

PART III

PART III

MAJOR ADMINISTRATIVE MEASURES ADOPTED BY THE MONETARY BOARD IN 2006

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Your attention is also drawn to Section 30(2) of the Banking Act, in terms of which a copy of the audited financial statements (OSBU) is required to be submitted. The above format should be used for the submission of the OSBU accounts as well.

Accordingly, you are advised to transmit the annual audited financial statements for 2005 according to the above requirements within the stipulated time frame.

Yours faithfully,
*Sgd. /***Director of Bank Supervision**

Ref: 02/04/003/0401/001

Bank Supervision Department
21 February 2006

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

Dear Sir

**PUBLICATION OF AUDITED FINANCIAL STATEMENTS OF
BANKS IN THE PRESS**

Further to the circulars issued with regard to the publication of financial statements of banks in the press, dated 30 September 2005 and 26 January 2006.

Considering the representations made by the banks with regard to the practical difficulties faced by them with regard to the time period for publication of audited financial statements of banks in the press, in order to qualify for exemption from publishing the last quarter unaudited results, all licensed banks are informed as follows:

- If the bank publishes its annual audited financial statements within three months from the end of the financial year, the requirement to publish the financial statements for the fourth quarter in terms of the circular dated 30 September 2005 would not be mandatory.
- The licensed commercial banks incorporated abroad may publish the latest available key performance indicators relating to the global operations of such bank on a quarterly basis, and the ratios based on audited financial information along with the audited financial statements of the parent bank.
- With regard to the format for publication of audited financial statements, all banks should use the format issued on 30 September 2005 for the publication of quarterly financial statements.

Yours faithfully
*Sgd../***Director of Bank Supervision**

LICENSED COMMERCIAL BANKS/LICENSED SPECIALISED BANKS
[On-Balance Sheet Items]

Name of Institution:

As at:

(In Rupees thousands)

Code	Assets	Principal amount of On Balance Sheet Items	Credit Equivalent of Off-Balance Sheet Items	Total X	Risk Weight =	Risk weighted Asset Amount
1	Cash - Local Currency			0	0%	0
	Foreign Currency:			0	0%	0
2	Gold & Bullion			0	0%	0
3	Due from Central Bank of Sri Lanka			0	0%	0
4	Sri Lanka Govt Treasury Bills			0	0%	0
5	Sri Lanka Govt/Central Bank Securities			0	0%	0
6	Other Securities guaranteed by Sri Lanka Government			0	0%	0
7	Loans & Advances*					
07.01	Against Cash Deposits/Gold			0	0%	0
07.02	Against SL Govt Guarantee/Securities			0	0%	0
07.03	Guaranteed by Central Bank of Sri Lanka			0	0%	0
07.04	Staff Loans secured by Provident Fund Balances			0	0%	0
07.05	Guaranteed by OECD Central Governments & Central Bank			0	10%	0
07.06	Guaranteed by Non-OECD Central Governments and Central Banks			0	20%	0
07.07	Guaranteed by Local/Foreign Commercial Banks & Local/Foreign Development Financial Institutions with a maturity upto 1 year			0	20%	0
7.08	Guaranteed by OECD Incorporated Banks			0	20%	0
7.09	Guaranteed by SLECIC			0	50%	0
7.10	Secured by a Primary Mortgage over Residential Property			0	50%	0
7.11	Other Loans and advances			0	100%	0
08	Due from Branches Abroad			0	0%	0
09	Due from Banks Abroad			0	20%	0
10	Due from Local banks including Development Financial Institutions			0	20%	0
11	Due from FCBU **			0	10%	0
12	Cash Items in Process of Collection			0	20%	0
13	Other Investments (excluding items deducted from the total capital)			0	00%	0
14	Fixed Assets			0	100%	0
15	Other Assets			0	100%	0
16	Total Risk Weighted Assets	0	0	0		0

Note - *Loans and Advances should be net of specific provisions and interest in suspense

**Only applicable to locally incorporated Licensed Commercial Banks

FORM 2: Off Balance Sheet Items

**RETURN ON RISK-WEIGHTED CAPITAL ADEQUACY RATIO
COMPUTATION OF RISK-WEIGHTED ASSETS OF
LICENSED COMMERCIAL BANKS/LICENSED SPECIALISED BANKS**

[Off-Balance Sheet Items]

Name of Institution:

As at:
(In Rupees thousands)

Code	Assets	Principal amount of On Balance Sheet Items	Credit Equivalent of Off-Balance Sheet Items	Total X	Risk Weight =	Risk weighted Asset Amount
17	Direct Credit Substitutes				100%	
17.1	General Guarantees of Indebtedness					0
17.2	Standby LCs serving as Financial Guarantees					0
17.3	Bank acceptances					0
17.4	Others					0
18	Transaction-related Contingencies				50%	
18.1	Performance Bonds, Bid Bonds & Warranties					0
1 8.2	Standby LCs related to particular transactions					0
18.3	Others					0
19	Short-Term Self-Liquidating Trade-related Contingencies				20%	
19.1	Shipping Guarantees					0
19.2	Documentary Letters of credit					0
19.3	Trade related acceptances					0
19.4	Others.					0
20	Sale and Repurchase Agreements and assets Sale with recourse where the credit risk remain with the Bank.				100%	
20.1	Sale and Repurchase agreements					0
20.2	Housing Loans sold with recourse					0
20.3	Other Assets sold with recourse					0
20.4	Forward Assets Purchases					0
20.5	Partly Paid Shares/Securities					0
20.6	Others.					0
21	Obligations under an on-going Underwriting Agreement				50%	
21.1	Underwriting of Shares/Securities Issue					0
21.2	Note Issuance Facilities and Revolving underwriting Facilities					0
21.3	Others					0
22	Other Commitments with an Original Maturity of upto One Year or which can be unconditionally cancelled at any time.				0%	
22.1	Formal Standby Facilities and Credit Lines					0
22.2	Undrawn term Loans					0
22.3	Undrawn Overdraft Facilities					0
22.4	Others.					0
23	Other Commitments with an Original Maturity of over One year.				50%	
23.1	Formal Standby facilities and Credit Lines					0
23.2	Undrawn Term Loans					0
23.3	Others (please specify)					0
24	Foreign Exchange and Interest-Rate Contracts.*					
	: Bank					0
	: Customers					0
25	Total	0				0

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

* Please see guidelines for the conversion factors

FORM 3: Capital Elements

RETURN ON RISK-WEIGHTED CAPITAL ADEQUACY RATIO
CAPITAL BASE OF LICENSED COMMERCIAL BANKS/LICENSED SPECIALISED BANKS

Name of Institution:

As at:
(In Rupees thousands)

Code	Constituents of Capital	Amount
26	Paid-up Ordinary Shares/Common Stock/Assigned Capital ++	
27	Non-Cumulative, Non-redeemable Preference Shares	
28	Share Premium	
29	Statutory Reserve Fund	
30	Published Retained Profits/(Accumulated Losses)	
31	General and Other Reserves	
32	Surplus/Loss after tax arising from the sale of fixed and long-term investments	
33	Unpublished Current Year's Profits/Losses	
34	Minority Interests (consistent with the above capital constituents)	
35	SUB TOTAL	0
	Deductions	
36	Goodwill	0
37	TOTAL TIER 1 CAPITAL	0
++ Delete whichever is inapplicable		
	TIER 2 : SUPPLEMENTARY CAPITAL	
38	Revaluation Reserves (as approved by CBSL)	
39	General Provisions	
40	Hybrid (debt/equity) Capital Instruments	
41	Minority Interests arising from Preference Shares issued by Subsidiaries	
42	* Approved subordinated Term Debt (Actual amount is Rs.)	
43	Total Tier 2 Capital	0
44	Eligible Tier 2 Capital	
45	TOTAL CAPITAL	0
46	Adjustment I **	0
46.1	Amount due to Head Office and Branches outside Sri Lanka in Sri Lanka Rupees	
46.2	Less : Amounts due from Head Office and Branches outside Sri Lanka in Sri Lanka Rupees	
47	TOTAL CAPITAL AFTER ADJUSTMENT I **	0
48	Adjustment II **	
48.1	Amount due from Head Office and Branches outside Sri Lanka in Foreign currency	
48.2	Amount due from its own Foreign Currency Banking Unit	
48.3	Less : Amounts due to Head Office and Branches outside Sri Lanka in Foreign Currency	
48.4	Amounts due to its own Foreign Currency Banking Unit	
49	Sub Total	0
50	ADJUSTED TOTAL CAPITAL **	0
51	Deductions	0
51.1	Equity Investments in unconsolidated banking and financial subsidiaries	
51.2	Investment in capital of other banks/Financial associates	
52	CAPITAL BASE	0

** Rows 46 to 50 are only applicable to branches of Foreign Banks

* Limits: (i) Approved Subordinated Term Debt is limited to 50% of Total Tier 1 Capital
(The actual amount of subordinated debt should be reported)

(ii) The total of Tier 2 Supplementary elements should not exceed a maximum of 100% of Tier 1 elements

(iii) General Provisions should not exceed 1.25% of Risk Weighted Assets

FORM 4: Market Risk

**RETURN ON RISK-WEIGHTED CAPITAL ADEQUACY RATIO
COMPUTATION OF THE CAPITAL CHARGE FOR MARKET RISK
OF LICENSED COMMERCIAL BANKS/LICENSED SPECIALISED BANKS**

Name of Institution:

As at:
(In Rupees thousands)

Code	Constituents of Capital	Amount
53.1	Interest Rate = (a) + (b)	0
	(a) General market risk	0
	i) Net long or short position	
	ii) Horizontal disallowance	
	iii) Vertical disallowance	
	iv) Options	
	(b) Specific risk	
53.2	Equity = (c) + (d)	0
	(c) General market risk	
	(d) Specific risk	
53.3	Foreign Exchange & Gold = (e)	0
54	Total Capital Charge for Market Risk = (a+b+c+d+e)	0

FORM 5: Ratios

**RETURN ON RISK-WEIGHTED CAPITAL RATIO
COMPUTATION OF THE CAPITAL RATIOS OF
LICENSED COMMERCIAL BANKS/LICENSED SPECIALISED BANKS**

Name of Institution:

As at:
(In Rupees thousands)

Code		Amount
55	Total Risk Weighted Assets (RWA)	
55.1	Total Risk Weighted Assets for Credit Risk (= Item 16)	
55.2	Total Risk Weighted Assets for Market Risk (= Item 54 X 10)	
	Sub Total	
56	Minimum capital charge	
56.1	Capital charge for credit risk (= Item 55.1 X 10%)	
56.2	Capital charge for market risk (= Item 54)	
	Sub Total	
57	Total Capital Base available to meet the capital charge for credit risk (= Item 52)	
57.1	Total Tier 1 Core Capital (= Item 37)	
57.2	Tier 2 Capital and all adjustments/deductions	
	Sub Total	
58	Total Capital Base available to meet market risk (= Item 57-Item 56.1)	
59	Total Available Tier 3 Capital	
59.1	Approved short-term subordinated debt	
60	Limits Applicable for Eligible Tier 3 Capital	Limits
		Amount utilised
60.1	Minimum of 28.5% of capital charge for market risk	
	to be met by Tier 1 capital that is not required for credit risk	= (Item 56.2*28.5%)
60.2	Maximum of 250% of Tier 1 capital that is not required for credit risk	=Item 58*250%
60.3	Maximum for Tier 2+Tier 3 capital = Tier 1 capital	
61	Eligible Tier 3 Capital	
61.1	Eligible Tier 3 Capital utilised	
61.2	Eligible but unutilised Tier 3 Capital	
	Sub Total	
62	Capital available to meet the capital charge for market risk	(= Item 58+Item 61)
63	Total Eligible Capital (excluding unutilised Tier 3 capital)	
64	Core Capital Ratio	= Eligible Tier 1 Capital
		>= 5%
		RWA (Credit risk and Market risk)
		= Item 57.1
		Item 55
		= Total Eligible Capital
		RWA (Credit risk and Market risk)
		= Item 63
		Item 55
65	Total Capital Ratio	>= 10%

Ref: 02/19/401/0072/001

Bank Supervision Department
07 March, 2006

To: CEOs of All Licensed Commercial Banks

Dear Sir,

**REPORTING OF POST-TSUNAMI REMITTANCES RECEIVED THROUGH
NGOS AND NON-NGOS TO THE CENTRAL BANK OF SRI LANKA**

We refer to our circular dated 13 May, 2005 on the above subject and hereby revise the format for reporting of the information relating to the above remittances with effect from March 1, 2006.

In terms of the revised format, the banks are required to furnish the data in two tables attached hereto (Table 1 & 2). The new table (Table 2) should contain details of NGOs, respective donors/remitters, withdrawals and outstanding account balances on a monthly basis from March 2006 by the 10th of the month following the reporting month. The banks are also requested to furnish the information in Table 2 for the months of January and February, 2006 on or before 24 March, 2006.

The banks are requested to adhere strictly to the 'Know Your Customer Guidelines' and implement adequate systems and controls to monitor all such remittances to ensure that customer due diligence on transactions relating to such remittances is carried out. This is an imperative in the context of the Anti-money Laundering legislation that has just been passed by Parliament and which will soon be operative.

Your continued co-operation in this regard will be greatly appreciated.

Sgd. / **Controller of Exchange**Yours faithfully,
Sgd. / **Director of Bank Supervision****Donations received by Government, Non -Governmental Organisations (NGOs) and Others (Non NGOs)**

Name of Commercial Bank :-

For the Period :- 26th December 2004 to

Item	Tsunami			Non -Tsunami	
	Foreign Donations		Local Donations: Sri Lankan Rs.	Foreign Currency Amount	Rs. Equivalent
	Foreign Currency Amount	Equivalent Amount of Sri Lankan Rs			
Donation Received by the Government					
Donations Received by Non -Governmental Organisations (NGOs) (a)					
Donations Received by Others (Non-NGOs)					
Total					

(a) Please provide detailed information as requested in Form 2

Table 2

Donations Received by Non-Governmental Organisations (NGOs)

Name of the Bank
Reporting Month

[illegible]

Notes

Please provide above information in respect of donations received during each-reporting month, withdrawals and month-end balances relating to accounts maintained by NGOS”

You may liaise with Mr. G C A Ariyadasa, Asst. Director, Bank Supervision Department, (Tel. 4277110) in this regard.

Ref: 02/04/003/0401/001

Bank Supervision Department
24 March 2006

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

Dear Sirs,

INADEQUATE/ INCORRECT DISCLOSURES/ PRESS STATEMENTS BY BANKS

As intimated to you at the Chief Executive Officers meeting held on 23 March 2006, there have been several instances where banks have attempted to mislead the public by publishing incorrect statements/data or by not publishing certain aspects of information with regard to non-compliance with statutory regulations.

Such attempts by banks to mislead the general public totally negate the efforts of the regulator to educate the public on the true state of the banks in the industry, and it would be futile to further enhance our efforts in this regard, if immediate action is not taken by the regulator to stop such deception. The Central Bank of Sri Lanka (CBSL) will be faulted for permitting the banks to misrepresent their financial condition to the public.

It is incumbent on bank management, in the discharge of their fiduciary responsibility, to project the true picture of their financial condition to the public.

Therefore, in the interest of providing accurate information to the public for making informed decisions, all banks are required, in making statements to the press, and in publishing the financial results of banks, to ensure that adequate publicity is given to non-compliance, if any, with the prudential ratios and the measures being taken by the bank to meet these ratios.

Where banks, which are not compliant with regulatory requirements, do not make such disclosures to the public in press interviews or statements, the CBSL, as the regulator will be compelled to correct such information in the public domain.

Yours faithfully
Sgd. / **Director of Bank Supervision**

Copy To: Secretary General/SLBA

BANKING ACT

Direction made by the Monetary Board of the Central Bank of Sri Lanka under Section 46(1) and 19(7) of the Banking Act No. 30 of 1988 as amended by the Banking (Amendment) Act No. 33 of 1995 and Act No. 2 of 2005.

Sgd. / **Sunil Mendis**
Governor

Colombo
01/03/2006

**DIRECTION ON THE PRUDENTIAL NORMS FOR CLASSIFICATION, VALUATION AND OPERATION
OF THE BANK'S INVESTMENT PORTFOLIO**

1. With effect from 31 March 2006, all Licensed Commercial Banks are required to classify their investment portfolio under two categories: i.e. the Investment Account and the Trading Account. All banks are required to maintain two separate books of accounts for this purpose.
2. Banks should decide on the category of investment at the time of acquisition and the decision should be documented. Classification is not a free choice but is based on facts and the management's intent at the date of purchase. Transfers between categories after initial recognition are restricted.

3. The criteria for classifying and valuation of the bank's investment portfolio are as provided below:

A. Investment Account

- (a) All securities acquired with the *positive intent* and *ability to hold till maturity* shall be classified under the Investment Account.
 - (i) Positive intent *cannot* be demonstrated if:
 - * the bank has the intent to hold the securities for only an undefined period; or
 - * the bank stands ready to sell the securities in response to changes in market interest rates or risks, liquidity needs, changes in the availability of the yield on alternative investments, changes in financing sources or terms, or changes in foreign currency risk; or
 - * the issuer has a right to settle the securities at an amount significantly below its amortised cost.
 - (ii) The ability to hold the securities to maturity *cannot* be demonstrated if:
 - * the bank does not have the financial resources available to continue to finance the investment until maturity; or
 - * the bank is subject to legal or other constraints that could frustrate its intention to hold the securities to maturity.
 - (iii) When a bank's actions cast doubt on its intent or ability to hold investments to maturity, the Central Bank of Sri Lanka shall retain the right to reclassify all or part of the Investment Account as Trading and require appropriate provisioning.
- (b) All unlisted securities (eg. shares, debentures) should generally be classified under the Investment Account. However, government securities will have to be classified based on the rules specified under point A(a) above.
- (c) Securities in the Investment Account may be used for repurchase transactions.
- (d) Securities in the Investment Account shall be carried and reported at acquisition cost over the period of redemption.
 - (i) Carrying values of interest bearing securities in the Investment Account may be adjusted to account for the accretion of discount (or depletion of premium). The adjustments should be amortised annually on a straight-line basis over the period to maturity.
 - (ii) All other securities should be maintained at cost. Any impairment in value which is considered to be permanent should be fully provided for in the Profit & Loss Account immediately. The following conditions should be taken into consideration in deciding on whether there is an impairment of value.
 - * Track record of dividends/returns – Non receipt of dividends/returns for a consecutive period of three years, should be considered as an impairment and the investment should be classified as non performing.
 - * Market prices – A continuously declining trend in market prices, with the investment value being below cost for over three years should be considered as an impairment in value.
 - (iii) The Central Bank of Sri Lanka will retain the flexibility to consider specific requests/exceptions in this regard.
 - (iv) Any impairment in value or losses on the sale of investments held in the Investment Account should be taken to the Profit & Loss Account.
- (e) Sale of securities classified under the Investment Account should only be an insignificant amount of the investment portfolio and should be limited to circumstances that do not taint the rest of the portfolio. These circumstances are:
 - * if the investment was close enough to maturity or call date so that changes in the market rate of interest could not have a significant effect on the investment's market value;
 - * the sale is made after the entity has collected substantially all of the investment's original principal through scheduled payments or prepayments;
 - * the sale was due to an isolated event that was beyond the entity's control, non-recurring and could not have been reasonably anticipated.

B. Trading Account

- (a) All securities acquired for the specific purpose of trading on a regular basis (at least every quarter), to take advantage of the short-term changes in market prices and yields, shall be classified under the Trading Account. The classification of Trading assets is based on original intention and these are not transferred to the Investment category because intention subsequently changes.
- (b) Securities held in the Trading Account must be revalued or marked to market on a daily basis. In the case of securities for which daily prices are not available, banks are advised to mark to market at least on a weekly basis. Where two-way quotes are published (eg. Rates for government securities), the middle rate should be adopted.

- (c) Any gains or losses on the sale of investments held in the Trading Account should be taken to the Profit & Loss Account.

C. Transfer of Securities

The transfer of securities between portfolios will generally not be permitted, except under specified circumstances. This is to limit the opportunities to manipulate the recognition of gains or losses or to mark changes in market value.

- (a) Transfer of securities between the Trading Account and the Investment Account must be justifiable, documented and authorised.
- (b) Portfolio transfers to or from the Investment Account shall only be undertaken rarely (preferably at the beginning of the accounting year), with the approval of the Board of Directors, the Assets and Liability Committee or the Investment Committee. The circumstances justifying such transfers are given below:
- (i) A change in the statutory and regulatory requirements.
 - (ii) A significant increase in the capital requirements that may oblige the Bank to reduce its investment holdings.
 - (iii) A major business occurrence that necessitates the transfer of securities to maintain the Bank's risk profile.
 - (iv) Exceptional circumstances such as tight liquidity conditions and extremely volatility.
- (c) The carrying value of securities transferred from the Trading Account into the Investment Account shall be marked to market prior to the transfer. Therefore, any gains or losses due to revaluation would have been recognised in earnings prior to the transfer. The market value of the securities at the point of transfer into the Investment Account then becomes the 'acquisition cost' for accounting purposes.
- (d) A statement on portfolio transfers, if any, shall be signed by the Chief Executive Officer of the Bank and submitted the Bank Supervision Department of the Central Bank of Sri Lanka, on a quarterly basis.
- (e) The Central Bank of Sri Lanka will retain the right to review the statement of portfolio transfers and require the bank to make provisions if considered necessary.

BANKING ACT

Direction made 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 Act No. 2 of 2005.

Sgd. / Sunil Mendis
Governor

Colombo
01/03/2006

DIRECTION ON THE PRUDENTIAL NORMS FOR CLASSIFICATION, VALUATION AND OPERATION OF THE BANK'S INVESTMENT PORTFOLIO

1. With effect from 31 March 2006, all Licensed Specialised Banks are required to classify their investment portfolio under two categories: i.e. the Investment Account and the Trading Account. All banks are required to maintain two separate books of accounts for this purpose.
2. Banks should decide on the category of investment at the time of acquisition and the decision should be documented. Classification is not a free choice but is based on facts and the management's intent at the date of purchase. Transfers between categories after initial recognition are restricted.
3. The criteria for classifying and valuation of the bank's investment portfolio are as provided below:

A. Investment Account

- (a) All securities acquired with the positive intent and ability to hold till maturity shall be classified under the Investment Account.
- (i) Positive intent cannot be demonstrated if:
- the bank has the intent to hold the securities for only an undefined period; or
 - the bank stands ready to sell the securities in response to changes in market interest rates or risks, liquidity needs, changes in the availability of the yield on alternative investments, changes in financing sources or terms, or changes in foreign currency risk; or
 - the issuer has a right to settle the securities at an amount significantly below its amortised cost.

- (ii) The ability to hold the securities to maturity cannot be demonstrated if:
 - the bank does not have the financial resources available to continue to finance the investment until maturity; or
 - the bank is subject to legal or other constraints that could frustrate its intention to hold the securities to maturity.
- (iii) When a bank's actions cast doubt on its intent or ability to hold investments to maturity, the Central Bank of Sri Lanka shall retain the right to reclassify all or part of the Investment Account as Trading and require appropriate provisioning.
- (b) All unlisted securities (eg. shares, debentures) should generally be classified under the Investment Account. However, government securities will have to be classified based on the rules specified under point A(a) above.
- (c) Securities in the Investment Account may be used for repurchase transactions.
- (d) Securities in the Investment Account shall be carried and reported at acquisition cost over the period of redemption.
 - (i) Carrying values of interest bearing securities in the Investment Account may be adjusted to account for the accretion of discount (or depletion of premium). The adjustments should be amortised annually on a straight-line basis over the period to maturity.
 - (ii) All other securities should be maintained at cost. Any impairment in value which is considered to be permanent should be fully provided for in the Profit & Loss Account immediately. The following conditions should be taken into consideration in deciding on whether there is an impairment of value.
 - Track record of dividends/returns – Non receipt of dividends/returns for a consecutive period of three years, should be considered as an impairment and the investment should be classified as non performing.
 - Market prices – A continuously declining trend in market prices, with the investment value being below cost for over three years should be considered as an impairment in value.
 - (iii) The Central Bank of Sri Lanka will retain the flexibility to consider specific requests/exceptions in this regard.
 - (iv) Any impairment in value or losses on the sale of investments held in the Investment Account should be taken to the Profit & Loss Account.
- (e) Sale of securities classified under the Investment Account should only be an insignificant amount of the investment portfolio and should be limited to circumstances that do not taint the rest of the portfolio. These circumstances are:
 - if the investment was close enough to maturity or call date so that changes in the market rate of interest could not have a significant effect on the investment's market value;
 - the sale is made after the entity has collected substantially all of the investment's original principal through scheduled payments or prepayments;
 - the sale was due to an isolated event that was beyond the entity's control, non-recurring and could not have been reasonably anticipated.

B. Trading Account

- (a) All securities acquired for the specific purpose of trading on a regular basis (at least every quarter), to take advantage of the short-term changes in market prices and yields, shall be classified under the Trading Account. The classification of Trading assets is based on original intention and these are not transferred to the Investment category because intention subsequently changes.
- (b) Securities held in the Trading Account must be revalued or marked to market on a daily basis. In the case of securities for which daily prices are not available, banks are advised to mark to market at least on a weekly basis. Where two-way quotes are published (eg. Rates for government securities), the middle rate should be adopted.
- (c) Any gains or losses on the sale of investments held in the Trading Account should be taken to the Profit & Loss Account.

C. Transfer of Securities

The transfer of securities between portfolios will generally not be permitted, except under specified circumstances. This is to limit the opportunities to manipulate the recognition of gains or losses or to mark changes in market value.

- (a) Transfer of securities between the Trading Account and the Investment Account must be justifiable, documented and authorised.
- (b) Portfolio transfers to or from the Investment Account shall only be undertaken rarely (preferably at the beginning of the accounting year), with the approval of the Board of Directors, the Asset and Liability Committee or the Investment Committee. The circumstances justifying such transfers are given below:
 - (i) A change in the statutory and regulatory requirements.
 - (ii) A significant increase in the capital requirements that may oblige the Bank to reduce its investment holdings.
 - (iii) A major business occurrence that necessitates the transfer of securities to maintain the Bank's risk profile.
 - (iv) Exceptional circumstances such as tight liquidity conditions and extremely volatility.

- (c) The carrying value of securities transferred from the Trading Account into the Investment Account shall be marked to market prior to the transfer. Therefore, any gains or losses due to revaluation would have been recognised in earnings prior to the transfer. The market value of the securities at the point of transfer into the Investment Account then becomes the 'acquisition cost' for accounting purposes.
- (d) A statement on portfolio transfers, if any, shall be signed by the Chief Executive Officer of the Bank and submitted to the Bank Supervision Department of the Central Bank of Sri Lanka, on a quarterly basis.
- (e) The Central Bank of Sri Lanka will retain the right to review the statement of portfolio transfers and require the bank to make provisions if considered necessary.

BANKING ACT

Determination made by the Monetary Board of the Central Bank of Sri Lanka under Sections 19(2) and 19(7) of the Banking Act No. 30 of 1988 as amended by the Banking (Amendment) Act No. 33 of 1995 and Act No. 2 of 2005.

Sgd. / Sunil Mendis
Governor

Colombo
01/03/2006

DETERMINATION ON THE COMPUTATION OF A CAPITAL CHARGE FOR MARKET RISK

1. The Monetary Board of the Central Bank of Sri Lanka, in terms of Sections 19(2) and 19(7) of the Banking Act No. 30 of 1988, amended by the Banking (Amendment) Act No. 33 of 1995 and Act No. 2 of 2005, has determined that every Licensed Commercial Bank shall compute a capital charge for market risk in keeping with current international practice and the requirements of the Basel Committee.
2. With effect from 31 March 2006, all Licensed Commercial Banks are required to maintain a minimum capital adequacy ratio of 10 per cent in relation to risk weighted assets (for credit risk and market risk) with core capital constituting not less than 5 per cent. The capital adequacy requirement for credit risk should be computed according to the instructions already issued by the Central Bank of Sri Lanka and the capital charge for market risk computed according to the instructions attached hereto.
3. Form 4 of the existing capital adequacy return issued to all Licensed Commercial Banks will be replaced with the new form 4 and form 5 attached herewith.

BANKING ACT

Determination made 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 Act No. 2 of 2005.

Sgd. / Sunil Mendis
Governor

Colombo
01/03/2006

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already issued by the Central Bank of Sri Lanka and the capital charge for market risk computed according to the instructions attached hereto.

3. Form 4 of the existing capital adequacy return issued to all Licensed Specialised Banks will be replaced with the new form 4 and form 5 attached herewith.

DEFINITIONS AND INSTRUCTIONS FOR COMPUTATION OF A CAPITAL CHARGE FOR MARKET RISK

1. Introduction

- 1.1 Market risk is defined as the risk of losses in on-balance sheet and off-balance sheet positions arising from movements in market prices. The market risks subject to the capital charge requirement are:
 - (a) The risks pertaining to *interest rate related instruments* in the trading book;
 - (b) *Foreign exchange risk* (including gold positions) throughout the bank; and
 - (c) The risks pertaining to *equities* in the trading book.

2. Scope and coverage of the capital charge for market risks

- 2.1 These guidelines address the issues involved in computing capital charges for interest rate related instruments and equities in the trading book and foreign exchange risk (including gold positions) throughout the bank. For the purpose of these guidelines, the *Trading Book* will include the following:
 - (i) Securities classified in the 'Trading Account' in terms of the direction on Prudential Norms for Classification, Valuation and Operation of the Bank's Investment Portfolio issued by the Central Bank of Sri Lanka.
 - (ii) Open gold positions
 - (iii) Open foreign exchange positions
- 2.2 Banks are required to *manage* the *market risks* in their books *on an ongoing basis* and ensure that the capital requirements for market risks are being maintained on a continuous basis, i.e. at the close of each business day. Banks are also required to maintain strict risk management systems to monitor and control intra-day exposures to market risks.

3. Measurement of the capital charge for interest rate risk

- 3.1 This section describes the framework for measuring the risk of holding or taking positions in debt securities and other interest rate related instruments denominated in *Sri Lanka Rupees as well as foreign currencies* in the trading book.
- 3.2 The capital charge for interest rate related instruments would apply to the *current market value* of these items in the bank's trading book. Since banks are required to maintain capital for market risks on an ongoing basis, they are required to mark to market their trading positions on a daily basis. The current market value will be determined according to the direction on Prudential Norms for Classification, Valuation and Operation of the Bank's Investment Portfolio issued by the Central Bank of Sri Lanka.
- 3.3 The minimum capital requirement is expressed in terms of two separately calculated charges, (i) "*specific risk*" charge for each security, which is akin to the conventional capital charge for credit risk, both for short and long positions, and (ii) "*general market risk*" charge for interest rate risk in the portfolio, where long and short positions in different securities or instruments can be offset.

Specific risk

3.3.1 The capital charge for specific risk is designed to protect against an adverse movement in the price of an individual security owing to factors related to the individual issuer.

3.3.2 The risk charges to be used in the calculation of specific risk will be as follows:

Specific risk charge for *government securities and central banks*:

- (i) Government securities issued by the Government of Sri Lanka and securities issued by the Central Bank of Sri Lanka will be subject to a risk charge of 0%.

- (ii) Securities issued by a foreign government or by a foreign central bank will be subject to a risk charge based on the credit rating as indicated in Table 1 below.

Table 1:
Specific Risk Charge for Securities issued by Foreign Governments/Central Banks

Sovereign Rating	Capital Charge for Specific Risk
AAA to AA-	0%
A+ to BBB-	0.25% (residual term to final maturity 6 months or less)
All others	1.00% (residual term to final maturity greater than 6 and up to and including 24 months)
	1.60% (residual term to final maturity exceeding 24 months)
	10.00%

The 'Qualifying' category:

- (iii) Corporate entities will be given a risk charge for specific market risk based on their ratings as indicated in Table 2 below:

Table 2:
Specific Risk Charge for Corporates

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

- The specific risk charge for foreign corporates would be one notch less favourable than the risk charge applied to the local corporates.

- (iv) 'Public sector entities' should be treated like corporate entities unless they are backed by an explicit treasury guarantee, which warrants a risk charge of 0%.

The 'Other' category:

- (v) A capital charge of 10% will apply to all other types of exposures.

General Market Risk

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

- the net short or long position in the whole trading book;
- a small proportion of the matched positions in each time-band (the "vertical disallowance");
- a larger proportion of the matched positions across different time-bands (the "horizontal disallowance"), and
- a net charge for positions in options, where appropriate.

Note – Components (b), (c) and (d) will not apply at present.

3.3.4 It has been decided to allow banks to initially adopt the Standardised Measurement Method, as Sri Lankan banks are still at a nascent stage of developing internal risk management models. There are two principal methods of measuring market risk under the Standardised Measurement Method, i.e. a 'maturity' method and a 'duration' method. It has been decided to adopt the 'duration' method to arrive at the capital charge. Accordingly, banks are required to measure the general market risk charge by calculating the price sensitivity of each instrument in the trading book separately and adding the resulting price sensitivities based on a maturity ladder, subject to disallowances if any.

The steps for the computation are as follows:

- (i) calculate the price sensitivity of each instrument in terms of a change in interest rates between 1.2 and 2.0 percentage points, depending on the maturity of the instrument (see Table 3);
- (ii) slot the resulting price sensitivities into a duration based maturity ladder with the fifteen time bands as set out in Table 3;
- (iii) subject long and short positions in each time band to a 5 per cent vertical disallowance designed to capture basis risk; and
- (iv) carry forward the net positions in each time-band for horizontal offsetting subject to the disallowances set out in Table 4.

Note – Steps (ii) to (iv) are not required at present since components (b), (c) and (d) under paragraph 3.3.3 above are currently not applicable.

Table 3
Duration method – time bands and assumed changes in

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

Table 4
Horizontal Disallowances

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

Capital charge for interest rate derivatives

- 3.3.5 The capital charge for interest rate derivatives will be excluded from the capital charge for market risks at present and will be introduced in the future.

4 Measurement of the capital charge for equities

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

Specific and general market risk

- 4.1.1 Specific risk is defined as the bank's gross equity positions (i.e. the sum of all long equity positions and of all short equity positions). The capital charge for specific risk for equities on the Milanka Price Index will be 5%, while all other equities will have a specific risk charge of 10%.
- 4.1.2 General market risk is defined as the overall net position in an equity market (i.e. the difference between the sum of the longs and the sum of the shorts). The general market risk charge will be 10%.

Table 6
Example of the shorthand measure of foreign exchange risk

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

5 Measurement of the capital charge for foreign exchange and gold open positions

- 5.1 This section sets out the minimum capital requirement to cover the risk of holding or taking positions in foreign currencies, including gold. Gold is treated as a foreign exchange position rather than a commodity because its volatility is more in line with foreign currencies and banks manage it in a similar manner.
- 5.2 Forward contracts will be included in computation of the capital charge for foreign exchange risks.
- 5.3 Computing the capital requirement for foreign exchange risk consists of two processes.

5.3.1 Measuring the exposure in a single currency position

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

5.3.2 Measuring the risks inherent in a bank's mix of long and short positions in different currencies.

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

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

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

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

6 Aggregation of the capital charge for market risks

- 6.1 The capital charges for specific risk and general market risk should be computed separately before aggregation. The format at Form 4 may be used for computing the total capital charge for market risks.

7 Definition of capital

- 7.1 The principal form of eligible capital to cover market risks consists of core capital (tier 1 capital) and supplementary capital (tier 2 capital) as defined in the Notice on maintenance of the Capital Adequacy Ratio issued by the Central Bank of Sri Lanka on 27 December 2001. Banks are also permitted to employ a third tier of capital ("tier 3"), consisting of short-term subordinated debt, as defined in paragraph 7.2 below, for the sole purpose of meeting a proportion of the capital requirements for market risks, subject to the following conditions:
- banks will be entitled to use tier 3 capital solely to support market risks as defined in paragraph 1 of this direction. This means that any capital requirement arising in respect of credit risk, needs to be met by the existing definition of capital (i.e. tiers 1 and 2 subsequent to all necessary adjustments);
 - tier 3 capital will be limited to 250% of a bank's tier 1 capital that is available to support market risks.

- a minimum of about 28% of market risks needs to be supported by tier 1 capital that is available to support market risks.
- tier 2 elements may be substituted for tier 3 up to the same limit of 250% so far as the overall limits stated in the Notice on maintenance of the Capital Adequacy Ratio issued by the Central Bank of Sri Lanka are not breached, i.e. eligible tier 2 capital may not exceed total tier 1 capital, and long-term subordinated debt may not exceed 50% of tier 1 capital;
- in addition, tier 1 capital should represent at least half of total eligible capital, i.e. the sum total of tier 2 plus tier 3 capital should not exceed total tier 1.
- In determining the level of tier 1 capital for the purposes of determining eligible tier 3 capital, all adjustments required in arriving at the total capital base (as stated in the Notice on maintenance of the Capital Adequacy Ratio issued by the Central Bank of Sri Lanka) should be taken into consideration.

