

# PART II

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

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## 1. ACCOUNTS AND FINANCE

### **Central Bank of Sri Lanka Management Statement For the period ended 31 December 2015**

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

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

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

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

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

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



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கணக்காய்வாளர் தலைமை அறிப்பி திணைக்களம்  
**AUDITOR GENERAL'S DEPARTMENT**



මගේ අංකය  
எனது இல. } BAF/H/CBSL/1/15/1  
My No. }

ඔබේ අංකය  
உமது இல. }  
Your No. }

දිනය  
திகதி } 19 April 2016  
Date }

The Honorable Minister of National Policies and Economic Affairs.

**Report of the Auditor General on the Financial Statements of the Central Bank of Sri Lanka (CBSL) for the year ended 31 December 2015 in terms of Section 42(2) of the Monetary Law Act (Chapter 422)**

The audit of Financial Statements of the Central Bank of Sri Lanka ("the Bank") for the year ended 31 December 2015 comprising the Statement of Financial Position as at 31 December 2015 and the Income Statement, Statement of other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act No.38 of 1971 and Section 42 (2) of the Monetary Law Act (Chapter 422). In carrying out this audit, I was assisted by a firm of Chartered Accountants in public practice to examine the compliance with International Financial Reporting Standards.

**Monetary Board's Responsibility for the Financial Statements**

Monetary Board ("Board") is responsible for the preparation and fair presentation of these Financial Statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's Responsibility**

My responsibility is to express an opinion on these Financial Statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the Financial Statements. Sub-sections (3) and (4) of the Section 13 of the Finance Act, No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

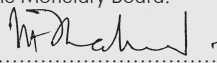
In my opinion, the Financial Statements give a true and fair view of the financial position of the Central Bank of Sri Lanka (CBSL) as at 31 December 2015, and its Financial Performance and Cash Flows for the year then ended in accordance with International Financial Reporting Standards.

H.M. Gamini Wijesinghe  
Auditor General

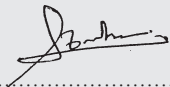
**Central Bank of Sri Lanka**  
**Statement of Financial Position**  
**As at 31 December 2015**

	Note	2015 Rs. 000	2014 Rs. 000
<b>Assets</b>			
<b>Foreign Currency Financial Assets</b>			
Cash & Cash Equivalents		557,474,685	487,070,771
Securities at Fair Value through Profit or Loss	5	35,779,665	61,495,307
Available for Sale Investments	5	352,054,482	408,189,500
Derivative Financial Instruments	6	4,145	1,580,237
IMF Related Assets	7	83,636,350	79,816,029
Other Receivables		5,075	7,105,914
<b>Total Foreign Currency Financial Assets</b>		<b>1,028,954,402</b>	<b>1,045,257,758</b>
<b>Local Currency Financial Assets</b>			
Sri Lanka Government Securities	8	102,866,967	124,443,452
Provisional Advances to Government	9	151,131,671	143,897,971
Loans to Banks	10	886,357	1,489,372
Equity Investments in Financial and Other Institutions	11	41,095	41,095
Other Assets	12	11,164,452	10,019,985
<b>Total Local Currency Financial Assets</b>		<b>266,090,542</b>	<b>279,891,875</b>
<b>Total Financial Assets</b>		<b>1,295,044,944</b>	<b>1,325,149,633</b>
<b>Foreign Currency Non-Financial Assets</b>			
Gold	13	97,723,836	100,190,635
<b>Non-Financial Assets</b>			
Inventories	14	3,419,964	3,620,480
Other Receivables and Prepayments		14,347,811	27,375,394
Property, Plant and Equipment	15	15,422,315	14,686,696
Intangible Assets	16	240,610	306,084
<b>Total Non-Financial Assets</b>		<b>131,154,536</b>	<b>146,179,289</b>
<b>Total Assets</b>		<b>1,426,199,480</b>	<b>1,471,328,922</b>
<b>Liabilities and Equity</b>			
<b>Foreign Currency Financial Liabilities</b>			
Banks and Financial Institutions	17	12,048,241	11,678,483
Derivative Financial Instruments	6	24,280,308	19,207,822
Asian Clearing Union	18	68,887,459	57,230,304
IMF	19	251,644,344	308,011,133
Other	20	217,924,142	72,146,159
<b>Total Foreign Currency Financial Liabilities</b>		<b>574,784,494</b>	<b>468,273,901</b>
<b>Local Currency Financial Liabilities</b>			
Deposits of Banks and Financial Institutions	21	181,726,732	161,009,323
Deposits of Government and Governmental Entities	22	428,142	311,950
Securities Sold Under Repurchase Agreements	23	105,465,000	328,252,000
Balances of Employee Benefit Plans	24	7,212	2,209,782
Currency in Circulation	25	491,699,948	416,895,362
Other Payables	26	6,850,998	8,867,823
<b>Total Local Currency Financial Liabilities</b>		<b>786,178,032</b>	<b>917,546,240</b>
<b>Total Financial Liabilities</b>		<b>1,360,962,526</b>	<b>1,385,820,141</b>
<b>Other Liabilities</b>			
Deferred Grants	27	106	515
Pension and Other Post Employment Benefit Plans	44	10,942,541	3,599,035
Miscellaneous Liabilities and Accruals	28	199,325	197,380
<b>Total Other Liabilities</b>		<b>11,141,972</b>	<b>3,796,930</b>
<b>Total Liabilities</b>		<b>1,372,104,498</b>	<b>1,389,617,071</b>
<b>Equity</b>			
Capital Funds		50,000,000	50,000,000
Reserves		4,094,982	31,711,851
<b>Total Equity</b>		<b>54,094,982</b>	<b>81,711,851</b>
<b>Total Liabilities and Equity</b>		<b>1,426,199,480</b>	<b>1,471,328,922</b>

The Governor and the Chief Accountant of the Central Bank of Sri Lanka authorised these financial statements for issue on 04 April 2016 for and on behalf of the Monetary Board.



Lakshman Arjuna Mahendran – Governor



P A Wijeratne - Chief Accountant

The accounting policies and notes on pages 7 through 52 form an integral part of the Financial Statements.

