIRA) subject to the following terms and conditions:

- 1) The account should be maintained only in Sri Lanka (SL) Rupees.
- 2) When opening the account Authorised Dealer should exercise his due diligence to satisfy the bona fides of the NGO and credential of signatories to the account of the NGO, in terms of Know Your Customer (KYC) guidelines.
- 3) Credits to the account should be restricted only to SL Rupee proceeds realised out of inward remittances received in convertible foreign currencies from foreign persons, entities and governments etc. and interest accrued to the account.
- 4) Debits to the account should be permitted freely for any local disbursement.
- 5) There should be no restriction to open and maintain more than one account if any NGO intends to open more than one account with different banks and with different branches of a bank depending upon its locality of operation and the project requirement.
- 6) Monthly statements in respect of all such accounts opened by Authorised Dealers, indicating debits and credits made to the account should be forwarded to the Exchange Control Department on or before 7th day of the following month.

Controller of Exchange

cc: SG,DG(W), DG(J), AG(D), AG(K), AG(W), AG(F)
AG(J), AG(C), DBS, DIOD

Ref. 06/04/02/2005

Department of Exchange Control

2005-04-08

Operating Instructions to Authorised Dealers

Dear Sirs,

INDIRECT EXPORTERS' FOREIGN CURRENCY ACCOUNTS (IEFCA)

It has been decided by the Central Bank to introduce as an added incentive to the exporters, a Foreign Currency Account Scheme titled "**Indirect Exporters' Foreign Currency Accounts (IEFCA)**" to allow indirect exporters to receive payments in foreign currency from direct exporters who are in a position to make payment in foreign currency, for their supplies subject to the following terms and conditions:

- (i) IEFCA should be opened and maintained in respect of an indirect exporter only in a Domestic Banking Unit of an Authorised Dealer.
- (ii) The facility of receiving foreign currency to the credit of an IEFCA from a direct exporter for the products supplied by an indirect exporter should be available only to those indirect exporters whose products contain at least 35% of domestic value addition. The Authorised Dealers should obtain a certificate issued by the Sri Lanka Export Development Board (EDB) or the Board of Investments of Sri Lanka (BOI) to the indirect exporter, confirming that the domestic value addition of his supplies to the direct exporter is 35% or more of the value of the products. Such certificates will be issued by the EDB in respect of non BOI enterprises and BOI in respect of BOI enterprises after careful assessment of the value added component of the products.
- (iii) Debits to an IEFCA should be restricted only to the payments to be made in foreign exchange by an indirect exporter for his imported input requirements and for direct conversions into Sri Lanka Rupees.
- (iv) Foreign currency such as notes and TCs should not be issued against an IEFCA.
- (v) The balance carried forward in each IEFCA at the end of each month should not exceed US\$ 5,000 and all excess monies held in the account at the end of the month over US\$ 5,000 should be converted into Sri Lanka Rupees. The Authorised Dealer should obtain a written consent from the indirect exporter to that effect at the time of opening of the account.
- (vi) Once an indirect exporter ceases his business, Authorised Dealer should withdraw the facility granted to him by converting the entire balance in the account into Rupees within 60 days from the cessation of his business as an indirect exporter. The EDB and the BOI are expected to review the status of indirect exporters with respect to the value added component of their product at least once a year.
- (vii) Quarterly statement indicating the aggregated debits and credits to all IEFCA should be forwarded to the Exchange Control Department, addressed to Branch "D" before the expiry of the 15th day of the following quarter.

For the purpose of these Operating Instructions, indirect exporters are defined as "any person or entity manufacturing/processing/sub-contracting/ or supplying a product in the final form directly to an exporter".

Yours faithfully,

Controller of Exchange

Copies - G, DGG, AGG Director General/EDB, Director General/BOI
D/Bank Supervision Dept., D/International Operations Dept.,
All Authorised Dealers

Ref:06/04/03/2005

Exchange Control Department

09 May 2005

*Operating Instructions to Authorised Dealers
and the National Savings Bank*

Dear Sirs,

POST TSUNAMI INWARD REMITTANCES ACCOUNT (PTIRA)

Your attention is drawn to the item (2) of attached Operating Instructions No.06/04/01/2005 dated 14.02.2005, you are hereby requested to rely on the following documentary evidence in exercising due

diligence to identify the bona-fide of a NGO at the time of opening an account for the NGO and permitting transactions to be continued through the account.

- (i) The certificate of registration granted by the "National Secretariat for NGOs" under the Voluntary Social Service Organisations (Registration and Supervision) Act No.31 of 1980; or
- (ii) In the absence of above (i), the recommendation made by the "Centre for Non Governmental Sector" (CNGS) of the Ministry of Finance for registration of the NGO.

You are also hereby requested to send to me on or before 28 May 2005, the names and addresses of NGOs maintaining bank accounts with you without submission of the above evidence.

Yours faithfully,
Controller of Exchange

Encl.

cc: G, DGG, AGG, DBS, DER, D/IO

Ref.06/05/04/2005

Department of Exchange Control,
24.06.2005.

*Operating Instructions to
All Authorised Dealers*

Dear Sirs,

AMENDMENTS OF SPECIAL IMPORT LICENCE REGULATIONS

This is to inform you that the limit of advance payment stipulated for imports in the Regulation 2(i)(d), published in the Government Gazette (Extraordinary) No.1022/6 of 8th April 1998 has now been enhanced upto US\$ 10,000/= in terms of a regulation made by the Hon. Minister of Trade, Commerce and Consumer Affairs and published in the attached Government Gazette (Extraordinary) No.1393/21* of 20th May 2005.

Yours faithfully,
Controller of Exchange

c.c.: Governor DGG, AGG D/ER D/BS, D/IOD

* - Gazette Notification was published by the Hon'ble Minister of Trade, Commerce and Consumer Affairs.

Ref. No. 06/08/06/2005

Exchange Control Department
23/09/2005

Operating Instructions to Authorised Dealers

MONITORING SCHEME ON FOREIGN EXCHANGE DRAWINGS AGAINST INTERNATIONAL ELECTRONIC CREDIT, DEBIT OR ANY OTHER FUND TRANSFER CARDS

It has been brought to our notice that with the rapid expansion of the use of Electronic Fund Transfer Cards (EFTCs) with global access, reported instances of abuse of such cards for making payments in foreign exchange have significantly increased in the recent past. Therefore, in order to prevent such abuses in the future, it has been decided to strengthen the existing monitoring scheme introduced in terms of our operating instructions issued under Ref. No. EC/09/99(D) dated 1999/12/17 and Ref. No. EC/02/2000(D)

dated 2000/02/03. Accordingly, the Notice at Annex I granting permission to make payments in foreign exchange on an EFTC subject to certain terms and conditions has been published in the Extraordinary Gazette No: 1411/5 of 19th September 2005.

- 1.1 It is important that Authorised Dealers make available the said notice to customers for perusal when issuing EFTCs and that the customer's confirmation of having perused the said notice be obtained in the customer's undertaking illustrated in Annex II and this undertaking be incorporated in the agreement that you enter into with cardholder.
- 1.2 In the case of existing EFTC holders authorised dealers should make arrangements to ensure that all possible attempts have been made to inform the requirements of the general permission granted in the aforesaid gazette notification to the existing cardholders.
- 1.3 Authorised Dealers should also include a condition in the customer's undertaking that if reasonable grounds exist to suspect that unauthorised foreign exchange transactions are being carried out on an EFTC the Authorised Dealer retains the right to immediately suspend availability of foreign exchange on the EFTC and to report the matter to the Controller of Exchange. Authorised Dealers should also retain the right to obtain information on transactions carried out by a cardholder in foreign exchange on an EFTC.
2. EFTCs should be issued to residents in Sri Lanka.
 - 2.1 EFTCs could however, be issued to holders of NRFC, RNNFC, RFC accounts of Domestic Banking Unit and Off Shore accounts in the Off Shore Banking Unit irrespective of their residential status provided that the expenditure incurred on an EFTC will be debited only to an aforesaid account. In cases where foreign currency funds lying to the credit of such an account are not adequate to make the debits, no debits should be made to a Rupee Account of the cardholder without my permission. All EFTC holders must be made aware of this requirement.
 - 2.2 The issue of EFTCs should also be subject to a condition that if the cardholder leaves Sri Lanka either for good or for employment or permanent residence abroad, the card issued to him/her should be surrendered to the Authorised Dealer unless such card was issued for making settlement for foreign exchange drawings on an EFTC out of funds lying to the credit of a NRFC, RFC, RNNFC account and an Off Shore account.
3. All Authorised Dealers should strictly monitor accounts used by EFTC holders for making payments in foreign exchange and exercise due diligence to prevent the unauthorised transactions. If there are reasonable grounds to suspect that any cardholder incurs expenditure in foreign exchange for any unauthorised transactions, action should be taken immediately to suspend foreign exchange payment on his/her EFTC and bring the matter to the notice of the Controller of Exchange.
4. Periodic Statements to Exchange Control Department
 - 4.1 Authorised Dealer should be able to identify each cardholder's expenditure incurred in foreign exchange separately.
 - 4.2 A monthly detailed report in the format of **Annex III**, containing information on cardholders who have incurred expenditure in foreign exchange, inclusive of cash drawings in foreign currency exceeding US\$ 5,000 or its equivalent in any other foreign currency, in any one month and who have incurred expenditure for a single transaction exceeding US\$ 3000/- should be forwarded to the "Investigation Unit", **Exchange Control Department, Central Bank of Sri Lanka, Colombo 01** not later than the 7th day of the following month after emailing these information to eftc@cbsl.lk.
 - 4.3 Operating instructions previously issued under Ref. No. EC/09/99(D) dated 1999/12/17 and Ref. No. EC/02/2000(D) dated 2000/02/03 on the above subject are hereby rescinded.