7.2 For short-term subordinated debt to be eligible as tier 3 capital, it needs, if circumstances demand, to be capable of becoming part of a bank's permanent capital and thus be available to absorb losses in the event of insolvency. It must, therefore, at a minimum:

- be unsecured, subordinated and fully paid up;
- have an original maturity of at least two years;
- not be repayable before the agreed repayment date unless the prior consent of the Central Bank of Sri Lanka is obtained;

8 Calculation of the capital ratio

- 8.1 In order to ensure consistency in the calculation of the capital requirements for credit and market risks, an explicit numerical link will be created by multiplying the measure of market risk by 10 (i.e., the reciprocal of the minimum capital ratio of 10%) and adding the resulting figure to the sum of risk-weighted assets compiled for credit risk purposes. The ratio will then be calculated in relation to the sum of the two, using as the numerator only eligible capital.
- 8.2 In calculating eligible capital, it will be necessary first to calculate the bank's minimum capital requirement for credit risk, and only afterwards its market risk requirement, to establish how much tier 1 and tier 2 capital is available to support market risk. Eligible capital will be the sum of the whole of the bank's tier 1 capital, plus all of its tier 2 capital under the limits imposed in the Notice on maintenance of the Capital Adequacy Ratio issued by the Central Bank of Sri Lanka. Tier 3 capital will be regarded as eligible only if it can be used to support market risks under the conditions set out in paragraphs 7.1 and 7.2 above. The reported capital ratio will thus represent capital that is available to meet both credit risk and market risk.

FORM 1: On Balance Sheet Items

RETURN ON RISK-WEIGHTED CAPITAL ADEQUACY RATIO
COMPUTATION OF RISK-WEIGHTED ASSETS OF
RETURN ON RISK-WEIGHTED CAPITAL ADEQUACY RATIO
OF LICENSED COMMERCIAL BANKS/LICENSED SPECIALISED BANKS IN SRI LANKA

Quarterly/Annual Return

Name of Institution:

As at:

We certify that -

- (1) this return is, to the best of our knowledge and belief, correct;
And
- (2) the capital adequacy ratio was, at any time during the quarter/year under review, not less than that determined in terms of Section 19 (7) of the Banking Act No. 30 of 1988 as amended by Banking (Amendment) Act No. 33 of 1995 and Act No. 2 of 2005, by the Monetary Board.

.....
Chief Accountant/Authorised Officer

.....
Chief Executive

.....
Name
Date :

.....
Name
Date :

Bank Supervision Department
28 March 2006

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

Dear Sirs

PARALLEL COMPUTATION OF BASEL I AND BASEL II

As indicated to you at the meetings of the CEOs of LCBs and LSBs, and as agreed with the SLBA sub committee on Risk Management and Implementation of Basel II, a parallel computation of Basel I and Basel II will commence from the first quarter of 2006, until full implementation of Basel II in the first quarter of 2008.

The Capital Adequacy Computation under Basel I will be the effective statutory capital ratio during this period of parallel runs. While the attached guidelines on Basel II are not in final form, they will be refined over the period, based on the results of the test computations, during the period of the parallel run.

Initially, during this period, the CAR under Basel II should be computed on a bank only (solo) basis.

These draft guidelines contain 3 parts, viz. the introductory guidelines, the format for computation of the capital ratio, and the definitions for the items in the computation.

All computations on Basel II should reach this Department by the end of the month following the end of each quarter, together with the CAR computation under Basel I.

Your cooperation in this regard will be greatly appreciated.

Yours faithfully
Sgd. / Director of Bank Supervision

Part I

Guidelines on BASEL II

Part 1 – Minimum Capital Requirements

The Capital Adequacy Calculation under BASEL II:

Total Tier I Capital	
<hr/>	
Total Risk Weighted Assets	5%

Total Capital	
<hr/>	
Total Risk Weighted Assets	10 %

Where

$$\text{Credit Risk} + \text{Market Risk} + \text{Operational Risk} = \text{Total Risk Weighted Assets}$$

And

$$\text{Total R W Assets} = (\text{market risk} \times 10) + (\text{operational risk} \times 10) + \text{R.W.A. under credit risk}$$

A. Credit Risk

- o All exposures will be risk weighted according to the external credit rating¹ of the counterparty involved.
- o Exposure to a counterparty would include investments, loans and advances or any other exposure.
- o As in Basel I, on-balance sheet items would be risk weighted applying the risk weight applicable to the credit rating, while off-balance sheet items would continue to be converted to credit equivalents using the credit conversion factors given in this document, and thereafter risk weighted according to the risk weight applicable to the counterparty.
- o All exposures should be risk-weighted net of specific provisions and interest in suspense that has been charged to the respective customer account.

1. Claims on Sovereigns and Central Banks

- 1.1 Claims on the domestic sovereign and the Central Bank of Sri Lanka, including foreign currency exposure: 0%
- 1.2 Claims on other sovereigns and their Central Banks will be risk weighted as follows:
- 1.3 Claims on the Bank for International Settlements, the International Monetary Fund, European Central Bank and

Credit Assessment	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Risk Weight	0%	20%	50%	100%	150%	100%

the European Community: 0%

- 1.4 Claims on central government/non-central government public sector entities: This includes all public corporations, statutory boards, provincial authorities, local government bodies etc.
 * Covered by an explicit Government guarantee: 0%
 * Other exposures : treat as corporates
- 1.5 Claims on Multilateral Development Banks (MDBs)
 However, claims on the following MDBs will receive a 0% risk weight

Credit Assessment	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Risk Weight	20%	50%	50%	100%	150%	50%

The World Bank Group comprising of the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC)

The Asian Development Bank (ADB)

The African Development Bank (AfDB)

The European Bank for Reconstruction and Development (EBRD)

The Inter-American Development Bank (IADB)

The European Investment Bank (EIB)

The European Investment Fund (EIF)

The Nordic investment Bank (NIB)

The Caribbean Development Bank (CDB)

The Islamic Development Bank (IDB)

The Council of Europe Development Bank (CEDB)

2 Claims on Banks

- 2.1 Claims on all banks including licensed commercial banks and licensed specialized banks licensed by the Central Bank of Sri Lanka should be risk weighted based on their external credit assessment (option 2) as follows.
- 2.2 Short Term Claims: In order to qualify for the preferential treatment for short term claims, they should have an original contractual maturity of 3 months or less, and should not be rolled over.
 Note: In the case of branches of banks incorporated abroad, the rating applicable to the head office may be used as the rating applicable to the particular branch, if the branch is not rated locally.

Credit Assessment of Banks	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Exposures > 3 months: Risk Weight	20%	50%	50%	100%	150%	50%
Foreign currency exposures < 3 months: Risk Weight	20%	20%	20%	50%	150%	20%
Rupee claims < 3 months: Risk Weight	20%	20%	20%	20%	20%	20%

3 Claims on insurance companies, stockbrokers, primary dealers, finance companies, leasing companies, merchant banks and investment banks :

Should be treated in the same way as claims on corporates

4 Claims on corporates

4.1 Corporate customers should be risk weighted according to the following table.

4.2 Banks can, with supervisory approval, exercise the option to rate all corporate customers at 100%

5 Regulatory retail portfolio

Credit Assessment	AAA to AA-	A+ to A-	BBB+ to BBB-	Below B-	Unrated
Risk Weight	20%	50%	100%	150%	100%

Claims that meet the following criteria qualify for inclusion in the regulatory retail portfolio. All performing exposures included in such portfolio qualify for a 75% risk weight.

Qualifying Criteria for the Regulatory Retail Portfolio:

- * Orientation criterion – The exposure should be to an individual person or persons or to a SME
- * Product criterion – The exposure should be of one of the following product types:
 - Revolving credit and lines of credit including overdrafts and credit cards
 - Personal term loans and leases (eg: installment loans, vehicle loans and leases, student and educational loans, personal finance)
 - SME loans
 - Securities such as bonds and equities are excluded (to be treated as investments).
 - Loans secured by property mortgages that qualify for inclusion as claims secured by residential property are excluded (see 6 below)
- * Granularity criterion – The regulatory retail portfolio must be sufficiently diversified to a degree that reduces the risks in the portfolio. In order to meet this criterion, no aggregate exposure without considering CRM, to one counterpart should exceed 0.2% of the overall regulatory retail portfolio (excluding any non-performing retail loans) (one counterpart – one or several entities that constitute a single beneficiary, eg: in the case of a small business affiliated to another small business, the limit would apply to the bank's aggregate exposure on both businesses)
- * Low value of individual exposures – The maximum aggregate retail exposure to one counterpart cannot exceed the lower of 0.2% of capital funds or Rs. 10 million

Definition of SME (to be finalized):

- * Asset values not exceeding Rs. 35 million, excluding land and building; and
- * Maximum size of the loan to be Rs. 35 million
- * Annual turnover not more than Rs. 30 million

Two of the above three criteria should be met

6 Loans granted for residential purposes, secured by Residential Property

Residential housing loans fully secured by a primary mortgage over residential property that is or will be occupied by the borrower, or rented, qualify for a risk weight of 35%.

The banks should strictly adhere to the qualifying criteria to be able to use the preferential risk weight.

In order to qualify for this concessionary risk weight, the following valuation criteria should be met: a margin of at least 75% on the value of the property at the time of granting the loan, valuation by an external independent valuer, frequency of valuation etc.

7 Past due loans

7.1 The unsecured portion of any loan (other than a qualifying residential mortgage loan) that is past due for more than 90 days, net of specific provision will be risk weighted as follows:

7.2 In order to determine the secured portion of a loan, the collateral at 10 could be deducted.

7.3 Past due residential mortgage loans

	Risk weight
Specific provisions < 20% of the outstanding amount of the loan	150%
Specific provisions > 20% of the outstanding amount of the loan	100%

* Past due (past due for > 90 days) residential mortgage loans – risk weight at 100% net of specific provisions

* If the specific provision on such pastdue residential mortgage loans > 20% of the outstanding amount, risk weight at 50%

8. Other Assets

Cash in hand	0%
Gold Bullion	0%
Cash Items in the Process of Collection (CIPC)	20%
All other assets	100%

9. Off-balance sheet items

Off-balance sheet items will be converted into credit exposure equivalents through the use of credit conversion factors (CCF), as in Basel I. That is:

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

9.1 Direct credit substitutes: General guarantees, standby LCs serving as financial guarantees, bank acceptances

Off-balance sheet Items	x	Credit Conversion Factor	x	Risk weight	=	Risk Exposure
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etc.- 100%

9.2 Transaction related contingencies: Performance bonds, bid bonds, warranties; standby LCs related to particular transactions etc. – 50%

9.3 Short term self liquidating trade related contingencies: Shipping guarantees; documentary letters of credit; trade related acceptances, etc. – 20%

9.4 Sale and repurchase agreements and assets sales with recourse where the credit risk remains with the bank: sale and repurchase agreements; housing loans sold with recourse; other assets sold with recourse; forward assets purchase; partly paid shares/securities etc. – 100%

9.5 Obligations under an on-going underwriting agreement: Underwriting of shares/securities issue; note issuance facilities and revolving underwriting facilities; etc. – 50%

9.6 Commitments unconditionally cancellable at any time by the bank without prior notice, or provide for automatic cancellation due to deterioration in a borrower's credit worthiness: 0%

9.7 Commitments with an original maturity up to 1 year: Formal standby LCs; undrawn term loans; undrawn ODs; unused credit card lines; etc. - 20%

9.8 Commitments with an original maturity over 1 year: Formal standby facilities and credit lines; undrawn term loans; etc. - 50%

9.9 Foreign exchange and interest rate contracts (same as in the existing Direction)

10. Credit Risk Mitigation (CRM)

Where a transaction is secured by the following eligible collateral and meet the eligible criteria outlined below, the risk weight applicable to the collateral instrument could be substituted for the risk weight of the counterparty in respect of the portion of the exposure that is collateralized.

Simple Approach (similar to Basel I) is recommended for use by all banks – apply the risk weight applicable to the collateral for the secured portion of the loan

Partial collateralization will be permitted, i.e. a part of a loan could be covered by the collateral.

However, mismatches in the maturity of the underlying exposure and the collateral will not be allowed, i.e. the collateral must be pledged for at least the life of the exposure.

10.1 Prerequisites:

- * Legal certainty- All documents used in collateralized transactions and for documenting on-balance-sheet netting, guarantees etc. must be binding on all parties and legally enforceable in the relevant jurisdictions. The banks should conduct sufficient legal review to verify this and undertake such further review as necessary to ensure continuing enforceability.
- * Banks have a right to liquidate or take legal possession of collateral in a timely manner in the event of default. Banks must take all necessary steps to fulfill the requirements under the law to protect the bank's interest in the collateral eg. registering with a registrar.
- * In order for the collateral to provide protection, the credit quality of the counterparty and the value of the collateral must not have a positive correlation, eg. securities issued by the counterparty or by any related group entity would be ineligible.
- * Banks must have clear and robust procedures for the timely liquidation of collateral.
- * Where the collateral is held by a custodian, banks must take reasonable steps to ensure that the custodian segregates the collateral from its own assets.

10.2 Subject to the general conditions set out above, the following forms of collateral are eligible for recognition under the Simple Approach to CRM

- a. Cash (including certificates of deposit, savings certificates issued by the lending bank) under lien to the bank
- b. Gold – gold bullion held in vaults of the banks and certificates
- c. Debt securities rated by a recognized external credit assessment institution where these are either:
 - * At least BB- when issued by sovereigns or PSEs that are treated as sovereign by the national supervisor; or
 - * At least BBB- when issued by other entities (including banks)
 - * At least A-3/P-3 for short term debt instruments
- d. Debt securities not rated by a recognized ECAI where these are:
 - * Issued by a bank; and
 - * Listed on a recognized exchange; and
 - * Classified as senior debt; and
 Subject to a discount of 25% on the market value
- e. Equities (including convertible bonds) that are included in a main index, subject to a discount of 25% on the market value

In addition, loans and advances which are guaranteed by a licensed commercial bank or a licensed specialized bank incorporated in Sri Lanka or abroad may be assigned the risk weight applicable to the respective bank.

11. External Credit Assessments

- * The national supervisor will determine the External Credit Assessment Institutions (ECAI) that meet the eligibility criteria set out in Basel II and map the risk ratings against the relevant risk weights.

- * If there is only one assessment by an ECAI for a particular claim, that assessment should be used to determine the risk weight applicable. If there are two assessments which map into different risk weights, the higher risk weight will be applied.

B. Operational Risk under the Basic Indicator Approach

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

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

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

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

α = 15%

Gross Income = net interest income plus net non-interest income (net interest income before provisions and operating expenses, excluding realized profits/losses from the sale of securities (trading and investment) and excluding extraordinary or irregular items) (Definition given in the Basel Accord)

It is suggested that the following formula be used to compute the 'gross income'

Operating profit

+ provisions

+ Operational expenses

+ losses made on sale of securities

- profits made on sale of securities

Exclude extraordinary/irregular items

C. Capital charge for Market Risk

To be computed according to the Directions issued in this regard (will remain unchanged under Basel II).

Part 2

INTERIM REPORTING FORMAT UNDER BASEL II **RETURN ON RISK WEIGHTED CAPITAL RATIO** **COMPUTATION OF RISK WEIGHTED ASSETS OF COMMERCIAL BANKS**

Computation of Operational risk (Basic Indicator Approach)

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

KBIA = the capital charge for operational risk under the Basic Indicator Approach

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

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

Gross Income = net interest income plus net non-interest income (net interest income before income before provisions and operating expenses, excluding realized profits/losses from the sale of securities (trading and investment) and excluding extraordinary or irregular items)

Computation of Capital Charge for Credit Risk

(On Balance Sheet Items)

Name of Institution : As at :

(In Rupees Thousand)

Code	Description	Principal amount of On Balance Sheet Items	Credit Equivalent of Off Balance Sheet Items	External Credit Assessment	Total	X Risk Weight	= Risk weighted Asset Amount
01.00	Performing Claims :						
01.01	Claims on Sovereigns and Central Banks						
01.01.01	Claims on the domestic sovereign and the Central Bank of Sri Lanka					0%	
01.01.02	Claims on other sovereigns and their Central Banks			AAA to AA- BBB+ to BBB- Below B- Unrated		0% 20% 50%	
01.01.03	Claims on the Bank for International Settlements, the International Monetary Fund, European Central Bank and the European Community					100% 150% 100%	
01.01.04	Claims on central government/ non-central government public sector entities					0%	
01.01.04.01	* covered by an explicit Government Guarantee			AAA to AA- BBB+ to BB-		0%	
01.01.04.02	* Other exposures			A+ to A- Unrated		20% 50% 150% 100%	
01.01.05	Claims on multilateral development banks (MDBs) (specific)					0% 20% 50%	
01.01.06	Claims on other multilateral development banks (MDBs) (other)			AAA to AA- BB+ to B- Unrated		100% 150% 50%	
01.02	Claims on Banks						
01.02.01	Short Term Claims						
01.02.01.01	Foreign Currency exposures maturing within 3 months			AAA to BBB- B- Below B- Unrated		20% 50% 150% 20%	
01.02.01.02	Rupee claims maturing within 3 months			AAA to Unrated		20%	
01.02.02	Other Claims			AAA to AA- BB+ to B- Unrated		20% 50%	
01.02.02.01	Local and foreign currency exposures more than 3 months			AAA to AA- BBB+ to BB- BB-Unrated		100% 150% 50%	
01.03	Claims on corporates including securities firms:					20% 50% 100% 150% 100%	
01.04	Regulatory retail portfolio					75%	
01.04.01	Claims in retail portfolio					75%	
01.04.02	Claims on Small and Medium Enterprises						

Code	Description	Principal amount of On Balance Sheet Items	Credit Equivalent of Off Balance Sheet Items	External Credit Assessment	Total	X Risk Weight	= Risk weighted Asset Amount
01.05	Loans granted for residential purposes secured by residential property					35%	
01.06	Claims secured by cash or Gold					0%	
02.00	Past due claims						
02.01	Unsecured past due loans in arrears for more than 90 days, net of specific provision						
02.01.01	Specific provisions<20% of the outstanding amount					150%	
02.01.02	Specific provisions>20% of the outstanding amount					100%	
02.02	Past due residential mortgage loans in arrears for more than 90 days, net of specific provision						
02.02.01	Specific provisions<20% of the outstanding amount					100%	
02.02.02	Specific provisions>20% of the outstanding amount					50%	
03.00	Cash - Local Currency Foreign Currency					0% 0%	
04.00	Gold & Bullion					0%	
05.00	Cash items in the process of collection					20%	
06.00	All other Assets						
07.00	Total					100%	

Code	Description	Principal amount of On Balance Sheet Items	Credit Equivalent of Off Balance Sheet Items	External Credit Assessment	Total	X Risk Weight	= Risk weighted Asset Amount
08.00	Direct Credit Substitutes						
08.01	General Guarantees of Indebtedness						
08.02	Standby LCs serving as Financial Guarantees						
08.03	Bank Acceptances						
08.04	Others (please specify)						
09.00	Transaction-related Contingencies					50%	
09.01	Performance Bonds, Bid Bonds & Warranties						
09.02	Standby LCs related to particular transactions						
09.03	Others (please specify)						
10.00	Short-Term Self-Liquidating Trade- Related Contingencies					20%	
10.01	Shipping Guarantees						
10.02	Documentary Letters of Credit						
10.03	Trade related acceptances						
10.04	Others (please specify)						
11.00	Sale and Repurchase Agreements and Assets Sale with recourse where the credit risk remains with the Bank					100%	
11.01	Sale and Repurchase Agreements						
11.02	Housing Loans sold with recourse						
11.03	Other assets sold with recourse						
11.04	Forward Assets purchase						
11.05	Partly paid shares/securities						
11.06	Others (please specify)						
12.00	Obligations under an On-going Underwriting Agreement					50%	
12.01	Underwriting of shares/securities issue						
12.02	Note Issuance Facilities and Revolving Underwriting Facilities						
12.03	Others (please specify)						

Code	Description	Principal amount of On Balance Sheet Items	Credit Equivalent of Off Balance Sheet Items	External Credit Assessment	Total	X Risk Weight	= Risk weighted Asset Amount
13.00	Other Commitments with an Original maturity of up to one year or which can be unconditionally cancelled at any time						
13.01	Formal standby facilities and Credit Lines						
13.02	Undrawn Term Loans						
13.03	Undrawn Overdraft Facilities/ Unused Credit Card Lines						
13.04	Others (please specify)						
14.00	Commitments with an original maturity up to 1 year						
14.01	Formal standby facilities and Credit Lines						
14.02	Undrawn Term Loans						
14.03	Others (please specify)						
15.00	Other Commitments with an Original Maturity of over one year					50%	
15.01	Formal standby facilities and Credit Lines						
15.02	Undrawn Term Loans						
15.03	Others (please specify)						
15.04	Foreign Exchange and Interest Rate Contracts						
16.00	Total (please see guideline for the conversion factor)						
17.00	Total						

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

**RETURN ON RISK WEIGHTED CAPITAL RATIO
CAPITAL BASE OF COMMERCIAL BANKS**

Name of Institution :

As at :

(In Rupees Thousand)

	TIER 1 : CORE CAPITAL	
18	Paid-up Ordinary Shares/Common Stock/Assigned Capital ++	
19	Non-cumulative, Non-redeemable Preference Shares	
20	Share Premium	
21	Statutory Reserve Fund	
22	Published Retained Profits/(Accumulated Losses)	
23	General and Other Reserves	
24	Surplus/Loss after tax arising from the sale of fixed and long-term investments	
25	Unpublished Current Year's Profits/Losses	
26	Minority Interests (consistent with the above capital constituents)	
27	Sub Total	
	Deductions	
28	Goodwill	
29	TOTAL TIER 1 CAPITAL	
	TIER 2 : SUPPLEMENTARY CAPITAL	
30	Revaluation Reserves (as approved by CBSL)	
31	General Provisions	
32	Hybrid (debt/equity) Capital Instruments	
33	Minority Interests arising from Preference Shares issued by Subsidiaries	
34	* Approved Subordinated Term Debt (Actual amount is Rs.)	
35	TOTAL TIER 2 CAPITAL	
36	Eligible Tier 2 Capital	
37	TOTAL CAPITAL	
38	Adjustment I#	
38.01	Amounts due to Head Office and Branches outside Sri Lanka in Sri Lanka Rupees
38.02	Less : Amounts due from Head Office and Branches outside Sri Lanka in Sri Lanka Rupees	(.....)

39	TOTAL CAPITAL AFTER ADJUSTMENT 1# # Rows 38 to 42 are applicable to branches of foreign banks only		
	LIMITS:		
	(i) Approved Subordinated Term Debt is limited to 50% of Total Tier 1 Capital. NB: The actual amount of the subordinated debt should be reported.		
	(ii) The total of Tier 2 Supplementary Elements should not exceed a maximum of 100% of Tier 1 Elements		
	(iii) General Provisions should not exceed 1.25% of Risk Weighted Assets. Code Constituents of Capital Amount		
40	Adjustment II*		
40.01	Amounts due from Head Office and branches outside Sri Lanka in Foreign Currency	(.....)	
40.02	Amounts due from its own Foreign Currency Banking Unit	(.....)	
40.03	Less : Amounts due to Head Office and Branches outside Sri Lanka in Foreign Currency	(.....)	
	Amounts due to its own FCBU	(.....)	
41	Sub Total	(.....)	(.....)
42	ADJUSTED TOTAL CAPITAL*		
43	Deductions		
43.01	Equity Investments in unconsolidated banking and financial subsidiaries	(.....)	
43.02	Investments in capital of other banks/Financial associates	(.....)	(.....)
44	CAPITAL BASE		

* Applicable to branches of Foreign Banks

++ Delete whichever is inapplicable

**RETURN ON RISK WEIGHTED CAPITAL RATIO
COMPUTATION OF CAPITAL BASE OF COMMERCIAL BANKS**

Name of Institution :

As at :

Code		Amount
29	Total Tier 1 Core Capital	
44	Total Capital Base	
45	Total Risk Weighted Assets under Credit Risk	
46	Market Risk * 10	
47	Operational Risk * 10	
48	Total Risk Weighted Assets	

RETURN ON RISK WEIGHTED CAPITAL RATIO COMPUTATION OF CAPITAL BASE OF COMMERCIAL BANKS

Core Capital Ratio (Minimum Ratio 5%)		
Total Tier 1 Capital	=	X 100 =
Total Risk Weighted Assets		
Total Risk Weighted Capital Ratio (Minimum Ratio 10%)		
Total Capital	=	X 100 =
Total Risk Weighted Assets		

Part 3

DEFINITIONS AND CLARIFICATIONS

ON-BALANCE SHEET ITEMS

01.00 PERFORMING CLAIMS

All exposures such as investments, loans and advances, net of specific provisions.

If the claim is collateralized by cash deposits, Gold, Debt securities as specified in the note on risk mitigation, the risk weight applicable to the provider of the collateral can be used instead of the risk weight of the borrower.

01.01 CLAIMS ON SOVEREIGNS AND CENTRAL BANKS

All exposures including loans and advances to Sovereigns and their Central Banks and investments in securities issued by the sovereigns and their central banks.

01.01.01 CLAIMS ON THE DOMESTIC SOVEREIGN AND THE CENTRAL BANK OF SRI LANKA

All exposures including loans and advances given to the Government of Sri Lanka, holdings of Treasury Bills issued by the Central Bank of Sri Lanka, holdings of Sri Lanka government securities and Central Bank securities, holdings of Development Bonds including Dollar Bonds. The statutory reserve required to be maintained with the Central Bank of Sri Lanka under section 93 of the Monetary Law Act Chapter 422 and clearing balances in the name of the bank. The part of capital maintained as a reserve in foreign currency, in the Central Bank of Sri Lanka (if any).

01.01.02 CLAIMS ON OTHER SOVEREIGNS AND THEIR CENTRAL BANKS

Loans and advances to and investments in securities by Central Governments and their Central Banks of countries other than Sri Lanka.

01.01.03 CLAIMS ON THE BANK FOR INTERNATIONAL SETTLEMENTS, THE INTERNATIONAL MONETARY FUND, EUROPEAN CENTRAL BANK AND THE EUROPEAN COMMUNITY

All exposures including loans and advances to and investments in the Bank for International Settlement, the International Monetary Fund, European Central Bank and the European Community.

01.01.04 CLAIMS ON CENTRAL GOVERNMENT/ NON CENTRAL GOVERNMENT PUBLIC SECTOR ENTITIES

All exposures including loans and advances to and investments in all public corporations, statutory boards, provincial authorities, local government bodies etc.

01.01.04.01 CLAIMS ON CENTRAL GOVERNMENT/ NON CENTRAL GOVERNMENT PUBLIC SECTOR ENTITIES COVERED BY AN EXPLICIT GOVERNMENT GUARANTEE

If an explicit Government Guarantee secures such exposures 100% or part of the claim so covered will be risk weighted at 0%.

01.01.04.02 OTHER CLAIMS ON CENTRAL GOVERNMENT/ NON CENTRAL GOVERNMENT PUBLIC SECTOR ENTITIES

All exposures including loans and advances to and investments in all public corporations, statutory boards, provincial authorities, local government bodies etc except for the exposures referred to in note:01.01.04.01.

01.01.05 CLAIMS ON MULTILATERAL DEVELOPMENT BANKS (SPECIFIC)

All exposures including loans and advances given and investments by the following:

The World Bank Group comprising of the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC)

The Asian Development Bank (ADB)

The African Development Bank (AfDB)

The European Bank for Reconstruction and Development (EBRD)

The Inter-American Development Bank (IADB)

The European Investment Bank (EIB)

The European Investment Fund (EIF)

The Nordic investment Bank (NIB)

The Caribbean Development Bank (CDB)

The Islamic Development Bank (IDB)

The Council of Europe Development Bank (CEDB)

01.01.06 CLAIMS ON MULTILATERAL DEVELOPMENT BANKS (OTHER)

All exposures including loans and advances to and investments in Multilateral Developments Banks (MDBs) other than those specified in note 01.01.05.

01.02 CLAIMS ON BANKS

All exposures including loans and advances, placements, deposits, debentures (which are not treated as capital of the issuing bank) and investments in all banks including licensed commercial banks and licensed specialized banks licensed by the Central Bank of Sri Lanka and institutions recognized as banks and licensed by the regulatory authorities of that country.

01.02.01 SHORT TERM CLAIMS

Banks exposures as referred to in note 01.02 to all other banks with an original contractual maturity of 3 months or less, and should not be rolled over.

01.02.02 OTHER CLAIMS

Banks exposures as referred to in note 01.02 to all other banks other than referred to in note 01.02.01.

01.03 CLAIMS ON CORPORATES INCLUDING SECURITIES FIRMS

This includes all exposures including loans and advances to and investments in corporate entities or any other entity not specified elsewhere in the return including insurance companies and securities firms such as advances to and investments in stock broking firms, primary dealers, finance companies, leasing companies, merchant banks and investment banks.

Banks, with the special approval of the Central Bank may elect to risk weight all corporate claims at 100% without regard to external ratings. However, when this discretion is availed off the banks should apply a single consistent approach. That is either to use ratings where ever available or risk weight all corporate claims at 100%.

01.04 REGULATORY RETAIL PORTFOLIO

This includes all exposures including loans & advances to entities qualifying as Retail portfolio and small and medium enterprises. All performing exposures included in such portfolio qualify for a 75% risk weight.

01.04.01 CLAIMS ON RETAIL PORTFOLIO

Claims that meet the following criteria qualify for inclusion in the retail portfolio.

Qualifying Criteria for the Retail Portfolio:

- * Orientation criterion – The exposure should be to an individual person or persons.
- * Product criterion – The exposure should be of one of the following product types:
 - Revolving credit and lines of credit including overdrafts and credit cards
 - Personal term loans and leases (eg: instalment loans, vehicle loans and leases, student and educational loans, personal finance)
 - Pawning advances
 - Securities such as bonds and equities are excluded (to be treated as investments).
 - Loans secured by property mortgages that qualify for inclusion as claims secured by residential property are excluded (refer note 01.06)
- * Granularity criterion – The regulatory retail portfolio must be sufficiently diversified to a degree that reduces the risks in the portfolio. In order to meet this criterion, no aggregate exposure without considering CRM, to one counterpart should exceed 0.2% of the overall regulatory retail portfolio (excluding any non-performing retail loans) (one counterpart – one or several entities that constitute a single beneficiary, eg: in the case of a small business affiliated to another small business, the limit would apply to the bank's aggregate exposure on both businesses)
- * Maximum value of individual exposures – lower of 0.2% of capital funds or Rs.10 mn.

01.04.02 CLAIMS ON SMALL AND MEDIUM ENTERPRISES (SME)

Claims that meet the following criteria qualify for inclusion in the SME portfolio.

Qualifying Criteria for inclusion in the SME Portfolio:

- * Orientation criterion – The exposure should be to a SME
- * Product criterion – The exposure should be only to SME product type.
- * Granularity criterion – The regulatory retail portfolio must be sufficiently diversified to a degree that reduces the risks in the portfolio. In order to meet this criterion, no aggregate exposure without considering CRM, to one counterpart should exceed 0.2% of the overall regulatory retail portfolio (excluding any non-performing retail loans) (one counterpart – one or several entities that constitute a single beneficiary, eg: in the case of a small business affiliated to another small business, the limit would apply to the bank's aggregate exposure on both businesses)

Definition of SME for above purposes:

- Asset values not exceeding Rs. 35 million, excluding land and building; and
- Maximum size of the loan to be Rs.35mn
- Annual turnover less than Rs.30mn

Two of the above three criteria should be met

01.05 LOANS GRANTED FOR RESIDENTIAL PURPOSES SECURED BY RESIDENTIAL PROPERTY

Residential housing loans fully secured by a primary mortgage over residential property that is or will be occupied by the borrower, or rented, qualify for a risk weight of 35%.

The banks should strictly adhere to the qualifying criteria to be able to use the preferential risk weight.

In order to qualify for this concessionary risk weight, the following valuation criteria should be met: At least a margin of 75% on the value of the property at the time of granting the loan, valuation by an external independent valuer, frequency of valuation etc.

01.06 CLAIMS SECURED BY CASH OR GOLD

If the claim is collateralized by cash deposits or Gold, such amount can be deducted from the exposure to take in to account the risk mitigating effect of the collateral and the balance to be risk weighted according to the relevant risk weight under the appropriate on Balance Sheet category.

02.00 PAST DUE CLAIMS

All claims including all exposures such as investments, loans and advances classified as non performing as per direction on suspension on interest on non-performing advances and classification of bad and doubtful advances for provisioning purposes net of specific provisions and Interest in Suspense should be considered as past due claims.

- 02.01 UNSECURED PAST DUE**
The unsecured portion of any loan (other than a qualifying residential mortgage loan) that is in arrears for more than 90 days, net of specific provision.
- 02.02 PAST DUE RESIDENTIAL MORTGAGE LOANS**
Residential mortgage loans which are in arrears for more than 90 days net of specific provisions. Such loans should meet the criteria specified in 04.06 to qualify as mortgage loans.
- 03.00 CASH - LOCAL CURRENCY**
Notes and coins, which are legal tender in Sri Lanka.
FOREIGN CURRENCY
Notes and coins that are legal tender of foreign countries converted to Sri Lanka rupees as at reporting date.
- 04.00 GOLD AND BULLION**
Gold and bullion held in the bank's vaults. Gold items held in safe custody should be excluded.
- 05.00 CASH ITEMS IN PROCESS OF COLLECTION**
Cheques, drafts and other cash items, such as money orders, postal orders drawn on the banks and other authorized institutions and paid immediately on presentation. Trade Bills, such as import bills and export bills, in the process of collection should be excluded from this item and considered as loans and advances.
- 06.00 ALL OTHER ASSETS**
All other assets or investments not included elsewhere in the return.

OFF-BALANCE SHEET ITEMS

- 08. DIRECT CREDIT SUBSTITUTES**
- 08.01 General Guarantees of Indebtedness :**
General guarantees of indebtedness where the risk of loss in the transaction may crystallise into a direct liability and become a direct claim on the counterparty. These include Guarantees in respect of counterparties like insurance agents, sales agents, etc. to cover any non-payment by them of premium, sales proceeds, etc. to their beneficiaries. Bank Guarantees in favour of customs would cover any non-payment of customs duties by their counterparties.
- 08.02 Stand-by LCs serving as Financial Guarantees :**
Stand-by Letters of Credit, which are direct credit substitutes where the risk of loss in the transaction is equivalent to that of a direct claim on the counterparty. This includes stand-by letters of Credit serving as financial guarantees for loans, securities and other financial liabilities.
- 08.03 Bank Acceptances :**
Liabilities arising from acceptances on accommodation of bills but excludes bills that have been discounted by the bank itself. Risk participation and other similar commitments undertaken to repay the financial obligation of a customer, on his failure to do so, should be included.
- 08.04 Others**
Any other obligation which carries the same risk of loss in the transaction and is equivalent to that of a direct claim on the counterparty.
- 09. TRANSACTION-RELATED CONTINGENCIES**
- 09.01 Performance Bonds, Bid Bonds & Warranties :**
Transaction-related contingent items such as Performance Bonds, Bid Bonds and Warranties, where the risk of loss arises from an irrevocable obligation to pay a third party, the non-financial obligation of the customer upon his failure to fulfil obligations under a contract or a transaction. Such contingencies would crystallise into actual liabilities dependent upon the occurrence or non-occurrence of an event other than that of a default in payment by the counterparty.
- 09.02 Standby LCs related to particular transactions :**
Contingent liabilities relating to particular transactions. Here too, there is a likelihood of the contingencies crystallising into actual liabilities depending upon the occurrence or non-occurrence of an event other than that of a default in payment by a counterparty.