**Central Bank of Sri Lanka**  
**Income Statement**  
**Year ended 31 December 2015**

	Note	2015 Rs. 000	2014 Rs. 000
<b>Operating Income :</b>			
<b>Income from Foreign Currency Financial Assets</b>			
Interest Income	31	13,047,314	22,221,503
Gain/(Loss) from Unrealized Price Revaluations		(34,853,795)	(7,966,791)
Gain from Realized Price Changes		6,686,252	12,626,457
<b>Total Income from Foreign Currency Financial Assets</b>		<b>(15,120,229)</b>	<b>26,881,169</b>
<b>Expenses on Foreign Currency Financial Liabilities</b>			
Interest Expense	32	(3,622,737)	(3,103,257)
<b>Total Expenses on Foreign Currency Financial Liabilities</b>		<b>(3,622,737)</b>	<b>(3,103,257)</b>
Net Foreign Exchange Revaluation Gain / (Loss)		10,589,267	(32,266,690)
<b>Foreign Currency Investment Income / (Loss)</b>		<b>(8,153,699)</b>	<b>(8,488,778)</b>
<b>Income from Local Currency Financial Assets</b>			
Interest Income	31	9,323,553	4,616,684
Interest Expense	32	(8,919,984)	(17,748,037)
<b>Total Income / (Expense) from Local Currency Financial Assets</b>		<b>403,569</b>	<b>(13,131,353)</b>
Other Income	33	1,577,442	1,367,666
<b>Total Net Operating Income / (Loss)</b>		<b>(6,172,688)</b>	<b>(20,252,465)</b>
<b>Operating Expenses:</b>			
Personnel Expenses:	34		
- Salaries and Wages		(4,201,583)	(3,256,096)
- Defined Contribution Plan Costs		(629,357)	(457,274)
- Contribution to Post Employment Benefit Plan Costs		(1,329,578)	(1,289,040)
		<b>(6,160,518)</b>	<b>(5,002,410)</b>
Depreciation & Amortization		(557,158)	(396,811)
Cost of Inventory (Cost of new currency issue)		(3,311,761)	(1,829,350)
Administration and Other Expenses	35	(1,611,537)	(4,050,858)
<b>Total Operating Expenses</b>		<b>(11,640,974)</b>	<b>(11,279,429)</b>
<b>Profit/(Loss) Before Tax</b>		<b>(17,813,662)</b>	<b>(31,531,894)</b>
Withholding Tax	36	(1,788,157)	(777,496)
<b>Net Profit/(Loss) for the Year</b>		<b>(19,601,819)</b>	<b>(32,309,390)</b>

The accounting policies and notes on pages 7 through 52 form an integral part of the Financial Statements.

**Central Bank of Sri Lanka**  
**Statement Of Other Comprehensive Income**  
**Year ended 31 December 2015**

	2015 Rs. 000	2014 Rs. 000
Net Profit/(Loss) for the Year	(19,601,819)	(32,309,390)
<b>Other Comprehensive Income (OCI)</b>		
<b>OCI to be re-classified to Profit / (Loss) in subsequent period</b>		
Net Fair Value Gain / (Loss) on Available for Sale Securities	(624,957)	9,229,796
<b>OCI not to be re-classified to profit/(loss) in subsequent period</b>		
Post Employment Benefit Plan cost recognized in Other Comprehensive Income	(7,257,078)	1,487,603
<b>Total Comprehensive Income/(Loss)</b>	<b>(27,483,854)</b>	<b>(21,591,991)</b>

The accounting policies and notes on pages 7 through 52 form an integral part of the Financial Statements.

**Central Bank of Sri Lanka**  
**Statement Of Changes In Equity**  
**Year ended 31 December 2015**

	Contributed Capital Rs.000	Reserves Appropriated as Capital Rs.000	Revaluation Reserve Rs.000	Other Reserves (Note 29) Rs.000	Retained Earnings Rs.000	Total Rs.000
<b>As at 1 January 2014</b>	15,000	34,985,000	5,986,602	68,306,848	5,613,763	114,907,213
Net Loss	-	-	-	-	(32,309,390)	(32,309,390)
Transfer to RTGS Sinking Fund	-	-	-	212,124	(212,124)	-
Transfer to General Reserve	-	-	-	1,511,182	(1,511,182)	-
Post Employment Benefit Plan cost recognized in Other Comprehensive Income	-	-	-	-	1,487,603	1,487,603
Transfer of Net Foreign Exchange Revaluation Loss (IRR)	-	-	-	(32,266,690)	32,266,690	-
Transfer to CBSL Specific Reserve	-	-	-	-	(103,198)	(103,198)
Net Fair Value Gain/ (Loss) on Available for Sale Securities	-	-	-	9,229,796	-	9,229,796
Transfer of Funds to Credit Guarantee Scheme on Pawning Advances	-	-	-	(500,000)	500,000	-
Transfer of Funds to CBSL Employees and Pensioners Distress Relief Fund	-	-	-	-	(173)	(173)
Transfer of Funds from General Reserve to enhance the capital of CBSL	-	15,000,000	-	(15,000,000)	-	-
Enhancement of Capital of CBSL	49,985,000	(49,985,000)	-	-	-	-
Transfer of Balance Profit to Government- 2013	-	-	-	-	(3,000,000)	(3,000,000)
Transfer of Interim Profit to Government - 2014	-	-	-	-	(8,500,000)	(8,500,000)
<b>As at 1 January 2015</b>	<b>50,000,000</b>	<b>-</b>	<b>5,986,602</b>	<b>31,493,260</b>	<b>(5,768,011)</b>	<b>81,711,851</b>
Net Loss	-	-	-	-	(19,601,819)	(19,601,819)
Transfer to RTGS Sinking Fund	-	-	-	256,478	(256,478)	-
Post Employment Benefit Plan cost recognized in Other Comprehensive Income	-	-	-	-	(7,257,078)	(7,257,078)
Transfer of Net Foreign Exchange Revaluation Loss (IRR)	-	-	-	10,589,267	(10,589,267)	-
Transfer to CBSL Specific Reserve	-	-	-	-	(132,839)	(132,839)
Net Fair Value Gain/ (Loss) on Available for Sale Securities	-	-	-	(624,957)	-	(624,957)
Transfer of Funds to CBSL Employees and Pensioners Distress Relief Fund	-	-	-	-	(176)	(176)
Transfer of Funds from pension fund reserve to establish New pension scheme	-	-	-	(2,000,000)	2,000,000	-
<b>As at 31 December 2015</b>	<b>50,000,000</b>	<b>-</b>	<b>5,986,602</b>	<b>39,714,048</b>	<b>(41,605,668)</b>	<b>54,094,982</b>

The accounting policies and notes on pages 7 through 52 form an integral part of the Financial Statements.