Controller of Exchange

Cc: DGG
AGG
Consultants
SG

Annex 1

The Gazette of the Democratic Socialist Republic of Sri Lanka
EXTRAORDINARY
No. 1411/5- Monday, September 19, 2005
PART 1: SECTION (1) – GENERAL
Central Bank of Sri Lanka Notices
NOTICE UNDER EXCHANGE CONTROL ACT (CHAPTER 423 OF THE CLE)
Permission in terms of Section 7 and Section 8 of the Exchange Control Act
(Chapter 423 of the CLE)

1. Permission is hereby granted for the purpose of Section 7 and 8 of the Exchange Control Act (Chapter 423 of the CLE) for a person in or resident in Sri Lanka to make payments in foreign exchange to a person resident outside Sri Lanka on his Electronic Fund Transfer Card (EFTC) subject to the following terms and conditions.
2. (a) A Payment on an EFTC to a person or an entity resident outside Sri Lanka may be made only for the following purposes:
 - i) Payment to be made abroad by a cardholder for services of a personal nature including travel, accommodation, medical, living and educational expenses.
 - ii) Payment for purchase of goods abroad for personal use
 - iii) Payment for import of goods into Sri Lanka for personal use subject to a limit of US\$ 3,000 (c. i. f) or its equivalent in any other foreign currency per consignment.
 - iv) Payment of registration fees, examination fees and annual subscription fees of a personal nature payable to a foreign professional body or academic institution.
 - v) Payment to be made in respect of insurance premium only for travel and health insurance of personal nature.
- (b) Any payment in foreign currency on an EFTC for any transaction which falls outside the purview of paragraph 2(a) shall require the prior written permission of the Controller of Exchange, unless such payment is in respect of a permitted transaction made out of the funds lying to the credit of a Non Resident Foreign Currency Account (NRFC), a Resident Foreign Currency Account (RFC), a Resident Non National Foreign Currency Account (RNNFC) or an Off Shore account in an Off Shore Banking Unit of a licensed commercial bank.
3. For the purpose of this Gazette notification, unless the context otherwise requires;

'Electronic Funds Transfer Card (EFTC)' means a card or device that enables the user to transfer value in credit, debit or any other form and includes credit cards, debit cards and stored value cards.

And,

'Personal use' means for the use of the holder of the card, his spouse and children and parents and does not include use for any commercial purpose.

H A G HETTIARACHCHI
 Controller of Exchange

Colombo
 19 September 2005

Annex 11

(To be included in the EFTC application or EFTC agreement that the cardholders enter/s into with the bank.)

CENTRAL BANK OF SRI LANKA

Declaration by the Applicant/s for Electronic Fund Transfer Cards

To: The Controller of Exchange

(To be filled by the Applicant/s to obtain foreign exchange against Credit/Debit or any other Electronic Fund Transfer Card.)

I/We (Basic Cardholder/Supplementary Cardholder),(Basic Cardholder/

Supplementary Cardholder) declare that all details given above by me/us on this form are true and correct.

I/We hereby confirm that I/We am/are aware of the conditions imposed under the Exchange Control Act in the Notice published in the Extraordinary Gazette No: 1411/5 of 19th September 2005 subject to which the card may be used for transactions in foreign exchange and I/We hereby undertake to abide by the said conditions.

I/We further agree to provide any information on transactions carried out by me/us in foreign exchange on the card issued to me/us as..... bank may require for the purpose of Exchange Control Act.

I/We also affirm that I/We undertake to surrender the Credit Card/s to bank, if I/We migrate or leave Sri Lanka for employment abroad.

I/We am/are aware that the Authorised Dealer is required to suspend availability of foreign exchange on EFTC if reasonable ground exist to suspect that unauthorized foreign exchange transactions are being carried out on the EFTC issued to me/us.

DD.MM.YY Signature of the Basic Cardholder

Signature of the Supplementary Cardholder

I, as the Authorized Officer have carefully examined the information together with relevant documents given by the applicant/s and satisfied with the bona-fide of these information and documents. I undertake to exercise due diligence on the transactions carried out by the cardholder on his/her EFTC in foreign exchange and to suspend the availability of foreign exchange on the EFTC if reasonable grounds exist to suspect that unauthorised foreign exchange transactions are being carried out on the EFTC in violation of the undertaking and to bring the matter to the notice of the Controller of Exchange.

DD.MM.YY Signature of the Authorized Officer

Annex III

To: *Controller of Exchange (Attention: Investigation Division)*
Exchange Control Department
Central Bank of Sri Lanka
Colombo 1

Central Bank of Sri Lanka

The Monthly Report in respect of accounts who have incurred cumulative expenditure in foreign currency exceeding US\$ 5000 and an expenditure over US\$ 3000 for a single transaction during the month ofof the year in compliance with the Paragraph (4.2) of the Operating Instructions

Ref. No. 06/08/06/2005 of 2005/09/23 issued in terms of

Section (3) of the Exchange Control Act No. 24 of 1953

Part A – Details of Card holders who have utilized foreign exchange in excess of US\$ 5000 per month and in excess of US\$ 3000 per transaction

Name of the Card holder & Address (in block letters)	N.I.C. No.	Passport No.	Card No.	Amount paid to the Merchant in foreign currency	Name of the Merchant/ Merchant Category Code	The country in which transaction taken place	Whether the payment is through Internet

Signature of the officer authorised by the bank

Stamp of the Bank/Authorised Dealer

Date:

MM/DD/YY

The total expenditure incurred by all EFTC holders in foreign currency for the Monthof the year

Total No. of Cards issued for the month	Types of Cards	Total Value of foreign exchange expenditure incurred by all EFT Card holders in US\$

.....
 Signature of the officer authorised by the bank
 Stamp of the Bank/Authorised Dealer
 Date:
 MM/DD/YY

International Operations Department
 21 December 2005

To: All Authorized Dealers
 Dear Sir,

DIRECTIONS ON FINANCIAL DERIVATIVE PRODUCTS

Further to our letter dated 12th August 2005 enclosing the Directions on Financial Derivative Products. Attached herewith is a revised version of the above, which will be effective as from 1st January 2006.

Please acknowledge receipt.

Thank you.
 Yours faithfully,
Mrs. P Liyanage
 Director of International Operations

Ref : 33/01/002/0086/002

21 December 2005

To : All Authorized Dealers

DIRECTIONS ON FINANCIAL DERIVATIVE PRODUCTS (REVISED)

This circular revises and supersedes our circular on Directions on Financial Derivative Products dated 12th August 2005. The revised directions will be effective as from 1st January 2006, and will be in force regarding all matters relating to the derivative transactions in foreign exchange (not involving LKR) that are permitted by CBSL for commercial banks appointed to act as Authorized Foreign Exchange Dealers. These directions shall be read together with the explanatory note to the directions annexed herewith.

1. Permitted Products

Derivative transactions permitted under these direction include:

- 1.1 Interest Rate Swaps (IRS)
- 1.2 Interest Rate Options (IRO)
- 1.3 Forward Rate Agreements (FRA)
- 1.4 Cross Currency Swaps (CCS)
- 1.5 Currency/Commodity Options (CCO)

2. The above products can be used only in respect of transactions of current nature and in the case of capital transactions, those permitted in terms of current exchange control regulations¹.

¹ Exchange Control Department circular Nos. EC/06/94, EC/D/GL/1994/2 dated 18.03.1994

3. Purpose of Permitted Derivative Products

Permitted derivative products shall only be used for the purpose of hedging the risks arising from its own assets or liabilities or for altering its risk profile but not for speculative purposes. Only the Authorized Dealers are allowed to maintain open exposures and such exposures shall be subject to the exposure position limits specified by the Central Bank of Sri Lanka (CBSL). Authorized Dealers who are qualified under 4.1 of these directions and those who wish to engage in derivative transactions shall inform the International Operations Department of the CBSL, their interest to engage in derivative transactions. These transactions will be subject to the supervision and scrutiny of the CBSL.

4. Eligibility and Permissible Activity

- 4.1. The commercial banks that have a capital adequacy ratio of more than 11% be permitted to engage in derivative transactions.
- 4.2. Authorized Dealer shall ensure that each IRS/IRO/FRA/CCS/CCO is made only in respect of a permitted underlying transaction or capital/current exposure.
- 4.3. Authorized Dealers shall ensure that each option, currency swap is made only in respect of a underlying current transaction such as payment and receipt in foreign exchange in respect of goods and services on trade, permitted capital transaction such as investment and foreign currency loans² and permitted foreign currency deposits³.
- 4.4. Importers are allowed to enter into derivative transactions to hedge their exposure arising out of underlying transactions relative to goods and services in trade or genuine balance sheet exposures.
- 4.5. Under any circumstances, IRS, IRO, FRA, CCS and CCO shall not be permitted through a bank abroad or a correspondent foreign bank to its customers in Sri Lanka in respect of any foreign currency deposit permitted to retain abroad.
- 4.6. In the case of permitted foreign currency loans, the notional principal amount of the IRS/IRO/FRA/CCS/CCO shall not exceed the outstanding amount of the foreign currency loan or the balance of the foreign currency deposit of the permitted persons/institutions.
- 4.7. Authorized Dealers can use the product for the purpose of hedging trading books and balance sheet exposure.
- 4.8. The currency of the hedge is left to the choice of the customer.
- 4.9. The notional principal amount of the CCO and CCS shall not exceed the outstanding foreign currency obligations.
- 4.10. Authorized Dealers shall offer option contracts only in respect of a transaction, which normally qualifies for forward foreign exchange contract and to hedge such risks arising out of genuine balance sheet exposures.
- 4.11. The Authorized Dealers shall take steps to hedge their risk exposure with their correspondent overseas banks or any other domestic bank.
- 4.12. Authorized Dealers are permitted to run open positions within the limits specified by the management of respective banks and approved by the CBSL.
- 4.13. The parties involved are free to use any Benchmark rate on mutual agreement.
- 4.14. All the conditions applicable for rolling over, cancellation and rebooking of forward contracts would be applicable to option contracts as well.

5. Eligible Foreign Currencies

Transactions relating to the permitted derivative products are limited to the following currencies. – USD, GBP, EUR, JPY, CAD, AUD and CHF.

6. Tenor

The maturity period of a derivative instrument shall not exceed ten (10) years or the remaining life of the underlying transactions, whichever is less.

7. Risk Management

The Authorized Dealers shall be required to ensure that adequate measures are taken to mitigate credit risk, market risk and operational risk and also its compliance with the provisions of the minimum capital adequacy requirements permitting to derivative transactions.

² Authorized Dealers are permitted to lend in foreign currency only to direct exporters, indirect exporters, enterprises approved by Board of Investment (BOI), enterprises with full exemption from the Exchange Control Act (ECA) and any other party approved by the Controller of Exchange (CE) for a specific purpose.

³ Foreign currency deposits are permitted to exporters, BOI companies, exempted from Exchange Control Law and any other party approved by the CE.

8. Reporting

- 8.1. Authorized Dealers are required to report to the International Operations Department of the CBSL on a monthly basis the transactions undertaken within the month indicating product type, amounts, rates, maturities, currency, details of counterparty and details of underlying transactions/exposure etc.
- 8.2. Bank must make adequate disclosures in their Audited Annual Accounts with regard to the derivative transactions that they have undertaken during the financial year under review at least to the extent required in the Sri Lanka Accounting Standards (SLAS) or International Financial Reporting Standards (IFRS).

9. Accounting Treatment and Valuation

Accepted accounting standards and mark to market valuation shall be done on a daily basis.

10. Documentation

The bank shall ensure the use of the International Swap Dealers Association (ISDA) agreement with the counterparty for the interest of both parties.

11. Miscellaneous Requirements

- 11.1. Authorized Dealers shall obtain an undertaking from customers interested in using the derivative products that they have clearly understood the nature of the products and their inherent risks.
- 11.2. Authorized Dealers shall provide adequate information on the transaction especially with regard to the conditions and clauses to be incorporated into the product-determined benchmark interest rate, strike price, premia if any and risks involved to their customers and ensure highest level of transparency.