- 09.03 Others :
Other contingent liabilities arising from an irrevocable obligation to pay a third party, the non-financial obligation of a customer upon his failure to fulfil such obligation or terms under contract or transaction.
- 10. SHORT-TERM SELF-LIQUIDATING TRADE-RELATED CONTINGENCIES**
- 10.01 Shipping Guarantees :
Guarantees issued by the reporting institution to customers where the reporting institute agrees to indemnify fully, to a named shipping agent, against all liabilities arising from the release of goods without production of Bills of Lading and/or other shipping documents by the receiving party.
- 10.02 Documentary Letters of Credit :
Documentary credits collateralised by the underlying shipments which are short- term self-liquidating and traderelated transactions.
- 10.03 Trade-related Acceptances :
Liabilities arising from acceptances that are based on a specific trade transaction either domestic or foreign e.g. Letters of Credit.
- 10.04 Others
Contingent Liabilities arising from short-term self-liquidating trade related obligations.
- 11. SALE AND REPURCHASE AGREEMENTS AND ASSETS SALE WITH RECOURSE WHERE THE CREDIT RISK REMAINS WITH THE BANK**
Risk-weight for these items should be determined according to the underlying assets or the issuer of the assets rather than the counter party with whom the transaction had been entered into.
- 11.01 Sale and Repurchase Agreements :
Sale and Repurchase Agreement (REPO) is an agreement whereby a bank sells an asset to a third party with a commitment to repurchase it at an agreed price on an agreed future date. Purchase and Resale Agreements (Reverse REPOS) should be considered as collateralised loans. The risk is to be measured as an exposure to the counterparty unless the underlying asset has been reported as an on-balance sheet item where the risk weight appropriate to the underlying asset should be used.
- 11.02 Housing Loans Sold with Recourse :
The amount of housing loans sold to a counterparty with recourse where the credit risk remains with the Bank.
- 11.03 Other Assets Sold with Recourse :
Assets sold with recourse where the credit risk remains with the reporting institution. The holder of the asset is entitled to put the assets back to the reporting institution within an agreed period or under certain prescribed circumstances – e.g. deterioration in the value or credit quality of the asset concerned.
- 11.04 Forward Asset Purchases :
Commitment to purchase, at a specified future date and on pre-arranged terms, a loan, security or other asset from another party.
- 11.05 Partly-Paid Shares/Securities
Unpaid amounts on partly-paid shares and securities where the issuer may call upon the Bank to pay at a predetermined or unspecified date in the future.
- 11.06 Others
Placements of forward deposits and other commitments with certain drawdown. A forward deposit is an agreement between two parties whereby one will place and the other will receive, at a predetermined future date, a deposit, at an agreed rate of interest. A commitment to place a forward deposit should be reported under this item and weighted according to the risk-weight appropriate to the counterparty.
- 12. OBLIGATIONS UNDER AN ON-GOING UNDERWRITING AGREEMENT**
- 12.01 Underwriting of Shares/Securities Issue :
Obligations due to underwriting of shares and securities, net of the amount sub-underwritten by another institution.
- 12.02 Note Issuance Facilities and Revolving Underwriting Facilities :
Arrangements where a borrower may draw funds up to a prescribed limit over a pre-defined period through the issue of notes which the reporting bank has committed to underwrite.
- 12.03 Others :
Other obligations due to on-going underwriting agreements.

13. OTHER COMMITMENTS WITH AN ORIGINAL MATURITY OF UPTO ONE YEAR OR WHICH CAN BE UNCONDITIONALLY CANCELLED AT ANY TIME

13.01 Formal Stand-by Facilities and Credit Lines :

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

13.02 Undrawn Term Loans :

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

13.03 Undrawn Overdraft Facilities/Unused Credit Card Lines :

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

13.04 Others :

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

14. OTHER COMMITMENTS WITH AN ORIGINAL MATURITY UP TO ONE YEAR

14.01 Formal Stand-by Facilities and Credit Lines :

Commitments under formal standby facilities and credit lines with an original maturity of up to one year.

14.02 Undrawn Term Loans :

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

14.03 Others :

Any other commitment with an original maturity up to one year. Original maturity is defined as the length of time between the date the commitment is made and the earliest date on which the reporting bank, at its option, unconditionally cancels the commitment.

15. OTHER COMMITMENTS WITH AN ORIGINAL MATURITY OF OVER ONE YEAR

15.01 Formal Stand-by Facilities and Credit Lines :

Commitments under formal standby facilities and credit lines with an original maturity of over one year.

15.02 Undrawn Term Loans :

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

15.03 Others :

Any other commitment with an original maturity of over one year. Original maturity is defined as the length of time between the date the commitment is made and the earliest date on which the reporting bank, at its option, unconditionally cancels the commitment.

16. FOREIGN EXCHANGE AND INTEREST RATE CONTRACTS

Exchange Rate Contracts shall include –

- (i) Cross-currency interest rate swaps;
- (ii) Forward foreign exchange contracts;
- (iii) Currency futures;
- (iv) Currency options purchased; and
- (v) Other similar instruments,

But exclude exchange rate contracts which have an original maturity of 14 calendar days or less.

Interest Rate Contracts shall include –

- (i) Single-currency interest rate swaps;
- (ii) Basis swaps;
- (iii) Forward Rate agreements;
- (iv) Interest Rate futures;
- (v) Interest Rate options purchased; and
- (vi) Other similar instruments

- Note : (i) The netting of contracts subject to novation would be permitted. Therefore, the net rather than the gross claims arising out of swaps and similar contracts (subject to novation) with the same counterparts will be weighted. In this context, novation is defined as a bilateral contract between two counterparties under which any obligation to each other to deliver a given currency on a given date is automatically amalgamated with all other obligations for the same currency and value date, legally substituting one single net amount for the previous gross obligations.
- (ii) To arrive at the credit equivalent amounts of Exchange Rate and Interest Rate contracts, applying the original exposure method a bank will have to apply one of the following two sets of conversion factors to the notional principal amounts of each instrument according to the nature of the instrument and its maturity.

<i>Original Maturity</i>	<i>Interest Rate Contracts</i>	<i>Exchange Rate Contracts</i>
Less than one year	0.5%	2.0%
One year and less than Two years	1.0%	5.0% (i.e. 2% + 3%)
For each additional year	1.0%	3.0%

- (iii) As in the case of the credit equivalents of other off-balance sheet items, the credit equivalent amounts of Exchange Rate and Interest Rate contracts are to be weighted according to the category of counterparty. For Exchange Rate and Interest Rate related contracts, however a 50% weight will be applied in respect of counterparties which would otherwise attract a 100% weight (e.g. commercial clients). In other words, the credit equivalents of foreign exchange and Interest Rate contracts are subject to four categories of risk weights, i.e. 0%, 10%, 20% and 50% depending on the nature of the counterparties instead of the normal five categories of risk weights for other exposures.

CAPITAL ELEMENTS

18. PAID UP ORDINARY SHARES/COMMON STOCK

Issued and fully paid ordinary shares or common stock. For the computation only the paid up portion of partly paid shares or stock should be counted as capital.

ASSIGNED CAPITAL

The Equity capital that shall be assigned by the Head Office of a licensed commercial bank, incorporated or established outside Sri Lanka in terms of Section 19(2)(b) of the Banking Act No.30 of 1988 as amended by Banking (Amendment) Act No.33 of 1995.

19. NON-CUMULATIVE, NON-REDEEMABLE PREFERENCE SHARES

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

20. SHARE PREMIUM

The excess of issue price over the par value of the ordinary shares or common stock or non-cumulative non-redeemable preference shares.

21. STATUTORY RESERVE FUND

Balance in the Reserve Fund as per last audited statement of accounts and set up by commercial banks in terms of Section 20(1) and (2) of the Banking Act No.30 of 1988.

22. PUBLISHED RETAINED PROFITS/(ACCUMULATED LOSSES)

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

23. GENERAL AND OTHER RESERVES

Disclosed reserves in the form of general or other reserves created or increased by appropriation of retained earnings, share premia or other surplus as per last audited statement of accounts.

24. **SURPLUS/LOSS AFTER TAX ARISING FROM SALE OF FIXED & LONG TERM INVESTMENTS**
Any surplus/loss after tax arising from the sale of fixed and long term investments since the closing date of the last audited accounts. Net loss arising from the sale of fixed and long term investments should be reported in parenthesis and deducted from the other capital constituents.
25. **UNPUBLISHED CURRENT YEAR'S PROFITS/LOSSES**
Current years profits/losses (excluding any surplus/loss after tax arising from the sale of fixed and long term investments) earned/incurred since the closing date of the last audited accounts and subject to certification by the institutions external auditor.
26. **MINORITY INTERESTS (CONSISTENT WITH THE ABOVE CAPITAL CONSTITUENTS)**
Minority interests on consolidation of capital items.
27. **SUB TOTAL**
Total of core capital items 18 to 26.
28. **GOODWILL**
Report the amount of goodwill as shown in the balance sheet.
29. **TOTAL TIER 1 CAPITAL**
To arrive at total Tier 1 capital, deduct goodwill from the sub total at item 27.
30. **REVALUATION RESERVES**
Revaluation reserves may be included within Tier 2 Supplementary Capital provided that such revaluation is prudently valued reflecting fully the possibility of price fluctuations and forced sale, with PRIOR approval of the Central Bank of Sri Lanka.
31. **GENERAL PROVISIONS**
General provisions or general loan loss reserves created against the possibility of future losses. Where they are not ascribed to particular assets and do not reflect deduction in the valuation of particular assets, they qualify for inclusion in Tier 2 Supplementary Capital. General provisions should not exceed 1.25% of the sum of all risk weighted assets.
32. **HYBRID (DEBT/EQUITY) CAPITAL INSTRUMENTS**
Capital instruments which combine certain characteristics of equity capital and debt.
e.g. perpetual loan stock, non-redeemable preference shares, etc. and satisfy the following characteristics :
 - (i) Unsecured, subordinated and fully paid.
 - (ii) Not redeemable at the initiative of the holder or without the prior consent of the Central Bank of Sri Lanka.
 - (iii) Available to participate in losses without the Bank being obliged to cease trading.
 - (iv) Obligation to pay interest that can be deferred where the profitability of the Bank would not support such payment. Prior approval of the Central Bank of Sri Lanka is required for the inclusion of such items in the capital base.
33. **MINORITY INTERESTS ARISING FROM PREFERENCE SHARES**
Minority interests arising from the consolidation of preference shares issued by the reporting financial institution's subsidiaries.
34. **APPROVED SUBORDINATED TERM DEBT**
Subordinated term debt should have the prior approval of the Central Bank of Sri Lanka for inclusion as Tier 2 Capital and should satisfy the following conditions :
 - (i) Unsecured, fully paid up and subordinated to the interests of creditors.
 - (ii) A minimum original maturity of 5 years.
 - (iii) Early repayment or redemption shall not be made without the prior consent of the Central Bank of Sri Lanka.

- (iv) The amount counted as capital should be discounted by 1/5th each year during the four years preceding maturity.
Approved subordinated term debts are limited to 50% of total Tier 1 capital. The actual amount of subordinated debt also should be reported.

35. TOTAL TIER 2 CAPITAL

Total of supplementary capital from items 30 to 34.

36. ELIGIBLE TIER 2 CAPITAL

Eligible Tier 2 capital is limited to a maximum of 100% of Tier 1 capital. In the event of Tier 1 capital being less than the total of Tier 2 capital, eligible Tier 2 capital would be equivalent to Tier 1 capital. If Tier 1 capital is negative a “Nil” amount should be reported as eligible Tier 2 capital.

37. TOTAL CAPITAL

The total of Tier 1 capital (29) and eligible Tier 2 capital (36).

38.01 AMOUNT DUE TO HEAD OFFICE & BRANCHES OUTSIDE SRI LANKA IN SRI LANKA RUPEES

Credit balances in VOSTRO current accounts in Sri Lanka Rupees held for Head Office and branches outside Sri Lanka; other deposits and amounts borrowed from Head Office and branches outside Sri Lanka in Sri Lanka Rupees.

38.02 AMOUNTS DUE FROM HEAD OFFICE AND BRANCHES OUTSIDE SRI LANKA IN SRI LANKA RUPEES

Debit balances in VOSTRO current accounts in Sri Lanka rupees held for Head Office and branches outside Sri Lanka and amounts lent to Head Office and branches outside Sri Lanka in Sri Lanka rupees.

39. TOTAL CAPITAL AFTER ADJUSTMENT - 1

Total capital after adjusting the items 38.01 and 38.02.

40.01 AMOUNTS DUE FROM HEAD OFFICE AND BRANCHES OUTSIDE SRI LANKA IN FOREIGN CURRENCY

Debit balances in NOSTRO current accounts in foreign currency held with Head Office and branches outside Sri Lanka; fixed and other deposits placed with and amounts lent to Head Office and branches outside Sri Lanka in foreign currency.

40.02 AMOUNTS DUE FROM ITS OWN FOREIGN CURRENCY BANKING UNIT

Foreign currency deposits of a Banks domestic unit placed in the Banks own FCBU.

40.03 AMOUNTS DUE TO HEAD OFFICE & BRANCHES OUTSIDE SRI LANKA IN FOREIGN CURRENCY

Credit balances in NOSTRO current accounts in foreign currency held with Head Office and Branches outside Sri Lanka, fixed and other deposits and amounts borrowed from Head Office and branches outside Sri Lanka in foreign currency.

40.04 AMOUNTS DUE TO ITS OWN FOREIGN CURRENCY BANKING UNIT

Credit balances in accounts maintained by a domestic unit of a Bank in its own FCBU.

41. SUB TOTAL (DEDUCT)

The total net amount of the aggregate of items 40.01 and 40.02 and the aggregate of items 40.03 and 40.04.

42. ADJUSTED TOTAL CAPITAL

If the sub total of item 41 is positive (+) their being a net amount due from Head Office, branches and the FCBU, the amount shall be deducted from the item 39. If the sub total of item 41 is negative there being a net amount due to Head Office, branches and the FCBU the amount should not be taken in to the computation of Adjusted Total Capital. In such an event the Adjusted Total Capital at item 42 will be equal to the item 39.

- 43.01 **EQUITY INVESTMENTS IN UNCONSOLIDATED BANKING AND FINANCIAL SUBSIDIARIES**
Equity Investments in banking and financial subsidiaries; In the case of consolidated statements would include only investments in unconsolidated banking and financial subsidiaries.
- 43.02 **INVESTMENT IN CAPITAL OF OTHER BANKS/FINANCIAL ASSOCIATES**
Holdings of other domestic banking institutions, financial and financial associates by way of shares, hybrid capital instruments or subordinated term debt.
An "Associate" is deemed to be a associate where the Bank holds –
(a) Twenty per cent or more but not more than fifty percent of the institution's issued share capital, and
(b) Has a controlling interest over the institution's Board of Directors.
Investments in the capital of financial associates, made under the sponsorship of the Sri Lanka Government or the Central Bank of Sri Lanka, are excluded from the computation of the capital base. However, such investments should be reported as on-balance sheet assets under "other investments".
44. **CAPITAL BASE**
The amount after deducting items 43.1 and 43.2 from the total capital (item 39) or adjusted total capital (item 42).
45. **TOTAL RISK-WEIGHTED ASSETS**
The total risk-weighted assets of on balance sheet assets and off balance sheet items.

Ref: 02/04/003/0401/001

Bank Supervision Department
29 March 2006To: *CEOs of Licensed Commercial Banks*
CEOs of Licensed Specialised Banks

Dear Sirs,

REVERSAL OF UNEARNED INCOME AND CLASSIFICATION OF ADVANCES AS NON-PERFORMING

As intimated to you at the Chief Executive Officers meeting held on 23 March 2006, when an advance is classified as non-performing, the unearned income for the three months prior to the classification, which was recognized as interest income should be reversed and treated separately as interest in suspense. The reversal of unearned income identified after the close of a financial year could be accounted for in the financial year in which the advances were identified as non-performing advances.

Accordingly, all banks that have hitherto not reversed interest earned but not received on non-performing advances are required to do so with effect from 01.01.2006, as recognizing such income would be tantamount to the inclusion of fictitious income in the income statement.

2. The availability of security or net worth of borrower/ guarantor should not be taken into account for purposes of classification as non-performing advances, and even cash-backed advances should be treated as non-performing advances when in arrears for over three months, as specified in the Direction. Such consideration would be relevant only at the time of provisioning.
3. These provisions will be incorporated into the amended Directions on classification, which will be issued in due course, after considering the responses received from the banks, in respect of the other matters discussed in the draft direction.

Yours faithfully
Sgd. / Director of Bank Supervision

Copy To: Secretary General/SLBA

Ref: 02/17/402/0079/001

Bank Supervision Department
02 May 2006*To: CEOs of Licensed Commercial Banks
and Licensed Specialised Banks*

Dear Sir

**IMPLEMENTATION OF THE PROVISIONS OF
PART IX (SECTIONS 72 TO 76) OF THE BANKING ACT
ON ABANDONED PROPERTY**

As intimated to you at the meeting of the CEOs of Licensed Commercial Banks and Licensed Specialised Banks held on 24.11.05, in terms of Section 73(1) of the Banking Act, all licensed commercial banks (LCBs) are hereby required to report "Abandoned Property" referred to in Section 72 of the Banking Act in the format determined by the Monetary Board given in Annex 1. In implementing the provisions of the Banking Act on Abandoned Property LCBs are requested to follow the guidelines at Annex 2.

The provisions of the Banking Act do not require the licensed specialized banks (LSBs) to report Abandoned Property. However, the LSBs too are requested to identify the articles that could be considered abandoned as described in Section 72 of the Banking Act and to report them using the format at Annex 1 till such time these provisions are made applicable to LSBs as well.

The first Report should contain property that would have been presumed abandoned up to 31.12.2005.

Please acknowledge receipt of this letter.

Yours faithfully
Sgd. / Director of Bank Supervision

Encl:

Annex 2

**Guidelines on the implementation of Part IX (Section 72 to 76)
of the Banking Act on Abandoned Property**

The Central Bank of Sri Lanka has decided to implement the provisions of Part IX of the Banking Act with effect from 31st December 2005. These guidelines establish the procedures for handling such property.

1. Identification of Abandoned Property
 - a. All licensed commercial banks (LCBs) should identify articles presumed to be abandoned property as described in Section 72 of the Banking Act. In general abandoned property includes the following articles in respect of which no activity has been evidenced for a period of ten years.
 - Any general deposit (demand, savings or matured time deposit) with an LCB with any interest or dividend but excluding any lawful charges.
 - Any funds paid towards the purchase of shares or other interests in an LCB with any interest or dividend but excluding any lawful charges.
 - Any sum payable on cheques or other instruments for which the LCB is directly liable.
 - Any intangible personal property and any income or interest thereon held in a fiduciary capacity.
 - The contents of safe deposit boxes upon which the rental period has expired and of which notice has been sent by registered post to the last known address of the lessee and the lessee has failed to respond within three years.
 - b. Activity in this regard is evidenced by any action taken by an owner with respect to his property, which indicates that the owner does not intend his property to be considered abandoned. Such action would include a deposit or

a withdrawal in the case of a customer account, notification of change of address, payment of a safe deposit rental charge, any other written correspondence, presenting the pass book for updating etc.

2. Filing of the Report on Abandoned Property with the Central Bank of Sri Lanka (CBSL)

- a. All LCBs holding any abandoned property should submit a report to CBSL within six months of the end of each financial year. The first Report should cover property that would have been presumed abandoned up to 31.12.2005. In the case of LCBs whose financial year ends on 31st March, the first report may cover the position as at 31.03.2006.
- b. All reporting of abandoned property should be in accordance with the format approved by the Monetary Board given at Annex 1. Information should be recorded in alphabetical order of the owners' last name, to the extent possible, and branchwise. Minors accounts should be reported separately. The process of identifying and completing the Report is expected to be automated by LCBs.
- c. While the banks should report all property that falls within the definition of abandoned property, if there are special considerations attached to such property, eg. the owner having migrated or left the country for an infinite period with notice to the bank, such special consideration should be reported to CBSL.
- d. Where an LCB does not hold any abandoned property to be reported as required by Section 73 of the Banking Act, the respective bank is expected to formally communicate it to CBSL. Such communication will be considered as a "Negative Report".
- e. Prior to reporting abandoned property to CBSL, the banks should make notification of it to the owner of such abandoned property, by registered mail, to the last known address of the owner giving a reasonable period to respond. Such notice should include a description of the property, a statement explaining the statutory requirements of abandoned property and the intended date that the property will be reported to CBSL if there is no response. In the case of Minors' accounts where the banks are of the view that it is not reasonable to consider a particular account as abandoned due to its intrinsic characteristics, banks need not notify the owners/guardians of such accounts. However, the banks should report all Minors' accounts that fall within the definition of abandoned property to CBSL with specific mention why they should not be considered as abandoned property.
- f. Pursuant to the filing of a Report on Abandoned Property, a bank should maintain documents necessary to prove information submitted in the Report for a period of at least six years from the date of submitting the Report.

3. Delivery of Abandoned Property to CBSL

Any further action to be taken in terms of Subsections (2) and (3) of Section 73 of the Banking Act will be notified to all LCBs in due course.

4. Publication of Notice of Abandoned Property

- a. In accordance with Section 74 of the Banking Act a bank should, within thirty days of submission of the Report, required under paragraph 2. a. above,
 - publish a notice in the Sinhala, Tamil and English daily newspapers stating the name of the owner and particulars concerning the property; and
 - should dispatch by registered post, a notice containing particulars of the property to the last known address of the owner.
- b. With regard to Minors' accounts, the procedure stated in paragraph 2 e. above should be followed.

5. Drilling/Opening of safe deposits

- a. The bank should prepare a Safe Deposit Inventory Sheet to record details of safe deposit boxes opened. Opening of the safe custody lockers should be carried out in the presence of two responsible officers who are, inter-alia, specifically assigned with such task and one of whom should be at least at Senior Executive Level. All items found in safe deposit boxes presumed to be abandoned should be included in the Inventory Sheet without exceptions. No item should be sold, destroyed or disposed.
- b. The format at Annex 3 may be used for this purpose. The Inventory Sheet should be signed by the staff conducting the inventory and returned to CBSL along with the Report on Abandoned Property.
- c. All items contained in the safe deposit boxes should be itemised and kept in safe custody after the drilling/opening of safe deposit boxes.

6. The costs

The banks should attempt to comply with these guidelines in the most cost efficient manner. These costs should be charged to the owners of abandoned property only if it has been made known to the customers in a valid, enforceable and written contract between the bank and the customer, specifying the amount of the fee and the customer is notified of the charging of such fee.

7. Submission of information by licensed specialized banks (LSBs)

The provisions of the Banking Act do not require LSBs to identify and report Abandoned Property.

However, LSBs are requested to identify the articles that could be considered abandoned as described in Section 72 of the Banking Act and to report them to CBSL using the format at Annex 1.

Instructions for completing the Report of Abandoned Property at Annex 1

Information should be recorded in alphabetical order of the owners' last name, to the extent possible, and branchwise. A separate sheet should be used for Minors accounts.

Name of Bank : Enter the name of the reporting bank.

Reporting Date : Enter the date as at when the reporting is done.

Column A : Enter the owner's last name followed by full first name and full middle name/s. Enter information that would aid in identification such as Miss, Mr., Mrs., after the middle name.

If a single item has two or more owners, the names of all such owners must be reported with the relationship. If your records do not show an owner name for an item, enter the owner as "unknown".

Column B : Enter the complete address available in your records. If no address is available indicate so.

In the case of several owners if the address is same, the address may be entered once and indicated that it is same for others.

Column C : Enter the owner's National Identity Card no., Passport no., date of birth or any other information that will assist in identification of an owner. These will be essential in paying claims and if known, they must be included in the Report.

Column D : Enter the description of item with sufficient detail.

Column E : Enter your identification number for each item such as account no., cheque no. etc.

Column F : Indicate whether the item is interest bearing.

Column G : Indicate the date when the last deposit, withdrawal or contact was made by the owner. It could also be the date a dividend became payable, cheque or draft was issued, certificate was purchased.

Column H : Indicate the nature of the last activity.

Column I : Indicate the total amount due to the owner including all interest, dividend, earned up to the reporting date without deducting any service charges.

In the case of safe deposit boxes or other items held for safekeeping, identify the contents and include the description of any item that has a value. For all safe deposit boxes include an inventory sheet as in Annex 3.

Column J : Enter the amount of deductions made which should include only any lawful charges.

Column K : Indicate the nature of deduction made such as service charges, tax etc.

Column L : Indicate the net amount due after the deductions mentioned.

Column M : Indicate the terms agreed with the owner such as interest rate, payment instructions etc. that will be essential

in case of payment of claims.

Also indicate any special considerations attached to such property and the date of maturity in case of term deposits.

Total : Total the Column L and enter at the bottom of each page. On the last page enter the page total and the grand total for the entire Report.

Instructions for completing the Safe Deposit Box Inventory Sheet at Annex 3

Name of Bank : Enter the name of the reporting bank.
 Reporting Date : Enter the date as at the date of reporting.
 Name of the Box Owner(s) : Indicate the full name(s) of the owner(s) including information useful for owner identification.
 Box Number : Enter the safe deposit box number.
 Date Drilled : Enter the date the safe deposit box was opened.
 Vault Location : Indicate where the vault containing the safe deposit is located.
 Quantity & Detailed Description : Indicate the nature of each item contained in the safe deposit box with the quantities.
 Date of Inventory : The date on which the inventory was taken.

Annex 3

Safe Deposit Box Inventory Sheet

Name of Bank :

Reporting Year :

Name of Box Owner(s) :

Box Number : Date Drilled : Vault Location :

Quantity	Detailed Description of Contents	Any other Relevant Information

We certify that the above information is true and that no items have been removed or destroyed.

Date of Inventory:

.....

.....

.....

Signature of Bank Official

Name of Official

Designation

.....

.....

.....

Signature of Bank Official

Name of Official

Designation

Annex I**Report of Abandoned Property**

Name of Bank :

Reporting Period :

	A	B	C	D	E	F	G	H	I	J	K	L	M
	Owner's Last Name with Other Names in Full	Last known Complete Address	Owner's Identification Nos., if available (NIC, Passport no., date of birth etc.)	Description of Property	Property Identification Number	Interest bearing Yes/No	Last Activity Date	Nature of Activity	Amount Due	Amount Deducted	Description of Deduction	Amount	Terms of Agreement and owner's instructions
1													
2													
3													
4													
5													
6													
7													
8													
9													
10													
11													
12													
	TOTAL												

I,, being first duly sworn, on oath depose and state that I have cause to be prepared and have examined this report consisting ofpages totaling Rs as to property presumed abandoned under the provisions of the Banking Act, No. 30 of 1988, for the period stated above that I am duly authorised by the (name of the bank) to execute this Report and that to the best of my knowledge and belief the Report is true, correct and complete as of said date, excepting for such property as has since ceased to be abandoned.

.....
Signature:.....
Name:.....
Designation:

Sworn and placed his/her signature before me on thisday of in the year

.....
Signature:.....
Name:

Ref: 02/08/005/0002/002Bank Supervision Department
3 May 2006*To: CEOs of Licensed Commercial Banks
and Licensed Specialised Banks*

Dear Sir

CLASSIFICATION OF BANKING OUTLETS

Reference is made to the discussion on the above subject at the meeting of the CEOs of licensed banks held on 23.03.06 and the subsequent requests made by banks in the above regard. All licensed banks should name and operate their banking outlets in conformity with the classification given in the Annexed schedule.

In the case of existing outlets, where possible, banks are requested to rename them appropriately or restrict activities, to conform to the new classification, with prior notification to us. However, for regulatory purposes, the existing outlets too would be considered under the new classification.

The mobile banking units, which comprise the following, are excluded from the above classification.

- a. Banking services carried out in vehicles in different locations.
- b. “Barefoot banking” where bank officers visit customers outside the bank premises and transact business with them.
- c. Banking services carried out by a unit on a few days of the week (not on all working days) in a permanent place with staff attached to a branch of the bank visiting the unit to transact business.
- d. Banking services carried out at temporary outlets operated at public places such as temples, schools, carnivals, exhibitions, conferences, etc.

Please acknowledge receipt.

Yours faithfully
Sgd. / Director of Bank SupervisionCC: Secretary General,
Sri Lanka Banks’ Association (Guarantee) Ltd.

Annex

Name of Banking Outlet	Permitted Activities	Status
Branch	All activities permitted under the Banking Act.	Fully fledged main branch.
Student Savings Unit	Opening and operating savings accounts by students, teachers and other staff of the respective school.	Should be affiliated to a main branch.
Pawning centre	Pawning related activities.	- do -
Pay Office in the Air port	Issue and encashment of foreign currencies and Travelers Cheques.	- do -
Extension Offices	<ul style="list-style-type: none"> - Accepting deposits and loan recoveries of existing customers. - Accepting applications for deposits and loans. - Pawning related activities. - Issue and encashment of foreign currency and Travellers Cheques - Provide cash withdrawals where the necessary verifications and authorizations are available - Accept utility bills payments - Pay Government pensions - Granting advances against deposits where the necessary verifications and authorizations are available - Promotional and Marketing activities. 	- do -
Post office/sub post office units of the National Savings Bank	Mobilising deposits and permitting withdrawals to the extent approved by the bank's Head Office.	- do -

Bank Supervision Department
31 May 2006

To: All Licensed Banks,

CONDUCT OF NON-GOVERNMENT ORGANIZATIONS (NGO)
ACCOUNTS BY LICENSED BANKS

The immediate attention of all licensed banks is drawn to the need to observe strict due diligence and the “Know Your Customer” (KYC) Rules with regard to inward remittances and outward transfers or withdrawal of funds from accounts operated by NGOs.

In this regard the attention of all licensed banks is drawn to the provisions of Section 15 subsection (2) of the Financial Transactions Reporting Act No. 6 of 2006 and Section 3 of the Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005 which are annexed for ease of reference.

Sgd. / Director of Bank Supervision

Section 15 subsection (2) of the Financial Transactions Reporting Act No. 6 of 2006 reads as follows:-

- 15 (2) Where the Financial Intelligence Unit has reasonable grounds to suspect that a transaction or attempted transaction may —
- (a) involve the proceeds, which are attributable to any unlawful activity ; or
 - (b) be connected to the commission of the money laundering offence under the Money Laundering Act, No. 5 of 2006; or
 - (c) be preparatory to the commission of an offence under the Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005,

it may direct the Institution in writing or by telephone to be confirmed in writing within twenty-four hours, not to proceed with the carrying out of that transaction or attempted transaction or any other transaction in respect of the funds affected by that transaction or attempted transaction for a period to be determined by the Financial Intelligence Unit, which may not be more than seven days, in order to allow the Financial Intelligence Unit —

- (i) to make any necessary inquiries concerning the transaction or attempted transaction; and
- (ii) if the Financial Intelligence Unit deems it appropriate, to consult or advise the relevant law enforcement agency in the inquiries.

- (3) The Financial Intelligence Unit may make an ex –parte application to the High Court of the Western Province, holden in Colombo, for an extension of the period of time stipulated in subsection (2) setting out the grounds for such application.

For the purposes of subsection 15 (2) (a) quote above “unlawful activity” interalia includes any acts which constitutes an offence under :-

- (a) .
- (b) any law or regulation for the time being in force relating to the prevention and suppression of terrorism

Hence, in view of the above provisions of law, if there is adequate proof that funds transferred from a company to an individual would finance terrorism, it is possible for the FIU to inform the Bank concerned which holds the funds for the company which proposes to release such funds to an individual to carry out any act of terrorism, to suspend the account for a period of 7 days. Before the expiry of 7 days, the FIU should apply to the High Court of Colombo for an extension of the time if the time is insufficient to take in appropriate action to seize the funds in the account.

Further, Section 3 of the Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005 reads as follows:

-

3. (1) Any person who, by any means, directly or indirectly, unlawfully and willfully provides or collects funds, with the intention that such funds should be used, or in the knowledge that they are to be used or having reason to believe that they are likely to be used, in full or in part, in order to commit, -
- (a) an act which constitutes an offence within the scope of, or within the definition of any one of the Treaties specified in Schedule I hereto;
 - (b) any other act, intended to cause death or serious bodily injury, to civilians or to any other person not taking an active part in the hostilities, in a situation of armed conflict, and the purpose of such act, by its nature or context is to intimidate a population or to compel a government or an international organization, to do or to abstain from doing any act, shall be guilty of the offence of financing of terrorists or terrorist organizations:

Provided that, for an act to constitute the offence set out above, it shall not be necessary to show that the funds collected were actually used in the commission of an offence.

- (2) Any person who-
- (a) Attempts to commit;
 - (b) Aids or abets the commission of; or
 - (c) Acting with a common purpose with another person or a group of persons, contributes to the commission of, the offence of financing of terrorists or terrorist organizations, shall be guilty of an offence under this Act.

In this subsection “abet” has the same meaning as in sections 100 and 101 of the Penal Code.

- (3) Where an offence specified in subsection (1) or subsection (2) of this section is committed by a body of persons, then, every member, Director, Manager, Secretary, officer or servant of such body of persons shall be guilty of such offence, unless it can be proved that the offence was committed without their knowledge or that they exercised all due diligence to prevent the commission of such offence.
 - (4) A person guilty of an offence under subsection (1) or subsection (2) of this section, shall on conviction after trial on indictment by the High Court, be punished with imprisonment for a term not less than fifteen years and not exceeding twenty years, and also be liable to a fine.
4. (1) On indictment of any person in the High Court, for an offence under this Act, all funds collected in contravention of the provisions of section 3, shall, with effect from the date of filing of such indictment –
 - (a) if such funds are lying in an account with any Bank, be subject to an order of freezing; or
 - (b) if such funds are in the possession or control of any person be liable to seizure;
 - (2) The freezing or seizure of funds in terms of subsection (1) shall be in force until the conclusion of the trial.
 - (3) On the filing of indictment, the Attorney-General shall notify the Central Bank of the freezing or seizure as the case may be.
 - (4) The Central Bank shall thereupon take steps to give adequate publicity to the order of freezing or seizure as the case may be, as it shall think fit.

Bank Supervision Department
01 June 2006

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

Dear Sirs,

DRAFT GUIDELINES ON THE COMPUTATION OF THE CAPITAL RATIO UNDER BASEL II

Clarifications sought by the banks with regard to the parallel computation of Basel I and Basel II and issues raised by the banks at the meeting of the SLBA sub-committee on Basel II held on 26. 05. 2006, are circulated herewith for the information of all banks.

All banks are kindly requested to make note of these clarifications for future computations.

1. Identification of the retail and SME Portfolio
 - 1.1. In order to qualify for the preferential risk weight for the regulatory retail and SME portfolio under Basel II, banks have to identify and segregate them for supervisory validation. Therefore, it is important that banks develop their information systems to identify and segregate such portfolios early, in order to be able to apply the concessionary risk weights upon implementation of Basel II.
 - 1.2. Definition of SME – to be finalized based on the suggestions of the SLBA sub-committee on “Retail/SME definitions”, and subsequent to review of supporting data from banks.
 - 1.3 It is also suggested that instead of the 3 criteria presently suggested by CBSL, the following two criteria be used to identify SMEs:
 - * Asset values not exceeding Rs. 35 million, excluding land and building
 - * Annual turnover of the SME not more than Rs. 30 million (to be decided)

Further, since SME is part of the retail portfolio, the SME portfolio, too should be subject to the same qualifying criteria as the retail loans. Please refer the annexed addendum to the draft guidelines on Basel II for the revised criteria for retail and SME.

2. Other clarifications

- 2.1 Whether a credit card holder enjoying an overdraft and a term loan facility could be considered under the regulatory retail portfolio?

Only personal loans and personal overdrafts could be considered for inclusion under the retail portfolio (orientation and product criterion). Accordingly, if the overdraft and term loan have been granted for business purposes, they would not qualify for inclusion under the retail portfolio. Subject to meeting the qualifying criteria, they could be included under the SME portfolio.

- 2.2 Would advances granted for a sole proprietorship qualify for inclusion under the retail portfolio or the SME portfolio?

Under the SME portfolio, subject to meeting the qualifying criteria

- 2.3 Residential Mortgages – Ascertaining the value of the property when the land is owned by the borrower and the loan is granted for construction. Whether, 75% could be applied on the BOQ value in such instances as there is no valuation for the land?

Whether loans granted to purchase a house in a condominium property could be considered under the category of “Loans granted for residential purposes, secured by Residential Property”? If the answer is yes, then what is the value to be considered in classifying the loan under the above category (since condominium properties do not have any valuations)?

The valuation used by the bank for lending purposes should be considered as the value of the property.

- 2.3 Credit Rating of Collateral – In the event the credit rating of the collateral covering the exposure is lower than the credit rating of the borrower, which rating should be used for risk weighting the exposure?

If the credit rating of the collateral is lower than that of the borrower, the collateral does not provide credit risk mitigation. Therefore, it will not be a collateralized transaction for purposes of Basel II.

Yours faithfully

Sgd. / Director of Bank Supervision

Annex

Revised criteria for identification of the Regulatory Retail and SME Portfolios

Performing claims that meet the following criteria would qualify for inclusion under the regulatory retail and SME portfolios, and would qualify for a preferential risk weight of 75%.

Qualifying criteria for the Regulatory Retail Portfolio

1. Orientation Criterion – the exposure should be to an individual person for personal purposes
2. Product criterion – The exposure should be of one of the following product types:
 - β Revolving credit and lines of credit including personal overdrafts and credit cards
 - β Personal term loans and leases (eg: installment loans, vehicle loans and leases, student and educational loans, personal finance)
 - β Securities such as bonds and equities are excluded (to be treated as investments).
 - β Loans secured by property mortgages that qualify for inclusion as claims secured by residential property are excluded
3. Granularity criterion – The regulatory retail portfolio must be sufficiently diversified to a degree that reduces the risks in the portfolio. In order to meet this criterion, no aggregate exposure without considering CRM, to one counterpart should exceed 0.2% of the overall regulatory retail portfolio (excluding any non-performing retail loans) (one counterpart – one or several entities that constitute a single beneficiary, eg: in the case of a small business affiliated to another small business, the limit would apply to the bank’s aggregate exposure on both businesses)
4. Low value of individual exposures – The maximum aggregate retail exposure to one counterpart cannot exceed the lower of 0.2% of capital funds or Rs. 10 million

Qualifying criteria for the SME Portfolio

1. Orientation Criterion – the exposure should be to an individual person for business purposes (sole proprietorship) or a firm or a small or medium enterprise

SME:

The following criteria have to be met:

- * Asset values not exceeding Rs. 35 million, excluding land and building; and
- * Annual turnover not more than Rs. 30 million

2. Product criterion – The exposure should be of one of the following product types:
 - β Revolving credit and lines of credit including overdrafts
 - β Term loans and leases
 - β Securities such as bonds and equities are excluded (to be treated as investments).
 - β Loans secured by property mortgages that qualify for inclusion as claims secured by residential property are excluded
3. Granularity criterion – The SME portfolio must be sufficiently diversified to a degree that reduces the risks in the portfolio. In order to meet this criterion, no aggregate exposure without considering CRM, to one counterpart should exceed 0.2% of the overall regulatory SME portfolio (excluding any non-performing SME loans) (one counterpart – one or several entities that constitute a single beneficiary, eg: in the case of a small business affiliated to another small business, the limit would apply to the bank's aggregate exposure on both businesses)
4. Low value of individual exposures – The maximum aggregate exposure to one counterpart cannot exceed an absolute threshold of Rs. 35 million.