**Central Bank of Sri Lanka**  
**Statement of Cash Flows**  
**Year ended 31 December 2015**

	Note	2015 Rs. 000	2014 Rs. 000
<b>Cash Flow from Operating Activities</b>			
<b>Receipts:</b>			
Interest Received - Foreign Currency		14,641,329	25,984,366
Interest Received - Local Currency - Others		600,046	530,779
Liquidity Management and Trading Income		6,686,252	12,626,457
Realised Exchange Gain / (Loss)		(13,838,368)	(553,996)
Other Income Received		1,570,072	1,360,447
		<u>9,659,331</u>	<u>39,948,053</u>
<b>Disbursements:</b>			
Interest Paid - Foreign Currency		3,740,805	3,406,299
Interest Paid - Local Currency		10,967,407	15,828,575
Payments to Employees		6,267,998	4,729,643
Payments to Suppliers		6,645,579	5,601,065
Tax Paid		1,817,747	929,097
		<u>29,439,536</u>	<u>30,494,679</u>
<b>Net Cash Flow from/(used in) Operating Activities</b>	37	<u>(19,780,205)</u>	<u>9,453,374</u>
<b>Cash Flows from Investing Activities</b>			
<b>Receipts:</b>			
Net (Increase) /Decrease in Other Local Currency Financial Assets		(823,124)	(790,741)
Principal Recoveries from Loans and Advances to Other Institutions		1,523,438	1,490,027
Sale of Property, Plant and Equipment		749	940
Net Increase /(Decrease) in Securities Purchased under Agreement to Re-sell		(222,787,000)	243,651,000
		<u>(222,085,937)</u>	<u>244,351,226</u>
<b>Disbursements:</b>			
Net Increase /(Decrease) in Foreign Currency Securities		(89,998,376)	31,566,311
Net Increase /(Decrease) in Other Foreign Currency Financial Assets		(289,309)	(746,122)
Net Increase /(Decrease) in Other Foreign Currency Financial Liabilities		(139,352,884)	(26,570,161)
Net Increase /(Decrease) in Other Local Deposits and Payables		2,274	(375)
Purchase of Property, Plant and Equipment net of Grants		1,206,040	835,014
Purchase of Intangible Assets		21,627	290,656
Purchase of Leasehold Assets		14,361	2,640
Net Increase /(Decrease) in Gold Inventory		(5,124,212)	1,348,440
Loans and Advances granted to other Institutions		920,424	1,604,003
		<u>(232,600,055)</u>	<u>8,330,406</u>
<b>Net Cash Flow from/(used in) Investing Activities</b>		<u>10,514,118</u>	<u>236,020,820</u>
<b>Cash Flow from Financing Activities</b>			
<b>Receipts :</b>			
Issue of Circulating Currency		(504,508,531)	(431,825,813)
Withdrawal of Circulating Currency		579,313,118	508,950,194
Net Issue of Circulating Currency		<u>74,804,587</u>	<u>77,124,381</u>
<b>Disbursements:</b>			
Net Issues / (Withdrawals) of Circulating Currency on Government Transactions	38	(23,208,921)	139,339,459
Net Issues / (Withdrawals) of Circulating Currency on Transactions with Banks and Financial Institutions	39	(20,944,825)	(12,199,430)
Net Issues / (Withdrawals) of Circulating Currency		<u>(44,153,746)</u>	<u>127,140,029</u>
<b>Net Increase/(Decrease) in Circulating Currency</b>		<u>118,958,333</u>	<u>(50,015,648)</u>
<b>Disbursements:</b>			
Repayment of Foreign Currency Term Liabilities		68,788,313	93,842,868
Payments to Other Funds		175	173
Transfer of Profits to Consolidated Fund		-	11,500,000
		<u>68,788,488</u>	<u>105,343,041</u>
<b>Net Cash Flow from / (used in) Financing Activities</b>		<u>50,169,845</u>	<u>(155,358,689)</u>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>		<u>40,903,760</u>	<u>90,115,505</u>
Exchange Rate Effect on Cash and Cash Equivalents		29,500,154	(28,721,497)
Cash and Cash Equivalents at the Beginning of the Year		487,070,771	425,676,763
<b>Cash and Cash Equivalents at 31 December</b>	40	<u>557,474,685</u>	<u>487,070,771</u>

The accounting policies and notes on pages 7 through 52 form an integral part of the Financial Statements.



## Central Bank of Sri Lanka

### Notes To The Financial Statements

#### Year ended 31 December 2015

#### 1. REPORTING ENTITY AND STATUTORY BASE

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

These financial statements were authorised for issue by the Governor and Chief Accountant for and on behalf of the Monetary Board on 04 April 2016.

#### 2. ACCOUNTING POLICIES

##### 2.1 Basis of Preparation

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

##### 2.1.1 Reporting Format

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

##### 2.1.2 Statement of Compliance

These financial statements of the Bank for the period ended 31 December 2015 have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements prepared in accordance with the Monetary Law Act (MLA) are audited by the Auditor General and gazetted as required by the law. Due to certain requirements in the IFRS, the classifications, and hence the amounts in the gazetted financial statements would be different from those in these financial statements.

##### 2.1.3 Currency of Presentation

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

#### 2.2 Significant Accounting Judgements and Estimates

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

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

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

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

The cost of defined benefit plans is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future compensation increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Assumptions used are disclosed in Note 44.

##### 2.2.3 Fair Value of Financial Instruments

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

#### 2.3 Standards issued but not yet effective

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

##### 2.3.1 IFRS 9 Financial Instruments

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

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

### 2.3.2 IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. The adoption of the standard is not expected to have an impact on the Bank.

### 2.3.3 IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Bank will adopt these standards when they become effective. Pending the completion of detailed review, the financial impact is not reasonably estimable as at the date of publication of these Financial Statements.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Foreign Currency Conversions

The Bank's functional and presentation currency is Sri Lanka Rupees (Rs). Transactions in foreign currencies are initially recorded in the functional currency prevailing at

the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange prevailing at the reporting date. All differences are taken to the Income Statement. For the purposes of retranslation the following Sri Lanka Rupee exchange rates for major currencies were used:

Currency	2015 Rs.	2014 Rs.
1 Australian Dollar	105.3888	107.3616
1 Canadian Dollar	103.7278	113.0558
1 Euro	157.4097	159.2568
1 Japanese Yen	1.1970	1.0962
1 Special Drawing Rights (SDR)	199.6310	189.8640
1 Sterling Pound	213.5508	204.1803
1 United States Dollar	144.0623	131.0486
1 Chinese Yuan (Offshore)	21.9285	21.0483

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

### 3.2 Fair value measurement

The Bank measures financial instruments such as foreign securities, derivatives, non-financial assets such as Land and Building at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 45.

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

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

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

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

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

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

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

### 3.3 Financial Assets and Liabilities

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

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

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

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

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

the Statement of Financial Position while resulting gains and losses are recognised in the Income Statement.

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

#### 3.3.2 Foreign Currency Available for Sale Investments

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

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

#### 3.3.3 Derivative Instruments

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

#### 3.3.4 'Day 1' Difference

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

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

The Bank transacts with the International Monetary Fund (IMF) in its own right rather than as the depository of the Government of Sri Lanka. All transactions by the

Bank with the IMF have been included in these financial statements on that basis.