Mrs. P Liyanage
Director of International Operations

H. A. G. Hettiarachchi
Controller of Exchange

Annex

EXPLANATORY NOTES ON SOME OF THE SECTIONS OF DIRECTIONS ON FINANCIAL DERIVATIVE PRODUCTS

These explanatory notes form part of the directions on Financial Derivative Transactions and shall be read together with the Directions.

1. Financial Derivatives

“Derivative contract under reference means” a financial contract of which the value is determined by reference to one or more underlying assets or indices. Derivative transactions permitted under these directions are Interest Rate Swaps (IRS), Interest Rate Options (IRO), Forward Rate Agreements (FRA), Cross Currency Swaps (CCS), Currency/Commodity Options (CCO) such as gold and other precious/industrial metals options.

2. Authorized Dealers

These directions include both Domestic Banking Units (DBUs) and Foreign Currency Banking Units (FCBUs) of commercial banks. Only the commercial banks authorized to act as authorized dealers under the Exchange Control Act are permitted to engage in DMM transaction specified in section 4(c) of this explanation.

When conducting Derivative Transactions, Authorized Dealers shall comply with all relevant regulations, such as foreign exchange regulations and other regulations issued, from time to time, by the Central Bank of Sri Lanka.

3. Permitted Products

- (a) **Interest Rate Swap** is an agreement between two parties to exchange a stream of interest payments based upon a specified notional principal amount on multiple occasions during a specified term. The cash payments are based on fixed/floating or floating/fixed rates are exchange by the parties from one another. In either case, there is no exchange of principal.
- (b) **Forward Rate Agreement** is an interest rate contract between two parties that allows an entity to position itself in the interest rate market. The parties enter into a contract at a rate for a notional principal amount. On the settlement date, the transactions are net settled against a pre-determined benchmark or reference rate.

- (c) **Cross Currency Swaps:** Cross currency swap is an agreement between two parties to exchange interest payments denominated in two different currencies for a specified term. One interest payment is typically calculated using a floating rate index such as USD LIBOR. The other interest payment is based upon a fixed rate or another floating rate index denominated in a different currency. Unlike a single currency swap, a Cross Currency swap sometimes (but not always) involves an exchange of principal. The initial principal exchange occurs at the beginning of the swap with a re-exchange at maturity. The principal amounts are based on initial spot exchange rates.
- (d) **Currency Option** are contract that give the buyer the right but not the obligation to exchange (buy/sell) an amount of currency for another at a specific price on or before a pre specified date. For this right, the buyer pays a premium. The right to buy is known as a Call Option while the right to sell is known as Put Option. If such right can be exercised only on a specific maturity date, the option is said to be a European Option. If such option can be exercised on any date prior to its maturity, the option is called an American Option.
- (e) **Interest Rate Options:** is an option where the underlying is not an asset but an interest rate. An interest rate Call Option is an option that grants the holder the right to make a fixed or known interest payment while an interest rate Put Option is an option that grants the holder the right to make a variable or unknown interest payment and receive a fixed or known interest payment. In an interest rate Cap for example, the seller agrees to compensate the buyer for the amount by which an underlying short-term rate exceeds a specified rate on a series of dates during the life of the contract. In an interest rate Floor, the seller agrees to compensate the buyer for a rate falling below the specified rate during the contract period. A Collar is a combination of a long (short) cap and short (long) floor, struck at different rates payment while an interest rate related to the change in an interest rate.
- (f) **Commodity Options** are similar to Currency Options and Gold, Copper and Oil are identified as commodities for possible derivative transactions.

4. Transaction Types

Authorized Dealers engage in derivatives transactions in three main forms:

- (a) Transactions for the purpose of hedging the banks own assets or liabilities for altering its risk profile. These are known as **End User deals (EUD)**.
- (b) Transactions executed by authorized dealers with its customers with intention of making a spread. In these transactions the commercial bank does not take any market risk on its own books and covers the transaction on the same day on back-to-back basis. These types of transactions are known as **Non-Market Maker deals (NMM)**.
- (c) Transactions those involve derivative trading services to customers and require financial institutions to quote prices to other customers/institutions while taking the market risk on bank's own books. Such transactions are known as **Derivatives Market Maker deal (DMM)**.

5. Eligibility and Permissible Activity;

- (a) Only the commercial banks with capital adequacy ratio of more than 11% are permitted to engage in derivative transactions. This Capital Adequacy Ratio is inclusive of derivative positions and the directions of the Director Bank Supervision (DBS) on risk weighted capital should be followed in determining the Capital Adequacy Ratio.
- (b) Authorized Dealers should ensure that each of the transactions covered under these directions is made only in respect of risk or exposures arising from permitted underlying transactions or genuine balance sheet exposures. This is mandatory for customer transactions.
- (c) Under any circumstances, derivative transactions covered under these directions should not be permitted through a bank abroad or a correspondent foreign bank to its customers in Sri Lanka in respect of any foreign currency exposures or risks arising from currency deposit/export earnings kept outside Sri Lanka.
- (d) Authorized Dealers should offer option contracts only in respect of a transaction and such risks arising from genuine balance sheet exposures. This includes forward contracts involving precious metals.
- (e) Authorized Dealers should take steps to hedge their risk exposure with their correspondent overseas banks or any other domestic bank.
- (f) In order to develop and add liquidity to the market, Authorized Dealers are permitted to run open positions with the limits specified by the management of the respective banks and approved by the CBSL.

- (g) At the initial stage the derivatives denominated only in foreign exchange (not involving LKR) will be allowed to be traded.

6. Risk Management

Authorized Dealers should be required to ensure that adequate measures are taken to mitigate credit risk, market risk and operational risk and also its compliance with the provisions of the minimum capital adequacy requirements pertaining to derivative transactions. Appropriate policy limits, approved by the Bank management should be in place. The net cash flow arising from these transactions should be booked as income and expenditure and reconciled as an exchange position wherever applicable. This is not always the case as all open positions should be marked to market and its value should be captured in the P&L and the Balance sheet.

(a) Applicable for Currency Options

- (i) All NMM and DMM transactions need to be covered on back-to-back basis on the same day without allowing them to carry any open exposures as they may result in increased market risks to the bank. However DMM, in order to cover its foreign exchange position, may be allowed to trade in Vanilla Foreign Currency Options.
- (ii) Such foreign currency options need to be included on a net delta weighted basis in the net foreign exchange exposure position reporting and shall be within such limits specified for the bank.
- (iii) DMM must cover all such transactions on a back-to-back basis. The transaction may be undertaken with a bank outside Sri Lanka, an internationally recognized option exchange or with another DMM in Sri Lanka.
- (iv) Option contracts offered/designed as cost effective risk reduction structures or packaged contracts shall not result in any net inflow of premium to the customers or increase in risk in any manner. Customers may unwind or sell back hedge if they consider such hedge is no longer required.
- (v) Option contracts cannot be used to hedge contingent or derived exposures except in case of exposures arising from submission of tender bids in foreign exchange or such risks arising from genuine balance sheet exposures

(b) For All the Derivative Products Covered Under the Directions

- (i) The notional principal amount and the maturity of the hedge shall not exceed the outstanding amount and/or unexpired maturity of the underlying asset/liability.
- (ii) A customer may enter into a hedge with any DMM irrespective of exposure being booked in that DMM or not.
- (iii) DMM can use these products for the purpose of hedging trading books and balance sheet exposures.
- (iv) All payments to be exchanged may be net settled i.e. only the difference between the payable and receivable amount is exchanged, provided such net settlement is allowed in the original agreement between the parties.
- (v) In case on insolvency, if the claim of the counterparty provides for the netting of the mutual transaction between the insolvent and the creditor. The amount payable by one party could be set off against the amount payable by the other party and only the net balance is paid or received.
- (vi) NMM and DMM shall obtain an undertaking from customers that their total value of hedges do not exceed the value of the risk that is being hedged.
- (vii) Banks should put in place necessary systems for marking to market the portfolio on a daily basis. Banks may agree upon a common industrial gathering such as SLFA to publish daily matrix of polled implied volatility estimates, implied zero, forward and swap rates, which market participants can use for marking to market their portfolio.
- (viii) Banks should train their staff adequately and put in place necessary risk management and internal control and processing systems before undertaking any of these derivative transactions.

34/07/029/0001/001

April 21, 2005

Circular No.: RTGS/03/2005

To : All Participants of LankaSettle System

**UPGRADING THE LIVE CAS/CSS/WEB SERVER APPLICATIONS/DATABASES
AT THE LANKASETTLE PRIMARY SITE**

This is to inform you that the new versions of live CAS/CSS/Web Server applications/databases will be installed at LankaSettle primary site on Saturday, April 30, 2005 and the LankaSettle live system will be opened on May 2, 2005 for the limited purpose of testing the new versions with the live CAS and CSS systems. The LankaSettle system will not be opened on the aforementioned day for settlement of any valid transactions and will be open only for the test transactions specified by the Information Technology Department of the Central Bank of Sri Lanka. Any forward dated settlement instruction remaining in CAS and CSS databases at the close of business on April 29, 2005 will be cleared from the LankaSettle system and any messages received with value date of May 2, 2005 will not be considered as valid transactions for settlement.

Therefore, you are requested:

- (i) Not to send any forward dated settlement instructions to LankaSettle system on April 29, 2005; and
- (ii) To disregard all SWIFT messages related to LankaSettle which will have the value date of May 2, 2005.

C. Premaratne
Superintendent of Public Debt

K.R.M. Siriwardhane
Director of Payments and Settlements

34/07/029/0001/001

July 29, 2005

Circular No. : RTGS/04/2005

To : All participants of LankaSettle System

**APPOINTMENT OF NATIONAL DEVELOPMENT BANK LTD. AS A
PARTICIPANT IN LANKASETTLE SYSTEM**

The Monetary Board has approved of issuing a commercial banking license to the National Development Bank Ltd. The National Development Bank Ltd. has also been permitted to acquire the business of NDB Bank Ltd. The NDB Bank Ltd. has informed us that such acquisition will take place with effect from August 1, 2005. Accordingly, the arrangements on LankaSettle with effect from August 1, 2005 will be as follows.

The National Development Bank Ltd. will become a Dealer Direct Participant on LankaSettle System and the customer accounts now held by NDB Bank Ltd. will be held by National Development Bank Ltd. Its S.W.I.F.T User Identification Code (BIC) and RTGS Settlement Account Number will be:

S.W.I.F.T User Id. Code (BIC) : NDBSLKLX
RTGS Settlement Account : NDBSLKLXXX010004416

Contact Details of National Development Bank Ltd. will be:

Chief Executive Officer : Mr. N.S. Welikala
Telephone : 2448889
Fax : 2440262
e-mail : nihal.welikala@ndb.org

NDB Bank Ltd. will cease to operate as a participant in LankaSettle System with effect from August 1, 2005.