Bank Supervision Department

13 June 2006

To: The CEOs of Licensed Banks

Dear Sirs,

PREVENTION OF FRAUDS USING ELECTRONIC CARDS

Recent reports have highlighted the use of credit cards and ATM cards for fraudulently withdrawing large sums of money from banks in many countries, especially in the South East Asian region.

The Presidential Secretariat, by its letter dated 06 June 2006 has drawn the attention of the Central Bank to the need to take precautionary measures to avert the possibility of such attempts being made even in Sri Lanka, considering the particular danger of terrorist groups using them as a means of creating a sense of insecurity in a vital sector of the economy.

Accordingly, Licensed Banks that issue electronic cards to customers should, as soon as is practicable take steps to:

1. Introduce security features such as tamper-proof micro chips for electronic cards, and in the interim-
2. Take appropriate steps to educate their customers with regard to the safety of their electronic cards and remind them at regular intervals the steps that should be taken by them, in order to avoid being victims of fraudulent use of such cards.
3. Ensure that adequate provision is made annually for the necessary investment in technology.

The banks are also encouraged to introduce other relevant security measures in respect of ATM cards/machines. It is suggested that CCTV cameras be installed at all ATM outlets in order to enhance the surveillance at ATM outlets.

Your views on this matter are welcome for discussion at the forthcoming monthly meeting of CEOs on the 22 June 2006.

Yours faithfully

Sgd./ Director of Bank Supervision

Bank Supervision Department
16 June, 2006

To: CEOs of All Licensed Banks

Dear Sirs,

CONDUCT OF NON-GOVERNMENT ORGANIZATIONS (NGOs)
ACCOUNTS BY LICENSED BANKS

Further to our circular dated 31 May, 2006 on the above subject, the attention of all licensed banks is drawn to the following:

- * In order to scrutinize the legitimacy of financial transactions undertaken by NGOs who receive funding assistance from external sources, the Ministry of Finance & Planning has requested the relevant line Ministries to establish a proper monitoring procedure and ascertain the work undertaken by them.
- * Accordingly all licensed banks are requested to obtain a clearance letter from the relevant line Ministry and External Resources Department before releasing such funds to the respective NGOs, where it is evident that such NGO is operating outside its scope of activity. Copy of clearance letter may be forwarded to Central Bank of Sri Lanka.

Yours faithfully,
Sgd./ Director of Bank Supervision

Bank Supervision Department
27 June 2006

To: CEOs of Licensed Banks
Panel of Approved Auditors

Dear Sirs

PAYMENT OF TAXES BY THE BANKING AND FINANCIAL SECTOR

The Inland Revenue Department has drawn the attention of the CBSL to the deviations observed in the payment of taxes (income tax, VAT – including VAT on financial activities, PAYE, Debit Tax and Economic Service Charge) by the banking sector.

Licensed Banks are therefore informed that payment of all taxes such as income tax, VAT (including VAT on financial activities), PAYE, Debit Tax and Economic Service Charge payable to the Department of Inland Revenue should carry a certification by the External Auditors of the bank, when such payment is made, that the relevant tax is in conformity with the provisions of the relevant Inland Revenue regulations in that regard.

Yours faithfully
Director of Bank Supervision

Bank Supervision Department
28 June 2006

To: The CEOs of Licensed Commercial Banks incorporated outside Sri Lanka

Dear Sirs

**SINGLE BORROWER LIMIT - COMPLIANCE WITH THE
AGGREGATE EXPOSURE LIMIT**

The immediate attention of all banks is drawn to the aggregate exposure limit under the Single Borrower Limit, as specified in paragraph 3 of the SBL Direction No. 2 of 2005, which is required to be complied with at all times. Please be informed that accommodation exceeding the Single Borrower Limit (SBL) against a Head Office guarantee/undertaking would not be exempt from the aggregate exposure limit.

Yours faithfully
Sgd./ Director of Bank Supervision

cc: Secretary General/SLBA

Bank Supervision Department
28 July 2006

To: CEOs of Licensed Commercial Banks

Dear Sirs,

IMPLEMENTATION OF THE NEW WEB BASED OFF-SITE SURVEILLANCE SYSTEM

Further to our circular dated 17 March 2006 and the discussions at the meeting of the CEOs of licensed banks held on 04.07.2006 and 22.06.2006, on the above subject, all licensed banks are hereby informed that the submission of periodical returns in manual form will be discontinued from the reporting period ending June 2006. The new 'web-based returns' will be implemented from the reporting period commencing July 01, 2006. The lists of web-based returns are given in the Annex 1. Existing returns that are not replaced with the web-based returns should continue to be submitted in manual form.

Banks are further informed that statement of certification relating to returns submitted on a weekly/monthly, quarterly and annual basis should be submitted as specified in Annex 2, Annex 3, Annex 4 and Annex 5, respectively, within 3 days from the end of the reporting period.

Yours faithfully
Director of Bank Supervision

Annex I

The List of Returns implemented under New Web-based Off-site Surveillance System

Licensed Commercial Banks

Existing Manual Return	New web-based Return to replace the Manual Return
Weekly Returns	
Interest Rates	BSD-WF-13-IR- Interest Rates (“Bank Only” Totals)
Monthly Returns	
Assets and Liabilities – DBU	BSD-MF-01-BD - Balance Sheet (DBU and Bank Only Operations)
Assets and Liabilities – FCBU	BSD-MF-01- BF- Balance Sheet (FCBU Operations)
Income and Expenditure – DBU (Note)	BSD-MF-02-PD - Profit & Loss (DBU and Bank Only Operations)
Income and Expenditure – FCBU (Note)	BSD-MF-02- PF- Profit & Loss (FCBU Operations)
Classified Advances – DBU (Note)	BSD-MF-03-CD - Classification of Loans & Advances (DBU Operations)
Classified Advances – FCBU (Note)	BSD-MF-03-CF Classification of Loans & Advances (FCBU Operations)
Statutory Liquid Assets – DBU	BSD-MF-04-LD - Statutory Liquid Asset Ratio (DBU Operations)
Statutory Liquid Assets – FCBU	BSD-MF-04- LF- Statutory Liquid Asset Ratio (FCBU Operations)
Commercial Paper/Promissory Notes	BSD-MF-16-CP- Commercial Papers/Promissory Notes
Overdue Export Credit (DBU & FCBU)	BSD-MF-17-CS- Overdue Export Credit (Enhanced Interest Charge on Settlements)
-	BSD-MF-17-CO- Overdue Export Credit (Outstanding)
	BSD-MF-15-GE- Government Exposure (“Bank Only” Totals) (New)
Quarterly Returns	
Accommodation Granted to a Bank Director and/or Close Relation – Domestic Banks	BSD-QF-06- RC- Related Party Exposures (Accommodation Granted by the Bank to Directors and/or Close Relatives– “Bank Only” Totals)
Accommodation Granted to Bank Directors and Concerns where the Director has a Substantial	Interest - Domestic Banks
	BSD-QF-06-RS - Related Party Exposures
Investments in Shares (Section 17A(1) of the Banking Act No. 30 of 1988 as amended by (Amendment) Act No. 33 of 1995)	(Accommodations Granted by the Bank to Concerns where a Director of the Bank has a Substantial Interest – “Bank Only” Totals)
	BSD-QF-07-IE- Investment in Equity
	(“Bank Only” Totals)
Existing Manual Return	
Capital Adequacy - Solo	BSD-QF-11-C1 – C4- Capital Adequacy (“Bank Only” Solo Basis Totals)
Capital Adequacy - Consolidated	BSD-QF-11-C5 – C8 - Capital Adequacy (Consolidated Totals)
Interest Spread	BSD-QF-14-SP- Interest Spread
-	BSD-QF-05-LN- Large Exposures (Performing & Non Performing – “Bank Only” Totals) (New)
-	BSD-QF-08-FE- Foreign Currency Exposures (DBU Operations Only) (New)
-	BSD-QF-09-GA- Maturity Gap Analysis (“Bank Only” Totals) (New)
-	BSD-QF-10-IS- Interest Rate Sensitivity (“Bank Only” Totals) (New)
-	BSD-QF-12-SC- Sector Wise Credit Exposures (“Bank Only” Totals) (New)

Annual Returns – As per Audited Accounts	
Assets and Liabilities – DBU	BSD-AF-01-BD - Balance Sheet (DBU and Bank Only Operations)
Assets and Liabilities –FCBU	BSD-AF-01-BD & BF- Balance Sheet (FCBU Operations)
Income and Expenditure –DBU	BSD-AF-02-PD - Profit & Loss (DBU and Bank Only Operations)
Income and Expenditure – FCBU	BSD-AF-02-PF- Profit & Loss (FCBU Operations)
Capital Adequacy - Solo	BSD-AF-11-C1-C4 - Capital Adequacy (“Bank Only” Solo Basis Totals)
Capital Adequacy - Consolidated	BSD-AF-11-C5 – C8 - Capital Adequacy (Consolidated Totals)

Note: Frequency has been changed from quarterly to monthly.

Annex 2

Statement of Certification of Weekly/Monthly Returns Approved/Submitted

Return	Due Date	Submitted		Approved Date
		Yes	No	
Monthly Returns				
BSD-MF-01-BD - Balance Sheet - Domestic Banking Unit Operations (DBU) and Bank	15/MM/YY			
BSD-MF-01-BF- Balance Sheet - Foreign Currency Banking Unit Operations (FCBU)	15/MM/YY			
BSD-MF-02-PD - Profit & Loss - Domestic Banking Unit Operations (DBU) and Bank	15/MM/YY			
BSD-MF-02-PF- Profit & Loss - Foreign Currency Banking Unit Operations (FCBU)	15/MM/YY			
BSD-MF-03-CD-Classification of Loans & Advances - Domestic Banking Unit Operations (DBU)	15/MM/YY			
BSD-MF-03-CF - Classification of Loans & Advances - Foreign Currency Banking Unit Operations (FCBU)	15/MM/YY			
BSD-MF-04-LD - Statutory Liquid Asset Ratio - Domestic Banking Unit Operations (DBU)	15/MM/YY			
BSD-MF-04-LF- Statutory Liquid Asset Ratio - Foreign Currency Banking Unit Operations (FCBU)	15/MM/YY			
BSD-MF-16-CP- Commercial Papers/Promissory Notes	15/MM/YY			
BSD-MF-17-CS- Overdue Export Credit - Enhanced Interest Charged on Settlement	15/MM/YY			
BSD-MF-17-CO- Overdue Export Credit - Outstanding	15/MM/YY			
BSD-MF-15-GE- Government Exposure (New)	15/MM/YY			
BSD-WF-13-IR – Interest Rates – 1st Week	DD/MM/YY			
BSD-WF-13-IR – Interest Rates – 2nd Week	DD/MM/YY			
BSD-WF-13-IR – Interest Rates – 3rd Week	DD/MM/YY			
BSD-WF-13-IR – Interest Rates – 4th Week	DD/MM/YY			
BSD-WF-13-IR – Interest Rates – 5th Week	DD/MM/YY			

We certify that the information contained in the above returns has been extracted from and is in accordance with the books of accounts of the bank.

(Name)
Sgd./ Finance Controller
Date: DD/MM/YY

(Name)
Sgd./ Compliance Officer/Administrator
Date: DD/MM/YY

Annex 3

Statement of Certification of Quarterly Returns Approved/Submitted

Return	Due Date	Submitted		Approved Date
		Yes	No	
Quarterly Returns				
BSD-QF-05-LN- Large Exposures (New)	21/MM/YY			
BSD-QF-06-RC- Related Party Exposures - Accommodation granted by the Bank to Directors and/or Close Relatives	21/MM/YY			
BSD-QF-06-RS - Related Party Exposures - Accommodation Granted by the Bank to Concerns where a Director of the Bank has a Substantial Interest	21/MM/YY			
BSD-QF-07-IE- Investment in Equity	21/MM/YY			
BSD-QF-08-FE- Foreign Currency Exposures (New)	21/MM/YY			
BSD-QF-09-GA- Maturity Gap Analysis (New)	21/MM/YY			
BSD-QF-10-IS- Interest Rate Sensitivity (New)	21/MM/YY			
BSD-QF-12-SC- Sector Wise Credit Exposures (New)	21/MM/YY			
BSD-QF-14-SP- Interest Spread	21/MM/YY			

We certify that the information contained in the above returns has been extracted from and is in accordance with the books of accounts of the bank.

(Name)
Sgd./ Finance Controller
Date: DD/MM/YY

(Name)
Sgd./ Compliance Officer/Administrator
Date: DD/MM/YY

Annex 4

Statement of Certification of Annual Returns Approved/Submitted

Return	Due Date	Submitted		Approved Date
		Yes	No	
Annual Returns				
BSD-AF-01-BD - Balance Sheet (DBU and Bank Only Operations)	30/MM/YY			
BSD-AF-01-BD & BF- Balance Sheet (FCBU Operations)	30/MM/YY			
BSD-AF-02-PD - Profit & Loss (DBU and Bank Only Operations)	30/MM/YY			
BSD-AF-02-PF- Profit & Loss (FCBU Operations)	30/MM/YY			

We certify that the information contained in the above returns has been extracted from and is in accordance with the books of accounts of the bank.

(Name)
Sgd./ Finance Controller
Date: DD/MM/YY

(Name)
Sgd./ Compliance Officer/Administrator
Date: DD/MM/YY

Annex 5

Statement of Certification of Quarterly/Annual Returns Approved/Submitted
(Only for Capital Adequacy)

Return	Due Date	Submitted		Approved Date
		Yes	No	
Quarterly Returns				
BSD-QF-11-C- Capital Adequacy – Bank Only (SOLO basis)	30/MM/YY			
BSD-QF-11-C- Capital Adequacy – Consolidated	30/MM/YY			

We certify that –

- (1) The information submitted in the above return is, to the best of our knowledge and belief, correct;
- (2) The capital adequacy ratio was, at any time during the quarter/year under review, not less than the ratio determined by the Monetary Board, in terms of section 19(7)(a) of the Banking Act No. 30 of 1988 as amended by Banking Act No.33 of 1995 and Act No. 2 of 2005.

Chief Accountant/Authorised Officer
Name
Date:

Chief Executive
Name
Date:

Bank Supervision Department
28 July 2006

To: CEOs of Licensed Specialised Banks (except RDBs)

Dear Sirs,

IMPLEMENTATION OF THE NEW WEB BASED OFF-SITE SURVEILLANCE SYSTEM

Further to our circular dated 17 March 2006 and the discussions at the meeting of the CEOs of licensed banks held on 04.07.2006 and 22.06.2006, on the above subject, all licensed banks are hereby informed that the submission of periodical returns in manual form will be discontinued from the reporting period ending June 2006. The new 'web-based returns' will be implemented from the reporting period commencing July 01, 2006. The lists of web-based returns are given in the Annex 1. Existing returns that are not replaced with the web-based returns should continue to be submitted in manual form.

Banks are further informed that statement of certification relating to returns submitted on a weekly/monthly, quarterly and annual basis should be submitted as specified in Annex 2, Annex 3, Annex 4 and Annex 5, respectively, within 3 days from the end of the reporting period.

Yours faithfully
Director of Bank Supervision

Annex 1

The List of Returns implemented under New Web-based Off-site Surveillance System

Licensed Commercial Banks

Manual Return Replaced	New web-based Return to replace the Manual Return
Weekly Returns	
Interest Rates	BSD-WF-13-IR- Interest Rates ("Bank Only" Totals)
Monthly Returns	
Assets and Liabilities	BSD-MF-01-BD – Balance Sheet (DBU and Bank Only Operations)
Income/Expenditure & Distribution of Profits (Note)	BSD-MF-02-PD – Profit & Loss (DBU and Bank Only Operations)
Liquid Assets	BSD-MF-04-LD – Statutory Liquid Asset Ratio
Commercial Paper/Promissory Notes	BSD-MF-16-CP- Commercial Papers/Promissory Notes
-	BSD-MF-03-CD - Classification of Loans & Advances (New)
-	BSD-MF-15-GE- Government Exposure ("Bank Only" Totals) (New)
Quarterly Returns	
Large Accommodation (Note)	BSD-QF-05-LN- Large Exposures (Performing & Non Performing – "Bank Only" Totals)
Accommodation granted to a Director or a close Relation	BSD-QF-06- RC- Related Party Exposures (Accommodation Granted by the Bank to Directors or/and Close Relatives – "Bank Only" Totals)
Accommodation granted to concerns where the Director has a substantial interest	BSD-QF-06-RS – Related Party Exposures (Accommodations Granted by the Bank to Concerns where a Director of the Bank has a Substantial Interest – "Bank Only" Totals)
Investment in Equity (Public Companies)	BSD-QF-07-IE- Investment in Equity ("Bank Only" Totals)
Investment in Equity (Private Companies)	
Capital Adequacy – Solo	BSD-QF-11-C1 – C4- Capital Adequacy ("Bank Only" Solo Basis Totals)
Capital Adequacy – Consolidated	BSD-QF-11-C5 – C8 – Capital Adequacy (Consolidated Totals)
Interest Spread	BSD-QF-14-SP- Interest Spread
-	BSD-QF-08-FE- Foreign Currency Exposures – If applicable (New)
-	BSD-QF-09-GA- Maturity Gap Analysis ("Bank Only" Totals) (New)
-	BSD-QF-10-IS- Interest Rate Sensitivity ("Bank Only" Totals) (New)
-	BSD-QF-12-SC- Sector Wise Credit Exposures ("Bank Only" Totals) (New)
Annual Returns	
Assets and Liabilities	BSD-AF-01-BD - Balance Sheet (DBU and Bank Only Operations)
Income and Expenditure	BSD-AF-02-PD - Profit & Loss (DBU and Bank Only Operations)
Capital Adequacy - Solo	BSD-AF-11-C1-C4 - Capital Adequacy ("Bank Only" Solo Basis Totals)
Capital Adequacy - Consolidated	BSD-AF-11-C5 – C8 - Capital Adequacy (Consolidated Totals)

Note: Frequency has been changed from quarterly to monthly.

Annex 2

Statement of Certification of Weekly/Monthly Returns Approved/Submitted

Return	Due Date	Submitted/Approved Date	
		Yes	No
Monthly Returns			
BSD-MF-01-BD - Balance Sheet - Domestic Banking Unit Operations (DBU) and Bank	15/MM/YY		
BSD-MF-02-PD - Profit & Loss - Domestic Banking Unit Operations (DBU) and Bank	15/MM/YY		
BSD-MF-03-CD- Classification of Loans & Advances	15/MM/YY		
BSD-MF-04-LD - Statutory Liquid Asset Ratio - Domestic Banking Unit Operations (DBU)	15/MM/YY		
BSD-MF-16-CP- Commercial Papers/Promissory Notes	15/MM/YY		
BSD-MF-15-GE- Government Exposure (New)	15/MM/YY		
BSD-WF-13-IR – Interest Rates – 1st Week	DD/MM/YY		
BSD-WF-13-IR – Interest Rates – 2nd Week	DD/MM/YY		
BSD-WF-13-IR – Interest Rates – 3rd Week	DD/MM/YY		
BSD-WF-13-IR – Interest Rates – 4th Week	DD/MM/YY		
BSD-WF-13-IR – Interest Rates – 5th Week	DD/MM/YY		

We certify that the information contained in the above returns has been extracted from and is in accordance with the books of accounts of the bank.

(Name)
Sgd./ Finance Controller
Date: DD/MM/YY

(Name)
Sgd./ Compliance Officer/Administrator
Date: DD/MM/YY

Annex 3

Statement of Certification of Quarterly Returns Approved/Submitted

Return	Due Date	Submitted/Approved Date	
		Yes	No
Quarterly Returns			
BSD-QF-05-LN- Large Exposures (New)	21/MM/YY		
BSD-QF-06-RC- Related Party Exposures - Accommodation granted by the Bank to Directors and/or Close Relatives	21/MM/YY		
BSD-QF-06-RS - Related Party Exposures - Accommodation Granted by the Bank to Concerns where a Director of the Bank has a Substantial Interest	21/MM/YY		
BSD-QF-07-IE- Investment in Equity	21/MM/YY		
BSD-QF-08-FE- Foreign Currency Exposures (New)	21/MM/YY		
BSD-QF-09-GA- Maturity Gap Analysis (New)	21/MM/YY		
BSD-QF-10-IS- Interest Rate Sensitivity (New)	21/MM/YY		
BSD-QF-12-SC- Sector Wise Credit Exposures (New)	21/MM/YY		
BSD-QF-14-SP- Interest Spread	21/MM/YY		

We certify that the information contained in the above returns has been extracted from and is in accordance with the books of accounts of the bank.

(Name)
Sgd./ Finance Controller
Date: DD/MM/YY

(Name)
Sgd./ Compliance Officer/Administrator
Date: DD/MM/YY

Annex 4**Statement of Certification of Annual Returns Approved/Submitted**

Return	Due Date	Submitted		Approved Date
		Yes	No	
Annual Returns				
BSD-AF-01-BD - Balance Sheet (DBU and Bank Only Operations)	30/MM/YY			
BSD-AF-02-PD - Profit & Loss (DBU and Bank Only Operations)	30/MM/YY			

We certify that the information contained in the above returns has been extracted from and is in accordance with the books of accounts of the bank.

(Name)
Sgd./ Finance Controller
Date: DD/MM/YY

(Name)
Sgd./ Compliance Officer/Administrator
Date: DD/MM/YY

Annex 5

**Statement of certification of Quarterly/Annual returns approved/submitted
(Only for Capital Adequacy)**

Return	Due Date	Submitted		Approved Date
		Yes	No	
Quarterly Returns				
BSD-QF-11-C- Capital Adequacy – Bank Only (SOLO basis)	30/MM/YY			
BSD-QF-11-C- Capital Adequacy – Consolidated	30/MM/YY			

We certify that –

- (3) The information submitted in the above return is, to the best of our knowledge and belief, correct;
- (4) The capital adequacy ratio was, at any time during the quarter/year under review, not less than the ratio determined by the Monetary Board, in terms of section 76(J)(1) of the Banking Act No. 30 of 1988 as amended by Banking Act No.33 of 1995 and Act No. 2 of 2005.

Chief Accountant/Authorised Officer
Name
Date:

Chief Executive
Name
Date:

Bank Supervision Department
11 August 2006

*To: the CEOs of Licensed Commercial Banks
incorporated outside Sri Lanka*

Dear Sirs

**SINGLE BORROWER LIMIT (SBL) DIRECTION NO. 2 OF 2005 AS AMENDED BY
DIRECTION NO. 4 OF 2005**

You are hereby informed that the facility extended to the licensed commercial banks incorporated outside Sri Lanka, to exceed their respective Single Borrower Limit against a guarantee/indemnity from the Head Office, in terms of Paragraph 6(1)(e)(ii) of the SBL Direction No. 2 of 2005, as amended by Direction No. 4 of 2005, will be discontinued with immediate

effect. Any commitments already entered into by the banks may continue till the end of the period contracted, which shall not be more than one year from the date of this circular.

Any bank that wishes to exceed its SBL may do so, as otherwise provided for in the said Direction, against items (a) to (d) specified in Paragraph 6(1) and item (e)(i) of Paragraph 6(1).

The amended Direction in this regard will be issued in due course.

Yours faithfully,
Sgd./ Director of Bank Supervision

c.c. Secretary General/SLBA

02/01/001/0018/00I

Bank Supervision Department
16 October 2006

*Operating Instructions to Licensed Commercial Banks
Appointed as Authorized Dealers in Foreign Exchange*

Dear Sirs

IMPORTS ON DOCUMENTS AGAINST ACCEPTANCE TERMS (DA)

It is observed that a considerable volume of consumer items are imported through DA terms and there is a distinct possibility that foreign exchange payments for such imports are remitted to suppliers abroad without routing them through the banking system. In view of the above, all licensed commercial banks are required to adhere to the following requirements with effect from 19 October 2006, until further notice.

1. A 50 per cent margin deposit on the invoiced value of the imports given in Schedule A1 should be placed by the importers at the banks that release documents, at the time of acceptance of documents by the importers. The 50 per cent margin requirement is on the total value of the invoice, even if the same invoice includes items which are not subject to the margin requirement. Banks should endorse the invoice to the effect that the margin deposit has been obtained,
2. The margin deposit should be released on the production of documentary evidence or payments through the banking channels in Sri Lanka and custom documents of clearance of imports.
3. Banks should not grant any advance to enable importers to place the margin deposits in respect of these imports.
4. Margin deposits will subject to the statutory reserve requirements.
5. The banks may pay interest on the 50 per cent margin deposits.
6. The banks should submit monthly returns of the details of such margin deposits to Director, Bank Supervision, in the format as shown in the Annex I.
7. Above requirements will not apply to imports where shipment of imports has been made on or before 19 October 2006. The date of shipment is considered as the date of bill of lading,

D. Wasantha
Controller of Exchange

Yours faithfully
P. Samarasiri
Director of Bank Supervision

BANKING ACT NO. 30 OF 1988**AMENDMENTS TO THE DETERMINATION AND NOTICE ON
MAINTENANCE OF THE CAPITAL ADEQUACY RATIO**

The Monetary Board of the Central Bank of Sri Lanka has determined that the Determination dated 22 August 1997 and the Notice dated 27 December 2001 issued by the Monetary Board, under Section 19(2) and 19(7) of the Banking Act No. 30 of 1988 relating to the maintenance of the capital adequacy ratio be amended as follows.

Sgd./ **Nivard Ajith Leslie Cabraal**
Governor

Colombo
21 November 2006

1. By deleting item 07.10 in Form 1 and substituting therefor the following as item 07.10:
07.10 Loans secured by a Primary Mortgage over Residential Property - Risk Weight 55%
2. By deleting item 07.11 in Form 1 and substituting therefor the following as item 07.11:
07.11 Other loans and advances – Risk weight 110%

BANKING ACT NO. 30 OF 1988**AMENDMENTS TO THE DIRECTION ON MAINTENANCE OF THE
CAPITAL ADEQUACY RATIO**

The Directions issued by the Monetary Board of the Central Bank of Sri Lanka dated 21 November 1997 and 27 December 2001 under Section 76J (1) of the Banking Act No. 30 of 1988 relating to the maintenance of the capital adequacy ratio by licensed specialized banks are amended as follows.

Sgd. /**Nivard Ajith Leslie Cabraal**
Governor

Colombo
21 November 2006

1. By deleting item 07.10 in Form 1 and substituting therefor the following as item 07.10:
07.10 Loans secured by a Primary Mortgage over Residential Property - Risk Weight 55%
2. By deleting item 07.11 in Form 1 and substituting therefor the following as item 07.11:
07.11 Other loans and advances – Risk weight 110%

BANKING ACT NO. 30 OF 1988

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

Sgd. / **Nivard Ajith Leslie Cabraal**
Governor

Colombo
06 December 2006

REQUIREMENT TO MAINTAIN A GENERAL PROVISION FOR ADVANCES

1. All licensed commercial banks shall maintain a general provision of 1% of total performing loans and advances and overdue loans and advances (see paragraph 4 below) net of interest in suspense that has been debited to the respective accounts.
2. The banks shall make the above provision as follows:
0.1% of the said provision as at 31.12.2006 and, thereafter, make an incremental provision of 0.1% every quarter till 31.03.2009. In effect, banks shall meet the total requirement of 1% not later than 31.03.2009.

3. The requirement to maintain a general provision shall not apply in respect of loans and advances secured by cash deposits, gold or Government Securities with the same bank.
4. For the purpose of this Direction:
 - 4.1 'Performing loans and advances' shall mean all loans and advances that have not been classified as non-performing advances in terms of the Direction issued on 22.08.1997 under Section 46A of the Banking Act on 'Suspension of Interest on Non-Performing Advances and Classification of Bad and Doubtful Debts for Provisioning Purposes'.
 - 4.2 'Overdue loans and advances' shall mean all non-performing loans and advances that have not been classified as substandard, doubtful or loss for provisioning purposes in terms of the Direction issued on 22.08.1997 under Section 46A of the Banking Act on 'Suspension of Interest on Non-Performing Advances and Classification of Bad and Doubtful Debts for Provisioning Purposes'.
5. The Directions issued by the Monetary Board on 21.11.2006 in terms of the provisions of Section 46 of the Banking Act are hereby revoked.

BANKING ACT NO. 30 OF 1988

Directions issued by the Monetary Board of the Central Bank of Sri Lanka in terms of Section 76J (1) of the Banking Act No. 30 of 1988, as amended.

Sgd. / **Nivard Ajith Leslie Cabraal**
Governor

Colombo
06 December 2006

REQUIREMENT TO MAINTAIN A GENERAL PROVISION FOR ADVANCES

1. All licensed specialised banks shall maintain a general provision of 1% of total performing loans and advances and overdue loans and advances (see paragraph 4 below) net of interest in suspense that has been debited to the respective accounts.
2. The banks shall make the above provision as follows:
0.1% of the said provision as at 31.12.2006 and, thereafter, make an incremental provision of 0.1% every quarter till 31.03.2009. In effect, banks shall meet the total requirement of 1% not later than 31.03.2009.
3. The requirement to maintain a general provision shall not apply in respect of loans and advances secured by cash deposits, gold or Government Securities with the same bank.
4. For the purpose of this Direction:
 - 4.1 'Performing loans and advances' shall mean all loans and advances that have not been classified as non-performing advances in terms of the Direction issued on 21.11.1997 under Section 76J (1) of the Banking Act on 'Suspension of Interest on Non-Performing Advances and Classification of Bad and Doubtful Debts for Provisioning Purposes'.
 - 4.2 'Overdue loans and advances' shall mean all non-performing loans and advances that have not been classified as substandard, doubtful or loss for provisioning purposes in terms of the Direction issued on 21.11.1997 under Section 76J (1) of the Banking Act on 'Suspension of Interest on Non-Performing Advances and Classification of Bad and Doubtful Debts for Provisioning Purposes'.
5. The Directions issued by the Monetary Board on 21.11.2006 in terms of the provisions of Section 76J (1) of the Banking Act are hereby revoked.

BANKING ACT NO. 30 OF 1988**AMENDMENT TO THE DETERMINATION AND NOTICE ON
MAINTENANCE OF THE CAPITAL ADEQUACY RATIO**

The Monetary Board of the Central Bank of Sri Lanka has determined that the Determination dated 22 August 1997 and the Notices dated 27 December 2001 and 21 November 2006 issued by the Monetary Board, under Section 19(2) and 19(7) of the Banking Act No. 30 of 1988 relating to the maintenance of the capital adequacy ratio be amended as follows.

Sgd. / **Nivard Ajith Leslie Cabraal**
Governor

Colombo
06 December 2006

DETERMINATION

1. By the insertion of item 07.11A in Form 1 immediately after item 07.11 to read as follows:
07.11A Credit equivalent of off-balance sheet items that would be risk weighted as 'other loans and advances' - Risk Weight 100%

BANKING ACT NO. 30 OF 1988**AMENDMENT TO THE DIRECTION ON MAINTENANCE OF THE
CAPITAL ADEQUACY RATIO**

The Directions issued by the Monetary Board of the Central Bank of Sri Lanka dated 21 November 1997, 27 December 2001 and 21 November 2006 under Section 76J (1) of the Banking Act No. 30 of 1988 relating to the maintenance of the capital adequacy ratio by licensed specialized banks are amended as follows.

Sgd. / **Nivard Ajith Leslie Cabraal**
Governor

Colombo
06 December 2006

DETERMINATION

1. By the insertion of item 07.11A in Form 1 immediately after item 07.11 to read as follows:
07.11A Credit equivalent of off-balance sheet items that would be risk weighted as 'other loans and advances' - Risk Weight 100%

02/17/800/0002/001

Bank Supervision Department
11 December 2006

To: Chief Executive Officers of Licensed Commercial Banks

Dear Sirs,

MINIMUM CAPITAL REQUIREMENT OF LICENSED COMMERCIAL BANKS

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

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

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

Yours faithfully
Sgd./ Mrs L K Gunatilake
Actg. Director of Bank Supervision

Ref: 02/17/800/0002/001

Bank Supervision Department
11 December 2006

To: the Chief Executive Officers of Licensed Specialised Banks (excluding the RDBs)

Dear Sirs,

MINIMUM CAPITAL REQUIREMENT OF LICENSED SPECIALISED BANKS

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

- (a) till end 2008 to infuse at least 50 per cent of the shortfall
- (b) till end 2009 to meet the total capital requirement of Rs. 1,500 million

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

Yours faithfully
Sgd. / Mrs. L K Gunatilake
Actg. Director of Bank Supervision

Circular No. 35/01/005/0010/02

Domestic Operations Department
21st March 2006

To : All Licensed Commercial Banks

MARGIN REQUIREMENTS AGAINST LETTERS OF CREDIT

This has reference to our Circular No: 35/01/005/0010/01 dated 22 October 2004, on the above subject.

The Monetary Board has decided to exempt imports of vehicles which are eligible for duty concessions from the margin deposit requirement on letters of credit for imports of such vehicles imposed by our Circular No: 35/01/005/0010/01 dated 22 October 2004.

Director/Domestic Operations
Authorised Signatory of the
Monetary Board of the
Central Bank of Sri Lanka

Circular No. 35/01/005/0011/01

Domestic Operations Department
17 April 2006*To: All Licensed Commercial Banks and Primary Dealers***OPERATING INSTRUCTIONS ON ISSUING CENTRAL BANK SECURITIES IN SCRIPLESS FORM
UNDER OPEN MARKET OPERATIONS OF THE
CENTRAL BANK OF SRI LANKA**

The Market Operations Committee (MOC) of the Central Bank of Sri Lanka will decide, as and when it is deemed necessary, to issue Central Bank securities (CBSL securities) under Section 91(1)(b) of the Monetary Law Act (Chapter 422), as a part of open market operations to absorb excess rupee liquidity. The main features of these securities are as follows:

- i. CBSL Securities will be issued in scripless form.
- ii. CBSL Securities are negotiable.
- iii. The terms and regulations applied to the operations of Scripless Securities Settlement System (SSSS) and Central Depository System (CDS) will be applied on transferring and the settlement of CBSL securities.
- iv. CBSL securities are marketable. However, these securities are not eligible as a collateral for Intra-day liquidity facility or reverse repurchase transactions with the CBSL.
- v. Similar to government Treasury bills, CBSL securities will be issued on a discount basis.
- vi. All commercial banks and primary dealers (PIs) are eligible to purchase these securities from the Central Bank. The general public may purchase them in the secondary market from commercial banks or primary dealers.
- vii. Similar to government securities, the primary issue of these securities is subject to the current 10 per cent withholding tax on interest income.
- viii. CBSL securities will be issued to PIs,
 - a) on an auction basis and/or
 - b) as placements at a pre-determined interest rate (yield rate).
- ix. The tenure (maturity period) of CBSL securities will be decided by the Central Bank, taking into consideration the market conditions prevailing at the time of issuing the Securities.

The CBSL reserves the right to amend, revise or vary any term and/or condition or any part thereof of these Operating Instructions with prior notice to PIs.

A. Issue of Central Bank Securities under the Auction System

1. The Central Bank will announce, when necessary, through the on-line electronic bidding system/ Money Market Monitoring System and /or any other means of communication that it intends to conduct an auction to issue CBSL securities. The auction announcement giving the amount and the maturing period of the securities to be sold, date and the time of the auction and the settlement date will be made either on the auction day or one business day prior to the auction date.
2. The auction will be conducted through the existing on-line electronic bidding system under the option for outright sale auctions. PIs are invited to submit bids, giving the amount (face value of securities expected to purchase) and interest rate (yield rate) on the auction date during the time indicated in the auction announcement
3. The rates quoted by PIs, shall be the yield rate with tax.
4. Bids should be submitted through the on-line electronic bidding system. Bids by telephone will be entertained only in the event of a failure of the on-line bidding system. Bids submitted via telephone should be confirmed by fax signed by two authorized officers within 15 minutes. The original of the fax should be sent to the Domestic Operations Department (DOD) before the close of business on the same day. A PI can submit up to a maximum of six bids for each maturity. The minimum amount of a bid shall be Rupee one million and bids should be in multiples of Rupees one million.
5. PIs whose bids are accepted will be informed of such acceptance through the on-line electronic bidding system after a half an hour of the close of the auction. The allotment will be made at the rates quoted by the successful bidders.
6. Results of the auction will be announced through the on-line electronic bidding system and/or any other means of communications after a half an hour of the close of the auction giving the total amount accepted and the weighted average yield rate of successful bids.