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

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

### 3.3.6 Cash and Cash Equivalents

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

As a part of local currency activities CBSL generates certain income and incurs expenses, which do not involve in movement of cash. Those activities result in certain assets and liabilities and mainly comprise of the transactions with the Government of Sri Lanka (GOSL) and transactions with domestic banks and financial institutions. Transactions with GOSL include the purchase of Treasury bills and bonds that are issued by the Government by the bank as a monetary policy mechanism. Such purchases, disposals or interest thereon are reflected as mere book entries in the records of CBSL. These are disclosed separately in Note 37 and Note 38 to these Financial Statements.

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

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

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

### 3.3.7 Repurchase and Reverse-Repurchase Transactions

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

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

### 3.3.8 Standing Deposit Facility

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

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

### 3.3.9 CBSL Securities

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

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

### 3.3.10 Sri Lanka Government Securities

Sri Lanka Government Securities consists of Treasury bills purchased from GOSL. The portfolio is recorded in the Statement of Financial Position at amortised cost since they represent loans provided to the GOSL.

### 3.3.11 Advances to Government

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

### 3.3.12 Loans to Other Institutions

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

### 3.3.13 Securities Borrowings and Securities Lending

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

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

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

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

### 3.3.14 Staff Loans

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

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

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

#### Assumptions used for computation of fair valuation

- The date of staff loan granted is considered as 1 January.

- There were no amendments or early settlements.

### 3.3.15 Impairment of Financial Assets

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

### 3.3.16 Impairment of Assets Carried at Amortised Cost

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

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

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

### 3.3.17 Impairment of Available for Sale Investments

If an Available for Sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the Income Statement. Reversals in respect of equity instruments classified as Available for Sale are not recognized in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can



be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

### 3.3.18 Foreign Currency Term Liabilities

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

### 3.3.19 Other Financial Assets and Liabilities

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

## 3.4 Other Assets and Liabilities

### 3.4.1 Gold

Section 67 (1) of the Monetary Law Act which specifies the composition of the International Reserve indicates that gold may be held by the CBSL as part of this Reserve. Hence, CBSL holds Rs. 109.51 Bn (Allocated - Rs. 97.72 Bn and Non Allocated - Rs. 11.79 Bn) in gold as part of its International Reserves as at 31 December 2014. As this gold is part of the International Reserve and not used as a commodity which is traded during the normal course of business, gold is fair valued and the gains or losses are transferred to the income statement. Prior to appropriation of profits, the unrealised gains or losses from gold are transferred to the relevant reserve account.

### 3.4.2 Inventories

#### 3.4.2.1 Currency Inventory

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

#### 3.4.2.2 Other Inventories

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

### 3.4.3 Property, Plant and Equipment

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

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

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

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

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

Any revaluation surplus is credited to the Revaluation Reserve included in the equity section of the Statement of Financial Position, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in Income Statement, in which case the increase is recognized in Income Statement. A revaluation deficit is recognized in Income Statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the Revaluation Reserve. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred to retained earnings. An item of Property, Plant and Equipment is de-recognized upon disposal or when no future economic benefits are expected from its use or disposal.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included

in the Income Statement in the year the asset is de-recognized. The asset's residual values, useful life and methods are reviewed, and adjusted if appropriate, regularly.

#### 3.4.4 Intangible Assets

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

#### 3.4.5 Other Assets

Other assets are carried at expected realisable values.

#### 3.4.6 Impairment of Non-Financial Assets

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

#### 3.4.7 Provisions

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

#### 3.4.8 Currency in Circulation

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

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

Pension and other Post Employment Benefit Plans operated by the Bank are disclosed in Note 44.

#### 3.4.10 Defined Benefit Plans

The Bank operates defined benefit schemes for Pension (Old and new schemes), Widows' and Orphans' Pensions (W&OP), Widowers' and Orphans' Pensions (WR&OP), Retirement Gratuity and Post Employment Medical Benefits. The Bank and eligible beneficiaries make contributions, to

separately administered funds in respect of the first three schemes. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method.

#### 3.4.11 Defined Contribution Plans

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

#### 3.4.12 Grants

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

#### 3.4.13 Personnel Expenses

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

#### 3.4.14 Operating Leases

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

#### 3.4.15 Taxation

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

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

#### 3.4.16 Revenue & Expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the bank and the revenue can be reliably measured. Expenses are recognised in the Income Statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure

incurred in the running of the business and in maintaining the Property, Plant & Equipment in a state of efficiency has been charged to income in arriving at the result for the year.

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

#### 3.4.16.1 Interest

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

#### 3.4.16.2 Dividends

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

#### 3.4.16.3 Miscellaneous

Miscellaneous income and expenses are recognised on an accrual basis.

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

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

#### 3.4.17 Contingent Liabilities and Commitments

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

### 4. NATURE AND EXTENT OF ACTIVITIES

The Monetary Board of the CBSL is, in addition to determining the policies or measures authorized to be adopted or taken under Monetary Law Act No. 58 of 1949 of Sri Lanka as amended, vested with the powers, duties and functions of the CBSL and are

generally responsible for the management, operations and administration of the Bank. The Bank is primarily responsible for the administration, supervision, regulation of monetary, financial and payment system of Sri Lanka and also acts as the fiscal agent of the Government. The activities of the Bank mainly include:

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

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

#### 4.1 Foreign Currency Activities

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

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

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



international market operations.

## 4.2 Local Currency Activities

Local currency activities arise as follows:

(i) Liquidity management operations: Liquidity management largely involves the CBSL offsetting the daily net flows to or from government or market by advancing funds to or withdrawing funds from the banking system. Most of this business is undertaken through daily open market operations.

(ii) Holding an investment portfolio comprising Sri Lanka Government Securities to support the liability for currency in circulation. The Bank's policy is to hold these investments for monetary operations and not for trading.

## 4.3 Trust and Custodial Activities

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

## 5. INVESTMENT IN FOREIGN SECURITIES

	2015 Rs. 000	2014 Rs. 000
Securities at Fair Value through Profit or Loss	35,779,665	61,495,307
Available for Sale Investments	352,054,482	408,189,500
<b>Total Financial Assets</b>	<b>387,834,147</b>	<b>469,684,807</b>

## 6. DERIVATIVE FINANCIAL INSTRUMENTS

a) The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of the derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at period end and are indicative of neither the market risk nor the credit risk.