The static data of LankaSettle System will be changed as indicated below with effect from August 1, 2005:

- (i) Changing the participant organization name NDB Bank Ltd in the LankaSettle System to National Development Bank Ltd; and
- (ii) Changing the account name NDB Bank Ltd Settlement Acct in the LankaSettle System to National Development Bank Setl Acct.

C. Premaratne
Superintendent of Public Debt

K.R.M. Siriwardhane
Director/Payments and Settlements

34/07/029/0001/001

Payments and Settlements Department
September 28, 2005

Circular No : RTGS/05/2005

To : All Participants of LankaSettle System

**IMPOSING A DEFAULT CHARGE ON FAILURE TO MAINTAIN ADEQUATE
FUNDS IN RTGS SETTLEMENT ACCOUNTS FOR SETTLEMENT OF NET
CLEARING OBLIGATIONS OF LICENSED COMMERCIAL BANKS**

Reference the announcement made by Central Bank at the Bank Managers' Meeting held on July 28, 2005 and letter dated August 17, 2005 sent to the Secretary General of Sri Lanka Banks Association (Guarantee) Ltd. (SLBA) requesting comments and observations of banks on the issue of imposing a default charge on banks for failure to maintain adequate funds in their RTGS Settlement Accounts for settling net clearing obligations at stipulated times as per the System Rules of LankaSettle System.

Having considered the response received from the SLBA, the Monetary Board of the Central Bank has approved of an amendment to the LankaSettle System Rules as per the announcement made at the above mentioned meeting.

Accordingly, you are hereby informed that Clause 8.3 of Volume 2 of LankaSettle System Rules issued in August, 2003 will be amended as per Annex I with effect from October 1, 2005.

K.R.M. Siriwardhane
Director, Payments and Settlements

Annex I

**AMENDMENT TO RULE 8.3: SETTLEMENT BATCH SUSPENSION OR FAILURE
DUE TO INSUFFICIENT FUNDS**

Participants must ensure that there are sufficient available funds in their Settlement Account to allow immediate processing of a Net Settlement Batch. In the event that any one or more Participants with a net debit clearing figure does not have sufficient funds in its Settlement Account to allow the debit to be made, the entire batch will be suspended. No debits or credits will be made in a Net Settlement Batch unless all Participants with a net debit clearing figure have sufficient funds to allow the debits to be made. Upon a Net Settlement Batch Instruction being entered into the System, the Central Bank shall have the right to earmark funds in a Participant's Settlement Account upto a Participant's net debit clearing figure and to withhold the processing of Instructions to debit such account until the Batch Settlement is effected.

However, it shall be the responsibility of each Participant to ensure that sufficient funds are available in its Settlement Account at the times stipulated in the Daily Operating Schedule for processing of a Net Settlement Batch until such settlement is effected. The non-availability of sufficient funds in the Settlement Account of a Participant with a net debit clearing figure to allow the debit to be made will render him liable to a default charge as follows :

Rs.100,000/= for the first hour or any part thereof ;

Rs.200,000/= for the next hour or any part thereof ;

An additional sum of Rs.500,000/= if the insufficiency of funds extends beyond two hours.

The default charge shall accrue from the time that the clearing batch is first submitted for settlement to the RTGS up to the time of settlement of the batch. However, if a defaulting Participant infuses sufficient funds to its Settlement Account to meet its failed payment obligations prior to the actual settlement and maintains such funds, in addition to meeting its other payment obligations as they become due on the RTGS, the default charge shall accrue only up to the time of the infusion of such funds to the Settlement Account.

The Central Bank may initiate a retry of a failed Net Settlement Batch at any time after the failure subject to other scheduled net settlement arrangements on the RTGS. This is done at the discretion of the Central Bank and it is not obligatory on the Central Bank to initiate a retry before the times indicated in the Daily Operating Schedule.

The default charge shall be debited from the Settlement Account on the next business day after the business day on which the default occurred and shall be credited to the Central Bank. Ten percent (10%) of each default charge so credited shall be deducted as an administrative charge by the Central Bank and the balance shall be available for utilization for training of bankers and shall be paid for such purpose upon an application being made by the Sri Lanka Banks' Association (Guarantee) Ltd. to the Central Bank in a prescribed manner.

If a participant defaults on more than one occasion during a period of one year, the Central Bank may, notwithstanding the fact that such a requirement has not been imposed on other participants, require such participant to maintain a stipulated minimum balance in its RTGS Settlement Account for the purpose of settling clearing balances at the stipulated times.

Each Participant must nominate a senior officer that the Central Bank may contact in the event that a Net Settlement Batch is suspended as a result of insufficient funds. Upon being so informed, a Participant must make immediate arrangements to fund its Settlement Account to enable the settlement to be completed. It is, however, not obligatory on the Central Bank to inform a Participant of insufficiency of funds and a Participant is fully responsible for ensuring the sufficiency of funds in its Settlement Account.

If a Net Settlement Batch is still suspended at close of business, all transactions in the batch will be rejected.

Any default charge imposed shall not be in substitution or derogation of, or preclude the exercise by the Central Bank or any Participant of, any right or claim which the Central Bank or the Participant has or is entitled to in any action, suit or proceeding in a court of law arising from the failure of any Participant to settle an obligation in a Net Settlement Batch.

Volume 2

34/07/029/0001/001

September 30, 2005

Circular No. : RTGS/07/2005

To : All participants of LankaSettle System

CHANGE OF NAME OF MUSLIM COMMERCIAL BANK LTD.

As Muslim Commercial Bank Ltd. has changed its name to MCB Bank Ltd. the static data of LankaSettle System will be changed as indicated below with effect from October 01, 2005:

- (i) Changing the participant organization name of Muslim Commercial Bank Ltd to MCB Bank Ltd; and
- (ii) Changing the account name of Muslim Commercial Bank Ltd. in the LankaSettle System from Muslim Commercial Bank Settl Acct to MCB Bank Ltd Settlement Acct.

The SWIFT BIC of the Bank will remain unchanged.

C. Premaratne
Superintendent of Public Debt

K.R.M. Siriwardhane
Director/Payments and Settlements

Ref:08/24/002/0005/005

Public Debt Department
January 18, 2005

Chief Executive Officers of Primary Dealers,

DIRECTION ON ENHANCEMENT OF MINIMUM CAPITAL REQUIREMENT OF PRIMARY DEALERS

This direction is issued in terms of section 12 of the Regulation dated February 1, 2002 issued by the Minister of Finance under the Registered Stocks and Securities Ordinance and the Local Treasury Bills Ordinance.

In terms of the direction on Minimum Capital Requirement issued on 28 November 2003 Primary Dealers (PDs) were required to maintain Rs 350 million as minimum capital before 31 December 2004. However, some PDs were unable to meet this requirement by 31 December 2004. Considering this situation and the current market conditions, the Monetary Board decided to extend the deadline from 31 December 2004 to 1 July 2005 for the PDs to comply with the minimum capital requirement of Rs 350 million.

PDs are required to comply with the above requirement subject to the condition that any PD who wishes to declare profits as dividends during the period from 31 December 2004 to 1 July 2005 shall obtain the prior approval of the Central Bank to do so.

Dr W M Hemachandra
Superintendent of Public Debt

Ref:08/24/002/0005/005

Public Debt Department
April 18, 2005

Chief Executive Officers of Primary Dealers,

**DIRECTION ON ENHANCEMENT OF MINIMUM CAPITAL REQUIREMENT,
DIVIDEND DISTRIBUTION AND MAINTENANCE OF TIER II CAPITAL BY
PRIMARY DEALERS**

This direction is issued in terms of section 12 of the Regulation dated February 1, 2002 issued by the Minister of Finance under the Registered Stocks and Securities Ordinance and the Local Treasury Bills Ordinance.

1. Primary Dealers (PDs) are required to increase minimum capital from,
 - a. Existing Rs 200 million to Rs 250 million from 1 July 2005 and
 - b. Rs 250 million to Rs 300 million from 1 July 2006
 instead of Rs 350 million as per the CBSL directions on 28 November 2003 and 18 January 2005.
2. PDs who maintain a capital between Rs 250 million – Rs 300 million are allowed to declare 25% of profits as dividends with effect from 1 July 2005.
3. PDs who maintain a capital above Rs 300 million are required to allocate 25% of profits annually to a special reserve with effect from 1 July 2005. Direction on special risk reserve issued on 28 November 2003 will be lapsed after 30 June 2005.
4. PDs are allowed to maintain up to a maximum 50% of Tier –I capital as Tier – II capital with effect from 1 July 2005.
5. PDs are required to implement the Risk Weighted Capital Adequacy Framework with a minimum capital requirement of Rs 300 million with effect from 1 July 2006.

Superintendent of Public Debt

08/25/001/0034/001

September 30, 2005

Circular No. SSSS/01/2005

To: All Participants of LankaSettle System.

AMENDMENT TO LANKASETTLE SYSTEM RULES, AUGUST 2003.

You are hereby informed that the first paragraph of Clause 5.8 of Volume 3 of LankaSettle System Rules issued in August 2003 is amended to read as follows with effect from October 1, 2005.

“LankaSecure will accept Securities Instructions for settlement on future Value Dates and will store such instructions until such Value Date. The System will accept Securities Instructions for up to 31 calendar days in advance of current date and Securities Instructions with future Value Dates greater than 31 calendar days in advance will be rejected.”

Accordingly, clause 5.8 of Volume 3 of the LankaSettle System Rules will read as follows with effect from October 1, 2005.

“5.8 Forward Dated Transactions

LankaSecure will accept Securities Instructions for settlement on future Value Dates and will store such instructions until such Value Date. The System will accept Securities Instructions for up to 31 calendar days in advance of current date and Securities Instructions with future Value Dates greater than 31 calendar days in advance will be rejected.

If a Securities Instruction is received by LankaSecure that has a value Date that has already passed it will be rejected.

At the start of each Business Day LankaSecure checks that each stored Securities Instruction has a valid Value Date. If a stored Securities Instruction has a value date that has already passed it will be rejected.

In the event that a Business Day is “cancelled”, e.g. a day on which due to extraordinary circumstances the Central Bank is not open for business, it is the responsibility of the Participant to cancel stored Securities Instructions for that Value Date or re-send them following rejection with a new Value Date.”

C Premaratne
Superintendent of Public Debt

K R M Siriwardhane
Director/Payments and Settlements

FINANCE COMPANIES ACT, NO. 78 OF 1988 AS AMENDED BY ACT NO. 23 OF 1991

The Direction given by the Monetary Board of the Central Bank of Sri Lanka under section 9 of the Finance Companies Act, No 78 of 1988 as amended by Act, No 23 of 1991.