7. In the event of there being bids in excess of the amount offered at the same rate, the available quantum would be allocated among such bidders on a 'pro-rata' basis. Accordingly, the bids at the cut off rate may be partially accepted.
8. The sale value (sale price including withholding tax) of each successful bid will be calculated by discounting the face value of securities allocated at the rate quoted by the respective PI, for the maturity period of the securities.
9. The settlement of the transaction will be made through a Matched Trade Feed file on the basis of which, the system will settle the transaction by transferring securities sold to the respective Own Account of the successful bidders against the receipt of funds to the settlement account of the CBSL for the sale value (price with withholding tax) of the securities. PIs are not required to submit any settlement instructions in this regard to the system.
10. In those cases where the settlement is on the auction date itself, Matched Trade Feed file will be submitted to LankaSecure after two hours of the close of auction. If the settlement is on a following day, a Matched Trade Feed file will be submitted to LankaSecure on or before 0830 hours on the settlement date.
11. The acceptance by the CBSL of a bid of a PI is binding on the PI and the failure to honour the transaction (purchase by PI) before the close of business of LankaSecure on the settlement date will render the PI liable to pay damages to the CBSL equivalent to the interest component on the purchase price for the maturity period at the rate quoted by the PI. Such amount shall be debited to PI's Settlement Account with the CBSL on the next business day following the settlement date.
12. On the maturity date, the system will automatically initiate the settlement by transferring securities to the CBSL own account and maturity proceeds to RTGS A/c of PIs that held relevant securities on the business day prior to the maturity date.
13. The CBSL has the right to hold additional auctions on the same day, as it deems necessary.
14. The CBSL reserves the right to accept or reject a bid of a PI.

B. Issue of CBSL Securities at a Pre-Determined Rate

1. The Central Bank may issue, CBSL securities to PIs at a pre-determined yield rate.
2. The maturity period, the yield rate (with withholding tax) and the settlement date of CBSL securities to be issued at a pre-determined rate will be decided by the MOC and announced through on-line electronic bidding system / Money Market Monitoring System or/and any other means of communication, inviting PIs to purchase them between 1000 hours to 1330 hours on each business day by entering into a deal with the OMO division of DOD.
3. Until such time that the on-line electronic bidding system is upgraded to accommodate this type of transactions, the following procedure will be followed in issuing of CBSL securities at a pre-determined rate.
 - a. The PIs who wish to purchase CBSL securities at the pre-determined rates are required to inform the OMO Division of the DOD by telephone, the amount required and confirm the deal by sending a facsimile in the form as at Annex I signed by two authorized officers within 30 minutes of the deal but not later than 1330 hours of the same day. The original of the confirmation should be sent to the OMO Division of DOD before the close of business on the same day.
 - b. Upon the receipt of the confirmation of a deal, the OMO Division of DOD will enter all the details to the electronic bidding system (under outright sale auction option) and the details will be submitted to the PSD through the electronic bidding system on or before 1400 hours.
 - c. A minimum amount of a transaction shall be Rupees one million and bids should be in multiples of Rupees one million.
 - d. PIs whose deals were accepted could view such acceptance through the on-line electronic bidding system (under outright sale auction option) by 1400 hours on the same day.
4. In those cases where the settlement is on the deal date itself, Matched Trade Feed file will be submitted to LankaSecure on or before 1500 hours of the deal date. If the settlement is on a following day, a Matched Trade Feed file will be submitted to LankaSecure on or before 0830 hours on the settlement date.
5. The settlement of the transactions will be on a delivery versus payment (DVP) basis through the Matched Trade Feed facility available in LankaSecure. The system will settle the transaction by transferring securities sold to the respective Own Accounts of the PIs against the receipt of funds to the Settlement Account of the CBSL for the discounted value of the securities sold. The PIs are not required to submit any settlement instruction in this regard to the system.
6. The sale value (sale price including withholding tax) will be calculated by discounting the face value of securities sold by the applicable interest rate for the maturity period of the security.

7. The acceptance by the CBSL of a bid of PI is binding on the PI and the failure to honour the transaction (purchase by PI) before the close of business of LankaSecure on the settlement date will render the PI liable to pay damages to the CBSL equivalent to the interest component on the purchase price for the maturity period at the pre-determined rate. Such amount shall be debited to the PI's Settlement Account with the CBSL on the next business day following the settlement date.
8. On the maturity date, the system will automatically initiate the settlement by transferring securities to the CBSL own account and maturity proceeds to RTGS A/c of PIs that held relevant securities on the business day prior to the maturity date.
9. The Central Bank reserves the right to change the yield rate and the maturity period of CBSL securities to be issued under a pre-determined rate as and when it is deemed necessary and such changes will be notified to PIs through on-line electronic bidding system/Money Market Monitoring System or any other means of communication on or before 0930 hours on the day it will become effective.

C. Early Retirement of CBSL Securities

The MOC may decide, as and when it is deemed necessary, to retire CBSL securities prior to the maturity date. The retirement of CBSL securities will be made either on,

- a. an auction basis or
- b. at a pre-determined rate.

The terms and conditions on which these securities will be retired on an auction basis and at a pre-determined rate are outlined in sections C1 and C2.

C.1 Retirement of CBSL Securities under the Auction System

1. The CBSL will announce as and when necessary, on the on-line electronic bidding system that it intends to retire (purchase) CBSL securities prior to the maturity date, on an auction basis.
2. The auction announcement giving details of the securities to be retired i.e. the amounts (face value), maturity date and ISIN of securities will be made either on the auction day or one business day prior to the auction date, through on-line electronic bidding system /Money Market Monitoring System or/and any other means of communication, and PIs are invited to submit offers, giving the amount and interest rate (yield rate) during 1300 hours to 1400 hours on the auction date. The settlement date will be on the business day following the auction date.
3. Offers should be submitted through the on-line electronic bidding system. Offers by telephone will be entertained only in the event of a failure of the on-line bidding system. Offers submitted via telephone should be confirmed by fax signed by two authorized officers within 15 minutes. The original of the fax should be sent to DOD before the close of business on the same day. A PI can submit up to a maximum of six offers for each maturity. The minimum amount of an offer shall be Rupees one million and offers should be in multiples of Rupees one million.
4. Each successful PI will be informed of the acceptance of its offers and the relevant purchase price of the CBSL securities through the on-line electronic bidding system at 1430 hours.
5. In an event of there being offers in excess of the amount offered at the same rate, the available quantum would be allocated among such PIs on a 'pro-rata' basis. Accordingly, the offers at the cut off rate may be partially accepted.
6. The purchase value (price) of each successful offer will be calculated by discounting the face value of securities purchased at the rate offered by the respective PI, for the maturity period of the securities.
7. On the settlement date, a Matched Trade Feed file will be submitted to LankaSecure at or before 0830 hours on the basis of which, the system will credit the purchase price to the respective settlement account of each successful PI in RTGS against the receipt of securities retired (purchased) into the own account of the CBSL in LankaSecure. PIs are not required to submit any settlement instruction in this regard to the system.
8. The acceptance by the CBSL of an offer of a PI is binding on the PI and the failure to honour the transaction (sale by PI) before the close of business of LankaSecure on the settlement date will render the PI liable to pay damages to the CBSL equivalent to the interest component on the sale value for the remaining period to maturity at the rate quoted by the PI. Such amount shall be debited to the PI's Settlement Account with the CBSL on next business day following the settlement date.
9. The CBSL has the right to hold additional auctions on the same day, as it deems necessary.
10. The CBSL reserves the right to accept or reject any offer of a PI.

C.2 Retirement of CBSL Securities at a Pre-Determined Rate

1. The Central Bank will announce that it intends to retire (purchase) CBSL securities at a pre-determined rate through on-line electronic bidding system/ Money Market Monitoring System or/and any other means of communication, giving the rate and the maturity date and ISIN of the CBSL securities to be retired prior to the maturity date and invite PIs to place their offers on the same day.
2. The settlement date will be on the business day following the dealing date.
3. Until such time that the on-line electronic bidding system is upgraded to accommodate this type of transactions, following procedure will be adopted in retiring of CBSL securities prior to maturity date at a pre-determined rate.
 - a. The PIs who wish to sell CBSL Securities at the pre-determined rate are required to inform the OMO Division of the DOD by telephone, the amount expected to sell and confirm the deal by sending a facsimile signed by two authorized officers within 30 minutes of the deal but not later than 1500 hours, the same day. The original of the confirmation document should be sent to the OMO Division before the close of business on the same day.
 - b. Upon the receipt of confirmation of a deal, the OMO Division will enter all the details to the electronic bidding system (under outright purchase auction option) and the details will be submitted to the PSD through the electronic bidding system on or before 1530 hours of same day.
 - c. The minimum amount of a transaction shall be Rupees one million and deals should be in multiples of Rupees one million.
 - d. PIs whose deals are accepted could view such acceptance through the on-line electronic bidding system (under outright purchase auction option) by 1530 hours on the same day.
4. The settlement of the transactions will be on a delivery versus payment (DVP) basis through the Matched Trade Feed facility available in LankaSecure. The Matched Trade Feed file will be submitted to LankaSecure at or before 0830 hours on the settlement date on the basis of which, the system will credit the respective settlement accounts of the PIs for the purchased value of securities against the receipt of the securities purchased into the own Account of the CBSL in LankaSecure. The PIs are not required to submit any settlement instruction in this regard to the system.
5. The purchase value (price) will be calculated by discounting the face value of securities purchased by the pre-determined rate for the remaining period to maturity of the security.
6. The acceptance by the CBSL of an offer of a PI to sell CBSL securities at a pre-determined rate is binding on the PI and the failure to honour the transaction (sale by PI) before the close of business of LankaSecure on the settlement date will render the PI liable to pay damages to the CBSL, equivalent to the interest component on the sale value for the remaining period to maturity at the pre-determined rate. Such amount shall be debited to the PI's Settlement Account with the CBSL on the next business day following the settlement date.

D.S.Wijesinghe
Director
Domestic Operations

(Annex I)

**Central Bank Securities
Deal Confirmation**

Name of the Institution :
Deal Type (Purchases/Sale) :
Face Value :
Yield Rate :
Deal Date :
Settlement Date :

Maturity Date :

Authorized Signature

Authorized Signature

Circular No. 35/01/005/0006/10Domestic Operations Department
16 June 2006*To: All Primary Dealers*

**OPEN MARKET OPERATIONS OF THE CENTRAL BANK
OF SRI LANKA**

With effect from 19 June 2006, the Central Bank will conduct its transactions under Open Market Operations with licensed commercial banks only.

Director
Domestic Operations**Circular No. 35/01/005/0010/03**Domestic Operations Department
06 July 2006*To : All Licensed Commercial Banks*

MARGIN REQUIREMENTS AGAINST LETTERS OF CREDIT

This has reference to our Circular No: 35/01/005/0010/01 dated 22 October 2004, on the above subject.

Licensed commercial banks are hereby informed that the Central Bank has no objections to them paying interest on the cash margin deposits held for the purpose of the above circular.

Director/Domestic Operations
Authorised Signatory of the
Monetary Board of the
Central Bank of Sri Lanka**Circular No. 35/01/005/0010/04**Domestic Operations Department
11 October 2006*To: All Licensed Commercial Banks*

MARGIN REQUIREMENTS AGAINST LETTERS OF CREDIT

This has reference to our Circular No. 35/01/005/0010/01 dated 22 October 2004, on the above subject.

Licensed commercial banks are hereby informed that they should not grant any advance to their import customers for the purpose of enabling such customers to provide the minimum margins required to be deposited when opening Letters of Credit for importing the items specified in the above circular.

Director
Domestic Operations

35/01/005/0010/05

Domestic Operations Department
18 October 2006*To : All Licensed Commercial Banks***MARGIN REQUIREMENTS AGAINST LETTERS OF CREDIT**

In addition to the vehicles specified in Schedule A of our Circular No. 35/01/005/0010/01 dated 22 October 2004, with effect from the close of business on 18 October 2006, letters of credit (LCs) should not be opened by commercial banks for the importation of the items specified in Schedule A1 (attached), unless such LCs are covered by a minimum cash margin of 50 per cent of import value deposited with the LC opening banks at the time such LCs are opened.

In the case of existing LCs covering the importation of the goods mentioned in Schedule A1, no increase in the value of such LCs should be permitted by banks except on the terms prescribed in the above paragraph.

The Banks should not grant any advance to their import customers for the purpose of enabling such customers to provide the minimum margin requirements imposed by this circular. However, interest may be paid on margin deposits.

Banks should endorse the relevant invoice to the effect that the margin deposit as per this circular, has been obtained.

Banks are required to comply with this direction until further notice.

Director/Domestic Operations
Authorised Signatory of the
Monetary Board of the
Central Bank of Sri Lanka

Schedule A1
List of Items Subject to 50 per cent
Margin Deposit Requirement

Serial No:	Description	HS Heading Covered
1.	Palm Oil	1511.90.09
2.	Chocolates	1806.31, 1806.32 and 1806.90
3.	Bread, pastry, cakes, biscuits and other bakers' wares	All HS headings under 1905
4.	Beer	2203
5.	Wine, Vermouth and other fermented beverages	All HS headings under 2204, 2205 and 2206
6.	Spirits, liqueurs and other spirituous beverages	All HS headings under 2208
7.	Perfumes and toilet waters	3303
8.	Beauty or make-up preparations [Lip, Eye, Manicure, Pedicure etc.]	All HS headings under 3304
9.	Preparations for use on the hair	All HS headings under 3305
10.	Pre-shave, shaving or after-shave preparation, Personal deodorants and anti-perspirants, Perfumed bath salts and other bath preparations, Preparations for perfuming or deodorizing rooms	3307.10, 3307.20, 3307.30, 3307.41 and 3307.49
11.	Soap and organic surface-active products	All HS headings under 3401
12.	Tableware, kitchenware, other household articles and toilet articles of plastics.	All HS headings under 3924 except 3924.90.01 (Teats for feeding bottles)
13.	Articles of apparel of knitted or crocheted	All HS headings under Chapter 61 except 6117.80.01, 6117.80.09 and 6117.90
14.	Articles of apparel of not knitted or crocheted	All HS headings under Chapter 62 except 6217
15.	Footwear	All HS headings under Chapter 64 except 6406 (Parts).
16.	Artificial flowers	All HS Codes under 6702
17.	Wall tiles, floor tiles and the like	All HS Codes under 6907 and 6908
18.	Tableware, kitchenware, other household articles and toilet articles of ceramic, porcelain or china	All HS Codes under 6911 and 6912
19.	Statuettes and other ornamental ceramic articles	All HS Codes under 6913
20.	Glassware of a kind used for table, kitchen, toilet, office, indoor decoration or similar purposes	All HS Codes under 7013 except 7013.99.01 (Infants' feeding bottles)
21.	Imitation Jewellery	All HS Codes under 7117

22.	Tableware, kitchenware, other household articles of stainless steel	7323.93
23.	Locks and padlocks	8301.10,8301.20,8301.30,8301.40 and 8301.50
24.	Fans	8414.51, 8414.59, 8414.59.01 and 8414.59.09
25.	Air conditioners	All HS headings under 8415
26.	Refrigerators, Freezers and other refrigerating and freezing equipment	All HS headings under 8418 except 8418.91.01,8418.91.02,8418.91.09, 8418.99.01,8418.99.02 and 8418.99.09
27.	Dish washing machines	8422.11,8422.19,
28.	Household and laundry-type washing machines	All HS headings under 8450 except 8450.90
29.	Electro-mechanical domestic appliances, with self-contained electric motor [e.g, vacuum cleaners, floor polishers, food grinders, mixers, blenders etc.)	All HS Codes under 8509 except 8509.90 (Parts)
30.	Shavers, hair clippers and hair-removing appliances, with self-contained electric motor.	All HS Codes under 8510 except
31.	Electric instantaneous or storage water heaters and immersion heaters	8510.90 (Parts) 8516.10
32.	Hair dryers and other hair-dressing apparatus	
33.	Electric smoothing irons	8516.31 and 8516.32
34.	Microwave ovens	8516.40
35.	Other Ovens and cookers	8516.50
36.	Coffee or Tea makers	8516.60
37.	Toasters	8516.71
38.	Video recording or reproducing apparatus, whether or not incorporating a video tuner	8516.72
39.	Televisions	All HS headings under 8521 8528.12, 8528.12.01,8528.12.09 8528.13, 8528.13.01 and 8528.13.09
40.	Antennas	8529.10.01, 8529.10.02
41.	Filament bulbs and energy efficient compact fluorescent lamps and other lamps	8539.22, 8539.31,8539.31.01 and 8539.31.09
42.	Wrist-watches and clocks	All HS headings under 9101, 9102, 9103 and 9105
43.	Lamps and light fittings	9405.10,9405.20,9405.30,9405.40 9405.40.01,9405.40.02 and 9405.40.09
44.	Toys	All HS headings under 9501, 9502 and 9503

Circular No. 35/01/005/0006/11

Domestic Operations Department
26 December 2006*To: All Licensed Commercial Banks.***REVERSE REPURCHASE FACILITY**

The Reverse Repurchase Facility (RRF) of the Central Bank is available to the commercial banks to address their urgent liquidity issues and is designed to be accessed as a last resort. However, certain banks have resorted to the use of the RRF as a regular source of funding. The ill effects of regular borrowings from RRF of the Central Bank were explained to banks individually and collectively over the past six months by the Central Bank and the banks were requested to arrange alternative sources of funding, without relying on the RRF regularly.

It is also noted that when the commercial banking system has a liquidity surplus, there will be no necessity for any licensed commercial bank which has a liquidity shortage to resort to the RRF of the Central Bank since such a shortage could be met out of the overall surplus in the system.

Hence, with effect from 1 January 2007, the RRF of the Central Bank will not be available on days when there is a liquidity surplus in the commercial banking system, as per the Central Bank estimates. The days when the RRF is not made available on such grounds, will be notified through the online Money Market Information System/ Electronic Bidding System on that day at 9.30 a.m.

Actg. Director
Domestic Operations

Ref: 06/07/01/2006

Department of Exchange Control
Central Bank of Sri Lanka
P.O.Box 590
Colombo 1.
01 February 2006

Operating Instructions to Authorised Dealers

Dear Sirs,

**FREIGHT FORWARDING & ISSUE OF HOUSE AIRWAY BILLS/
HOUSE BILLS OF LADING/FORWARDERS CARGO RECEIPTS**

Further to my Operating Instructions No.EC/48/91 (G) dated 12.07.1991 and EC/04/97 (G) dated 04.03.1997 on the above subject. Authorised Dealers are hereby requested to include the following freight forwarders who have been registered with the Central Bank of Sri Lanka since 25.08.2005 to the list of freight forwarders include in the Operating Instructions issued prior to 25.08.2005 for the purpose of accepting their House Airway Bills/ House Bills of Lading/ Forwarders Cargo Receipts for negotiation in respect of export cargo.

Names of the Freight Forwarders

01. Sea Trade Services (Pvt) Ltd.,	06/07/009/0132
02. P&O Nedlloyd Keells (Pvt) Ltd.,	06/07/009/0133
03. CL Synergy (Pvt) Ltd.,	06/07/009/0134
04. R.P.C.Logistics (Private) Ltd.,	06/07/009/0135
05. Waterways Shipping Colombo (Private) Ltd.,	06/07/009/0136
06. Miracle Freight Lanka (Pte) Ltd.,	06/07/009/0137
07. Maritime Logistics Colombo (Pvt) Ltd.,	06/07/009/0138
08. KASE Logistics Lanka (Pvt) Ltd.,	06/07/009/0139
09. Mega Trend International Co. Ltd.,	06/07/009/0140
10. Global Shipping & Trading (Pvt) Ltd.,	06/07/009/0141
11. Multimodal Logistics (Pvt) Ltd.,	06/07/009/0142
12. Mackinnon, Mackenzie & Co.(Shipping) Limited	06/07/009/0143
13. Oceanair Logistics (Pvt) Ltd.,	06/07/009/0144
14. Freight Line International (Pvt) Ltd.,	06/07/009/0145
15. Maritime Shipping & Logistics (Pvt) Ltd.,	06/07/009/0146
16. Century Maritime (Pvt) Ltd.,	06/07/009/0147
17. Transcargo (Private) Limited	06/07/009/0148
18. Metro International Asia (Pte) Ltd.,	06/07/009/0149
19. Prudential Shipping Lines (Pte) Ltd.,	06/07/009/0150
20. Green East Maritime (Pvt) Ltd.,	06/07/009/0151
21. Master Container Lines Colombo (Pvt) Ltd.,	06/07/009/0152
22. Wings Logistics (Pvt) Ltd.,	06/07/009/0153
23. Mainfreight Colombo (Pte) Ltd.,	06/07/009/0154
24. Fast Transit Logistics (Pvt) Ltd.,	06/07/009/0155
25. Sea & Air Colombo (Private) Ltd.,	06/07/009/0156
26. Neon Maritime (Pvt) Ltd.,	06/07/009/0157
27. Nippon Maruchi Lanka Shipping Lines (Pvt) Ltd.,	06/07/009/0158
28. New Asia Lines (Pvt) Ltd.,	06/07/009/0159
29. Paramount Shipping (Pvt) Ltd.,	06/07/009/0160
30. Mount Shipping Agencies (Pvt) Ltd.,	06/07/009/0161
31. AMCO Logistics (Pvt) Ltd.,	06/07/009/0162
32. NETWORK Cargo Services Ceylon (Pvt.) Ltd.,	06/07/009/0163
33. Maritime Agencies Ltd.,	06/07/009/0164
34. Embassy Logistics Colombo (Pvt) Ltd.,	06/07/009/0165
35. M.A.Razak Freight Forwarding (Pvt) Ltd.,	06/07/009/0166
36. Sea Shipping Colombo (Pvt) Ltd.,	06/07/009/0167

37. Heshia Shipping (Pvt) Ltd.,	06/07/009/0168
38. Emerald Shipping Line Co. (Pvt) Ltd.,	06/07/009/0169
39. Cenep Lanka Agencies (Pvt) Ltd.,	06/07/009/0170
40. Clark Spence & Co. Ltd.,	06/07/009/0171
41. United Shipping Services (Pvt) Ltd.,	06/07/009/0172
42. Sea Air Associates (Private) Limited	06/07/009/0173
43. Southport Logistics (Pvt) Ltd.,	06/07/009/0174
44. Hub Line Agencies (Lanka) Ltd.,	06/07/009/0175
45. Diamond Shipping Services (Pvt) Ltd.,	06/07/009/0176
46. S.W.L. Logistics (Pvt) Ltd.,	06/07/009/0177
47. Gulf International Maritime (PTE) Ltd.,	06/07/009/0178
48. Ocean Shipping Container Line (Pvt) Ltd.,	06/07/009/0179
49. Shipping Agency Services (Pvt) Ltd.,	06/07/009/0180
50. India Lanka Express (Private) Ltd.,	06/07/009/0181
51. Empire Logistics (Pvt) Ltd.,	06/07/009/0182

Yours faithfully,
Actg. Controller of Exchange

Ref: 06/07/02/2006

Department of Exchange Control
Central Bank of Sri Lanka
P O Box 590
Colombo 1
19 June 2006

Operating Instructions to All Authorized Dealers

**SALE AND PURCHASE OF FOREIGN EXCHANGE - SUBMISSION OF
FORM 1 AND FORM 2**

The attention of Authorized Dealers is invited to my Operating Instructions bearing reference No.EC/07/98 (MU) dated 24th December, 1998. It has been observed that some Authorized Dealers have not forwarded Form 1 and Form 2 on a regular basis and continue to submit incomplete forms without even the signature and the designation of the authorized officer and the stamp of the authorized dealer. Authorized Dealers are hereby reminded therefore, that they should strictly comply with the instructions conveyed in the above circular with regard to the submission of Form 1 and Form 2 and that information provided in the forms should be completed.

Authorized Dealers are also informed that in addition to submission of Form 1 and Form 2 to this Department, they should transmit information on line in respect of **all foreign exchange sales (Form 1) and purchases (Form 2) irrespective of the value of transactions to this Department**, using Wide Area Network connecting head offices of all Authorized Dealers. Necessary software in this regard has already been made available to all Authorized Dealers and they should make arrangements to install the same in all branches for speedy transmission of information. In case of transmission of data via e-mail, authorized dealers could make use of our e-mail address: form12@cbsl.lk.

If any clarification is required, you may contact Mr. H.E. Dayaratna, Senior Assistant Controller of Exchange on 2477658 or Mr. C.B.P. Fernando, Assistant Controller of Exchange on 2477243.

Controller of Exchange

Cc : Governor
DG(W)
DG(J)
AG(C)
DER
DBS
DIO
CA

Ref: 06/07/03/2006

Department of Exchange Control
Central Bank of Sri Lanka
P.O.Box 590
Colombo 1.
19 July 2006

Operating Instructions to Authorised Dealers
Dear Sirs,

**FREIGHT FORWARDING & ISSUE OF HOUSE AIRWAY BILLS/
HOUSE BILLS OF LADING/FORWARDERS CARGO RECEIPTS**

Authorised Dealers are hereby requested to include the following freight forwarders who have been registered with the Central Bank of Sri Lanka since 01.02.2006 to the list of freight forwarders for the purpose of accepting their House Airway Bills/ House Bills of Lading/ Forwarders Cargo Receipts for negotiation in respect of export cargo.

Names of the Freight Forwarders

(1)	Air Sea and Cargo Maritime (Pvt) Ltd.,	06/07/009/0183
(2)	ADC Logistics Colombo (Pvt) Ltd.,	06/07/009/0184
(3)	GREENWAY LOGISTICS (Pvt) Ltd.,	06/07/009/0185
(4)	Kwang Seng Transport Service Lanka Pvt Ltd.,	06/07/009/0186
(5)	Saturn Ship Agencies Lanka (Pvt) Ltd.,	06/07/009/0187
(6)	Ocean HD Through Transport (Pvt) Ltd.,	06/07/009/0188
(7)	GAC Logistics Limited	06/07/009/0189
(8)	GLOBAL EXPRESS FREIGHT (PRIVATE) LTD.,	06/07/009/0190
(9)	CMA CGM Logistics Lanka (Pvt) Ltd.,	06/07/009/0191
(10)	Delmon Shipping & Logistics (Pvt) Ltd.,	06/07/009/0192
(11)	IIC Container Line Colombo Pvt Ltd.,	06/07/009/0193
(12)	Total Logistics Solutions (Pvt) Ltd.,	06/07/009/0194
(13)	Trico Customs Brokers (Pvt) Ltd.,	06/07/009/0195

Yours faithfully,
Controller of Exchange

Ref: 06/07/04/2006

Department of Exchange Control
Central Bank of Sri Lanka
P.O. Box 590
Colombo 1.
01 August 2006

Operating Instructions to all Authorised Dealers
Dear Sirs,

**CERTIFICATE OF EXPORT INSPECTION FOR THE IMPORT OF
USED MOTOR VEHICLES**

Authorised Dealers are hereby informed that in terms of the regulations issued under Import & Export Control Act No.01 of 1969 and published in the Gazette Extraordinary No.1454/30 of 21.07.2006, import of used motor vehicles into Sri Lanka under HS Codes 87.02, 87.03, 87.04 and 87.05 with effect from 1st August 2006 will be subjected to production of export inspection certificate obtained from the under mentioned authorised inspectors.

(i) Japan Auto Appraisal Institute	for Motor Vehicles imported from Japan
(ii) Bureau Veritas	for motor vehicles imported from all other countries
(iii) Inspection authority acceptable to the Secretary to the Ministry of Finance	where in a country that Bureau Veritas is not available or for any other reason.

2. You are therefore requested to specify export inspection certificate as one of the required documents in the Documentary Credit Application when establishing Letters of Credit for the importation of motor vehicles under the HS Codes referred to above as follows:-

<input type="text"/>	Export Inspection Certificate Obtained from:
<input type="text"/>	Japan Auto Appraisal Institute
<input type="text"/>	Bureau Veritas
<input type="text"/>	Inspection authority acceptable to the Secretary to the Ministry of Finance

3. You are also requested to ensure that at the time of establishment of Letters of Credit for the importation of Motor Vehicles under HS Codes referred to above,
- (i) The importer specifically mentions the make, model, age and the chassis number of the vehicle in the pro-forma invoice,
 - (ii) The shipping documents bear a date on or after the date of the Letter of Credit and any amendments thereto.
4. In case where the motor vehicles have not been shipped as at 1st August 2006, you should ensure that such Letters of Credit are amended as in 2 and 3 above.

Yours faithfully
Controller of Exchange

Ref: 06/07/05/2006

Department of Exchange Control
Central Bank of Sri Lanka
P.O. Box 590
Colombo 1.
08 August 2006

Operating Instructions to all Authorised Dealers
Dear Sirs,

**CERTIFICATE OF EXPORT INSPECTION FOR THE IMPORT OF
USED MOTOR VEHICLES**

Reference is made to our Operating Instructions No.06/07/04/2006 of 1st August 2006.

You are hereby informed that the said Operating Instructions are effective in respect of used motor vehicles that have been shipped on or after 1st August 2006 under HS Codes 87.02, 87.03, 87.04 and 87.05.

Yours faithfully
Controller of Exchange

Ref: 06/07/06/2006

Exchange Control Department
Central Bank of Sri Lanka
P.O. Box 590
Colombo 1.
11 August 2006

Operating Instructions to all Authorised Dealers

Dear Sirs,

**CERTIFICATE OF EXPORT INSPECTION FOR THE IMPORT OF
USED MOTOR VEHICLES**

Reference is made to our Operating Instructions No.06/07/04/2006 of August 1, 2006 and No.06/07/05/2006 of August 8, 2006 on the above subject.

The Controller of Imports & Exports has informed us that the regulation published in the Gazette Extraordinary No.1454/30 of 21st July, 2006 which was to be effective from 1st August, 2006 has now been postponed until 31.12.2006. Accordingly, the requirement of Export Inspection Certificate for used vehicles has now been differed until 31.12.2006.

In the above circumstances, you may put on hold in enforcing the requirements imposed in our Operating Instructions referred to above until further notice.

Yours faithfully
Controller of Exchange

**The Gazette of the Democratic Socialist Republic of Sri Lanka
EXTRAORDINARY**

**No. 1469/25 - Wednesday, November 01, 2006
(Published by Authority)**

**PART I : SECTION (I) - GENERAL
Government Notifications**

CENTRAL BANK OF SRI LANKA NOTICES

NOTICE UNDER THE EXCHANGE CONTROL ACT, (CHAPTER 423 OF THE CLE)

Permission in terms of Sections 7, 10, 11 and 15 of the Exchange Control Act

1. PERMISSION is hereby granted for the purposes of sections 7, 10, 11 and 15 as applicable of the Exchange Control Act (Chapter 423 of the CLE) to foreign country funds, regional funds or mutual funds approved by the Securities and Exchange Commission of Sri Lanka, corporate bodies incorporated outside Sri Lanka and citizens of foreign states for purchasing, transferring and making payments in respect of transactions of Sri Lanka Rupee Denominated Treasury Bonds (T bonds) subject to the conditions hereinafter set out.
2. *Conditions -*
 - (a) Any T Bonds to be purchased by the above categories of foreign investors should be with a minimum remaining maturity period of 2 years from the date of purchase through the primary and secondary markets by utilising existing public debt system. Foreign investor who purchased such a T bond is in a position to sell or transfer this T bond to a resident of Sri Lanka in the secondary market only after a minimum holding period of one year from the date of original purchase. However, this holding period shall not be applicable when a T bond is to be transferred or sold to another eligible foreign investor.

- (b) The payment for T bonds issued by the Government of Sri Lanka in any issue or transaction permitted hereunder shall be made only out of or into a "Treasury Bond Investment External Rupee Account" (TIERA) opened in a commercial bank in Sri Lanka in the name of the foreign investor.
- (c) A commercial bank, or a licensed primary dealer or a broker or any other person entrusted with the payment of capital monies such as sale proceeds of T bonds and interest on such T bonds in respect of any transaction permitted hereunder shall make such payment only into or out of a Treasury Bond Investment External Rupee Account referred to in sub-paragraph (b) above.
- (d) Funds in a TIERA is freely remittable without any restrictions after meeting local liabilities of the account holder, if any.

Interpretation; For purpose of this general permission,

"foreign investors" shall include the following categories of investors.

- (a) Foreign country funds, regional funds or mutual funds approved by the Securities and Exchange Commission of Sri Lanka;
- (b) Corporate bodies incorporated outside Sri Lanka; and
- (c) Citizens of foreign states.

D. Wasantha
Controller of Exchange

Colombo
1st November, 2006

Ref: 06/04/07/2006

Department of Exchange Control
Central Bank of Sri Lanka
P.O. Box 590
Colombo 1.
01 November 2006

Operating Instructions to Authorized Dealers

INVESTMENT IN RUPEE DENOMINATED TREASURY BONDS BY FOREIGN INVESTORS

The Government has decided to permit foreign country funds, regional funds or mutual funds approved by the Securities and Exchange Commission of Sri Lanka, corporate bodies incorporated outside Sri Lanka and citizens of foreign states to purchase and hold Rupee Denominated Treasury Bonds (T bonds) not exceeding 5% of the total value of T bonds outstanding at any given point of time. Therefore, the above categories of foreign investors are permitted to purchase, hold and transfer T bonds with a minimum remaining maturity period of two years from the date of purchase through both primary and secondary markets utilising existing public debt system.

2. In order to give effect to this decision, general permission has been granted by me in a notice published in the Gazette Extraordinary No. 1469/25 of 01.11.2006.
3. Accordingly, Authorized Dealers are hereby permitted to open and operate Treasury Bond Investment External Rupee Accounts (TIERA) in the names of following categories of foreign investors,
 - (a) Foreign country funds, regional funds or mutual funds approved by the Securities and Exchange Commission of Sri Lanka;
 - (b) Corporate bodies incorporated outside Sri Lanka; and
 - (c) Citizens of foreign states subject to the following guidelines for the purpose of facilitating their investments in T bonds.

D) Credits and debits to the account should be confined to the following:

Credits:

- i) Inward remittances of the foreign investor and/or transfers from Share Investment External Rupee Account (SIERA) opened by foreign investor for investment in shares.
- ii) Sale proceeds of T bonds and principal received on the maturity date.
- iii) Payment of interest on T bonds held by the account holder.

Debits:

- i) Payments for investments in T bonds.
- ii) Transfers to SIERA of the foreign investor.
- iii) Payments for primary dealers and bank charges.
- iv) Local expenses of the foreign investor.
- v) Repatriation of sale proceeds of T bonds.
- vi) Repatriation of interest earned on T bonds.

II) Reporting Requirement

- i) Authorized Dealers are required to furnish statements of TIERA for each month indicating details of debits and credits to the Exchange Control Department (C&F Branch) on or before the 15th day of the following month.
- ii) Authorized dealers are also required to furnish details of credits and debits made to each TIERA at the end of the day via online using the online system already installed for reporting investment in shares through SIERAs.

Yours faithfully
Controller of Exchange

cc: Governor
DG(W)
DG(J)
AGG

GUIDELINES TO AUTHORISED DEALERS ON OPERATING INSTRUCTIONS NO. 06/04/07/2006 DATED 01.11.2006 IN RESPECT OF INVESTMENT IN RUPEE DENOMINATED TREASURY BONDS BY FOREIGN INVESTORS

- [A] Foreign investors permitted to invest in Treasury Bonds (T Bonds)
 - (a) Foreign country funds, regional funds or mutual funds approved by the Securities and Exchange Commission of Sri Lanka;
 - (b) Corporate bodies incorporated outside Sri Lanka; and
 - (c) Citizens of foreign states.
- [B] Account through which investment in T Bonds is permitted
Investments in T Bonds should be made only out or into a special Rupee Account named "Treasury Bond Investment External Rupee Account (TIERA)" opened in any commercial bank in the name of the above categories of foreign investors.
- [C] Reporting TIERA transactions online
 - i) *Foreign investors already having SIERA*
In the existing online system for reporting investment in shares, activate the icon "Add New Account" and then entering an account number by adding TIERA in front open a TIERA account. Both accounts should carry identical account holder's name.
 - ii) *Foreign investor without having SIERA*
Using existing online system for reporting investment in shares open new account named TIERA by entering a new account number inserting TIERA in front.

[D] Credits and Debits to TIERA

Credits and debits to TIERA should be strictly in accordance with the instructions given in the Operating Instructions. Under no circumstance transactions relating to share investments should be recorded in TIERA.

Ref: 06/04/08/2006

Department of Exchange Control
Central Bank of Sri Lanka
P.O.Box 590
Colombo 1.
16 November 2006

Operating Instructions to Authorized Dealers

**FOREIGN CURRENCY ACCOUNT FOR PROFESSIONAL SERVICES
PROVIDERS (FCAPS)**

Authorized Dealers are hereby informed that they are permitted to open and maintain without reference to the Exchange Control Department, foreign currency account titled 'Foreign Currency Account for Professional Services Providers' (FCAPS) for individuals, firms or companies resident in Sri Lanka who are providing services to residents outside Sri Lanka and/or to local firms or companies who earn foreign exchange.