	2015			2014		
	Assets Rs. 000	Liabilities Rs. 000	Notional Amount Rs. 000	Assets Rs. 000	Liabilities Rs. 000	Notional Amount Rs. 000
Currency SWAPS	-	13,989,728	379,377,271	1,579,560	2,758,093	285,044,665
Forward Forex	2,259	169	4,725,243	630	-	425,908
Embedded Derivatives - Currency Options	-	10,290,162	157,782,073	-	16,449,303	159,213,437
Interest Rate SWAP	1,886	249	1,440,623	47	427	1,310,486
<b>Total</b>	<b>4,145</b>	<b>24,280,308</b>	<b>543,325,210</b>	<b>1,580,237</b>	<b>19,207,822</b>	<b>445,994,496</b>

b) The above derivatives consisting of currency swaps, currency options, foreign exchange forward contracts and interest rate swaps were used for the purpose of managing market and liquidity risks in international reserves held by the Bank in order to facilitate the statutory objectives of maintenance of international reserves. In addition, the Bank entered into Swap transactions with Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs) in order to enhance the level of foreign reserves, to maintain international stability of the Sri Lankan Rupee, to strengthen the financial system of the country and to encourage these Banks to being foreign funds for long term.

c) Derivatives are financial contracts that derive their value in response to changes in interest rates, financial instruments prices, commodity prices, foreign exchange rates, credit risk and indices.

d) A significant part of derivatives portfolio of the Bank consists of currency swaps entered into as a strategy to manage the short term liquidity requirements. In a currency swap, the Bank pays/receives a specified amount of currency in different days in exchange of another currency at agreed rates.

e) From Foreign Exchange Forward contracts, the Bank gets the obligation to buy or sell specific amount of foreign currency on an agreed future date at an agreed rate.

f) In interest rate swap, the Bank pays fixed rate (the swap rate) to the counterparty, while receiving floating rate indexed to reference rate (3 months LIBOR+ Margin).

g) The Bank's exposure to derivative contracts is closely monitored as part of the overall risk management of the bank to ensure expected benefits from such derivatives are crystallised to the Bank.

**7. IMF RELATED ASSETS**

	2015 Rs. 000	2014 Rs. 000
Holding in Special Drawing Rights	970,272	1,199,895
IMF Quota	82,527,455	78,489,778
Deposits with IMF	138,623	126,356
<b>Total IMF Related Assets</b>	<b>83,636,350</b>	<b>79,816,029</b>

**a). Holding of Special Drawing Rights (SDR)**

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

**b). IMF Quota**

The IMF Quotas (capital subscriptions) are the primary source of IMF resources received from its member countries. Each country's quota is determined broadly on the basis of the relative economic size of the country. Upon joining the IMF, a country must pay 25 per cent of its quota in widely accepted foreign currencies or SDRs, and the remaining 75 per cent in its own currency. The IMF quota represents an asset of the Bank as it transacts with the IMF on its own account on behalf of the Government as per Articles of the IMF. The amounts payable in respect of the IMF Quota is shown under the heading Quota Liability in Note 19. A member's quota determines that country's financial and organizational relationship with IMF, including:

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

comprised of basic votes plus one additional vote for each SDR 100, 000 of quota. The 2008 reform fix the number of basic votes at 5.50 per cent of total votes.

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

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

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

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

**8. SRI LANKA GOVERNMENT SECURITIES**

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

**9. PROVISIONAL ADVANCES TO GOVERNMENT**

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

**10. LOANS TO BANKS**

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



**15. PROPERTY, PLANT AND EQUIPMENT**

Cost	Land and Buildings Rs.000	Plant & Plant Integrals Rs.000	Furniture & Equipment Rs.000	Vehicles Rs.000	Computers Rs.000	Others		2015 Total Rs.000	2014 Total Rs.000
						Reading Materials Rs.000	Construction In progress Rs.000		
As at 01 January	13,207,653	1,237,954	808,029	454,475	793,714	51,892	869,047	17,422,764	16,701,909
Additions	161,748	45,534	427,781	35,000	37,307	1,115	1,118,265	1,826,750	2,071,625
Disposals / Transfers	-	-	(5,309)	-	(20,447)	-	(620,709)	(646,465)	(1,350,770)
<b>As at 31 December</b>	<b>13,369,401</b>	<b>1,283,488</b>	<b>1,230,501</b>	<b>489,475</b>	<b>810,574</b>	<b>53,007</b>	<b>1,366,603</b>	<b>18,603,049</b>	<b>17,422,764</b>

Depreciation	Land and Buildings Rs.000	Plant & Plant Integrals Rs.000	Furniture & Equipment Rs.000	Vehicles Rs.000	Computers Rs.000	Others		2015 Total Rs.000	2014 Total Rs.000
						Reading Materials Rs.000	Construction In progress Rs.000		
As at 01 January	477,388	655,431	593,381	289,017	688,283	32,568	-	2,736,068	2,472,994
Depreciation for the year	185,105	63,003	118,105	51,828	50,273	1,360	-	469,674	377,786
Reclassification	-	-	-	-	-	-	-	-	(1,452)
Disposals	-	-	(4,674)	-	(20,334)	-	-	(25,008)	(113,260)
<b>As at 31 December</b>	<b>662,493</b>	<b>718,434</b>	<b>706,812</b>	<b>340,845</b>	<b>718,222</b>	<b>33,928</b>	<b>-</b>	<b>3,180,734</b>	<b>2,736,068</b>
<b>Net Book Value</b>	<b>12,706,908</b>	<b>565,054</b>	<b>523,689</b>	<b>148,630</b>	<b>92,352</b>	<b>19,079</b>	<b>1,366,603</b>	<b>15,422,315</b>	<b>14,686,696</b>

The carrying values of Land and Buildings are recorded at fair value. The latest independent valuation was performed as at 31 March 2012 by P. B. Kalugalagedara (Chartered Valuer), which was recorded as at 30 April 2012.

During the financial year, the Bank has acquired property plant and equipment by means of cash with an aggregated cost of Rs.1,206.04 Mn (2014 - Rs.835.01 Mn).

The value of the fully depreciated assets which are still in use as at 31 December 2015 was Rs.1,897.17Mn (2014 - Rs. 1,783.22Mn).

**Composition of Land and Buildings**

	Carrying Value 2015 Rs. 000	Carrying Value 2014 Rs. 000
Freehold Land	5,689,063	5,643,100
Buildings on Freehold Land	6,935,388	7,002,418
Buildings on Leasehold Land	82,457	84,748
	<b>12,706,908</b>	<b>12,730,266</b>

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

(2014- Rs.10,011.91 Mn).

Further, Bank has purchased a property in Brazil for Rs.122.20 Mn on 18.12.2014.

**16. INTANGIBLE ASSETS**

	2015 Rs. 000	2014 Rs. 000
<b>Computer Software:</b>		
<b>Cost:</b>		
As at 1 January	927,022	638,020
Additions	21,626	290,657
Disposals	-	(1,655)
<b>As at 31 December</b>	<b>948,648</b>	<b>927,022</b>
<b>Amortization and Impairment:</b>		
As at 1 January	620,938	602,422
Amortization Charge for the year	87,100	20,136
Disposals	-	(1,620)
<b>As at 31 December</b>	<b>708,038</b>	<b>620,938</b>
<b>Net Book Value:</b>		
As at 1 January	306,084	35,598
As at 31 December	<b>240,610</b>	<b>306,084</b>

During the financial year, the Bank has acquired intangible assets by means of cash with an aggregated cost of Rs.21.63Mn (2014-Rs. 290.66 Mn).