Sunil Mendis
Chairman
Monetary Board of the Central Bank of Sri Lanka

Colombo.
31 January 2005

FINANCE COMPANIES (DEPOSITS) DIRECTION NO.1 OF 2005

1. This Direction may be cited as the Finance Companies (Deposits) Direction No.1 of 2005 and shall apply to every finance company registered in terms of Section 2 of the Finance Companies Act No.78 of 1988 as amended by Act No.23 of 1991 and shall come into operation with immediate effect.
2. A finance company shall not accept any deposit repayable on demand or any time deposit repayable after a period of less than one month from the date of receipt of such deposit or more than sixty months from the date of receipt of such deposit, and shall not renew any time deposit received by it, unless such deposit so renewed is repayable not earlier than one month and not later than sixty months from the date of such renewal. However, a finance company may accept savings deposits subject to the provisions of this Direction, Finance Companies (Deposits – Incentive Schemes) Direction No.5 of 2001, Finance Companies (Capital Funds) Direction No.1 of 2003, Finance Companies (Interest) Direction No.2 of 2005, Finance Companies (Liquid Assets) Direction No.3 of 2005 and Finance Companies (Advertising) Rule No.1 of 2001.
3. (i) Every finance company shall furnish to every depositor a certificate in respect of each and every time deposit received which for all purposes shall be deemed to be an acknowledgement of acceptance of a certain sum of money by the finance company. In the case of renewal of a time deposit a renewal notice shall be issued to the depositor concerned.
- (ii) Every such certificate or renewal notice shall be signed by two officers who are authorised by the Board of Directors of the finance company for the purpose of accepting/renewing deposits and issuing of such acknowledgement/renewal notice indicating clearly the following information:-
 - (a) registered name and address of the finance company;
 - (b) date of deposit/renewal of deposit;
 - (c) name of depositor, national identity card number or passport number and the address of the depositor;
 - (d) amount of money received by the finance company by way of deposit or renewal of deposit in words and figures;

- (e) The annual rate of interest payable and the basis of payment (monthly or at maturity);
 - (f) Date on which the deposit is repayable;
 - (g) Names of officers who sign the acknowledgement/renewal notice;
 - (h) Serial number of the certificate; and
 - (i) Account number of the deposit.
4. Every finance company shall maintain a record of the following particulars in respect of each time deposit:-
- (a) Account number;
 - (b) Name, address and National Identity Card number or passport number of each depositor;
 - (c) Principal amount of such deposit;
 - (d) Date of deposit/date of renewal;
 - (e) Duration and the maturity date of each deposit;
 - (f) Rate of interest and the basis of payment of interest (monthly or at maturity);
 - (g) The amount of accrued interest (if any);
 - (h) Date and amount of each payment (principal or interest); and
 - (i) Serial number of the certificate.
5. Every finance company upon acceptance of savings deposits shall issue to a depositor, a document containing the terms governing the operations of savings accounts in all three languages and a pass book or such other document acceptable to the Director for recording the operations of the account including the following particulars:-
- (a) Registered name and address of the finance company;
 - (b) Name of the branch;
 - (c) Name, date of birth, National Identity Card number and the address of the account holder; and
 - (d) Account number.
6. Every finance company shall maintain a record of the following particulars in respect of each savings account:-
- (a) Name, date of birth, National Identity Card number and the address of the account holder;
 - (b) Account number;
 - (c) Date, amount and description of every credit or debit made to the savings account; and
 - (d) Outstanding balance at any particular time.
7. Every finance company shall submit to the Director a statement, within three months after the end of every financial year, giving the following particulars, as at the end of such financial year, in respect of every time deposit which has not been repaid/renewed by the finance company after the date on which the deposit became due for repayment or renewal as the case may be:-
- (a) Name and address of the depositor;
 - (b) Amount of the deposit;
 - (c) Amount of the accrued interest;
 - (d) Last date on which any written correspondence was received by the company from the depositor or his/her lawful representative; and
 - (e) Action taken or proposed to be taken by the finance company for the repayment of the amount of the deposit and its accrued interest.
8. Every finance company shall submit to the Director a statement, within three months after the end of every financial year, giving the following particulars, as at the end of such financial year, on every savings account in respect of which there has been no deposit or withdrawal for 5 years or more:-
- (a) Name and address of the account holder;
 - (b) Amount outstanding including accumulated interest as at the end of the immediately preceding financial year;
 - (c) Last date on which any written communication was received from the depositor or his/her lawful representative; and
 - (d) Action taken or proposed to be taken by the finance company to repay the amount outstanding on the account.
9. A finance company shall not accept any funds to the credit of a savings account unless it is in the form of cash or any acceptable money transfer document such as a cheque issued in favour of the account holder.
10. In this Direction:-
- (i) "Time deposit" means any deposit accepted by a finance company with an agreement to repay after a specified period of time;
 - (ii) "Director" means the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka;

- (iii) "Board of Directors" means the Board of Directors of the company, other than any directors appointed by the Monetary Board of the Central Bank of Sri Lanka.

11. The Finance Companies (Deposits) Direction No.1 of 2002 is hereby revoked.

FINANCE COMPANIES ACT, NO. 78 OF 1988
AS AMENDED BY ACT NO. 23 OF 1991

The Direction given by the Monetary Board of the Central Bank of Sri Lanka under section 9 of the Finance Companies Act, No. 78 of 1988 as amended by Act No. 23 of 1991.

Sunil Mendis
Chairman

Monetary Board of the Central Bank of Sri Lanka

Colombo.
31 January 2005

FINANCE COMPANIES (INTEREST) DIRECTION NO. 2 OF 2005

1. This Direction may be cited as the Finance Companies (Interest) Direction No. 2 of 2005 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act, No. 78 of 1988 as amended by Act No. 23 of 1991 and shall come into operation with immediate effect.
2. (a) The maximum annual rate of interest which may be paid by any finance company on a time deposit accepted or renewed during any quarter shall not exceed:-
 - (i) The weighted average yield applicable to 364-day Treasury Bills issued during the immediately preceding quarter increased by 3 percentage points if such deposit carries a maturity period of 12 months or less;
 - (ii) The weighted average yield applicable to 364-day Treasury Bills issued during the immediately preceding quarter increased by 6 percentage points if such deposit carries a maturity period of more than 12 months.
- (b) The maximum rate of discount which may be allowed by a finance company on the sale, during any quarter, of a bond or other instrument of which the price is less than the redeemable value at maturity shall be such that the maximum annual yield on the instrument shall not exceed:-
 - (i) The weighted average yield applicable to 364-day Treasury Bills issued during the immediately preceding quarter increased by 3 percentage points if such bond or instrument carries a period of maturity of 12 months or less;
 - (ii) The weighted average yield applicable to 364-day Treasury Bills issued during the immediately preceding quarter increased by 6 percentage points if such bond or instrument carries a maturity period of more than 12 months.
3. The maximum annual rate of interest which may be paid by a finance company on any savings deposit, during any quarter shall not exceed the weighted average yield applicable to 90-day Treasury Bills issued during the immediately preceding quarter.
4. In this Direction, "time deposit" shall have the same meaning as in the Finance Companies (Deposits) Direction No. 1 of 2005.
5. The Finance Companies (Interest) Direction No. 6 of 2001 is hereby revoked.

FINANCE COMPANIES ACT, NO. 78 OF 1988
AS AMENDED BY ACT NO. 23 OF 1991

The Direction given by the Monetary Board of the Central Bank of Sri Lanka under section 9 of the Finance Companies Act, No. 78 of 1988 as amended by Act No. 23 of 1991.

Sunil Mendis
Chairman

Monetary Board of the Central Bank of Sri Lanka

Colombo
31 January 2005

FINANCE COMPANIES (LIQUID ASSETS)**DIRECTION NO. 3 OF 2005**

1. This Direction may be cited as the Finance Companies (Liquid Assets) Direction No. 3 of 2005 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act, No. 78 of 1988 as amended by Act No. 23 of 1991 and shall come into operation with immediate effect.
2. Every finance company shall maintain a minimum holding of liquid assets as defined in section 46 of the Finance Companies Act, No. 78 of 1988 as amended by Act No. 23 of 1991 which shall not, at the close of the business on any day, be less than the total of :
 - (i) Fifteen percent of -
 - (a) the outstanding value of the time deposits received by the finance company at the close of the business on such day; and
 - (b) the face value of certificates of deposit issued by the finance company, as appearing on the books of the finance company at the close of the business on such day; and
 - (ii) Twenty percent of the outstanding value of savings deposits accepted by such company, at the close of the business on such day.
3. Every finance company shall furnish monthly to the Director a statement certifying the total deposit liabilities and liquid assets as at the close of business on the last working day of each week of that month on a format to be prescribed by the Director. If the last working day of the month does not coincide with the last working day of the last week of such month, it should be made to the last working day of the month. Such statement shall be forwarded to the Director on or before the fifteenth day of the following month.
4. Every finance company shall at all times maintain assets in the form of Sri Lanka Government Treasury Bills, Sri Lanka Government Securities and Central Bank of Sri Lanka Securities equivalent to ten (10) percent of the average of its month end total deposit liabilities of the twelve months of the preceding financial year.
5. The Sri Lanka Government Treasury Bills, Sri Lanka Government Securities and Central Bank of Sri Lanka Securities referred to in paragraph 4 above will constitute a part of liquid assets referred to in paragraph 2 above.
6. Sri Lanka Government Treasury Bills, Sri Lanka Government Securities and Central Bank of Sri Lanka Securities held by a finance company in compliance with the provisions of paragraph 4 above shall be kept in the custody of one or more licensed commercial banks or one or more primary dealer companies. Every finance company shall submit to the Director a weekly statement obtained from such bank/banks or primary dealer company/companies giving particulars of such Bills/Securities in a format to be prescribed by the Director.
7. Every finance company shall furnish to the Director a statement showing its month end total deposit liabilities during the twelve months of the preceding financial year on or before the fifteenth (15) day of the month following the end of such financial year.
8. In this Direction,
 - (i) "Time deposit" shall have the same meaning as in the Finance Companies (Deposits) Direction No.1 of 2005;
 - (ii) "Total deposit liabilities" consist of time deposits, certificates of deposits and savings deposits;
 - (iii) "Director" means the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka;
 - (iv) "Licensed Commercial Bank" means a Licensed Commercial Bank within the meaning of the Banking Act, No. 30 of 1988;
 - (v) "Primary Dealer Company" means a Primary Dealer Company within the meaning of the Local Treasury Bills Ordinance (Primary Dealers) Regulations No. 1 of 2002 made under section 16 of the Local Treasury Bills Ordinance (Chapter 420) as last amended by Act No. 31 of 1995 and the Registered Stock and Securities Ordinance (Primary Dealers) Regulation No. 1 of 2002 made under section 55 of the Registered Stock and Securities Ordinance (Chapter 420) as last amended by Act No. 32 of 1995.
9. The Finance Companies (Liquid Assets) Direction No. 7 of 1991 as amended by the Finance Companies (Liquid Assets - Amendment) Direction No. 4 of 2001 is hereby revoked.