2. Opening of accounts

- (a) Accounts, under this scheme should be opened only in the domestic banking unit, and should be in the form of current, savings or fixed deposit accounts.
- (b) An undertaking should be obtained from the individual, all partners and the Board of Directors as the case may be, to the effect that the individual/firm/ company is already engaged in providing professional services and that only the payments received in foreign exchange for the provision of such services will be credited to the account.

3. Permitted credits

Credits to these accounts should be confined to the following:

- (a) Inward remittance received in convertible foreign currency through an Authorized Dealer for providing professional services to residents outside Sri Lanka.
- (b) Payment received in foreign exchange by way of bank draft or bank transfer for professional services rendered to firms/companies who earn their revenue in foreign exchange.

4. Permitted debits

Debits to the account should be confined to the following:

- (a) Payment in foreign exchange to residents outside Sri Lanka on account of Current Account transactions of the individual/firm/company.
- (b) Disbursement in Sri Lanka Rupees is freely permitted. However, such withdrawals in Sri Lanka Rupees shall not be eligible for conversion into foreign currency and for re-crediting to the account.
- (c) Payment to another FCAPS on account of professional services provided.

- 5. Under any circumstance current account opened under this scheme should not be overdrawn.

6. Reporting requirement

Authorized Dealers are required to furnish to the 'D' Branch of the Exchange Control Department, quarterly statements of each FCAPS within 15 days of the following quarter, ending March, June, September and December.

For purposes of this Operating Instructions a list of "professional services" is provided in the Annexure.

Controller of Exchange

Annexure

**Professional Services for the purposes of the Operating Instructions
No. 06/04/08/2006**

- 1) Legal Services
- 2) Accounting, Auditing and Book Keeping Services
- 3) Taxation Services
- 4) Architectural Services
- 5) Engineering Services
- 6) Medical and Dental Services
- 7) Veterinary Services
- 8) Services provided by, Physiotherapists and Paramedical personnel
- 9) Software development services
- 10) Data processing services
- 11) Database development services
- 12) Research & development services on natural sciences, social sciences and humanities
- 13) Advertising services
- 14) Management consulting services
- 15) Scientific and technical consulting services
- 16) Photographic services
- 17) Packaging services
- 18) Printing & publishing services
- 19) Convention services
- 20) Hotels registered with the Tourist Board
- 21) Entertainment services (including theatre, live bands)
- 22) Services of fashion designers, modellers of clothes and hats
- 23) Any other professional services permitted by the Central Bank

Ref: 06/04/10/2006

Department of Exchange Control
Central Bank of Sri Lanka
P.O.Box 590
Colombo 1.
05 December 2006

Operating Instructions to Authorized Dealers

FOREIGN CURRENCY ACCOUNT FOR SUPPLIERS OF INPUTS (FCASI)

Authorized Dealers are hereby informed that they are permitted to open and maintain without reference to the Exchange Control Department, foreign currency account titled, 'Foreign Currency Account for Suppliers of Material Inputs' (FCASI) for any company earning foreign exchange including Board of Investment (BOI) companies.

2. Opening of accounts

- (a) Accounts, under this scheme should be opened only in the domestic banking unit, and should be in the form of current, savings or fixed deposit accounts; and
- (b) An undertaking should be obtained from the Board of Directors of the company to the effect that the company is already engaged in supplying material inputs to a company earning foreign exchange and that only the proceeds received on such supply of material inputs will be credited to the account.

3. Permitted credits

Credits to these accounts should be confined to the following:

Payment received in foreign exchange by way of bank draft or bank transfer, for material inputs supplied to any company.

4. Permitted debits

Debits to the account should be confined to the following:

- (a) Payment in foreign exchange to residents outside Sri Lanka on account of Current Account transactions of the company.
- (b) Payment in foreign exchange towards cost of material inputs purchased from the companies.
- (c) Disbursement in Sri Lanka Rupees is freely permitted. However, any such withdrawals in Sri Lanka rupees shall not be eligible for conversion into foreign currency and re-crediting to the accounts.

5. Reporting requirement

Authorized Dealers are required to furnish to the 'D' Branch of the Exchange Control Department, quarterly statements of each FCASI within 15 days of the following quarter ending March, June, September and December.

Controller of Exchange

Ref: 06/07/ 11/2006

Department of Exchange Control
Central Bank of Sri Lanka
P.O. Box 590
Colombo 1.
22 December 2006

Operating Instructions to all Authorised Dealers

Dear Sirs,

**CERTIFICATE OF EXPORT INSPECTION FOR THE IMPORT OF
USED MOTOR VEHICLES**

Your attention is drawn to our Operating Instructions No.06/07/04/2006 of 1st August 2006 and 06/07/05/2006 of 8th August 2006 on the above subject.

It has now been decided to implement the requirement of Export Inspection Certificate for Used Vehicles with effect from 1st January 2007.

Therefore, you are hereby informed to adhere to the terms and conditions stipulated in the above Operating Instructions with effect from 1st January 2007, having substitute the item 4 of my Operating Instructions No.06/07/04/2006 dated 1st August 2006 with the following:-

"4. In case where the motor vehicles have not been shipped as at 1st January 2007 you should ensure that such Letters of Credit are amended as required in item No.2 and 3 above."

Yours faithfully
Controller of Exchange

Ref : 33/03/0011/0035/001

28 November 2006

*To : All Authorized Dealers***DIRECTIONS TO COMMERCIAL BANKS ON LKR BASED FX OPTIONS**

All commercial banks appointed to act as Authorised Foreign Exchange Dealers are hereby informed that offering of Rupee (LKR) based cross currency options to domestic corporate clients is allowed subject to the following conditions:

1. The LKR based FX Option can be used only in respect of transactions of current nature permitted in terms of current exchange control regulations¹.
2. Only the Authorised Dealers engaged in Derivative Market Maker deals are allowed maintaining 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 LKR based FX Options shall obtain the consent of the International Operations Department of the CBSL by informing in writing their interest to engage in such transactions together with an undertaking by the management on the adequacy of internal risk management system in place to engage in FX options. These transactions will be subject to the supervision and scrutiny of the CBSL.

3. Transaction Types

Authorized Dealers engage in Option transactions in following main forms:

- (a) 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).
- (b) 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 deals (DMM).

4. Eligibility and Permissible Activity

- 4.1. Only the commercial banks with capital adequacy ratio of more than 11% are permitted to engage in LKR based FX Options. This Capital Adequacy Ratio is inclusive of LKR based FX Option positions. The directions of the Director Bank Supervision (DBS) on risk weighted capital should be followed in determining the Capital Adequacy Ratio.
- 4.2. Authorized Dealers should ensure that each LKR based FX Option is made only in respect of risk or exposures arising from permitted underlying current transactions which normally qualifies for forward foreign exchange contract such as payment and receipt in foreign exchange in respect of goods and services on trade.
- 4.3. Under any circumstances, LKR based FX Option 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.
- 4.4. The notional principal amount of the LKR based FX Option shall not exceed the outstanding amount of the foreign currency obligations.
- 4.5. Authorized Dealers shall offer option contracts only in respect of a transaction, which normally qualifies for forward foreign exchange contract.
- 4.6. The transaction shall be based on individual transactions and not on pooling several into one currency option.
- 4.7. The parties involved are free to use any publicly available benchmark rate on mutual agreement.

5. Eligible Foreign Currencies

Transactions relating to the LKR based FX Options are limited to the following currencies. –
USD, GBP, EUR, JPY, CAD, AUD and CHF.

¹Regulations/directions issued by the Exchange Control Department under the Exchange Control Act No.24 of 1953

6. Risk Management

- 6.1 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 requirement permitting to LKR based FX Options. Appropriate policy limits approved by the management of the bank should be in place. All positions arising from these transactions shall be marked to market daily and the relevant values shall be captured in the Profit & Loss Account and the Balance Sheet.
- 6.2 All 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, in order to cover its foreign exchange position, Authorised Dealers are allowed to trade in Vanilla Foreign Currency Options.
- 6.3 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.
- 6.4 Customers may unwind or sell back hedge if they consider such hedge is no longer required. However, the 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.
- 6.5 Option contracts cannot be used to hedge contingent or derived exposures.
- 6.6 A customer may enter into a hedge with any DMM irrespective of the exposure being booked in that DMM or not.
- 6.7 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.
- 6.8 Banks should put in place necessary systems for marking to market the portfolio on a daily basis.
- 6.9 Banks should train their staff adequately and put in place necessary risk management and internal control and processing systems before undertaking any of these transactions.

7. Tenure

The maturity period of LKR based FX option shall not exceed ten (10) years or the remaining life of the underlying transaction, whichever is less.

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 the 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 such 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. Documentation

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

10. Miscellaneous Requirements

- 10.1. Authorized Dealers shall obtain an undertaking from customers interested in using the LKR based FX Option that they have clearly understood the nature of the product and its inherent risks.
- 10.2. 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 and risks involved to their customers and ensure highest level of transparency.

These directions will be effective from 1st December 2006.

Mrs. P. Liyanage
Director of International Operations

D. Wasantha
Controller of Exchange

Circular No: RTGS/01/2006

2 January 2006.

To: All Participants of the LankaSettle System

APPOINTMENT OF NEW PARTICIPANTS TO THE LANKASETTLE SYSTEM
CENTRAL DEPOSITORY SYSTEMS (PVT.) LTD OF THE COLOMBO STOCK EXCHANGE

You are hereby informed that Central Depository Systems (Pvt.) Ltd of 04-01, West Block, World Trade Centre, Echelon Square, Colombo 1, which has been appointed as a Direct Participant in terms of the provisions of the Local Treasury Bills Ordinance, No.8 of 1923 and the Registered Stock and Securities Ordinance, No.7 of 1937, has been appointed as a participating Institution of the Real-Time Gross Settlement (RTGS) System, Scripless Securities Settlement (SSS) System and Scripless Securities Depository (SSD) System of the LankaSettle System.

Its S.W.I.F.T. User Identification Code (BIC), RTGS Settlement Account Number and other contact details are given below:

S.W.I.F.T. User Id. Code (BIC)	:	CDSPLKLCXXX
RTGS Settlement Account No	:	CDSPLKLCXXX010004562

Contact Details:

Chief Executive Officer	:	Mr Hiran Mendis
Telephone	:	2325686
Fax	:	2445279, 2448925
E-mail	:	hiran@cse.lk

Central Depository Systems (Pvt.) Ltd will participate in the LankaSettle System with effect from January 23, 2006. Its Settlement Account CDSPLKLCXXX010004562 will appear in the RTGS System with 'suspended' status on January 20, 2006 and with 'not-suspended' status with effect from January 23, 2006. All participants of the LankaSettle System will receive S.W.I.F.T. messages to that effect.

C. Premaratne
Superintendent of Public Debt

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

Ref: 34/07/029/0001/001
Circular No: RTGS/03/2006

9 January 2006

To: All Participants of the LankaSettle System

APPOINTMENT OF ICICI BANK LTD. AS A PARTICIPANT
IN THE LANKASETTLE SYSTEM

The Monetary Board has approved of issuing a commercial banking licence to the ICICI Bank Ltd. of 58, Dharmapala Mawatha, Colombo 7, and ICICI Bank Ltd. has been appointed as a participant of the Real Time Gross Settlement (RTGS) System, Scripless Securities Settlement (SSS) System and Scripless Securities Depository (SSD) System of the LankaSettle System.

The ICICI Bank Ltd. will become a Direct Participant/Dealer Direct Participant in the LankaSettle System. Its S.W.I.F.T. User Identification Code (BIC), RTGS Settlement Account Number and other contact details are given below:

S.W.I.F.T. User Id. Code (BIC)	:	ICICLKLXXXX
RTGS Settlement Account	:	ICICLKLXXXX010004426

Contact Details:

Country Head – Sri Lanka Branch : Mr. Naveen K Agarwal
 Telephone : 4242424
 Fax : 4719611
 E-mail : naveen.agarwal@icicibank.com

The ICICI Bank Ltd. will participate in the LankaSettle System with effect from January 12, 2006. Its Settlement Account ICICLKLXXXX010004426 will appear in the RTGS System with “suspended” status on January 10, 2006 and with “not suspended” status with effect from January 12, 2006. All participants of the LankaSettle System will receive S.W.I.F.T. messages to that effect.

C. Premaratne
 Superintendent of Public Debt

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

BCP Guidelines No: 01/2006

29 March 2006

To : *Chief Executive Officers of
 all Licensed Commercial Banks, Primary Dealers, Central Depository Systems (Pvt) Ltd.
 and LankaClear (Pvt.) Ltd.*

GUIDELINES ON BUSINESS CONTINUITY PLANNING**Introduction**

1. Financial sector is an interdependent network of financial institutions, markets and systems. Fast advancement of technology and sophistication of financial products and systems have made financial institutions) (FIs vulnerable to operational risk caused by inadequacies or failures of internal processes, systems and external events including natural disasters. Therefore, a failure to manage operational risks may expose the FIs to significant losses. There is a growing interest internationally among regulatory bodies and FIs to strengthen Business Continuity Planning (BCP). Basel II framework has identified operational risk of banks as a distinct risk category (in addition to credit risk, interest rate risk and liquidity risk that financial institutions take in return for an expected reward), which exists in day-to-day operations. Therefore, supervisory authorities in many developed countries and Bank for International Settlements (BIS) – Committee on Payment and Settlement Systems (CPSS) have recommended 10 Core Principles for Systemically Important Payment Systems (Principle VII – Security, Reliability & Continuity), BIS/International Organization of Securities Commissions (IOSCO) Recommendations for Securities Settlement (recommendation 11 – Operational Reliability) and Recommendations for Central Counterparties (recommendation 7 – Operational Risk) to cope effectively with the consequences of operational risk in payment and securities settlement systems.
2. Having considered the consequences of systemic risk which could be caused by disruption to operations of participating institutions (Pis) of LankaSettle System, which is the systemically important payment and settlement system, the Central Bank of Sri Lanka (CBSL) advised Pis to have proper business continuity plans in order to achieve consistent level of resilience in LankaSettle System. Accordingly, CBSL requested Pis to submit their BCPs to CBSL by end March, 2005. Since most of the BCPs forwarded by Pis were incomplete or applied a multitude of standards of their own, CBSL held one to one meeting with each PI during the period of July to August 2005 to explain the required standard of BCP, and requested to submit revised BCPs to CBSL before the end of August, 2005. Since a number of Pis requested CBSL to provide written guidelines on BCPs and the fact that CBSL also desires to develop a consistent framework for BCPs, the CBSL has prepared a set of guidelines.
3. The main objective of these guidelines is to explain the CBSL’s supervisory and oversight approach on BCP and provide guidance on sound practices, which CBSL encourages, FIs to follow in order to:
 - * Have workable and sound BCPs for core banking/critical businesses and systems including systemically important and system-wide important payment and securities settlement systems to ensure that the agreed service levels are

^{a)} Includes licensed commercial banks, Primary Dealers and other payment, clearing and settlement service providers supervised/overseen by the Central Bank of Sri Lanka.

met in an event that one or more business or components of a system fail. Moreover, BCPs should ensure continuity of agreed services in an event of a prolonged and widespread disruption;

- * Minimize the financial, legal, and other risks arising from such disruptions; and
- * Develop a consistent framework for BCPs of FIs supervised/overseen by CBSL.

Definition of Business Continuity Plan (BCP)

4. 'Business continuity planning' refers to: planning and preparation need to be carried out in advance to identify the impact of potential risks and losses caused by a disruption or a disaster; formulating and implementing viable recovery strategies; and planning to ensure continuity of an institution's services particularly in the area of core banking/critical businesses, payment, clearing and securities settlement; and administering of comprehensive testing and maintenance. A 'Business Continuity Plan' (BCP) refers to a set of processes, procedures, information and measures which are developed, compiled and maintained for critical business functions including core banking and payment and settlement, in readiness for use in an event of an emergency or a disaster which may cause inability to fulfill critical or all business operations. In contrast to BCP, a 'contingency plan', refers to measures, which will enable the most critical business functions to be performed in an event of a disruption. Therefore, the concept of BCP is much wider than a contingency plan.
5. Business continuity planning is a culture to be developed at all levels of staff and the required process needs to be well integrated with the day-to-day operations. The Board and the senior management of each FI should adopt a risk-based framework in BCP. Establishing a comprehensive BCP with a minimum cost without compromising risk management is a challenging task. It would seem sensible for all FIs to have BCPs on the assumption that they may have to face and manage an event of a widespread and prolonged disruption with the complete destruction of buildings and infrastructure in which the main offices of FIs are located, the loss of key staff, complete inaccessibility of the primary site, forcing the FIs to use back-up facilities for an extended period of time. Board of directors (Board) should take responsibility of BCP readiness.
6. FIs may decide to have two-tier plans – one (which would be fully developed with adequate resources to put into effect immediately) to handle short-term problems; and the other (may be a medium/long term plan) to cope with long-term issues.
7. These guidelines are not intended to prescribe step-by-step guidance as to how FIs should conduct their BCP process and it could be considered as a minimum. The following of these guidelines will contribute to building a level playing field for all FIs when implementing the BCPs and will help supervisors and overseers to evaluate the resilience of the operations of FIs.

Application of the guidelines

One of the supervisory/oversight objectives of CBSL is for FIs to have BCPs to ensure high preparedness for continuation of critical operations particularly core banking, payment, clearing and settlement in an event of a disruption. In the course of its on-site examinations, offsite reviews, oversight and meetings on prudential issues with a FI, CBSL will review implementation of the BCP on the practices set out in these guidelines particularly:

- * The extent to which the FI has observed the guidelines; and
- * The risk profile of the FI and its role in ensuring the stability of the financial system.

Guideline 1: Vest the primary responsibility for BCP preparedness on the Board of Directors and the management of each FI

8. The Board and the senior management of each FI should take the primary responsibility for the BCP of the institution and its effectiveness in relation to the nature and scale of its operations. The Board and the senior management should involve in business continuity management and consider FI's business continuity, risks and mitigating measures as part of its overall risk management framework. The Board should: provide clear guidance and directions in respect of BCP; approve policy on BCP, prioritize critical banking/operations and payment system related business functions, allocate sufficient resources, review BCP test results; and ensure maintenance and periodic updating of BCP.
9. The senior management is responsible for: establishing appropriate policies, standards, strategies and processes for BCP; getting the BCP approved by the Board; getting commitment of all staff and executing such a BCP in an event of a contingency. Senior management should endorse business continuity strategies of each system to ensure that plans

are consistent with overall business objectives, risk management strategy and financial and other resources. The senior management should also evaluate the adequacy of contingency planning for each system and its periodic testing by its own staff/service providers whenever critical operations are outsourced. Resilience and recovery measures should adequately cover the level of business activity, risk tolerance and its role in preserving the systemic stability of the financial system. Such measures should be clearly stated in the BCP and regularly reviewed. Senior management should be accountable to the Board for achieving the stated objectives of each system in the BCP and submit a report to the Board at least annually indicating clearly:

- * The preparedness of the institution to achieve stated objectives of each system; and
- * The extent of alignment with these guidelines.

Such a report should be reviewed and updated regularly. The BCP must be reviewed at least annually by the FI's internal auditor/or an external expert.

Guideline 2: Incorporate sound practices in the BCP

10. Each FI is encouraged to consider and follow the suggested process for business continuity planning:

- * Adopt clear and well defined BCP policy and strategy;
- * Establish clear roles and responsibilities to oversee the BCP implementation programme. This may require setting up of a formal business continuity management team with the powers and responsibilities to coordinate planning and implementation;
- * Key functions under each system should be clearly identified and processes within these functions to be categorized against their criticality. Assumptions behind these categorization need to be documented and reviewed regularly by the senior management;
- * Conduct a business impact analysis to assess the impact and probability of possible disruption scenarios on all (owned, shared and external) critical banking/business, payment and settlement systems; resources and infrastructure, and formulate recovery time objectives (RTO); and resumption of critical functions;
- * Each critical business/support functions should formulate its own recovery strategy on how to achieve the RTO and to deliver the minimum level of critical services derived from business impact analysis. In the case of a payment and settlement system, the best practice for a business continuity arrangement is to aim at recovery and resumption of critical operations of systemically important payment systems not later than 2 hours after the occurrence of a disruption; system-wide important payment and settlement system within the same/scheduled settlement date; and effecting a small number of critical payments (such as payment settlement on market liquidity or monetary policy) on time.
- * Adopt critical and tough assumptions for each plausible disruption to: assess possible threats (external and internal), their impact and probability; and ensure that the framework would be sufficient to withstand the impact of the disruption (on each component of the system). This involves establishing a disaster recovery site (minimum one site in Sri Lanka with critical infrastructure components, required number of skilled staff, work space, software application, technology requirement, relevant SWIFT link and vital data/information compatible with recovery objectives stated in the BCP). It is important to ensure geographical separation between primary site and disaster recovery site (DRS).
- * Determine recovery strategies and providing of each service considering the interdependency among critical services and time frame assessment in business impact analysis.
- * Establish at least the minimum BCP requirement for the provision of critical businesses. These BCP requirements should be approved by the senior management before proceeding to the development of BCP. Further, BCP requirement should be considered at the planning/development stages of new business services/products.
- * The best practice is to establish 'Disaster Management Team (DMT)'. The DMT may be a group of senior management (for example: heads of department of banking operations, IT, Back Office, building/premises, human resources and communication) who would direct the recovery operations.
- * FI must develop, implement and maintain a BCP document, which provides guidance for crisis management procedure and information, which enable the senior management of FI to respond to disruption and recover critical businesses in a contingency event to avoid contagion effect on business of the FI as a whole.
- * The dimension of a disruption is another important element to be considered in identifying scenarios. The best practice is for senior management to identify all plausible crisis scenarios including disasters covering a wide area, transportation, telecommunication, key personnel, payment system and other key infrastructure and develop crisis management process and procedures. Scenarios should be documented and revised when regular business impact analysis requires them to be changed. The crisis management process at a minimum should include:

- The process for ensuring early detection of an emergency/contingency and prompt notification to the DMT about the incident;
- The process for the DMT to assess the overall impact on the respective institution and to make quick decision on the appropriate action;
- Clear criteria for activation of the BCP and/or alternate sites;
- The process for obtaining information on the status of the recovery process;
- A process for timely internal and external communication; and
- A process for overseeing the recovery and restoration efforts of the affected services/facilities.
- * The best practice is for each business/support function to establish a business recovery team (which may have sub teams) to carry out the business resumption process. FI should assign recovery personnel (as well as alternate personnel) with required knowledge/skills to each such team.
- * Business resumption process generally has three phases:
 - The mobilization phase – This phase involves notification to business recovery teams (using call-out tree, the predefined sequence of points of contact of staff for dissemination of information) and vendors to obtain required services; and follow predetermined sequence in the BCP (or revising the sequence if it is necessary);
 - The alternate processing phase – This phase involves the resumption of the business/service at DRS/or in a different way than the stipulated process. This may need record reconstruction and verification, establishment of new controls, alternative manual processes and alternative ways of dealing with customers/counterparties.
 - The full recovery phase - This phase involves a process for moving back to the primary site after a disaster/contingency event.
- * The BCP should: identify and plan for activities which would be required under each phase of business resumption process; establish clear responsibilities; and develop and include recovery task's checklist.
- * FI should pay special emphasis to ensure resilience of critical technology equipments/facilities to reduce the probability of having to activate the BCP in an inevitable disruption to business. The technology requirement for recovery of each business/support function should be specified in the recovery strategy for each function and FI should assign appropriate personnel/with alternate personnel for recovery of technical failures.
- * FI may use an appropriate business continuity model to handle prolonged disruptions, based on the risk assessment of their business environment and the characteristics of their own operations.
- * Each BCP should clearly identify the recovery point objectives for data losses for each of the critical system and the strategy to handle such data losses and information deemed vital for recovery of critical business/support functions in the event of a contingency/disaster. Some of the protection measures:
 - Back-up vital records must be readily accessible for emergency retrieval;
 - Access to back up vital records should be adequately controlled to ensure the reliability of them for the use of business resumption.
 - Clear procedure indicating how and in what priority the vital records to be retrieved/created in the event that they are lost/damaged/destroyed.
 - Institution should formulate a formal strategy for internal as well as external communication with key external parties (regulators, investors, customers, counterparties, service providers, the media and other stakeholders) to ensure dissemination of up-to-date and consistent information in a contingency situation.

Guideline 3: Test each aspect of the BCP regularly, completely and meaningfully

11. BCP should be tested regularly, completely and meaningfully considering qualitative and quantitative aspects, to measure its practicality and effectiveness; and to familiarize the staff with the location, recovery procedure at a disruption. This should include:
 - * Testing meaningfully all components of business processes including of connectivity, functionality and capacity of the infrastructure at the DRS;
 - * Testing the applicability of strategic planning assumptions to evaluate its applicability, particularly in respect of changes in the business scope;
 - * Measuring the awareness and preparedness of personnel and coordination with external parties;
 - * Testing of interdependencies especially with external parties. These would be the offices or service providers located outside Sri Lanka; and
 - * Management should participate in the tests and be familiar with their roles and responsibilities in a contingency event.
 - * To ensure effectiveness of a BCP, it is important to test regularly:
 - The whole system;
 - Call tree activation;

- Backup site to backup site;
- Shared services;
- Backup tape restoration; and
- Retrieval of vital records.
- * A BCP needs to be tested at least once a year.
- * A document should be prepared giving test results, lessons learned and risk mitigating measures to be adopted and submitted for the approval of the senior management.

Guideline 4: Formulate recovery strategies and set recovery time objectives for critical operations

12. Effective recovery strategies help FIs to implement their BCPs in an orderly manner as planned, minimizing disruptions and financial losses. FIs should identify their critical businesses and potential monetary as well as non-monetary losses in an event of a contingency. This process helps the FIs to prioritize critical operations and determine recovery strategies and RTO for critical business functions based on business impact analysis. Critical business functions vary among FIs but functions, which involve core banking and settlement of large value payment instructions, clearing of payment instruments, obligations on settling funds/securities and maintaining customer/investor/public confidence are critically important. The RTO is the maximum acceptable duration of time that can elapse, before the lack of a business function severely impacts on the business entity. This includes both the time before a contingency is declared and the time to perform tasks to the point of business resumption.

Guideline 5: Manage interdependency risks

13. There is a growing interest in FI to redistribute risks and processes locally, regionally or globally. This has resulted higher dependency on internal and external parties (clearing institutions, financial utility service providers, vendors and infrastructure providers). Therefore, they should understand and appropriately mitigate interdependency risks of critical business functions. Any failure to manage interdependency risk has a potential to cause operational or systemic inefficiencies or the failure of institutions. These interdependency need to be taken into consideration in a BCP and steps to be taken to establish a DRS (with SWIFT and other required communication links and systems) in Sri Lanka, and to develop recovery strategies as well as RTO to mitigate risks. A business continuity arrangement of a FI should not introduce any risk to a systemically important or system-wide important payment, clearing and settlement system, its operator or participants and each FI should have an independent BCP for widespread and prolonged disruption to its infrastructure and critical services, without relying on another participant of such systems. If any critical functions are dependent on outsourced arrangements, adequate provisions should be in place to ensure operation of services by third parties.

Guideline 6: Plan for wide-area and prolonged disruptions

14. FIs should provide measures for scenarios, which may result significant losses or inaccessibility of critical infrastructure including SWIFT and telecommunication where there is a widespread or prolonged disruption.

Guideline 7: Practice separation policy to minimize concentration risk

15. FIs should practice separation policy to mitigate concentration risk. Disruptions may result in a non-availability of critical staff, information and required telecommunication links and payment infrastructure such as SWIFT. FIs should balance and properly mitigate concentration risk, while not sacrificing the efficiency gains from centralization of business processes and staff. Accordingly, FIs should take measures to separate critical business operations by:

- * Establishing primary site and DRS in different zones. One DRS with SWIFT and other required communication links should be in Sri Lanka;
- * Separation of critical operations and their supporting IT operations; and
- * Separation of staff/cross training of staff.

16. FIs should adopt a change management procedure to update their BCPs in respect of changes with proper approval and documentation and also take steps to store copies of BCP at a location separate from the primary site. FI may disseminate any part of the BCP relevant to a concerned party including customers to create awareness enabling them to act in agreement with the FI. The part of the BCP available for reference of public may contain information relating to general readiness of the FI without any details of confidential nature.

17. FIs may also have insurance coverage as a mitigation strategy to minimize foreseeable risks and financial exposure in an event of a disaster. But diligence needs to be exercised with regard to the nature of insurance and the certainty of payments.
18. Each FI is required to inform Director, Payments and Settlements (DPS) of CBSL immediately if its BCP is activated. Until the FI resolves the crisis, it should send periodic progress reports to DPS.
19. Each FI is required to forward the following documents to the Director, Payments and Settlements, Level 8, Tower 1, Central Bank of Sri Lanka, Colombo 1:
- (i) A copy of the revised BCP following these guidelines and approved by the Board for perusal of CBSL on or before September 29, 2006;
 - (ii) An annual risk management statement on or before January 15 of each year, indicating the critical systems, recovery time objective of each system and plans as well as strategies to achieve them; and
 - (iii) A quarterly statement within two weeks from the end of the relevant quarter, reporting contingency events (date, time and nature of the problem) occurred during the period for core banking/business and payment clearing and settlement systems; action taken in each event to rectify; and time of rectification and steps taken to avoid such failures in future.

Dr. Ranee Jayamaha
Deputy Governor

Ref: 34/07/029/0001/001
Circular No: RTGS/08/2006

15 May 2006

To: All Participants of LankaSettle System

AMENDMENT TO LANKASETTLE SYSTEM RULES – AUGUST 2003 (AS AMENDED)
DAILY OPERATING SCHEDULE OF THE LANKASETTLE SYSTEM

LankaClear requested the Central Bank on May 10, 2006 to change the stipulated time for submission of the multilateral net settlement batch on Settlement Clearing to the RTGS System. To deal with this urgent requirement, the Central Bank has decided to amend the table in the Clause 1.2 of Volume 4 of LankaSettle System Rules (as amended) on Daily Operating Schedule as given in the table in paragraph 2 below.

2. You are hereby informed that the table in the Clause 1.2 of Volume 4 of LankaSettle System Rules (as amended) on Daily Operating Schedule is amended to read as follows with effect from May 15, 2006.

TIME	EVENT	ACTIVITIES/TRANSACTIONS
6.30 a.m.	System start-up	Start-up of RTGS/SSS applications.
7.30 a.m. to 8.00 a.m.	Start of day processing	Update official prices of securities, earmarking securities for ILF.
8.00 a.m.	LankaSettle System opens for business	System opens for effecting transactions.
8.00 a.m.	ILF/auto reversal of Repos	Grant ILF and settle second leg of Repos of OMO.
8.15 a.m.	Maturities/interest payments, start of the day (SOD) file	Settlement of maturity proceeds/ coupon payments of securities, effecting LankaSettle charges/penalties.
8.30 a.m.	Multilateral Net Settlement Batch from LankaClear	SLIPS/Main Clearing.
8.30 a.m.	Outright sales/purchases	Settle OMO outright sales and purchases.
11.00 a.m.	Reversal of Reverse Repos	Settlement of second leg of Reverse Repos under OMO.
11.45 a.m.	Reverse Repos (Auction)	Settlement of first leg of Reverse Repos under OMO.
12.45 p.m.	Repos (Auction)	Settlement of first leg of Repos under OMO.

TIME	EVENT	ACTIVITIES/TRANSACTIONS
1.00 p.m.	Closure of Primary Auction settlement	Settlement of securities under Primary Auction.
2.15 p.m.	Multilateral Net Settlement Batch from LankaClear	Rupee Draft Clearing.
2.45 p.m.	Multilateral Net Settlement Batch from LankaClear	Settlement Clearing and Adjustment
		Clearing.
3.00 p.m.	Primary cut-off time for third party transactions	Close for new transactions (for T + 0) in favour of third parties, except for bank-to-bank (MT2XX series).
4.00 p.m.	Repos (standing)	Settlement of first leg of Repos under OMO
4.15 p.m.	Reverse Repos (Standing)	Settlement of first leg of Reverse Repos under OMO.
4.15 p.m.	ILF Repayment	Repayment of ILF.
4.30 p.m.	Final cut-off time Close for business	No further inputs are accepted. With the closure of system for business, queue/settlement processing will cease and any transactions still in queues will be rejected.
4.30 p.m. to 5.15 p.m.	EOD processing	End-of-day (EOD) processes, e.g. generate reports/GL export (EOD) file, database maintenance for billing/statement printing purposes.
5.15 p.m.	System shut down	Commence shutting down of RTGS/SSS application software, obtain off line backups.

3. Accordingly, effective from May 15, 2006 the Central Bank has discontinued the Regional Clearing of cheques conducted at its Regional Offices at Anuradhapura, Matale and Matara.

C. Premaratne
Superintendent of Public Debt

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

Ref: No. 34/07/029/0001/001
Circular No: RTGS/10/2006

13 December 2006

To: All Participants of LankaSettle System

STANDARD TIMES FOR SETTLEMENT OF INTER-PARTICIPANT TRANSACTIONS IN THE LANKASETTLE SYSTEM

A Technical Committee was appointed by the National Payment Council, which consists of representatives of licensed commercial banks, Sri Lanka Banks' Association (Guarantee) Limited, Primary Dealers Association, LankaClear Pvt. Ltd. and Central Bank of Sri Lanka, to propose a set of norms and standards for the conduct of participants of the LankaSettle System, Cheque Imaging and Truncation (CIT) System and Sri Lanka Inter-bank Payments System (SLIPS).

The proposal made by the Technical Committee was discussed at the National Payment Council at its meeting held on

October 20, 2006 and it was agreed that the LankaSettle participants should implement the following procedures for settlement of inter-participant transactions:

a) Forward Value Transactions

Money market and foreign exchange transactions (rupee leg) entered into between participants for future value dates should be settled early on the value date in the LankaSettle System. Accordingly, the paying participants should ensure settlement of such transactions by 10.00 a.m. on the value date.

b) Same Day Value Transactions

The paying participants should ensure the settlement of the same day value transactions for money market and foreign exchange transactions (rupee leg), in the LankaSettle System within two hours of entering into such transactions.

Accordingly, you are hereby informed that the Volume 2 (Payments and Settlements) of the LankaSettle System Rules issued in August 2003 will be amended by inserting annexed section as Section 9 – INTER-PARTICIPANT TRANSACTIONS at the end of the said Volume 2 of the LankaSettle System Rules, with effect from December 15, 2006.

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

C. Premaratne
Superintendent of Public Debt

Annex

Amendment to the Volume 2 (Payment and Settlements) of LankaSettle System Rules

“9 INTER-PARTICIPANT TRANSACTIONS

9.1 Forward Value Transactions

Money market and foreign exchange transactions (rupee leg) entered into between participants for future value dates should be settled early on the value date in the LankaSettle System. Accordingly, the paying participants should ensure settlement of such transactions by 10.00 a.m. on the value date.

9.2 Same Day Value Transactions

The paying participants should ensure the settlement of the same day value transactions for money market and foreign exchange transactions (rupee leg), in the LankaSettle System within two hours of entering into such transactions.”

Ref: 34/07/029/0001/001
Circular No: RTGS/11/2006

29 December 2006

To: All Participants of the LankaSettle System

APPOINTMENT OF STANDARD CHARTERED BANK (PAKISTAN) LIMITED AS A PARTICIPANT IN LANKASETTLE SYSTEM

The Monetary Board has approved of issuing a commercial banking licence to the Standard Chartered Bank (Pakistan) Limited in view of a scheme of amalgamation to be effected in Pakistan between the Standard Chartered Bank (Pakistan) Limited and the Union Bank Ltd (Incorporated in Pakistan) under the approval of the State Bank of Pakistan. The Standard Chartered Bank (Pakistan) Limited has informed us that such amalgamation will be effective with effect from December 30, 2006. Accordingly, the arrangements on LankaSettle System with effect from January 01, 2007 will be as follows.

The Standard Chartered Bank (Pakistan) Limited will become a Dealer Direct Participant on LankaSettle System and the customer accounts now held by Union Bank Ltd (Incorporated in Pakistan) will be held by Standard Chartered Bank (Pakistan) Limited. Its S.W.I.F.T. User Identification Code (BIC), RTGS Settlement Account Number will be remained unchanged as follows:

S.W.I.F.T. User Id. Code (BIC) : UNBLLKLC
RTGS Settlement Account : UNBLLKLCXXX010004413

Contact Details of Standard Chartered Bank (Pakistan) Ltd. will be:
Chief Executive Officer/

Country Manager : Mr Goharulayn Afzal
Telephone : 2675046
Fax : 5331848
E-mail : goharulayn_afzal@ubipk.com

Union Bank Ltd (Incorporated in Pakistan) will cease to operate as a participant in LankaSettle System as of the closure of business on December 29, 2006.

The static data of LankaSettle System will be changed as indicated below:

- (i) Changing the participant organization name Union Bank Ltd Pakistan in the LankaSettle System to Std Chartered Bank Pakistan Ltd.; and
- (ii) Changing the account name Union Bank Ltd Pakistan Settlement Acct in the LanakSettle system to Std Chartered Bank Pakistan SetlAcct.