**17. BANKS AND FINANCIAL INSTITUTIONS**

	2015 Rs. 000	2014 Rs. 000
Payable to Foreign Banks	11,524,984	11,365,076
Payable to other Foreign Financial Institutions	523,257	313,407
	<b>12,048,241</b>	<b>11,678,483</b>

**18. ASIAN CLEARING UNION**

The Asian Clearing Union (ACU) was established in 1974 at the initiative of the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) as a mechanism for settlement of payments among participating countries' Central Banks. The participants of ACU are Sri Lanka, Bangladesh, Iran, Nepal, Pakistan, India, Bhutan, Myanmar and Maldives. This is a clearing facility to settle, on a multilateral basis, payments for current international transactions among territories of participants. Net position as at end of each month is settled or received, after two-month credit period. Interest between 0.02 % and 0.23 % in USD (2014- 0.03% and 0.07%) and interest between 0.00 % and 0.00 % in EURO (2014 - 0.00% and 0.12 %) is paid by net debtors to the facility and transferred to net creditors on daily balances outstanding between settlement dates. The balance represents the amounts due to ACU at the respective reporting dates.

**19. IMF**

	2015 Rs. 000	2014 Rs. 000
Interest Bearing Loans - Non Current	34,386,440	94,841,815
Interest Bearing Loans - Current	65,334,236	68,678,555
Allocation of Special Drawing Rights	78,946,116	75,083,657
Other Amounts Payable to IMF Quota Liability	47,512,222	47,039,094
	25,465,330	22,368,012
	<b>217,257,904</b>	<b>213,169,318</b>
<b>Total IMF Related Liabilities</b>	<b>251,644,344</b>	<b>308,011,133</b>

- a). From 2014 onwards, IMF related liabilities consisted of the Stand By Arrangement (SBA) obtained from the IMF.
- b). **SBA** is a balance of payment support financing facility provided by the IMF subject to certain conditions on macroeconomic management of the borrowing countries. The IMF approved a SBA facility of SDR 1.65 bn (USD 2.6 bn) for Sri Lanka in July 2009 as a balance of payment support. The SBA was successfully completed in 2012 with

the final tranche received in July 2012. This loan facility is repayable within 5 years and the repayments commenced in October 2012. The rate of interest payable is composed of two components; the service charge and a fixed margin. The service charge is calculated weekly, based on the SDR interest rate. The fixed margin is 1 per cent per annum for the outstanding loan amount up to 300 per cent of the quota with the IMF. When the outstanding loan amount exceeds 300 per cent of the quota, a surcharge of 2 per cent per annum will be levied on the outstanding in excess of 300 per cent. The first repayment of SDR 25.80 mn was made on 25 October 2012. Total amount of SDR 292.83 mn, SDR 473.69 mn and SDR 361.73 mn of repayments were done respectively in the years 2013, 2014 and 2015 and the outstanding balance as at 31st December 2015 was SDR 499.53 mn.

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

	Effective interest rate %	Maturity	2015 Rs. 000	2014 Rs. 000
<b>Current SBA</b>	1.05		65,334,236	68,678,555
			<b>65,334,236</b>	<b>68,678,555</b>
<b>Non-current SBA</b>	1.05	2017	34,386,440	94,841,815
			<b>34,386,440</b>	<b>94,841,815</b>
<b>Total Interest bearing loans</b>			<b>99,720,675</b>	<b>163,520,370</b>

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

- d). **Other Amounts Payable to IMF** represent amounts owed by the Bank to IMF on account of operational and administrative transactions.
- e). **Quota Liability** : The amounts payable in respect of the IMF Quota as described in Note 7 is shown under the heading Quota Liability.

## 20. OTHER

	2015 Rs. 000	2014 Rs. 000
Amount due to China Development Bank Corporation (CDB) under Escrow Agreement (a)	1,413,418	8,017,222
Moragahakanda Development Project Loan (b)	11,957,787	14,046,678
DST CDB (USD) - PRPIII (c)	21,701,612	34,106,960
DST CDB (USD) - PRPIII Phase II (d)	14,406,230	13,104,860
DST Special Dollar A/C-Small & Medium Enterprises (SME) and Green Energy Global Loan (e)	-	1,222,595
DST Special Euro A/C-Small & Medium Enterprises and Green Energy Global Loan (e)	7,483,465	-
DST Special Dollar A/C - Ambatale Water Supply Improvement Project (f)	720,312	-
Amount due to Reserve Bank of India (RBI) under SAARC swap facility (g)	158,468,530	-
Other Foreign Liabilities	1,772,788	1,647,843
	<b>217,924,142</b>	<b>72,146,159</b>

### a). Amount due to CDB under Escrow Agreement

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

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

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

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

Thereafter, during the year 2011 & 2012 USD 157.50 Mn was disbursed according to the CDB's request. USD 118.52, USD 161.01 Mn and USD 51.37 Mn was disbursed in years 2013, 2014 and 2015 respectively. The remaining balance as at 31 December 2015 is USD 9.81 Mn.

### b). Moragahakanda Development Project Loan

This Loan Agreement was signed between China Development Bank (as lender) and the Government of Sri Lanka (as borrower) on 28th June 2012 for USD 214.20 Mn. The purpose of this loan agreement is to provide facility for financing the construction of a hydroelectric power station at Moragahakanda. This Project has been implemented by the Ministry of Irrigation and Water Resources Management. The Bank opened an account in its books of account, as the banker to this agreement, according to the instructions of the Department of External Resources for the purpose of receiving and disbursing the loan. On 29th of June 2012 USD 214.20 Mn was received from CDB and first disbursement of USD 64.34 Mn was done on 24th August 2012. During the year 2013-2014, USD 42.66 Mn was disbursed. In the year of 2015, USD 24.18 Mn was disbursed and the remaining balance as at 31st December 2015 is USD 83.00 Mn.

### c). Amount due to China Development Bank under Priority Road Project III

This Facility Agreement was signed between the China Development Bank (as the lender) and the Government of Sri Lanka (as the borrower) on 11th March 2014 for USD 300 Mn. The purpose of this loan is to finance the cost of improvement and rehabilitation of Priority Road Project III-Phase I. As per the Facility Agreement, the Bank has been appointed as the banker to the Government of Sri Lanka. Accordingly, an account has been opened in its books of account for the sole purpose of depositing the loan and disbursing such received monies to the Road Project. USD 300 Mn was received to the above account on 28th March 2014. During the year 2014 and 2015, USD 149.36 Mn was disbursed and the remaining balance as at 31st December 2015 is USD 150.64 Mn.

### d). Amount due to China Development Bank under Priority Road Project III Phase II

The Phase II of this agreement was received on 24th November 2014 for USD 100 Mn.