FINANCE COMPANIES ACT, NO. 78 OF 1988
AS AMENDED BY ACT NO. 23 OF 1991

The Direction given by the Monetary Board of the Central Bank of Sri Lanka under section 9 of the Finance Companies Act, No. 78 of 1988 as amended by Act No. 23 of 1991.

Sunil Mendis
Chairman

Monetary Board of the Central Bank of Sri Lanka

Colombo.
31 January 2005

FINANCE COMPANIES (CLOSURE OF OFFICE/S FOR BUSINESS) DIRECTION
NO.4 OF 2005

1. This Direction may be cited as the Finance Companies (Closure of Office/s for Business) Direction No.4 of 2005 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act, No.78 of 1988 as amended by Act No.23 of 1991 and shall come into operation with immediate effect.
2. No finance company shall close its office/s for business on any day of the week from Monday to Friday, which is not a holiday declared by the Ceylon Chamber of Commerce, without the prior approval in writing of the Director.
3. In granting approval required under 2 above, the Director may impose conditions as he/she may deem necessary.
4. In this Direction, "Director" means the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.
5. The Finance Companies (Closure of Business) Direction No.14 of 1991 is hereby revoked.

FINANCE COMPANIES ACT, NO 78 OF 1988
AS AMENDED BY ACT NO. 23 OF 1991

The Direction given by the Monetary Board of the Central Bank of Sri Lanka under section 9 of the Finance Companies Act, No. 78 of 1988 as amended by Act No. 23 of 1991.

Sunil Mendis
Chairman

Monetary Board of the Central Bank of Sri Lanka

Colombo.
29 December 2005

FINANCE COMPANIES (STRUCTURAL CHANGES) DIRECTION NO. 5 OF 2005

1. This Direction may be cited as the Finance Companies (Structural Changes) Direction No. 5 of 2005 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act, No. 78 of 1988 as amended by Act No. 23 of 1991 and shall come into operation with effect from 02 January 2006.
2. No finance company to which a licence has been issued shall, without the prior approval in writing of the Monetary Board of the Central Bank of Sri Lanka -
 - (a) establish any subsidiary or associate company;
 - (b) commence a new business activity which is not directly related to finance business, hire purchase or pawning;
 - (c) enhance or reduce its issued capital;
 - (d) sell its business;
 - (e) acquire whether whole or in part of the business of any other finance company;
 - (f) change its Memorandum of Association or Articles of Association;
 - (g) amalgamate, consolidate or merge the company with any other finance company;
 - (h) restructure the management of the company.
3. In this Direction, "finance business" shall have the same meaning as contained in the definition in section 46 of the Finance Companies Act, No. 78 of 1988.

FINANCE COMPANIES ACT, NO. 78 OF 1988
AS AMENDED BY ACT NO. 23 OF 1991

The Direction given by the Monetary Board of the Central Bank of Sri Lanka under section 9 of the Finance Companies Act, No. 78 of 1988 as amended by Act No. 23 of 1991.

Sunil Mendis
Chairman

Monetary Board of the Central Bank of Sri Lanka

Colombo.
29 December 2005

**FINANCE COMPANIES (OPENING/SHIFTING/CLOSURE OF BRANCHES/
OFFICES) DIRECTION NO. 6 OF 2005**

1. This Direction may be cited as the Finance Companies (Opening/Shifting/Closure of Branches/Offices) Direction No. 6 of 2005 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act, No. 78 of 1988 as amended by Act No. 23 of 1991 and shall come into operation with effect from 02 January 2006.
2. No finance company to which a licence has been issued shall, without the prior approval in writing of the Director -
 - (a) open a new place of business;
 - (b) change the location of any of its business places; or
 - (c) close any of its business places.
3. In this Direction "Director" means the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

FINANCE COMPANIES ACT, NO. 78 OF 1988
AS AMENDED BY ACT NO. 23 OF 1991

The Rules made by the Monetary Board of the Central Bank of Sri Lanka under section 33 read with sections 2(2), 6, 7(1) and 7(3) of the Finance Companies Act, No. 78 of 1988 as amended by Act No. 23 of 1991.

Sunil Mendis
Chairman

Monetary Board of the Central Bank of Sri Lanka

Colombo.
29 December 2005

FINANCE COMPANIES (REGISTRATION AND LICENSING) RULES NO. 1 OF 2005

1. These Rules may be cited as the Finance Companies (Registration and Licensing) Rules No. 1 of 2005 and shall apply to any finance company to which section 2 of the Finance Companies Act, No. 78 of 1988 applies and shall come into operation with effect from 02 January 2006 with the exception of Rules 5 and 6, the effective dates of which are specifically mentioned.
2. Every application for registration by a company shall be made in duplicate in 'Form A1' of the Schedule hereto, which is obtainable from the Director.
3. The Register maintained for the registration of every finance company shall be substantially in 'Form B1' of the Schedule hereto.
4. The licence issued to any finance company shall be substantially in 'Form C' of the Schedule hereto.
5. The licence fee payable by a finance company for the year of first registration shall be Rs. 20,000 until the end of 2006 and Rs 50,000 thereafter, and shall be paid to the Central Bank of Sri Lanka on or before the date of registration in proportion to the remaining number of days in the year.
6. Every finance company registered under the Finance Companies Act No. 78 of 1988 shall pay to the

Central Bank of Sri Lanka the annual licence fee of Rs. 20,000 until the end of 2006 and the annual licence fee of Rs. 50,000 thereafter, within 30 days prior to the end of the preceding calendar year.

7. In this Direction, "Director" means the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.
8. The Finance Companies (Registration and Licensing) Rules No. 1 of 1990 is hereby revoked.

N.B. Form A1, Form B1 and Form C are not included in this Report. These forms have been published in the Extraordinary Gazette No. 1425/16 dated 29. 12. 2005.

24/01/015/004/003

Department of Supervision of
Non-Bank Financial Institutions.
10 May 2005

To: All Registered Finance Companies

Dear Sir/Madam,

DIRECTION ON CAPITAL ADEQUACY – AMENDMENTS TO INSTRUCTIONS

We write to inform you that the Monetary Board has permitted to include Redeemable, Cumulative, Preference shares in the Subordinated Term Debt constituent of the Tier 2 – Supplementary Capital subject to certain conditions. Accordingly, Item 34 of Section C of the Instructions issued along with the Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No.2 of 2003 is amended as follows:

"34. Approved Unsecured Subordinated Term Debt

This constituent includes:

- (i) An unsecured subordinated term debt, which satisfies the following conditions:
 - (a) Unsecured, fully paid up and subordinated to the interests of all creditors other than holders of unsecured subordinated term debt instruments and hybrid (debt/equity) capital instruments;
 - (b) A minimum original maturity of an instrument to be 5 years;
 - (c) No early repayment or redemption to be made without the prior consent of the Central Bank of Sri Lanka; and
 - (d) Discounting of the amount counted as capital by 1/5th each year during the four years preceding maturity.
- (ii) Redeemable Cumulative Preference Shares, which satisfy the following conditions:
 - (a) Such preference shares should be issued and redeemed in accordance with the provisions of the Companies Act, No. 17 of 1982, in particular, section 57 thereof;
 - (b) Such preference shares should not be redeemed within the first five years from the date of issue without the prior approval of the Central Bank of Sri Lanka;
 - (c) Such preference shares should be unsecured, subordinated and fully paid; and
 - (d) During the last five years to maturity, a cumulative discount factor of 20 per cent per year should be applied to reflect the diminishing value of those instruments as a continuing source of strength.

Prior approval of the Central Bank of Sri Lanka is required for inclusion of any such debt instrument and redeemable cumulative preference shares into Tier 2 Capital.

Approved unsecured subordinated term debts (including Redeemable Cumulative Preference Shares) are limited to 50 per cent of Total Tier 1 Capital. The actual amount of unsecured subordinated term debts and Redeemable Cumulative Preference Shares should also be reported separately."

Yours faithfully,
Director

24/01/015/004/003

Department of Supervision of
Non-Bank Financial Institutions
11 May 2005

To: All Registered Finance Companies

Dear Sir/Madam,

**GUIDELINES TO ALL REGISTERED FINANCE
COMPANIES REGARDING INCLUSION OF ELIGIBLE
REVALUATION RESERVES IN CAPITAL FUNDS**

We write to inform you that the Monetary Board has approved of issuing the following guidelines in connection with the inclusion of revaluation reserves in 'capital funds' for the purpose of the Finance Companies (Capital Funds) Direction No.1 of 2003, Finance Companies (Investments) Direction No.12 of 1991 as amended by the Direction No.3 of 2001, Finance Companies (Fixed Assets) Direction No.11 of 1991 and the Finance Companies (Single Borrower Limit) Direction No.1 of 1992.

- (i) The valuation is to be undertaken with the prior approval of the Central Bank;
- (ii) An asset would qualify for revaluation only after 7 years from the previous date of valuation or from the date of purchase, whichever is later;
- (iii) The asset should be valued by a valuer who is;
 - (a) a chartered valuation surveyor; or
 - (b) a fellow of the Institute of Valuers (Sri Lanka) with a Degree or Diploma in Valuation and with work experience of over 15 years; or
 - (c) a graduate member of the Institute of Valuers (Sri Lanka) with work experience of over 18 years; or
 - (d) an associate of the Institute of Valuers (Sri Lanka) with work experience of over 20 years; or
 - (e) a licentiate of the Institute of Valuers (Sri Lanka) with work experience of over 25 years.

Please note that registered finance companies have been following these guidelines in terms of an understanding reached with the Central Bank through the Finance Houses Association of Sri Lanka. Now, the guidelines are issued in this manner to formalize the procedure.

Please acknowledge receipt of this letter.

Yours faithfully,
Director

24/01/015/004/003

Department of Supervision of
Non-Bank Financial Institutions
27 July 2005

To: All Registered Finance Companies

Dear Sir,

**FINANCE COMPANIES (RISK WEIGHTED CAPITAL ADEQUACY RATIO)
DIRECTION NO. 2 OF 2003 – AMENDMENTS TO INSTRUCTIONS**

We write to inform you that the Monetary Board has approved of assigning a risk weight of 50 percent for performing advances on account of sales of real estate made on an instalment payment basis for the purpose of the Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No.2 of 2003, subject to the following conditions:

- (a) The Registered Finance Company (RFC) entering into an agreement with the buyer of the real estate specifying that the title of the property will not be transferred to the borrower until the amount agreed is fully paid;
- (b) Any sales of real estate made on an instalment payment basis in respect of which payment of instalments have been in arrears for more than 6 months be assigned the risk weight of 100 percent; and
- (c) Performing and non-performing (instalments are in arrears for more than 6 months) real estate sales made on an instalment basis, should be shown separately by RFCs in the General Ledger.