C. Premaratne
Superintendent of Public Debt

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

Circular No: SSSS/01/2006

28 February 2006

*To: All Participants of LankaSettle System***REPORTING SECURITIES TRANSACTIONS IN THE CENTRAL DEPOSITORY SYSTEM**

As stipulated under custodial responsibilities of the system rules of LankaSettle, it is the sole responsibility of the Dealer Direct Participants in the Central Depository System (CDS) to record the legal ownership of a security promptly and accurately. There are different types of accounts in the system to record different types of transactions. However, it has been observed that most participants are recording security transactions in incorrect accounts in the CDS of the Central Bank in particular for repos and reverse repos.

The following denotes the meanings of the four types of repo and reverse repo accounts available in the system from the participants' point of view.

- | | |
|---------------------------------------|-----|
| 1. Tradable Repo Account | CRE |
| 2. Non- Tradable Repo Account | CRR |
| 3. Tradable Reverse Repo Account | CRP |
| 4. Non- Tradable Reverse Repo Account | REP |

Participants must record their repo and reverse repo transactions in the following manner.

- a) A repo transaction by a participant with a customer Securities must be held in the participant's CRE or CRR account giving legal ownership to the customer.
- b) A reverse repo transaction by a participant with another participant or with a customer Borrowing party (repo party) must transfer securities to the lending party's (rev.repo party) CRP or REP account.

In addition to the above, outright sales of securities by a participant to a customer should be recorded in the account type of CSL and no other securities transactions be recorded in this account. The details of accounts type available in LankaSecure are given in Annex I.

Accordingly, all participants are kindly requested to report above securities transactions in correct accounts as per System Rules of LankaSettle issued by the Central Bank of Sri Lanka (CBSL).

C. Premaratne
Superintendent of Public Debt

Annex I**Account Types Available in LankaSecure**

The following Account Types are used in LankaSecure. The Central Bank may, at its discretion, restrict the Account Types that may be available to any Participant or category of Participant as well as the transaction types that may be applied to each Account Type.

Account Type	Code	Purpose
Participant's/ Central Bank's Own Account	OWN	Holds securities owned by the Participant/ Central Bank
ILF Account	ILF	Holds securities, in the case of participants, to be transferred to the Central Bank as collateral for ILF, and, in the case of the Central Bank, transferred by the participants to the Central Bank as collateral for ILF.
Pledge Account	PLG	Holds securities that have been pledged to the Participant (in the case of an Approved Credit Agency) or an entity for whom the Participant is acting. The name of the Pledgor is recorded in the Owner field. Securities in these accounts cannot be traded except in accordance with applicable Regulations.
Customer Account (Resident)	CSL	Holds securities owned by a "person resident in Sri Lanka" Customer of a Participant. The account is created by specifying a resident Owner in securities transactions. This Account Type is available only to Dealer Direct Participants.
Customer Account (Non-Resident)	CSF	Holds securities owned by a "person resident outside Sri Lanka". The account is created by specifying a non-resident Owner in securities transactions. This Account Type is available only to Dealer Direct Participants.

Account Type	Code	Purpose
Tradable Repo Account	CRP	Holds securities that are transferred under a Reverse Repo Agreement by a Participant or a Customer to a counterparty that are to be returned at a future date under the terms of such agreement. Securities in this Account are tradable.
Non-Tradable Repo Account	REP	Holds securities that are transferred under a Reverse Repo Agreement by a Participant or a Customer to a counterparty that are to be returned at a future date under the terms of such agreement. Securities in this account cannot be traded.
Tradable Customer Reverse Repurchase Account	CRE	Holds Securities that are transferred under a Reverse Repurchase Agreement by a Participant or a customer to a customer that are to be reversed at a future date under the terms of such agreement. Securities in this account are tradable.
Non-Tradable Customer Reverse Repurchase Account	CRR	Holds Securities that are transferred under a Reverse Repurchase Agreement by a Participant or a customer to a customer that are to be reversed at a future date under the terms of such Agreement. Securities in this account cannot be traded.
Statutory Investment Account	STI	Securities that are held by Participant to meet statutory requirements imposed on the Participant.
Primary Auction Purchase Account	PAP	Holds securities purchased at Primary Auction (Primary Dealer and Designated Non Dealer Bidder use only).
Domestic Operations Repo Account	DOP	Holds securities transferred to a Participant by the Central Bank under a Repo Agreement that are to be returned to the Central Bank at a future date. Securities in this Account are not tradable.
Domestic Operations Reverse Repo Account	DRP	Holds securities transferred to the Central Bank by a Participant under a Reverse Repo Agreement that are to be returned to the Participant at a future date.

Ref: 08/24/002/0005/006

Public Debt Department
22 June 2006

To: Chief Executive Officers of Primary Dealers,

**DIRECTION ON RISK WEIGHTED CAPITAL ADEQUACY FRAMEWORK (RWCAF)
FOR PRIMARY DEALERS (PDs)**

This direction is issued in terms of section 12 of the Regulation No. 01 of 2002 dated February 1, 2002 issued by the Minister of Finance under the Registered Stock and Securities Ordinance and the Local Treasury Bills Ordinance.

1. With effect from July 01, 2006 PDs are required to maintain:

- A required minimum capital which is the higher of Rs.300 million (minimum capital) or the capital sufficient to meet the interest rate sensitivity of the trading portfolio including reverse repos and risk on disallowances (capital charge), and counterparty credit risk;
- Net capital [Capital (Tier I and Tier II) minus capital for counterparty risk], which should be equal to or higher than the capital charge; and
- A minimum risk weighted capital adequacy ratio (CAR) of 8%

The methodology of calculating sensitivity of the PD portfolios to an assumed change in yields along with the risk exposure for long/short positions (capital charge), and counterparty credit risk requirement are given in Schedule 1 & 2.

2. PDs are required to comply with the following regulatory requirements for reporting of capital adequacy with effect from July 01, 2006.

All PDs are required to report the positions of their capital adequacy in the specified format on a monthly basis, which is given in Schedule 3 in electronic format (via email/soft copy). The reporting format for the respective month has to be completed by each PD and submitted to the Public Debt Department (PDD) on or before 15th of the subsequent month. These reporting formats would cover, inter alia,

- a. Whether the minimum absolute capital requirement is being satisfied; and
- b. Whether the CAR is above or below its required minimum capital adequacy ratio.

All PDs on a daily basis are required to maintain the above-mentioned minimum capital and capital adequacy ratio requirements including a proper mechanism to monitor those requirements.

3. Definition of Capital Funds, Net Capital, Minimum Capital, Required Minimum Capital, Capital Adequacy Ratio and Minimum Capital Adequacy Ratio.

3.1 Capital Funds

Capital Funds would include the followings:

Tier-I Capital

- (a) Issued and paid up ordinary share capital.
- (b) Issued and paid up non-cumulative preference shares (non-redeemable or redeemable at issuer's option with the prior approval of the Central Bank).
- (c) Share premium account.
- (d) Reserves created or increased by appropriations of retained earnings or other surpluses, eg., retained profits and other reserves (excluding fixed assets revaluation reserves and retained profits on unaudited financial statements. Retained profits on unaudited financial statements can be included, if the certification of a statutory auditor is provided).

Less

Goodwill and other intangible assets, accumulated losses.

Tier-II Capital

Tier-II capital includes the following and will be limited to 50% of Tier-I capital.

- (a) Medium term subordinated debt (maturity period of more than 3 years).
- (b) Long term subordinated debt (maturity period of more than 5 years).
- (c) Cumulative preference shares.
- (d) Perpetual subordinated debt.

To be eligible for inclusion in Tier II capital, the instrument should be fully paid-up, unsecured, subordinated to the claims of other creditors, free of restrictive clauses, and should not be redeemable at the initiative of the holder or without the consent of the Central Bank of Sri Lanka (CBSL). This instrument should carry a fixed maturity, and as it approaches maturity, it should be subject to progressive discount, for inclusion in Tier II capital. Instruments with an initial maturity period of equal or less than 3 years should not be included as part of Tier II capital. The subordinated debt instruments included in Tier II capital shall be subject to discount at the rates shown below:

Remaining Maturity of Instruments	Rate of Discount (%)
Less than one year	40.00
One year and above but less than two years	20.00
Two years and above but less than three years	0
Three years and above	0

3.2 Net Capital

Net Capital includes Tier-I and Tier II capital, less counter party risk capital requirements.

3.3 Minimum Capital

Minimum capital is Rs. 300 million, which is imposed by the CBSL and required, to be maintained by a PD.

3.4 Required Minimum Capital

A required minimum capital is the higher of Rs.300 million (minimum capital) or the capital sufficient to meet the interest rate sensitivity of the trading portfolio plus rev.repo and capital for disallowances (capital charge), and capital for counterparty credit risk.

3.5 Capital Adequacy Ratio

Capital Adequacy Ratio is the ratio computed by dividing available capital by the risk-weighted assets.

3.6 Minimum Capital Adequacy Ratio

Minimum Capital Adequacy Ratio is the ratio computed by dividing minimum required capital by the risk-weighted assets.

C. Premaratne
Superintendent of Public Debt

SCHEDULE 1

MEASUREMENT OF MARKET RISK (CAPITAL CHARGE)

A. Fixed Income Instruments

PDs are required to calculate capital charges based on the standardised duration based method as follows,

- First calculate the price sensitivity of all instruments in terms of a change in interest rates of between 3.0 and 1.8 percentage points (adjusted Basle rates) depending on the duration of the instrument as per Table 1 given below. (For rev.repo portfolio, take maturity of the rev.repo instead of the security maturity)
- Slot the resulting sensitivity measures into a duration-based ladder with the thirteen time-bands set out in Table 1;
- Calculate the capital charge for trading plus rev. repo as follows;
Market value of the individual security * modified duration * assumed change in yield. (Please see the schedule 3, for calculation of Modified Duration for Trading and Reverse Repo)
- Subject to the lower of the long and short positions in each time-band to a 5% capital charge towards vertical disallowance designed to capture basis risk; (Please see the Schedule 3)
- Carry forward the net positions in each time-band for horizontal offsetting across the zones subject to the disallowances set out in Table 2. (Please see the Schedule 3)

Table- 1
Assumed Yield Changes in each Maturity Category

Zone	Time Period	Assumed Change in Yield	Weight
1	1 month (or less)	3.00	0
	1 to 3 months	3.00	0.20
	3 to 6 months	3.00	0.40
	6 to 12 months	3.00	0.70
2	1 to 2 years	2.70	1.25
	2 to 3 years	2.40	1.75
	3 to 4 years	2.25	2.25
3	4 to 5 years	2.25	2.75
	5 to 7 years	2.10	3.25
	7 to 10 years	1.95	3.75
	10 to 15 years	1.80	4.50
	15 to 20 years	1.80	5.25
	over 20 years	1.80	6.00

Source: Basle standard bands with triple Basle yield changes

In line with the Basle methodology, long and short positions within the same time band may be 95% offset against each other, with 5% of the smaller of the long or short position within a time band being required as a basis reserve. The remaining position (i.e., the residual after offset) is carried through to Table 2 below, which gives the horizontal disallowances to be applied to different time bands within zones, between adjacent zones, and finally between zones 1 and 3.

Table 2
Zone Netting Disallowance

Zones	Within the zone	Between adjacent zones	Between zones 1 and 3
Zone 1	40%	40%	
Zone 2	30%		
Zone 3	30%	30%	

Source: Basle Standard

Price sensitivity can be calculated in two different ways:

1. Modified Duration * Change in yield; or
2. Explicit calculation of the price change based on the formula outlined below which will be used in the risk weighted capital adequacy calculations.

Both approaches will give the same result for small (e.g. 1 to 50bps) changes in yields; however, in the case of larger assumed changes in rates, the latter approach will be more accurate due to the impact of convexity (which measures the sensitivity of duration itself to the change in the level of yield).

The price sensitivity of any instrument may be estimated by using the formula given below, where the discount rate to be used is the valuation rate used in marking that specific security to market.

Price Sensitivity

$$= \frac{NPV - \sum_i \left(C_i \left(\frac{1}{1 + S_i} \right)^{t_i} \right)}{NPV}$$

Where

$$NPV = \sum_i \left(C_i \left(\frac{1}{1 + R_i} \right)^{t_i} \right)$$

- \sum = Sum over all cashflows
- C_i = Cashflow amount at time t
- R_i = Valuation rate as derived from Public Debt Department quoted rates (interpolating and adding off-the-run spread where necessary)
- S_i = Valuation rate as defined above + assumed change in yield (see Table 2 below)
- t_i = Value date of the cashflow (expressed in days from now)
- t_o = Settlement date of the security (expressed in days from now)
- T_i = Time, in years, from t_o to t_i calculated on an Actual/Actual basis.

B. Interest Rate Derivatives

The measurement procedure should include all interest rate derivatives and off-balance sheet instruments (e.g., forward rate agreements (FRAs), other forward contracts, interest rate swaps etc.) in the trading book, which are reacted to changes in, yield rates. The following procedure outlines the general valuation procedure in the event that such activity exists. The derivatives should be converted into positions of the relevant underlying instrument and should be subject to market risk charges as described in Schedule 1.

i. Forward Contracts, including Forward Rate Agreements (FRA)

These instruments are treated as combinations of long and short positions. The maturity of a FRA is the period until it is delivered or the contract is exercised, plus - where applicable - the life of the underlying instrument. For example, a long position in a June three-month interest rate futures entered in April has to be reported as a long

position in a government security with a maturity of five months and a short position in a government security with a maturity of two months.

ii. *Swaps*

Swaps are treated as two notional positions in government securities with relevant maturities. For example, an interest rate swap under which a PD is receiving floating rate interest and paying fixed will be treated as a long position in a floating rate instrument and a short position in a fixed-rate instrument. Tenor of the floating rate instrument is treated as equivalent to the period until the next interest fixing while the tenor of the fixed rate instrument is treated as equivalent to the residual life of the swap.

Until a direct source is available, discount rates could be derived from the bid/off prices published by the PDD to value the swap transactions with appropriate additions for spreads, and applied similar to the bond pricing methodology described in Schedule 1. In most of the cases, an appropriate margin has to be added to the government securities yield curve to obtain an accurate curve for swap valuation.

Appropriate valuation techniques may be developed for more complex financial market products when the need arises.

CALCULATION OF GENERAL MARKET RISK FOR INTEREST RATE

RELATED INSTRUMENTS (Example extracted from Amendment to the Capital Accord to Incorporate Market Risks-Basle Committee on Banking Supervision, January 1996 page 51 & 52)

1. A bank may have the following positions:
 - Qualifying bond, \$ 13.33 mn market value, residual maturity 8 years, coupon 8%;
 - Government bond, \$ 75 mn market value, residual maturity 2 months, coupon 7%;
 - Interest rate swap, \$ 150 mn¹ bank receives floating rate interest and pays fixed, next interest fixing after 9 months, residual life of swap 8 years;
 - Long position in interest rate future, \$ 50 mn¹, delivery date after 6 months, life of underlying government security 3.5 years.
2. Table 3 shows how these positions are slotted into the time-bands and are weighted according to the weights given in Table 1. After weighting the positions the next steps in the calculation will be:
 - (a) The vertical disallowance in time-band 7-10 years has to be calculated: The matched position in this time-band is 0.5 (the lesser of the absolute values of the added (weighted) long and (weighted) short positions in the same time-band) which leads to a capital charge of 5% of 0.5 = 0.05 = \$ 25,000. The remaining net (short) position is -5.125.
 - (b) The horizontal disallowances within the zones have to be calculated: As there is more than one position only in zone 1, a horizontal disallowance can only be calculated in this zone. In doing this, the matched position is calculated as 0.2 (the lesser of the absolute values of the added long and short positions in the same zone). The capital charge for the horizontal disallowance within zone 1 is 40% of 0.2 = 0.08 = \$ 80,000. The remaining net (long) position in zone 1 is +1.00.
 - (c) The horizontal disallowances between adjacent zones have to be calculated: After calculating the net position within zone 1 the following positions remain: zone 1 +1.00, zone 2 +1.125, zone 3 -5.125. The matched position between zones 2 and 3 is 1.125 (the lesser of the absolute values of the long and short positions between adjacent zones) The capital charge in this case is 40% of 1.125 = 0.45 = \$ 450,000.
 - (d) The horizontal disallowance between zones 1 and 3 has to be calculated: The remaining net (long) position in zone 1 is +1.00, in zone 3 the net (short) position is -4.00. If there were no offsetting between zones 1 and 3 allowed the capital charge would be 5.00 = \$ 5,000,000. However, the horizontal disallowance between the distant zones is 100% of the matched position which leads to a capital charge of 100% of 1.00 = 1.00 = \$ 1,000,000.
 - (e) The overall net position is 3.00 leading to a capital charge of \$ 3,000,000.

¹ The position should be reported as the market value of the notional underlying. Depending on the current interest rate, the market value of each leg of the swap (i.e., the 8 year bond and the 9 months floater) can be either higher or lower than the notional amount. For sake of simplicity the example assumes that the current interest rate is identical with the one the swap is based on.

Table 3 (\$ mn)													
	Zone 1				Zone 2			Zone 3					
Time band	0-1	1-3	3-6	6-12	1-2	2-3	3-4	4-5	5-7	7-10	10-15	15-20	Over 20
	Months							Years					
Position		+75Gov.	-50 Fut.	+150 Swap			+50 Fut.			-150 Swap +13.33 Qual.			
Weight (%)	0.00	0.20	0.40	0.70	1.25	1.75	2.25	2.75	3.25	3.75	4.50	5.25	6.00
Position x Weight		+0.15	-0.20	+1.05			+1.125			-5.625 +0.05			
Vertical Disallow 1										0.5 x 10%= 0.05			
Horizontal Disallow 1	0.20 x 40% = 0.08												
Horizontal Disallow 2					1.125 x 40% = 0.45								
Horizontal Disallow 3	1.0 x 100% = 1.0												

3. The total capital charges in this example is:

- for the vertical disallowance	\$	50,000
- for the horizontal disallowance in zone 1	\$	80,000
- for the horizontal disallowance between adjacent zones	\$	450,000
- for the horizontal disallowance between zones 1& 3	\$	1,000,000
- for the overall net open position	\$	3,000,000
	\$	4,580,000

Note - Vertical Disallowance under section 2 (a) is 5%. Accordingly, Vertical Disallowances in the Table 3 and capital charge in the section 3 above to be adjusted.

Weights in the Table 3 are respective price sensitivities.

SCHEDULE 2

CAPITAL ADEQUACY FOR COUNTER PARTY CREDIT RISK

PDs are required to arrive at the credit equivalent amount for the purpose of reckoning exposure to a counter party on. For this purpose, PDs should consider the market value of respective repo/rev.repo to find out the net exposure of the investment.

Step 1

The net exposure of the repo and rev. repo find out using the following formulae.

Repo = (market value – leg 1)

Rev.repo = (leg 1 – market value)

Step 2

The net exposure thus obtained shall be multiplied by the risk weightage allotted to the relevant counter-party as specified below:

1. Government/guaranteed by the government	0%
2. Banks/PDs, EPF and ETF	20%
3. Insurance companies, provident funds	50%
4. Corporates	75%
5. Others	100%

Step 3

Capital utilization by counterparty is obtained using the following formulae. It is clear that same security used for repo and rev. repo transaction would have only one-way exposure for calculation.

Repo = (market value – leg 1) * risk weight * 8%

Rev.repo = (leg 1 – market value) * risk weight * 8%

SCHEDULE 3**RISK WEIGHTED CAPITAL ADEQUACY - CALCULATION**

Capital Charge	Trading Portfolio	=	Table 1,	Modified Duration * Assumed Changes in yield rates % * Market Value
	Reverse Repo	=	Table 2,	Modified Duration * Assumed Changes in yield rates % * Market Value
	Disallowances	=	As seen in Table 3	
Trading Portfolio	—————>		To calculate Modified Duration, identical security maturity considered	
Reverse Repo	—————>		To calculate Modified Duration, Rev. Repo maturity considered	
Capital Utilization by Counterparty Credit				
	Reverse Repo	=	Table 4,	(Leg 1 - Market Value) * Risk weight % * 8%
	Repo	=	Table 5,	(Market Value - Leg 1) * Risk weight % * 8%

YIELD RATES AND COUNTERPARTY RISK WEIGHTS USED FOR CALCULATIONS**1) For Capital Charge**

Assumed Charge in Yield (Basle)	Time Period
3.00%	1 month (or Less)
3.00%	1 to 3 month
3.00%	3 to 6 month
3.00%	6-12 month
2.70%	1 to 2 years
2.40%	2 to 3 years
2.25%	3 to 4 years
2.25%	4 to 5 years
2.10%	5 to 7 years
1.95%	7 to 10 years
1.80%	10 to 15 years
1.80%	15 to 20 years
1.80%	over 20 years

2) Counterparty Risk

Counter Party	Risk Weight
Government and Government guaranteed	0%
Banks/PDs, EPF and ETF	20%
Insurance Companies & Approved Provident Funds	50%
Corporates	75%
Others	100%

Name of the PD:
Capital Adequacy Report as at

Amounts in Rs. Million

		*Risk Weighted Assets
1. Available Capital	0.0	
2. Less: Capital utilization by Counterparty credit	0.0	
3. Net Capital (1+2)	0.00	
4. Capital Charge for Trading & Reverse Repo	0.00	
5. Capital Charge for disallowances	0.00	
6. Total Capital Charge (4+5)	0.00	0.00
7. Regulatory Minimum Capital	300	
8. Unused Capital (3-6) if 3>=6	0.0	
9. Required inimum Capital (higher of Rs. 300M or sum of capital charge and counter party risk)	300	
10. Whether the total capital in excess of required minimum capital	0.0	
11. NPV of Portfolio (Trading & Reverse Repo)	0.0	
12. Total Risk Weighted Capital (Capitl charge + Counterparty risk + capital for disallowances)		
13. Risk Weighted other assets (Weighted Assets in balance sheet without trading portfolio and reverse repo)	0.0	0.0
14. Total Risk Weighted Assets (2+6+13)		0.0
15. Risk Weighted Capital Adequacy Ratio (Minimum8%) 1/14		0.0%

Risk Weighted Assets

Amounts in Rs. Million

1. Capital Charge for Trading & Reverse Repo		
2. Capital Charge for Disallowances		
3. Risk Weighted Assets for total capital charge	(1+2)/8%	
4. Risk Weighted Assets for Counter Party		
5. Risk Weighted other assets (Weighted Assets in balance sheet without Trading portfolio & Reverse Repo)		
6. Total Risk Weighted Assets	3+4+5	
7. Available Capital (higher of Rs. 300M or sum of capital charge and counter party risk)		
8. Risk Weighted Capitl Adequacy Ratio (Minimum8%)	7/6	0.0%

Capital Charge
Table 1

Settlement Date

Trading Portfolio

Amounts in Rs. Million

Market Value	Security Maturity Date	Coupon Rate	Yield Rate	Mduration	Remaining Maturity Date (Maturity Date settlement date)	Assumed change in Yield	Capital charge (Market Value * Mduration* Assume change in Yield)
Trading Bonds							
						Total	
Trading Bills							
						Total	
Forward Purchasee							
						Total	
Short selling							
						Total	
Total NPV (Trading Bonds + Trading Bills + Forward Purchase - Short sellings)							
Total Capital charge for Trading Portfolio (Trading Bonds + Trading Bills + Forward Purchases - short sellings)							

Table 2

Reverse Repo

Amounts in Rs. Million

Market Value	Rev. Repo Maturity Date	Security Maturity Date	Coupon Rate	Yield Rate	Mduration	Remaining Maturity Date (Maturity Date settlement date)	Assumed change in Yield	Capital charge (Market Value * Mduration* Assume change in Yield)

NPV of trading & Reverse Repo

-

Total Capital charge for trading portfolio and reverse repo.

-

To: All CEOs of Licensed Commercial Banks and Primary Dealers

Guidelines/Procedures to Participating Agents

TREASURY BONDS ISSUED BY THE GOVERNMENT OF SRI LANKA TO FOREIGN INVESTORS

The guidelines and procedures applicable for the sale, purchase and transfer of Treasury bonds issued by the Government of Sri Lanka to foreign investors are indicated below. In the absence of any specific guideline for any aspect of its operation, participating agents shall comply with the currently applicable operational guidelines, procedures, system rules, regulatory provisions and directions issued by the Public Debt Department (PDD) of the Central Bank of Sri Lanka (CBSL) in the conduct of transactions in Treasury bond issues to local investors. If there are no any such applicable rules etc., participating agents are requested to seek clarification regarding the same from the undersigned.

1. General

1.1 Eligible Foreign Investors

Only the following categories of foreign investors are eligible to invest in Treasury bonds issued by the Government of Sri Lanka:

- 1.1.1 Foreign country funds, mutual funds or regional funds approved by the Securities and Exchange Commission of Sri Lanka;
- 1.1.2 Corporate bodies incorporated outside Sri Lanka; and
- 1.1.3 Citizens of foreign states

All participating agents are advised to adhere to the standard “Know Your Customer” (KYC) verification practices, when entertaining requests for foreign investments.

1.2 Tenure of Treasury Bonds

- 1.2.1 Foreign investors are permitted to purchase Treasury bonds with a minimum remaining maturity period of two years;
- 1.2.2 If a foreign investor is desirous of selling or transferring such Treasury bonds to a resident of Sri Lanka in the secondary market, such a sale or transfer should be made only after a minimum holding period of one year from the date of original purchase;
- 1.2.3 However, this holding period should not be applicable, if a foreign investor sells Treasury bonds to another foreign investor who is an eligible investor in terms of Clause 1.1 above.

1.3 Limit on Treasury Bond Investment

The total investment permitted to foreign investors in Treasury bonds should not exceed 5% of the total value of the Treasury bond outstanding at any given point of time (regarding this requirement, please refer to 2.3 below).

2. Selling Procedure

- 2.1 Eligible foreign investors under Clause 1.1 above are permitted to;
 - 2.1.1 Purchase Treasury bonds issued by the Government of Sri Lanka from the secondary market through participating agents, i.e., Licensed Commercial Banks (LCBs) and Primary Dealers (PDs) or
 - 2.1.2 Bid at primary auctions of Treasury bonds through PDs.

In order to effect the transactions in accordance with instructions received from customers, participating agents shall ensure that such transactions are within the legal requirements and do not breach the system rules.
- 2.2 Foreign exchange brought into the country for the purchase of Treasury bonds and proceeds realized on a sale/transfer/maturity of Treasury bonds or any income realized by way of interest/capital gain shall be routed through a special Rupee account named “Treasury Bond Investment External Rupee Account” (TIERA) opened in the name of the foreign investor by participating agents in an LCB. Thus, it is the duty of the participating agents to open the special account on customer behalf solely for these specified transactions. The operational instructions issued on 1st November, 2006 by the Controller of Exchange will be applicable in this respect.

- 2.3 Before confirmation of the sale, participating agents shall be responsible to inquire from the PDD of the CBSL the leeway available in the specified Treasury bond limit (5% of the total value of Treasury bond outstanding) permitted for foreign investors to invest in Treasury bonds. The PDD shall be informed by fax/e-mail once the deal is confirmed.
- 2.4 Participating agents shall make sure that the conditions given in Clause 1.2 on the tenure of Treasury bonds are fully met at all times.
- 2.5 Participating agents shall be responsible for creating customer owned investor accounts promptly for their foreign investors at the Central Depository System (CDS) maintained by the PDD of the CBSL.
- 2.6 Foreign investors are not permitted to enter into REPO/Reverse REPO transactions in Sri Lanka using Treasury bonds purchased under this scheme as collateral.

3. Fund Transfers

When a foreign investor purchases/sells Treasury bonds in the secondary market, the LCB (custodian bank) who maintains the TIERA shall transfer respective Rupee amounts to the relevant party on behalf of the investor. If they buy such bonds by bidding in the primary market, the relevant Primary Dealer should remit the proceeds of the bonds to the Central Bank RTGS Account. However, foreign investors are not permitted to utilize funds available at NRFC accounts to purchase Treasury bonds under this scheme.

4. Interest Payments on Treasury Bonds

Interest will be paid by the PDD of the CBSL on behalf of the Government of Sri Lanka in Rupees semi-annually through Real Time Gross Settlement System (RTGS) on respective payment dates of a particular Treasury bond series to the respective participating agents of foreign investors. Participating agents are responsible for transferring such receipts to TIERA of foreign investors with value benefits on the same day.

If any interest payment date falls on a day which is not a business day for the banks in Sri Lanka, payment shall be made on the next business day.

5. Repayment of the Principal

The principal repayable on Treasury bonds will be paid in Rupees by the PDD of the CBSL on behalf of the Government of Sri Lanka through RTGS to respective participating agents on respective maturity dates. Participating agents are responsible to transfer the respective payments to the TIERA of foreign investors with value benefits on the same day.

If the maturity date falls on a day which is not a business day for the banks in Sri Lanka, the repayment of the principal shall be made on the next business day.

6. Joint Holdings

Treasury bonds may be held jointly by foreign investors within the facilities available (at present, only two) with the CDS operated by the PDD of the CBSL. Repayment of principal and payment of interest shall be based on the agreement between custodian bank and joint holders.

7. Tax Treatment

Eligible foreign investors who invest in Treasury bond market pay no further tax on the earnings on such bonds apart from the 10% withholding tax imposed at the primary issue of such bonds.

8. Statements to Investors by the CDS

The CDS will issue following statements to the foreign investors.

- 8.1 A monthly statement confirming the transactions that have taken place during the month.
- 8.2 A statement confirming the outstanding balance held by each investor semi annually.
- 8.3 A statement indicating the maturity proceeds and/or interest payments whenever such payments fall due.

These statements will be issued directly to the name and address of the foreign investor, as registered in the CDS.

9. Other

- 9.1 Foreign investors are permitted to use these Treasury bonds as collateral for transaction with other foreign parties.
- 9.2 Foreign investors are permitted to enter into derivative transactions to minimize exchange or other risks. The PDD and Exchange Control Department (ECD) of the CBSL shall monitor and supervise the transactions relating to these Treasury bonds.

Further operating instructions in this regard will be issued by the Controller of Exchange or the Superintendent of Public Debt as the case may be from time to time.

Any clarifications on these guidelines can be obtained from the following.

Telephone : 94 11 2477274 / 94 11 2477212 / 94 11 2477276 / 94 11 2477278

Fax : 94 11 2477718/19 or 94 11 2477759

E-mail : pddrbw@cbsl.lk , siriwardena@cbsl.lk, dharmawansa@cbsl.lk

Chandra Premaratne
Superintendent of Public Debt

November 01, 2006
Central Bank of Sri Lanka
Colombo.

To: All CEOs of Licensed Commercial Banks and Primary Dealers

Guidelines/Procedures for Foreign Investors

**TREASURY BONDS ISSUED BY THE GOVERNMENT OF SRI LANKA TO
FOREIGN INVESTORS**

1. Eligible Investors

Only the following categories of foreign investors are eligible to invest in Treasury bonds issued by the Government of Sri Lanka:

- (a) Foreign country funds, mutual funds or regional funds approved by the Securities and Exchange Commission of Sri Lanka;
- (b) Corporate bodies incorporated outside Sri Lanka; and
- (c) Citizens of foreign states

2. Investment

Eligible investors under Clause 1 above are permitted to purchase Treasury bonds issued by the Government of Sri Lanka from the secondary market through participating agents i.e. Licensed Commercial Banks (LCBs) registered with the Central Bank of Sri Lanka (CBSL) and Primary Dealers (PDs) who are appointed by the CBSL for trading in government securities. In addition, foreign investors are also permitted to bid at primary auctions of Treasury bonds through PDs. Contact details of these Institutions are given below.

3. Registration

Participating agents (LCBs and PDs) shall be responsible for registering details of their foreign investors at the Central Depository System (CDS) maintained by the Public Debt Department (PDD) of the CBSL. CDS will issue statements containing the following to the foreign account holders.

- a) A monthly statement confirming the transactions that have taken place during the month.
- b) A statement confirming the outstanding balance held by each investor semi annually.
- c) A statement indicating the maturity proceeds and/or interest payments whenever such payments fall due.

These statements will be issued directly to the name and address of the investor, as registered in the CDS.

4. Status

The Treasury bond principal and interest due thereon are direct, unconditional, general, unsecured obligations of the Government of Sri Lanka and rank and shall rank pari passu without any preference among themselves with all other outstanding unsecured and un-subordinated obligations of the Government of Sri Lanka present and future.

5. Tenure

- a) Foreign investors are permitted to purchase Treasury bonds with a minimum remaining maturity period of two years. However, if a foreign investor purchases from another foreign investor, this minimum maturity period of two years is not applicable.
- b) If a foreign investor is desirous of selling or transferring Treasury bonds to a resident of Sri Lanka in the secondary market, such a sale or transfer should be made only after a minimum holding period of one year.
- c) However, this holding period should not be applicable if a foreign investor sells Treasury bonds to another foreign citizen who is an eligible investor in terms of Clause 1 above.

6. Payments for Treasury Bonds

Eligible investors under Clause 1 above shall open a special Rupee account named “Treasury Bond Investment External Rupee Account (TIERA)” in a LCB (custodian bank) and make payment for purchase of Treasury bonds in Rupees by crediting that account. The custodian bank has to make necessary arrangements to transfer respective Rupee amounts to the relevant party. However, funds available at NRFC accounts are not permitted to transfer to TIERA.

7. Issue and Delivery of Treasury Bonds

The Treasury bond shall be issued in scripless form to foreign investors who have duly made payments as specified in Clause 6 and by registering in the CDS as specified in Clause 3.

8. Interest on Treasury Bonds**(i) Interest Payments**

Interest shall be payable in Rupees semi-annually through Real Time Gross Settlement System (RTGS) by the PDD of the CBSL on respective payment dates of particular Treasury bond series to respective participating agents and such participating agents are responsible to transfer such amounts to TIERA of foreign investors with value benefits on the same day. If any interest payment date falls on a day which is not a business day for the banks in Sri Lanka, payment shall be made on the next business day.

(ii) Interest Period

The “Interest Period” is the period from and including the date of issue to but excluding the first interest payment date and each successive period from and including an interest payment date to but excluding the next succeeding interest payment date.

(iii) Rate of Interest

The rate of interest payable on Treasury bonds shall be the coupon rate of the specific Treasury bond series.

9. Repayment of the Principal

- (a) The principal repayable on Treasury bonds shall be payable in Rupees by the PDD of the CBSL to respective participating agents and such participating agents are responsible to transfer the respective payments to the TIERA of foreign investors with value benefits of the same day.
- (b) The principal sum of a Treasury bond shall be repayable on the maturity date. If the maturity date falls on a day which is not a business day for the banks in Sri Lanka, repayment of principal shall be made on the next business day.

10. Repatriation

All proceeds received by sale or transfer or maturing of Treasury bonds and interest income of Treasury bonds shall be fully repatriable. However, such repatriation should be routed through the custodian bank who maintains the TIERA.

11. Joint Holdings

Treasury bonds may be held jointly by holders (at present, only two). Repayment of principal and payment of interest shall be based on the agreement between custodian bank and joint holders.

12. Tax Treatment

Eligible foreign investors who invest in Treasury bond market pay no further tax on earnings on such bonds apart from the 10% withholding tax imposed at the primary issue of such bonds.

13. Stamp Duty

All documents used on the issue, transfer or redemption of Treasury bonds are free from stamp duty.

14. Jurisdiction

The courts in Sri Lanka shall have exclusive jurisdiction in respect of all matters relating to Treasury bonds issued by the Government of Sri Lanka.

15. Governing Law

The terms and conditions of Treasury bonds shall be governed by and construed in accordance with the laws of Sri Lanka.

Further operating instructions in this regard will be issued by the Controller of Exchange or the Superintendent of Public Debt as the case may be.

Any clarifications on these guidelines can be obtained from the following.