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

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

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

**f). DST Special Dollar A/C 45020 Ambatale Water Supply Improvement Project**

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

**g). Amount due to Reserve Bank of India (RBI) under SAARC swap facility**

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

Drawing may be allowed in multiple tranches over the validity period of the agreement. Each drawing will be for three months and another 3 months roll over will be

allowed. The interest rate applicable for the drawing is 3 month USD LIBOR rate prevailing on the date of each withdrawal plus 200 basis points.

The first drawing of USD 400 Mn has been made on 30th April 2015 and it was rolled over for another 3 months on 30th July 2015. At the expiry of the roll over period, USD 402.32 Mn has been repaid to RBI on 30th October 2015.

The second tranche of USD 1.10 Bn has been provided on 3rd September 2015 and this facility has also been rolled over for another 3 months period on 3rd December 2015. Accordingly, the repayment will be due on 03rd March 2016.

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

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

	2015 Rs. 000	2014 Rs. 000
<b>Deposits by Banks :</b>		
- Related Parties	89,340,293	84,976,155
- Others	92,380,448	76,028,176
	181,720,741	161,004,331
<b>Deposits by Financial Institutions</b>		
- Related Parties	729	167
- Others	5,262	4,825
	5,991	4,992
<b>Total Deposits by Banks and Other Financial Institutions</b>	<b>181,726,732</b>	<b>161,009,323</b>

## 22. DEPOSITS OF GOVERNMENT AND GOVERNMENT ENTITIES

	2015 Rs. 000	2014 Rs. 000
Government Deposits	174,871	166,583
Government Agencies and Funds	253,271	145,367
	<u>428,142</u>	<u>311,950</u>

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

## 23. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

	2015 Rs. 000	2014 Rs. 000
Government Securities	23,650,000	321,220,000
Standing Deposit Facility (Note 3.3.8)	81,815,000	7,032,000
	<u>105,465,000</u>	<u>328,252,000</u>

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

## 24. BALANCES OF EMPLOYEE BENEFIT PLANS

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

	2015 Rs. 000	2014 Rs. 000
Balances in CBSL Provident Fund, Pension Schemes and Widows'/Widowers' & Orphans' Pension Schemes	7,212	2,209,782
	<u>7,212</u>	<u>2,209,782</u>

## 25. CURRENCY IN CIRCULATION

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

### Denomination Coins:

	2015 Rs. 000	2014 Rs. 000
1 cent	3,631	3,631
2 cent	5,703	5,703
5 cent	23,247	23,247
10 cent	39,208	39,208
25 cent	120,558	120,558
50 cent	185,371	185,564
1 rupee	794,975	734,733
2 rupee	1,155,840	1,048,861
5 rupee	3,473,827	3,130,691
10 rupee	3,345,748	2,252,507
Commemorative coins	582,423	577,523
	<u>9,730,531</u>	<u>8,122,226</u>

### Notes:

1 rupee	4,981	4,981
2 rupee	26,696	26,697
5 rupee	37,194	37,194
10 rupee	1,449,773	1,519,817
20 rupee	4,882,579	4,121,289
50 rupee	4,671,924	4,273,372
100 rupee	18,979,404	17,029,514
200 rupee	131,246	132,526
500 rupee	31,656,334	28,205,681
1000 rupee	133,243,521	127,258,019
2000 rupee	38,973,585	67,438,978
5000 rupee	247,912,180	158,725,070
	<u>481,969,417</u>	<u>408,773,136</u>
<b>Total Currency in Circulation</b>	<u>491,699,948</u>	<u>416,895,362</u>

## 26. OTHER PAYABLES

	2015 Rs. 000	2014 Rs. 000
Domestic Interest Payable	26,006	2,120,819
Provision and Charges	556,337	733,824
Deposit by RDD	2,314,645	2,688,215
Liability against Abandoned Properties Received	3,221,244	2,655,909
Other Payables	732,766	669,056
	<u>6,850,998</u>	<u>8,867,823</u>

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



**27. DEFERRED GRANTS**

	2015 Rs. 000	2014 Rs. 000
As at 01 January	515	1,449
Amortization during the year	(409)	(934)
<b>As at 31 December</b>	<b>106</b>	<b>515</b>

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

**28. MISCELLANEOUS LIABILITIES AND ACCRUALS**

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

**29. EQUITY****a). Nature of Equity Items****Capital Funds**

**Contributed Capital** - The capital account represents the capital of the Bank in accordance with section 6 of the Monetary Law Act (MLA). As per the section 6 of the MLA (Amendment) Act No. 15 of 2014, the capital of the bank has been increased to Rs. 50 Bn. Accordingly, bank has increased its capital up to Rs. 50 Bn by capitalizing the Bank's reserves with the concurrence of Minister of Finance in September 2014.

**b). Fixed Asset Revaluation Reserve** – This reserve is made up of the revaluation surpluses of Property, Plant and Equipment as per IAS 16.

**c). Other Reserves comprise the following;**

**i). International Revaluation Reserve (IRR)** : International Revaluation Reserve is a reserve established in accordance with section 41 of the Monetary Law Act which requires that any unrealised gain or loss arising from the revaluation of net assets and liabilities of CBSL in gold or foreign currency shall not be considered in computing the net profit of the bank, instead such profit or loss should be transferred to the IRR.

**ii). Market Revaluation Reserve (MRR):** Market Revaluation Reserve was set up as per the Monetary Board decision of 30 January 2003, to transfer the price valuation gains from marking to market the foreign assets, in order to meet any adverse effects

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

**iii). Other Reserves** : Other reserves include General Reserve, Building Reserve and Credit Guarantee Reserve. General Reserve includes the amounts set aside from the retained earnings by the Monetary Board.

**iv). Net Fair Value Gain/(Loss) on Available for Sale Securities** : Unrealized gains and losses on the revaluation of securities and unit investments designated as available for sale are transferred to this reserve.

**v). RTGS Sinking Fund** : This fund is built up with the charges collected from the participants for use of the RTGS system. The fund is limited to investments in Treasury bills and bonds.

**vi). Pension Fund Reserve** : This reserve is made up by transferring an additional Rs.3 Bn from 2007 profits to be used to meet any shortfalls in the pension fund given the vulnerability of the income generating capacity of the Bank, to external risks. Another Rs. 1 Bn transferred to this reserve from 2011 profits. During June 2015, Rs. 2 Bn has been transferred from Pension Fund Reserve to New Pension Liability Account to implement the new pension scheme as per Board Paper No: MB/HR/11/12/2015.

**vii). Technical Advancement Reserve** : This reserve is built up from 2007 profits specifically to be used for technical advancement requirements, modification or upgrading of the IT systems currently used by the Bank i.e., General Ledger, RTGS, Treasury Management System and Scriptless Securities Settlement System.

**viii). Provincial Development Credit Scheme** – During 2010 bank has commenced a refinance credit scheme for medium & long term development purposes for provinces by creating a fund from the profits, amounting to Rs. 2.90 Bn. Such loans are granted through Bank of Ceylon & Peoples' Bank.