Accordingly, the Instructions issued under the Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No.2 of 2003 have been amended by introducing a new item titled "Loans against sale of real estate made on an instalment basis (SRE loans)" and two sub items titled "Performing SRE loans" and "Non-performing SRE loans". The numbers assigned to these items/sub items are 08.06, 08.06.01 and 08.06.02, respectively. The item "Other Loans and Advances" has been renumbered as 08.07. A copy of the revised sections in the Instructions is enclosed.

Please acknowledge receipt of this letter.

Yours faithfully,
Director

FINANCE LEASING ACT, NO. 56 OF 2000

Direction given by the Director of the Department of Supervision of Non-Bank Financial Institutions, under section 34 of the Finance Leasing Act, No. 56 of 2000.

Mrs. L K Gunatilake
Director

Department of Supervision of Non-Bank Financial Institutions
Central Bank of Sri Lanka
On this 28th day of December, 2005

FINANCE LEASING (MINIMUM CAPITAL) DIRECTION NO. 1 OF 2005

1. This Direction may be cited as the Finance Leasing (Minimum Capital) Direction No.1 of 2005 and shall apply to every registered finance leasing establishment, other than licensed commercial banks and licensed specialised banks which are governed by the Banking Act, No.30 of 1988, registered finance companies which are governed by the Finance Companies Act, No.78 of 1988 and any institution that may be registered under the provisions of section 44A of the Finance Leasing Act, No. 56 of 2000 as amended by Act No. 24 of 2005. The Direction shall come into operation with effect from 2 January 2006.
2. Every registered finance leasing establishment to which this direction is applicable (hereinafter referred to as a "relevant establishment") shall maintain at all times an unimpaired core capital of an amount not less than the minimum issued and paid up capital prescribed by the Minister under the provisions of section 3(c) of the Finance Leasing Act, No. 56 of 2000.
3. Where the core capital of any relevant establishment is below the amount prescribed by the Minister as the minimum issued and paid up capital at the commencement of this Direction, the Director may give such establishment a period of one year from the commencement of this Direction to comply with the requirement under this Direction.
4. For the purpose of this Direction, "core capital" shall mean the aggregate of the following -
 - (a) issued and paid-up ordinary share capital;
 - (b) issued and paid-up non-redeemable, non-cumulative preference shares;
 - (c) share premium;
 - (d) the Reserve Fund maintained under the Finance Leasing (Reserve Fund) Direction No. 6 of 2005;
 - (e) reserves which are not earmarked for any specified purpose by statute or by the Sri Lanka Accounting Standards;
 - (f) retained profits or accumulated losses;
 - (g) current year profits or losses; and

- (h) general provision for bad and doubtful debts which is an amount provided over and above the specific provision on the non-performing portfolio and an additional specific provision on the performing portfolio, subject to confirmation by the auditors.
- 5. For the purpose of this Direction, "Director" means the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

FINANCE LEASING ACT, NO. 56 OF 2000

Direction given by the Director of the Department of Supervision of Non-Bank Financial Institutions, under section 34 of the Finance Leasing Act, No. 56 of 2000.

Mrs L K Gunatilake
Director

Department of Supervision of Non-Bank Financial Institutions
Central Bank of Sri Lanka
On this 28th day of December, 2005

FINANCE LEASING (PROVISION FOR BAD AND DOUBTFUL DEBTS) **DIRECTION NO. 2 OF 2005**

1. This Direction may be cited as the Finance Leasing (Provision for Bad and Doubtful Debts) Direction No.2 of 2005 and shall apply to every registered finance leasing establishment, other than licensed commercial banks and licensed specialised banks which are governed by the Banking Act, No.30 of 1988 and registered finance companies which are governed by the Finance Companies Act, No.78 of 1988. The Direction shall come into operation with effect from 2 January 2006.
2. Every registered finance leasing establishment to which this direction is applicable (hereinafter referred to as a "relevant establishment") shall make provision for bad and doubtful debts before any profit or loss is declared and ensure that such provision is made subject to a minimum of -
 - (a) twenty per cent (20%) of all accommodations in arrears for a period of 6 months and upto 12 months;
 - (b) fifty per cent (50%) of all accommodations in arrears for a period of 12 months and upto 18 months;
 - (c) hundred per cent (100%) of all accommodations in arrears for a period of 18 months and over;
 - (d) hundred per cent (100%) of all accommodations where instalments are not paid on a monthly basis, whenever the company has realised that instalments will not be paid on the due dates.
3. Director may require any relevant establishment to make further specific provision for bad and doubtful debts in addition to the provision already made by such establishment.
4. A relevant establishment may deduct the value of the following items held as collateral in respect of a particular accommodation in arriving at the provisions required by 2(a) to 2(d) above -
 - (a) cash or cash equivalents (including securities such as Treasury bills, Treasury bonds and fixed deposits in a licensed commercial bank, licensed specialised bank or in a registered finance company, free of any lien or charge);
 - (b) bank guarantees;
 - (c) with regard to vehicles that have been repossessed by the relevant establishment, eighty per cent (80%) of the valuation obtained during the preceding six months from a valuer approved by the Director.
 - (d) with regard to land and buildings, the full value, in case of a primary mortgage. Such value shall not exceed the value decided by a professional valuer (guidelines for selection of valuers are given in Annex 1*) at the time of providing the accommodation. However, occupied residential properties taken as security without an agreement to hand over vacant possession in the event of sale for the recovery of dues, shall not be deducted in arriving at the required provision.
5. A relevant establishment may provide an additional specific amount for bad and doubtful debts based on the risk associated with the portfolio of performing accommodation and such amount shall not be included as an additional general provision in core capital or capital funds.
6. Where rescheduling occurs before an account is classified as non-performing, the rescheduled account shall be classified as non-performing when, in the aggregate, the period of time the account is in arrears before rescheduling (if any) and after rescheduling is six months or more.

7. Where rescheduling occurs after an account has been classified as non-performing, the rescheduled account shall continue to be classified as non-performing. Rescheduled accommodation classified as non-performing can be declassified only when the repayments under the rescheduled terms have been made for a continuous period of six months.
8. For the purpose of this Direction, "accommodation" shall mean loans; facilities under hire purchase or leasing agreements; provision of funds through redeemable cumulative preference shares and debt securities such as bonds, debentures, asset backed securities, commercial paper/promissory notes; inter company credit; any arrangement to provide funds on a repayable basis; any commitment to accept contingent liabilities; or such other financial facility as may be determined by the Director.
9. For the purpose of this Direction, "inter company credit" shall mean any form of accommodation extended by a relevant establishment to its directors or to their relatives and/or to its associate companies and/or to its subsidiary companies and/or to its holding company. For the purpose of this Direction, "relative" shall mean the spouse and/or dependent child of an individual. A company shall deem to be an "associate company" of another company, where shares equivalent to 20 per cent or more but less than 50 per cent of the issued and paid-up ordinary share capital are held by such other company.
10. For the purpose of this Direction, "subsidiary company" and "holding company" shall have the same meaning as contained in section 150 of the Companies Act, No. 17 of 1982.
11. For the purpose of this Direction, "non-performing accommodation" shall mean any accommodation where the instalments have been in arrears for more than six months.
12. For the purpose of this Direction, "Director" means the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

* Annex I is at page (lxii)

FINANCE LEASING ACT, NO. 56 OF 2000

Direction given by the Director of the Department of Supervision of Non-Bank Financial Institutions, under section 34 of the Finance Leasing Act, No. 56 of 2000.

Mrs L K Gunatilake
Director

Department of Supervision of Non-Bank Financial Institutions
Central Bank of Sri Lanka
On this 28th day of December, 2005

FINANCE LEASING (SINGLE BORROWER LIMIT) **DIRECTION NO. 3 OF 2005**

1. This Direction may be cited as the Finance Leasing (Single Borrower Limit) Direction No.3 of 2005 and shall apply to every registered finance leasing establishment, other than licensed commercial banks and licensed specialised banks which are governed by the Banking Act, No.30 of 1988 and registered finance companies which are governed by the Finance Companies Act, No.78 of 1988. The Direction shall come into operation with effect from 2 January 2006.
2. Every registered finance leasing establishment to which this direction is applicable shall hereinafter be referred to as a "relevant establishment".
3. Subject to the provisions in paragraph 5 hereunder, the maximum of a single accommodations or the aggregate of accommodations granted to and outstanding at any point of time from an individual borrower, shall not exceed 15 per cent of the capital funds as shown in its last audited balance sheet.
4. Subject to the provisions in paragraph 5 hereunder, the aggregate of accommodations granted to and outstanding at any point of time from any group of borrowers shall not exceed 20 per cent of the capital funds as shown in its last audited balance sheet.
5. The maximum of a single accommodation or the aggregate of accommodations granted to and outstanding at any point of time from any director, holding company or subsidiary companies of the relevant establishment shall not exceed 15 per cent of the capital funds as shown in its last audited balance sheet. Such accommodation shall be granted on such terms as may be applicable to any other borrower of the relevant establishment and particulars of such accommodation including the name of the borrower, the date of grant of the accommodation or inter company credit, amount granted,

repayment programme, security and rate of interest shall be reported to the Director within 14 days from the date of granting of such accommodation.

6. Where a single accommodation or the aggregate of accommodations granted to and outstanding from an individual or from a group is in excess of the respective limits specified in paragraphs 3, 4 and 5 above, as at the commencement of this Direction, the Director may give such relevant establishment a period of two years from the commencement of this Direction to comply with the requirements under this Direction.
7. For the purpose of this Direction "individual borrower" shall mean any single company, public corporation, firm, association of persons or an individual.
8. For the purpose of this Direction "group of borrowers" shall mean-
 - (a) an individual and his relatives and a company in which such individual or his relatives hold shares exceeding 10 per cent of the issued and paid-up ordinary share capital of such company; or
 - (b) a company and one or more of the following -
 - (i) its subsidiaries;
 - (ii) its holding company; or
 - (iii) a subsidiary of its holding company.
9. For the purpose of this Direction, "capital funds" shall mean the aggregate of the following -
 - (a) issued and paid-up ordinary share capital;
 - (b) issued and paid-up non-redeemable, non-cumulative preference shares;
 - (c) share premium;
 - (d) the Reserve Fund maintained under the Finance Leasing (Reserve Fund) Direction No. 6 of 2005;
 - (e) reserves which are not earmarked for any specified purposes by any statute or by the Sri Lanka Accounting Standards;
 - (f) retained profits or accumulated losses;
 - (g) general provision for bad and doubtful debts which is an amount provided over and above the specific provision on the non-performing portfolio and an additional specific provision on the performing portfolio; and
 - (h) revaluation reserves (may be included with the prior approval of the Director where assets have been revalued in conformity with the guidelines given in Annex II**).
10. For the purpose of this Direction, "accommodation" shall mean loans; facilities under hire purchase or leasing agreements; provision of funds through redeemable cumulative preference shares and debt securities such as bonds, debentures, asset backed securities, commercial paper/promissory notes; inter company credit; any arrangement to provide funds on a repayable basis; any commitment to accept contingent liabilities; or such other financial facility as may be determined by the Director.
11. For the purpose of this Direction, "inter company credit" shall mean any form of accommodation extended by a company to its directors or to their relatives and/or to its associate companies and/or to its subsidiary companies and/or to its holding company. For the purpose of this Direction, "relative" shall mean the spouse and/or dependent child of an individual. A company shall deem to be an "associate company" of another company, where shares equivalent to 20 per cent or more but less than 50 per cent of the issued and paid up ordinary share capital are held by such other company.
12. For the purpose of this Direction, "subsidiary company" and "holding company" shall have the same meaning as contained in section 150 of the Companies Act, No. 17 of 1982.
13. For the purpose of this Direction, "Director" means the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

*** Annex II is at page (lxii)*

FINANCE LEASING ACT, NO. 56 OF 2000

Direction given by the Director of the Department of Supervision of Non-Bank Financial Institutions, under section 34 of the Finance Leasing Act, No. 56 of 2000.