Telephone : 94 11 2477274 / 94 11 2477212 / 94 11 2477276 / 94 11 2477278

Fax : 94 11 2477718/19 or 94 11 2477759

E-mail : pddrbw@cbsl.lk , siriwardena@cbsl.lk, dharmawansa@cbsl.lk

Chandra Premaratne
Superintendent of Public Debt
Central Bank of Sri Lanka

November 01, 2006
Central Bank of Sri Lanka
Colombo

Name of Institutions	Contact No.	E-mail Address
Licensed Commercial Banks		
Bank of Ceylon	94-11-2348878	gm@boc.lk
Commercial Bank of Ceylon Ltd.	94-11-2447516	alg@combank.net
Citi Bank N A	94-11-2326086	Kapila.jayawardena@citigroup.com
Deutsche Bank	94-11-2448581	stefan.mahrtdt@db.com
DFCC Vardhana Bank Ltd.	94-11-2371450	Elgee.Perera@dfccvardhanabank.com
Habib Bank Ltd.	94-11-2389355	sherwani@slt.net.lk
Hatton National Bank Ltd.	94-11-2661303	theaga@hnb.lk
Hongkong & Shanghai Banking Corp.	94-11-2447536	ceosrilanka@hsbc.com.lk
ICICI Bank Limited	94-11-4242424	Naveen.agarwal@icicibank.com
Indian Bank	94-11-2446122	ibcol@slt.net.lk
Indian Overseas Bank	94-11-2320515	iobch@lgo.lk
MCB Bank Ltd.	94-11-2440569	gmoffice@mcb.lk
National Development Bank Ltd	94-11-2448889	Nihal.welikala@ndbbank.com
Nations Trust Bank Ltd	94-11-4313101	zulfigar.zavahir@nationtrust.com
Pan Asia Banking Corporation Ltd	94-11-2565556	nadarajah@pabcbank.com
Public Bank	94-11-2576288	lks@publicbank.slt.lk
People's Bank	94-11-2334041	asoka@peoplesbank.lk
Sampath Bank Ltd.	94-11-2300152	anil@sampath.lk
Seylan Bank Ltd.	94-11-2456777	gm@seylan.lk
State Bank of India	94-11-2447166	ceosbilk@slt.net.lk
Standard Chartered Bank	94-11-2480012	clive.haswell@lk.standardchartered.com

Union Bank of Colombo Ltd.	94-11-2370690	mahenfdo@unionb.com
Union Bank Ltd (Pakistan)	94-11-2675046	goharulayn afzal@ubipk.com

Primary Dealers

Bank of Ceylon PD Unit	94-11-2448830	pdu@boc.lanka.net
Capital Alliance Ltd.	94-11-2317777	general@capitalalliance.lk
Commercial Bank of Ceylon Ltd.	94-11-2449516	Dula@combank.net
Ceylinco Shriram Securities Ltd.	94-11-2564935/6	hiran@ceyshri.com.lk
First Capital Treasuries Ltd.	94-11-2308852/53	fclgroup@fclgroup.com
HNB Securities Ltd	94-11-2661199	hnbsl@hnb.lk
NSB Fund Management Company Ltd.	94-11-2564706	nsbfmc@sltnet.lk
NatWealth Securities Ltd.	94-11-4703000	chandra@natwealth.com
People's Bank	94-11-2308762	pd@peoplesbank.lk
Seylan Bank Asset Management Ltd.	94-11-2456341/2	ajantha@seylan.lk
Sampath Surakum Ltd	94-11-2305841	surakum@sampath.lk

**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

30th January 2006.

**FINANCE COMPANIES (MINIMUM CORE CAPITAL)
DIRECTION NO. 1 OF 2006**

1. This Direction may be cited as the Finance Companies (Minimum Core Capital) Direction No. 1 of 2006 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 01 February 2006.
2. Subject to paragraph 3 hereof, every finance company shall maintain at all times an unimpaired core capital of not less than Rs. 200 million.
3. The Director may grant a finance company that does not meet the minimum core capital requirement of Rs. 200 million on 01 February 2006, an extended period of 30 months, on written request by such company, to enhance its core capital, subject to the following:
 - (i) A finance company with a core capital of less than Rs. 100 million shall-
 - (a) enhance its core capital to at least Rs. 100 million within the first 12 months from the commencement of the Direction; and
 - (b) bring in the balance Rs. 100 million or the deficient amount to meet the core capital requirement of Rs. 200 million within 18 months after the period of 12 months referred to in 3(i)(a) above.
 - (ii) A finance company with a core capital between Rs. 100 million and Rs. 200 million shall bring in-
 - (a) at least 50 per cent of the deficient amount to meet the core capital requirement of Rs. 200 million within the first 12 months from the commencement of the Direction; and
 - (b) the balance of the deficient amount to meet the core capital requirement of Rs. 200 million within 18 months after the period of 12 months referred to in 3(ii)(a) above.

4. In this Direction-
- (i) “the Director” shall mean the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.
 - (ii) “core capital” shall have the definition given therefor in the Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No. 2 of 2006.

**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

30th January 2006.

**FINANCE COMPANIES (RISK WEIGHTED CAPITAL ADEQUACY RATIO)
DIRECTION NO. 2 OF 2006**

1. This Direction may be cited as the Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No. 2 of 2006 and shall apply to every finance company registered under the Finance Companies Act, No. 78 of 1988 as amended by Act No. 23 of 1991 and shall come into operation with effect from 01 February 2006.
2. For the purpose of computing the capital adequacy ratio of finance companies, the constituents of capital shall be -
 - (i) Tier 1 – Core capital: representing permanent shareholders’ equity (paid-up shares/common stock) and reserves created or increased by appropriations of retained earnings or other surpluses, i.e. share premia, retained profits and other reserves; and
 - (ii) Tier 2 - Supplementary capital: representing revaluation reserves, general provisions and other capital instruments which combine certain characteristics of equity and debt, such as, hybrid capital instruments and unsecured subordinated term debt.
3. Every finance company shall, subject to the provisions of the Finance Companies (Minimum Core Capital) Direction No. 1 of 2006, at all times, maintain its capital (adjusted for the items that may be specified by the Director), at a level not less than 10 per cent of its risk weighted assets with the core capital constituting not less than 5 per cent of its risk weighted assets, computed as per instructions* issued by the Director.
4. Every finance company shall furnish to the Director:
 - (i) A return in respect of each quarter, on the format* given in the instructions issued under paragraph 3 within thirty days from the end of each quarter;
 - (ii) A return based on the audited balance sheet as at the end of the each financial year, on the same format* given for the quarterly return, referred to in sub paragraph 4(i) above, within six months from the end of each financial year.
5. In this Direction “the Director” means the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.
6. The Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No. 2 of 2003 is hereby revoked.

The relevant instructions/formats are obtainable from the Department of Supervision of Non-Bank Financial Institutions.

FINANCE COMPANIES ACT, NO. 78 OF 1988

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.

Nivard Ajith Leslie Cabraal

Chairman

Monetary Board of the Central Bank of Sri Lanka

Colombo

29 December 2006.

FINANCE COMPANIES (PROVISION FOR BAD AND DOUBTFUL DEBTS) **DIRECTION NO. 3 OF 2006**

1. This Direction may be cited as the Finance Companies (Provision for Bad and Doubtful Debts) Direction No. 3 of 2006 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act, No. 78 of 1988 and shall come into operation with effect from 01 April 2007.
2. Every finance company shall classify accommodations as “non-performing”, in the following circumstances-
 - (i) where payment of principal and/or interest have been in arrears for a period of 6 months or more;
 - (ii) in the case of rescheduled accommodations, when, in aggregate, the period of time the payment of installments have been in arrears before rescheduling (if any) and after rescheduling is 6 months or more; and/or
 - (iii) in the case of an accommodation, where the asset financed under a leasing/hire purchase agreement has been repossessed and sold or where the asset taken as collateral has been sold by the finance company and when there still exists a balance to be recovered.
3.
 - (i) Every finance company shall make provision for accommodations classified as non-performing and the amount of such provision shall at least be the aggregate of -
 - (a) 50 per cent of all accommodations in arrears for a period of 6 months or more but not exceeding 12 months;
 - (b) 100 per cent of all accommodations in arrears for a period over 12 months; and
 - (c) 100 per cent with regard to the portion of the unrecovered amount of an accommodation where the asset financed under a lease/hire purchase agreement has been repossessed and sold or where the asset taken as collateral has been sold by the finance company.
 - (ii) A finance company may deduct the value of the following items held as collateral in respect of a particular accommodation in arriving at the amount of the provision required by subparagraphs (a) and (b) of paragraph 3 (i) hereof -
 - (a) Sri Lanka Government securities, free from any lien or charge;
 - (b) Central Bank of Sri Lanka securities, free from any lien or charge;
 - (c) Time deposits in a licensed commercial bank, licensed specialized bank or a registered finance company, free from any lien or charge;
 - (d) Time deposit or a balance in a savings account with the company taken as a collateral for the accommodation, for which a right of set-off is available;
 - (e) Bank guarantees;
 - (f) With regard to vehicles and machinery that have been repossessed by the finance company, 80 per cent of the valuation obtained during the preceding 6 months from a valuer approved by the Director; and
 - (g) With regard to land and buildings mortgaged and held as collateral for a particular accommodation, the value decided by a qualified professional valuer at the time of granting the accommodation, on the following basis -
 - (aa) In the case of an accommodation in arrears for a period of 6 months or more but not exceeding 36 months, 100 per cent;
 - (bb) In the case of an accommodation in arrears for a period over 36 months but not exceeding 60 months, 80 per cent;
 - (cc) In the case of an accommodation in arrears for a period over 60 months but not exceeding 120 months, 50 per cent;
 - (dd) In the case of an accommodation in arrears over 120 months, no amount shall be deducted;

Provided that in the case of an occupied residential property taken as collateral without an agreement to hand over vacant possession in the event of sale for the recovery of dues, the value of such property shall not be deducted in arriving at the required provision.

4. The Monetary Board of the Central Bank of Sri Lanka may require any finance company to make further specific provision for non-performing accommodations in addition to the provision required in terms of paragraph 3(i) hereof.
5. (i) Every finance company shall submit to the Director within one month from the end of each quarter, on a format* given by the Director, details as the Director may require, of the following categories of accommodations, of which, installments / rentals are in arrears for 3 months or more as at the end of the relevant quarter -
 - (a) Accommodations where payments are made in fixed installments/rentals;
 - (b) Accommodations where payments are not made in fixed installments/rentals; and
 - (c) Operating leases.
 (ii) Every finance company shall submit to the Director on a format* given by the Director, within one month from the end of each quarter the following -
 - (a) A statement of repossessed asset items; and
 - (b) An age analysis of accommodations in arrears for 3 months or more.
 (iii) Every finance company shall submit to the Director within one month from the end of each quarter, details of action taken by the Board of Directors of the company for the recovery of each outstanding accommodation in arrears for 6 months or more and the progress made on recovery of such accommodations since the end of the previous quarter.
6. For the purpose of this Direction,
 - (i) “accommodation” shall mean loans; facilities under hire purchase or lease agreements; provision of funds through debt securities such as bonds, debentures, asset backed securities, commercial paper/promissory notes; or such other financial facility as may be determined by the Director.
 - (ii) “qualified professional valuer” shall mean -
 - (a) A chartered valuation surveyor ;
 - (b) A fellow of the Institute of Valuers (Sri Lanka) with a degree or diploma in valuation and with work experience over 15 years ;
 - (c) A graduate member of the Institute of Valuers (Sri Lanka) with work experience over 18 years ;
 - (d) An associate of the Institute of Valuers (Sri Lanka) with work experience over 20 years ; or
 - (e) A licentiate of the Institute of Valuers (Sri Lanka) with work experience over 25 years.
 - (iii) “the Director” shall mean the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.
7. The Finance Companies (Provision for Bad and Doubtful Debts) Direction No. 1 of 1991 and the Finance Companies (Provision for Bad and Doubtful Debts) Direction No. 2 of 1991 will cease to be operative with effect from 01 April 2007.

The relevant formats are obtainable from the Department of Supervision of Non-Bank Financial Institutions.

FINANCE COMPANIES ACT, NO. 78 OF 1988

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.

Nivard Ajith Leslie Cabraal

Chairman

Monetary Board of the Central Bank of Sri Lanka

Colombo

29 December 2006.

FINANCE COMPANIES (SINGLE BORROWER LIMIT)**DIRECTION NO. 4 OF 2006**

1. This Direction may be cited as the Finance Companies (Single Borrower Limit) Direction No. 4 of 2006 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act, No. 78 of 1988 and shall come into operation with immediate effect.
2. Subject to the restrictions imposed under paragraph 2 of the Finance Companies (Lending) Direction No. 5 of 2006, the maximum of a single accommodation or the aggregate of accommodations granted to by a finance company and outstanding at any point of time from an individual borrower, shall not exceed 15 per cent of the capital funds of such finance company as shown in the last audited balance sheet.
3. The maximum of a single accommodation or the aggregate of accommodations granted to by a finance company and outstanding at any point of time from any group of borrowers or from subsidiary companies and/or associate companies of such finance company shall not exceed 20 per cent of the capital funds of such finance company as shown in the last audited balance sheet.
4. Single accommodations granted to and outstanding in respect of categories of borrowers referred to in paragraphs 2 and 3 hereof, each of which exceeds 10 per cent of capital funds of a finance company as shown in the last audited balance sheet shall not, when all such outstanding accommodations are aggregated, exceed 50 per cent of the total outstanding accommodations of such finance company as shown in the last audited balance sheet.
5. The maximum of a single unsecured accommodation or the aggregate of unsecured accommodations granted to by a finance company and outstanding at any point of time from a single borrower shall not exceed 1 per cent of the core capital of such finance company as shown in the last audited balance sheet. The aggregate of unsecured accommodations granted to and outstanding at any point of time from all borrowers shall not exceed 5 per cent of the capital funds of such finance company as shown in the last audited balance sheet.

For the purpose of this paragraph, “unsecured accommodation” means accommodation made without a security or any accommodation with security constituting of assets the market value of which is not adequate to cover at least 75 per cent of the accommodation.

Subject to the provisions of paragraph 2(v) of the Finance Companies (Lending) Direction No. 5 of 2006, for the purpose of this paragraph, “security” shall include guarantees given by third parties.

For the purpose of this paragraph, “market value” in respect of motor vehicles and machinery, shall mean, a valuation obtained during the preceding 6 months from a valuer approved by the Director and in respect of land and building, the value decided by a qualified professional valuer.

6. For the purpose of paragraphs 2, 3 and 4 of this Direction, if accommodations have been granted by a finance company against the security of the items indicated below, the value of such security may be deducted from the relevant accommodations –
 - (i) Sri Lanka Government securities, free from any lien or charge;

- (ii) Central Bank of Sri Lanka securities, free from any lien or charge;
- (iii) Time deposits in a licensed commercial bank, licensed specialized bank or a registered finance company, free from any lien or charge;
- (iv) Time deposits or a balance in a savings account with such finance company taken as a collateral for the accommodation, for which a right of set-off is available; or
- (v) Bank guarantees.

7. For the purpose of this Direction,

- (i) “accommodation” shall mean loans; facilities under hire purchase or lease agreements; provision of funds through debt securities such as bonds, debentures, asset backed securities, commercial paper/promissory notes; or such other financial facility as may be determined by the Director.
- (ii) “associate company” shall mean a company in which the finance company holds 20 per cent or more, but less than 50 per cent of the issued ordinary share capital of the investee company.
- (iii) “capital funds” shall have the same meaning as given in the definition in section 46 of the Finance Companies Act, No. 78 of 1988.
- (iv) “core capital” shall have the same meaning as given in the Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No. 2 of 2006.
- (v) “group of borrowers” shall mean,
 - (a) i. an individual and his relatives;
 - ii. an individual and a company in which such individual holds shares exceeding 10 per cent of the issued ordinary share capital; or
 - iii. an individual and a company in which his relatives hold shares exceeding 10 per cent of the issued ordinary share capital.
 - (b) a company and one or more of the following -
 - i. its subsidiary company;
 - ii. its associate company;
 - iii. its holding company; or
 - iv. a subsidiary company or associate company of its holding company.
- (vi) “individual borrower” shall mean any single company, public corporation, firm, association of persons or an individual.
- (vii) “qualified professional valuer” shall mean -
 - (a) A chartered valuation surveyor ;
 - (b) A fellow of the Institute of Valuers (Sri Lanka) with a degree or diploma in valuation and with work experience over 15 years ;
 - (c) A graduate member of the Institute of Valuers (Sri Lanka) with work experience over 18 years ;
 - (d) An associate of the Institute of Valuers (Sri Lanka) with work experience over 20 years ; or
 - (e) A licentiate of the Institute of Valuers (Sri Lanka) with work experience over 25 years.
- (viii) “relative” shall mean the spouse and/or dependent child of an individual.
- (ix) “subsidiary company” shall have the same meaning as contained in section 150 of the Companies Act, No. 17 of 1982.
- (x) “the Director” shall mean the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

8. The Finance Companies (Single Borrower Limit) Direction No. 1 of 1992 is hereby revoked.

FINANCE COMPANIES ACT, NO. 78 OF 1988

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.

Nivard Ajith Leslie Cabraal

Chairman

Monetary Board of the Central Bank of Sri Lanka

Colombo

29 December 2006.

FINANCE COMPANIES (LENDING)
DIRECTION NO. 5 OF 2006

1. This Direction may be cited as the Finance Companies (Lending) Direction No. 5 of 2006 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act, No. 78 of 1988 and shall come into operation with immediate effect.
2. No finance company shall grant any accommodation-
 - (i) to a director and/or a relative of a director of the finance company;
 - (ii) to its holding company;
 - (iii) on the security of its own shares or on the security of the shares of any of its subsidiary companies;
 - (iv) to purchase its own shares; or
 - (v) on the guarantee or indemnity of a director of the finance company, a relative of a director of the finance company or any employee of the finance company.
3. A finance company may grant accommodation to its subsidiary companies or associate companies subject to the limits specified in the Finance Companies (Single Borrower Limit) Direction No. 4 of 2006, on such terms and conditions as may be applicable to similar facilities granted to other borrowers of the finance company and the particulars of such accommodations including the name of the borrower company, the date of grant of such accommodation, amount granted, repayment programme, security and the rate of interest shall be reported to the Director within 14 days from the date of grant of such accommodation.
4. No finance company shall recover on any accommodation, charges of any description, other than interest, in excess of 5 per cent of the principal amount granted.
5. Every finance company shall submit to the Director within 3 months after the end of each financial year, details of all accommodations outstanding as at the end of the financial year on a format* given by the Director.
6. For the purpose of this Direction,
 - (i) “accommodation” shall mean loans; facilities under hire purchase or lease agreements; provision of funds through debt securities such as bonds, debentures, asset backed securities, commercial paper/promissory notes; or such other financial facility as may be determined by the Director.
 - (ii) “associate company” shall mean a company in which the finance company holds 20 per cent or more, but less than 50 per cent of the issued ordinary share capital of the investee company.
 - (iii) “relative” shall mean the spouse and/or dependent child of an individual.
 - (iv) “subsidiary company” shall have the same meaning as contained in section 150 of the Companies Act, No. 17 of 1982.
 - (v) “the Director” shall mean the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.
7. The Finance Companies (Lending) Direction No. 8 of 1991 and the Finance Companies (Lending) (Amendment) Direction No. 2 of 2001 are hereby revoked.

The relevant format is obtainable from the Department of Supervision of Non-Bank Financial Institutions.

FINANCE COMPANIES ACT, NO. 78 OF 1988

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.

Nivard Ajith Leslie Cabraal

Chairman

Monetary Board of the Central Bank of Sri Lanka

Colombo

29 December 2006.

**FINANCE COMPANIES (BUSINESS TRANSACTIONS WITH DIRECTORS
AND THEIR RELATIVES) DIRECTION NO. 6 OF 2006**

1. This Direction may be cited as the Finance Companies (Business Transactions with Directors and their Relatives) Direction No. 6 of 2006 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act, No. 78 of 1988 and shall come into operation with immediate effect.
2. Subject to the provisions of the Finance Companies (Lending) Direction No. 5 of 2006 and the provisions of paragraph 3 hereof, a finance company shall not, without the approval of the Monetary Board of the Central Bank of Sri Lanka, conduct any business transaction with a director of the company or a relative of a director of the company where the total value of transaction/s exceed Rupees 50,000 per month or Rupees 500,000 for a financial year.
3. The provisions of paragraph 2 hereof shall not apply to accepting of time and savings deposits from a director of the finance company or a relative/s of a director of the finance company in conformity with the Finance Companies (Deposits) Direction No. 1 of 2005 and the Finance Companies (Interest) Direction No. 2 of 2005 and on terms and conditions that are, for the time being, applicable to the other depositors of the finance company and to payment of interest on similar deposits.
4. For the purpose of this Direction, “relative” shall mean the spouse and/or dependent child of an individual.
5. The Finance Companies (Business Transactions with Relatives) Direction No. 5 of 1991 is hereby revoked.

FINANCE COMPANIES ACT, NO. 78 OF 1988

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.

Nivard Ajith Leslie Cabraal

Chairman

Monetary Board of the Central Bank of Sri Lanka

Colombo

29 December 2006.

**FINANCE COMPANIES (INVESTMENTS)
DIRECTION NO. 7 OF 2006**

1. This Direction may be cited as the Finance Companies (Investments) Direction No. 7 of 2006 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act, No. 78 of 1988 and shall come into operation with immediate effect.
2. Subject to paragraphs 3 and 4 hereof, a finance company may invest in the ordinary shares of any company, provided that –
 - (i) Investment in the issued ordinary share capital of a company shall not at any time exceed 5 per cent of the capital funds of the finance company as shown in its last audited balance sheet;

- (ii) Such investment shall not at any time exceed 40 per cent of the issued ordinary share capital of such investee company; and
 - (iii) the aggregate amount so invested in the issued ordinary share capital of companies shall not at any time exceed 25 per cent of the capital funds of the finance company as shown in its last audited balance sheet.
3. Notwithstanding the provisions of paragraph 2 hereof, a finance company that has core capital over Rs. 200 million as shown in its last audited balance sheet may, with the approval of the Monetary Board of the Central Bank of Sri Lanka, form a subsidiary company or acquire shares in a company exceeding 50 per cent of the issued ordinary share capital of such company.
 4. The provisions of paragraph 2 hereof shall not apply to any shares which a finance company acquires in the course of the satisfaction of any debt due to such finance company or as a consequence of the underwriting of a share issue, provided that, where such acquisition of shares results in the finance company holding shares in excess of the percentage limits stipulated in paragraph 2 hereof, such finance company shall dispose such excess shares within 2 years from the date of acquisition or such longer period as may be determined by the Monetary Board of the Central Bank of Sri Lanka.
 5. For the purpose of this Direction,
 - (i) "capital funds" shall have the same meaning as given in the definition in section 46 of the Finance Companies Act, No. 78 of 1988.
 - (ii) "core capital" shall have the same meaning as given in the Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No. 2 of 2006.
 - (iii) "subsidiary company" shall have the same meaning as contained in section 150 of the Companies Act, No. 17 of 1982.
 6. The Finance Companies (Investments) Direction No. 12 of 1991 and the Finance Companies (Investments) (Amendment) Direction No. 3 of 2001 are hereby revoked.

FINANCE COMPANIES ACT, NO. 78 OF 1988

Rule made by the Monetary Board of the Central Bank of Sri Lanka under section 33 (2)(c) of the Finance Companies Act, No. 78 of 1988.

Nivard Ajith Leslie Cabraal

Chairman

Monetary Board of the Central Bank of Sri Lanka

Colombo

29 December 2006.

FINANCE COMPANIES (ADVERTISEMENTS)

RULE NO. 1 OF 2006

1. This Rule may be cited as the Finance Companies (Advertisements) Rule No. 1 of 2006 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act, No. 78 of 1988 and shall come into operation with immediate effect.
2. (i) Every advertisement published in print media (excluding hoardings, bill boards and banners) directly or indirectly soliciting deposits from the public by a finance company (except those companies that have not been in operation long enough to obtain a credit rating for the entity) shall contain -
 - (a) that such company has been registered by the Monetary Board of the Central Bank of Sri Lanka under the Finance Companies Act, No. 78 of 1988;
 - (b) the date of incorporation of the company;
 - (c) credit rating for the entity assigned to the company by a credit rating agency acceptable to the Central Bank of Sri Lanka;

- (d) periodicity of payment of interest and the annual effective rate of interest in respect of all maturities; and
 - (e) terms and conditions subject to which deposits are accepted by such finance company.
- (ii) Every finance company shall forward to the Director a copy of any advertisement to be published under paragraph 2(i) hereof, at least 2 working days prior to the publication of such advertisement.
3. (i) Every advertisement published in print media (excluding hoardings, bill boards and banners) directly or indirectly soliciting deposits from the public by a finance company which has not been in operation long enough to obtain a credit rating for the entity shall contain -
- (a) that such company has been registered by the Monetary Board of the Central Bank of Sri Lanka under the Finance Companies Act, No. 78 of 1988;
 - (b) the date of incorporation of the company;
 - (c) the names of its Directors;
 - (d) shareholders' funds, deposit liabilities, borrowings and profit/(loss) as appearing in its financial statements which are certified by its external auditor;
 - (e) periodicity of payment of interest and the annual effective rate of interest in respect of all maturities; and
 - (f) terms and conditions subject to which deposits are accepted by such finance company.
- (ii) Every finance company shall forward to the Director for approval a copy of any advertisement to be published under paragraph 3(i) hereof, at least, 3 working days prior to the publication of an advertisement.
4. (i) Every advertisement transmitted or broadcast through audio or audio-visual media (including websites posted on the internet) directly or indirectly soliciting deposits from the public shall contain -
- (a) that such company has been registered by the Monetary Board of the Central Bank of Sri Lanka under the Finance Companies Act, No 78 of 1988;
 - (b) credit rating for the entity assigned to the company by a credit rating agency acceptable to the Central Bank of Sri Lanka; and
 - (c) if interest rates are indicated, the annual effective rates of interest.
- (ii) Every finance company shall forward to the Director through electronic means a copy of any advertisement to be transmitted under paragraph 4(i) hereof, at least, 3 working days prior to the first transmission or broadcast of such advertisement.
5. (i) Every advertisement displayed by a finance company through hoardings, bill boards and banners soliciting deposits directly or indirectly from the public shall state the fact that such company has been registered by the Monetary Board of the Central Bank of Sri Lanka under the Finance Companies Act, No. 78 of 1988.
- (ii) Every finance company shall prior to the display of an advertisement on a hoarding, billboard or banner under paragraph 5(i) hereof, inform the Director the contents of such advertisement and the locations of such hoardings or billboards.
6. Where the Director is of the opinion that any advertisement published/ transmitted/ broadcast/ displayed under paragraphs 2, 4 or 5 hereof, does not comply with the provisions of those paragraphs or contain information which is likely to mislead the public, the Director may direct the finance company to publish/ transmit/ broadcast/ display a revised version of such advertisement in the manner specified by the Director within a reasonable period of time.
7. In this Rule,
- (i) "annual effective rate" shall mean the amount of interest expressed as a percentage, a deposit account would earn in a year at a stated interest rate after taking into account the effects of compounding of interest.
 - (ii) "the Director" shall mean the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.
8. The Finance Companies (Advertising) Rule No. 1 of 2001 is hereby revoked.

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 July, 2006

FINANCE LEASING (MINIMUM CAPITAL)
DIRECTION NO. 1 OF 2006

1. This Direction may be cited as Finance Leasing (Minimum Capital) Direction No.1 of 2006 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 Finance Leasing (Amendment) Act, No. 24 of 2005. The Direction shall come into operation with immediate effect.
2. Every registered finance leasing establishment to which this direction is applicable (hereinafter referred to as a “relevant establishment”) shall maintain at all times a minimum 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 as at 02.01.2006, the Director may give such establishment a period of one year from 02.01.2006 to comply with the requirement under this Direction.
4. For the purpose of this Direction:-
 - (i) “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. 5 of 2006;
 - (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 accommodations 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.
 - (ii) “Director” means the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.
5. Finance Leasing (Minimum Capital) Direction No.1 of 2005 is hereby revoked.

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 July, 2006

FINANCE LEASING (PROVISION FOR BAD AND DOUBTFUL ACCOMMODATIONS)**DIRECTION NO. 2 OF 2006**

1. This Direction may be cited as Finance Leasing (Provision for Bad and Doubtful Accommodations) Direction No.2 of 2006 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 immediate effect.
2. Every registered finance leasing establishment to which this direction is applicable (hereinafter referred to as a “relevant establishment”) shall make provision for non-performing accommodations before any profit or loss is declared and ensure that such provision is made subject to a minimum of -
 - (i) twenty per cent (20%) of all accommodations in arrears for a period of 6 months and upto 12 months;
 - (ii) fifty per cent (50%) of all accommodations in arrears for a period of 12 months and upto 18 months;
 - (iii) hundred per cent (100%) of all accommodations in arrears for a period of 18 months and over;
 - (iv) 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. The Director may require any relevant establishment to make further specific provision for non-performing accommodations in addition to the provision already made by such establishment.
4. Every 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(i) to 2(iv) above -
 - (i) 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);
 - (ii) bank guarantees;
 - (iii) 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;
 - (iv) 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 qualified professional valuer 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. Every relevant establishment may provide an additional specific amount for non-performing accommodations based on the risk associated with the portfolio of performing accommodations 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. Every relevant establishment shall submit to the Director within one month from the end of each quarter, details on accommodations of which instalments/rentals are in arrears for three months or more as at the end of the relevant quarter as follows :
 - (i) accommodations (to be repaid in fixed instalments/rentals) in arrears for three months or more, on the Format No. SNBFI/FL/02/01*;
 - (ii) accommodations (not to be repaid in fixed instalments/rentals) in arrears for three months or more, on the Format No. SNBFI/FL/02/02*;
 - (iii) operating leases in arrears for three months or more, on the Format No. SNBFI/FL/02/03*;
 - (iv) age analysis of accommodations in arrears for three months or more, on the Format No. SNBFI/FL/02/04*; and
 - (v) statement of repossessed asset items, on the Format No. SNBFI/FL/02/05*.
9. Every relevant establishment shall submit to the Director within one month after the end of each quarter, details of accommodations granted during such quarter and the value of all accommodations outstanding as at the end of such quarter, on the Format No. SNBFI/FL/02/06*.
10. For the purpose of this Direction :-
 - (i) “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/mortgaged 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.
 - (ii) “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.
 - (iii) “subsidiary company” and “holding company” shall have the same meaning as contained in section 150 of the Companies Act, No. 17 of 1982.
 - (iv) “non-performing accommodations” shall mean any accommodation where the instalments have been in arrears for more than six months.
 - (v) “Director” shall mean the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.
 - (vi) “qualified professional valuer” shall mean :
 - (a) a chartered valuation surveyor ;
 - (b) a fellow of the Institute of Valuers (Sri Lanka) with a Degree or Diploma in valuation and with work experience over 15 years ;
 - (c) a graduate member of the Institute of Valuers (Sri Lanka) with work experience over 18 years ;
 - (d) an associate of the Institute of Valuers (Sri Lanka) with work experience over 20 years ; or
 - (e) a licenciate of the Institute of Valuers (Sri Lanka) with work experience over 25 years.

11. Finance Leasing (Provision for Bad and Doubtful Debts) Direction No.2 of 2005 is hereby revoked.

* The relevant formats are obtainable from the Department of Supervision of Non-Bank Financial Institutions.

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 July, 2006

FINANCE LEASING (SINGLE BORROWER LIMIT)
DIRECTION NO. 3 OF 2006

1. This Direction may be cited as Finance Leasing (Single Borrower Limit) Direction No.3 of 2006 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 immediate effect.
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 accommodation 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 at its last audited balance sheet.
4. Subject to the provisions in paragraph 5 hereunder, the maximum of a single accommodation or 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 at 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 at 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 on the Format No. SNBFI/FL/03/01*.
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 02.01.2006 to comply with the requirements under this Direction.
7. Every relevant establishment shall submit to the Director, within one month from the end of each month, details of a single accommodation and the aggregate of accommodations granted to and outstanding from an individual borrower, group of borrowers, its directors, its holding company or its subsidiary companies in excess of 10 per cent of its capital funds, as shown in the last audited balance sheet of such establishment, on the Format No. SNBFI/FL/03/02*.
8. For the purpose of this Direction,
 - (i) “individual borrower” shall mean any single company, public corporation, firm, association of persons or an individual.
 - (ii) “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.
- (iii) “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. 5 of 2006;
 - (e) reserves which are not earmarked for any specified purpose by any statute or by the Sri Lanka Accounting Standards;
 - (f) retained profits or accumulated losses;
 - (g) general provision for bad and doubtful accommodation 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 which may be included only with the prior approval of the Director where assets have been revalued in conformity with the following :
 - i The valuation is to be undertaken with the prior approval of the Director;
 - ii 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;
 - iii The asset should be valued by a valuer who is -
 - a) a chartered valuation surveyor ;
 - b) a fellow of the Institute of Valuers (Sri Lanka) with a Degree or Diploma in Valuation and with work experience over 15 years ;
 - c) a graduate member of the Institute of Valuers (Sri Lanka) with work experience over 18 years ;
 - d) an associate of the Institute of Valuers (Sri Lanka) with work experience over 20 years ; or
 - e) licentiate of the Institute of Valuers (Sri Lanka) with work experience over 25 years.
- (iv) “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/mortgaged 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.
- (v) “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.
- (vi) “subsidiary company” and “holding company” shall have the same meaning as contained in section 150 of the Companies Act, No. 17 of 1982.
- (vii) “Director” shall mean the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

9. Finance Leasing (Single Borrower Limit) Direction No.3 of 2005 is hereby revoked.

* The relevant formats are obtainable from the Department of Supervision of Non-Bank Financial Institutions.

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 July, 2006

FINANCE LEASING (GEARING RATIO)
DIRECTION NO. 4 OF 2006

1. This Direction may be cited as Finance Leasing (Gearing Ratio) Direction No. 4 of 2006 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 immediate effect.
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 –
 - (i) 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 02.01.2006;
 - (ii) seven (7) times the capital funds of the relevant establishment, at any time, from the beginning of the fourth year from 02.01.2006.
3. Where the outstanding amount of borrowings of a relevant establishment exceeds the limit specified in paragraph 2(i) above as at 02.01.2006, such establishment may be given a period of two years from 02.01.2006 to comply with the requirement under paragraph 2(i) above.
4. Every relevant establishment that has not completed one year in finance leasing business as at 02.01.2006 shall comply with the requirement under paragraph 2(ii) of this Direction within five years from 02.01.2006, provided that:
 - (i) During the first three years from 02.01.2006, outstanding amount of borrowings of such relevant establishment, at any time, shall not exceed the level permitted by its Articles of Association as at 02.01.2006;
 - (ii) Where the outstanding amount of borrowings of such relevant establishment exceeds the limits specified in paragraph 2(ii) above as at the end of the third year, from the beginning of the fourth year from 02.01.2006, such relevant establishment shall take action to comply with the requirement under paragraph 2(ii) above.
5. Every relevant establishment shall submit to the Director details of outstanding amounts of its borrowings as at the end of each month on or before the 15th day of the immediately following month, on the Format No. SNBFI/FL/04/01*.
6. For the purpose of this Direction,
 - (i) “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.
 - (ii) “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. 5 of 2006;

- (e) reserves which are not earmarked for any specified purpose 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 accommodation 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 which may be included only with the prior approval of the Director where assets have been revalued in conformity with the following :
 - i. The valuation is to be undertaken with the prior approval of the Director;
 - ii. 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;
 - iii. The asset should be valued by a valuer who is -
 - a) a chartered valuation surveyor ;
 - b) a fellow of the Institute of Valuers (Sri Lanka) with a Degree or Diploma in Valuation and with work experience over 15 years ;
 - c) a graduate member of the Institute of Valuers (Sri Lanka) with work experience over 18 years ;
 - d) an associate of the Institute of Valuers (Sri Lanka) with work experience over 20 years ; or
 - e) a licentiate of the Institute of Valuers (Sri Lanka) with work experience over 25 years.
- (iii) “Director” means the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

7. Finance Leasing (Gearing Ratio) Direction No.4 of 2005 is hereby revoked.

* The relevant format is obtainable from the Department of Supervision of Non-Bank Financial Institutions.

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 July, 2006

FINANCE LEASING (RESERVE FUND) **DIRECTION NO. 5 OF 2006**

1. This Direction may be cited as Finance Leasing (Reserve Fund) Direction No.5 of 2006 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 immediate effect.
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 -
 - (i) 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
 - (ii) 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 purpose 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(i) and 2(ii) 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(i) and 2(ii) above, such relevant establishment shall continue to make transfers out of the net profits each year after the payment of tax, before any dividend is declared, to the Reserve Fund as required under 2(i) and 2(ii) above.
4. The Reserve Fund of a relevant establishment shall not be reduced or impaired. Provided, however, that the Director may, specify circumstances in which the Reserve Fund may be reduced, and shall permit a reduction when a transfer is made for the purpose of increasing the issued and paid-up ordinary share capital. The Director shall permit an impairment of the Reserve Fund when it is the only means of preventing an impairment of issued and paid-up ordinary share capital, subject to the condition that within a given period of time, the deficiency shall be rectified.
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.
6. Finance Leasing (Reserve Fund) Direction No. 6 of 2005 is hereby revoked.

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 July, 2006

FINANCE LEASING (FINANCIAL STATEMENTS) **DIRECTION NO. 6 OF 2006**

1. This Direction may be cited as Finance Leasing (Financial Statements) Direction No. 6 of 2006 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 immediate effect.
2. Every registered finance leasing establishment to which this Direction is applicable (hereinafter referred to as a “relevant establishment”) shall submit to the Director, within one month from the end of each month,
 - (i) a profit and loss account in respect of each month on the Format No. SNBFI/FL/06/01*;
 - (ii) a balance sheet as at the end of such month on the Format No. SNBFI/FL/06/02*; and
 - (iii) detailed financial statements for each month.
3. Every relevant establishment shall submit to the Director, within six months after the end of each financial year,
 - (i) the audited financial statements relating to such financial year; and
 - (ii) a certified copy of the auditor’s confidential letter to the Board of Directors of the company.
4. 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.