Mrs L K Gunatilake
Director

Department of Supervision of Non-Bank Financial Institutions
Central Bank of Sri Lanka
On this 28th day of December, 2005

FINANCE LEASING (GEARING RATIO)
DIRECTION NO. 4 OF 2005

1. This Direction may be cited as the Finance Leasing (Gearing Ratio) Direction No.4 of 2005 and shall apply to every registered finance leasing establishment, other than licensed commercial banks and licensed specialized banks which are governed by the Banking Act, No.30 of 1988 and registered finance companies which are governed by the Finance Companies Act, No.78 of 1988. The Direction shall come into operation with effect from 2 January 2006.
2. The maximum outstanding amount of borrowings of a registered finance leasing establishment to which this Direction is applicable (hereinafter referred to as a "relevant establishment") shall not exceed -
 - (a) subject to paragraphs 3 and 4 of this Direction, ten (10) times the capital funds of the relevant establishment, at any time, during the first three years from the commencement of this Direction;
 - (b) seven (7) times the capital funds of the relevant establishment, at any time, from the beginning of the fourth year from the commencement of this Direction.
3. Where the outstanding amount of borrowings of a relevant establishment exceeds the limit specified in paragraph 2(a) above at the commencement of this Direction, such establishment may be given a period of two years from the commencement of this Direction to comply with the requirement under paragraph 2(a) above.
4. A relevant establishment that has not completed one year in finance leasing business at the commencement of this Direction shall comply with the requirement under paragraph 2(b) of this Direction within 5 years from the date of commencement of this Direction, provided that:
 - (a) During the first three years from the commencement of this Direction, outstanding amount of borrowings of such relevant establishment, at any time, shall not exceed the level permitted by its Articles of Association as at the date of commencement of this Direction;
 - (b) Where the outstanding amount of borrowings of such relevant establishment exceeds the limits specified in paragraph 2(b) above as at the end of the third year, from the beginning of the fourth year from the date of commencement of this Direction, such relevant establishment shall take action to reduce its outstanding borrowings to the limit specified in paragraph 2(b) above.
5. For the purpose of this Direction, 'borrowings' shall mean funds obtained by way of loans/overdrafts or issuance of redeemable and cumulative preference shares, bonds, debentures, promissory notes/commercial paper and any other form of borrowing as may be determined by the Director.
6. For the purpose of this Direction "capital funds" shall mean the aggregate of the following -
 - (a) issued and paid-up ordinary share capital;
 - (b) issued and paid-up non-redeemable, non-cumulative preference shares;
 - (c) share premium;
 - (d) the Reserve Fund maintained under the Finance Leasing (Reserve Fund) Direction No. 6 of 2005;
 - (e) reserves which are not earmarked for any specified purposes by any statute or by the Sri Lanka Accounting Standards;
 - (f) retained profits or accumulated losses;
 - (g) current year profits or losses;
 - (h) general provision for bad and doubtful debts which is an amount provided over and above the specific provision on the non-performing portfolio and an additional specific provision on the performing portfolio; and
 - (i) revaluation reserves (may be included with the prior approval of the Director where assets have been revalued in conformity with the guidelines given in Annex II**).
7. For the purpose of this Direction, "Director" means the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

**** Annex II is at page (Ixii)**

FINANCE LEASING ACT, NO. 56 OF 2000

Direction given by the Director of the Department of Supervision of Non-Bank Financial Institutions, under section 34 of the Finance Leasing Act, No. 56 of 2000.

Mrs L K Gunatilake
Director

Department of Supervision of Non-Bank Financial Institutions
Central Bank of Sri Lanka
On this 28th day of December, 2005

FINANCE LEASING (ACCRUED INTEREST) DIRECTION NO. 5 OF 2005

1. This Direction may be cited as the Finance Leasing (Accrued Interest) Direction No.5 of 2005 and shall apply to every registered finance leasing establishment, other than licensed commercial banks and licensed specialised banks which are governed by the Banking Act, No.30 of 1988 and registered finance companies which are governed by the Finance Companies Act, No.78 of 1988. The Direction shall come into operation with effect from 2 January 2006.
2. Subject to the provisions of paragraph 3 hereunder, no registered finance leasing establishment to which this Direction is applicable (hereinafter referred to as a "relevant establishment") shall take into account as income, any accrued interest on an accommodation on which interest and/or capital repayments are in arrears for six months or more.
3. In the case of any accommodation where instalments are not paid on a monthly basis, no relevant establishment shall take into account as income, any accrued interest on an accommodation whenever it has realised that instalments in respect of such accommodation will not be paid on the due dates.
4. Every relevant establishment shall (in the maintenance of the books of accounts) segregate any accommodation to which paragraph 2 and/or 3 above are applicable from other accommodation under a separate control account in the General Ledger.
5. For the purpose of this Direction, "accommodation" shall mean loans; facilities under hire purchase or leasing agreements; provision of funds through redeemable cumulative preference shares and debt securities such as bonds, debentures, asset backed securities, commercial paper/promissory notes; inter company credit; any arrangement to provide funds on a repayable basis; any commitment to accept contingent liabilities; or such other financial facility as may be determined by the Director.
6. For the purpose of this Direction, "inter company credit" shall mean any form of accommodation extended by a company to its directors or to their relatives and/or to its associate companies and/or to its subsidiary companies and/or to its holding company. For the purpose of this Direction, "relative" shall mean the spouse and/or dependent child of an individual. A company shall deem to be an "associate company" of another company, where shares equivalent to 20 per cent or more but less than 50 per cent of the issued and paid-up ordinary share capital are held by such other company.
7. For the purpose of this Direction, "subsidiary company" and "holding company" shall have the same meaning as contained in section 150 of the Companies Act, No. 17 of 1982.
8. For the purpose of this Direction, "Director" means the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

FINANCE LEASING ACT, NO. 56 OF 2000

Direction given by the Director of the Department of Supervision of Non-Bank Financial Institutions, under section 34 of the Finance Leasing Act, No. 56 of 2000.

Mrs L K Gunatilake
Director

Department of Supervision of Non-Bank Financial Institutions
Central Bank of Sri Lanka
On this 28th day of December, 2005

FINANCE LEASING (RESERVE FUND) **DIRECTION NO. 6 OF 2005**

1. This Direction may be cited as the Finance Leasing (Reserve Fund) Direction No.6 of 2005 and shall apply to every registered finance leasing establishment, other than licensed commercial banks and licensed specialised banks which are governed by the Banking Act, No.30 of 1988 and registered finance companies which are governed by the Finance Companies Act, No.78 of 1988. The Direction shall come into operation with effect from 2 January 2006.
2. A registered finance leasing establishment to which this Direction is applicable (hereinafter referred to as a "relevant establishment") shall maintain a reserve fund (hereinafter referred to as the "the Reserve Fund") and shall, out of the net profits after the payment of tax of each year, before any dividend is declared, transfer to the Reserve Fund -
 - (a) a sum equivalent to not less than 5 per cent of such profits until the amount of the Reserve Fund is equal to 50 per cent of the issued and paid-up ordinary share capital of the relevant establishment; and
 - (b) a further sum equivalent to not less than 2 per cent of such profits until the amount of the Reserve Fund is equal to the issued and paid-up ordinary share capital of the relevant establishment.
3. Relevant establishments that have reserves and retained profits which are not earmarked for any specified purposes by statute or by the Sri Lanka Accounting Standards, may transfer such reserves to the Reserve Fund. If the amount so transferred satisfies the conditions under 2(a) and 2(b) above, such establishment need not transfer any amount to the Reserve Fund thereafter. However, in the event the amount so transferred does not satisfy the conditions under 2(a) and 2(b) above, such relevant establishment shall continue to transfer out of the net profits after the payment of tax of each year, before any dividend is declared, to the Reserve Fund as required under 2(a) and 2(b) above.

Annex 1

GUIDELINES FOR THE SELECTION OF VALUERS

With regard to land and building, the asset should be valued by a valuer who is -

1. a chartered valuation surveyor ; or
2. a fellow of the Institute of Valuers (Sri Lanka) with a Degree or Diploma in Valuation and with work experience of 15 years ; or
3. a graduate member of the Institute of Valuers (Sri Lanka) with work experience of over 18 years ; or
4. an associate of the Institute of Valuers (Sri Lanka) with work experience over 20 years ; or
5. a licenciate of the Institute of Valuers (Sri Lanka) with work experience of over 25 years.

Annex II

GUIDELINES FOR THE DETERMINATION OF ELIGIBLE REVALUATION RESERVES

One hundred percent of revaluation reserves are eligible to be considered as capital funds for the purposes of the Finance Leasing (Single Borrower Limit) Direction No. 3 of 2005 and Finance Leasing (Gearing Ratio) Direction No. 4 of 2005 where such revaluation is carried out subject to the following conditions -

- (a) the valuation is to be undertaken with the prior approval of the Director of the Department of Supervision of Non-Bank Financial Institutions;
- (b) an asset is qualified for revaluation only after 7 years, from the previous date of valuation or from the date of purchase, whichever is later;
- (c) the asset should be valued by a valuer who is -
 - i) a chartered valuation surveyor ; or
 - ii) a fellow of the Institute of Valuers (Sri Lanka) with a Degree or Diploma in Valuation and with work experience of 15 years ; or
 - iii) a graduate member of the Institute of Valuers (Sri Lanka) with work experience of over 18 years ; or
 - iv) an associate of the Institute of Valuers (Sri Lanka) with work experience over 20 years ; or
 - v) licenciate of the Institute of Valuers (Sri Lanka) with work experience of over 25 years.