**ix). Special Credit Guarantee Scheme Reserve** – This reserve was set up in the year 2014 by transferring Rs. 2 Bn from Medium and Long Term Credit Fund, of which Rs. 1Bn is allocated to support restructure of Saubaghya Loan Scheme, Awakening North Loan Scheme (phase II), Resumption of Economic Activities in the East (phase II) and Repair of Damaged Houses in North and East operated by Regional Development Department of the Bank. The balance of Rs. 1 Bn is allocated to implement a special credit guarantee scheme to support lending to Small and Medium Enterprises by Commercial Banks.

The movements in the other reserves are as follows:

	Medium and Long Term Credit Reserve Rs. 000	Market Revaluation Reserve Rs. 000	Other Reserves Rs. 000	Special Credit Guarantee Scheme Reserve Rs. 000	RTGS Sinking Fund Rs. 000	IRR Rs. 000	Net Fair Value Gain/(Loss) on Available for Sale Securities Rs. 000	Pension Fund Reserve Rs. 000	Technical Advance-ment Reserve Rs. 000	Provincial Develop-ment Credit Scheme Fund Rs. 000	Total Rs. 000
<b>As at 1 January 2015</b>	2,925,000	4,650,806	2,489,920	2,000,000	1,076,150	8,567,855	1,883,529	4,000,000	1,000,000	2,900,000	31,493,260
Transfer to RTGS Sinking Fund	-	-	-	-	256,478	-	-	-	-	-	256,478
Transfer of Net Foreign Exchange Revaluation Gain	-	-	-	-	-	10,589,267	-	-	-	-	10,589,267
Net Fair value Loss on Available for sale Securities	-	-	-	-	-	-	(624,957)	-	-	-	(624,957)
Transfer of Funds to New Pension Fund	-	-	-	-	-	-	-	(2,000,000)	-	-	(2,000,000)
<b>As at 31 December 2015</b>	<u>2,925,000</u>	<u>4,650,806</u>	<u>2,489,920</u>	<u>2,000,000</u>	<u>1,332,628</u>	<u>19,157,122</u>	<u>1,258,572</u>	<u>2,000,000</u>	<u>1,000,000</u>	<u>2,900,000</u>	<u>39,714,049</u>

### 30. PROFIT DISTRIBUTION

As per the Monetary Law Act and the Monetary Board approved profit distribution policy of CBSL (effective from 2015), the following adjustments are made to the IFRS net profit/loss in order to arrive at the distributable profit.

- Remove the exchange gain /(loss) (Sec. 41 of Monetary Law Act).
- Remove gains from unrealised price revaluations (unrealized "marked to market" gains) but charge losses from unrealised price revaluations (unrealized "marked to market" losses) (as per the profit distribution policy).
- Any other adjustment arising from Sec. 39 of Monetary Law Act.

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

Based on the above adjustments, the distributable profit for the year ended 31st December 2015 is as follows:

Item	2015 Rs. 000
<b>IFRS Profit/(Loss)</b>	(19,601,819)
<b>Less:</b>	
Transfer of exchange gain to IRR in accordance with the MLA	10,589,267
Transfer of interest income on internal funds to respective funds	389,544
Charged to Other Comprehensive Income (OCI) (as per IAS 19: Employee Benefits)	7,257,078
<b>Add:</b>	
Transfer of funds to Retained Earnings from Pension Fund Reserve to establish new Pension Scheme	2,000,000
<b>Distributable Profit/(Loss) as per MLA, Profit Distribution Policy of the Bank and other adjustments - Realised Profit/(Loss)</b>	(35,837,708)
Transfer to Reserves (Sec. 38 of MLA)	-
Amount Credited to the Consolidated Fund and recovery of outstanding GOSL obligations (Sec. 39 of MLA)	-

Due to the negative distributable profit for the year 2015, no transfers are made to the reserves and no recovery of government obligations as well as no transfers to the consolidated fund are made as per MLA.

### 31. INTEREST INCOME FROM FINANCIAL ASSETS

	2015 Rs. 000	2014 Rs. 000
<b>Interest Income from Foreign Currency Financial Assets</b>		
Cash and Short Term Deposits	1,464,525	3,209,460
Financial Assets	6,635,778	6,853,354
Derivatives	4,947,011	12,158,689
<b>Total Interest Income from Foreign Currency Financial Assets</b>	<b>13,047,314</b>	<b>22,221,503</b>
<b>Interest Income from Local Currency Financial Assets</b>		
Sri Lanka Government Securities	8,749,944	4,085,660
Other Loans and Advances	573,609	531,024
<b>Total Interest Income from Local Currency Financial Assets</b>	<b>9,323,553</b>	<b>4,616,684</b>
<b>Total Interest Income from Financial Assets</b>	<b>22,370,867</b>	<b>26,838,187</b>

### 32. INTEREST EXPENSE ON FINANCIAL LIABILITIES

	2015 Rs. 000	2014 Rs. 000
<b>Interest Expense on Foreign Currency Financial Liabilities</b>		
Amount Payable to Asian Clearing Union	38,009	13,854
IMF Related Liabilities	1,394,723	2,546,454
Derivatives	341,117	525,898
Other Foreign Payable	1,848,888	17,051
<b>Total Interest Expense on Foreign Currency Financial Liabilities</b>	<b>3,622,737</b>	<b>3,103,257</b>
<b>Interest Expense on Local Currency Financial Liabilities</b>		
Securities Sold Under Agreements to Repurchase	4,067,059	15,919,782
Standing Deposit Facility	4,582,318	1,198,254
Bond Borrowing	82,711	467,432
Abandoned Property	187,896	162,568
<b>Total Interest Expense on Local Currency Financial Liabilities</b>	<b>8,919,984</b>	<b>17,748,037</b>
<b>Total Interest Expense on Financial Liabilities</b>	<b>12,542,721</b>	<b>20,851,293</b>

Bank has incurred a net cost of Rs. 4,354.36 Mn as sterilization cost (2014- Rs.5,831.44 Mn) in its activities to absorb the excess liquidity in the market. The sterilization cost/(gain) is composed of the interest expenses incurred on securities sold under agreement to repurchase, interest expense on Bond Borrowing and interest expense on Standing Deposit Facility netted off with interest income earned on the securities purchased under agreement to resale (Reverse Repurchase) included under interest income from Sri Lanka Government Securities and USD/ LKR derivative gain included in the derivative gain under interest income from foreign currency financial assets, as discussed below:

	2015 Rs. 000	2014 Rs. 000
Interest expenses incurred on securities sold under agreement to repurchase	4,067,059	15,919,782
Interest expense on Bond Borrowing	82,711	467,432
Interest expense on Standing Deposit Facility	4,582,318	1,198,254
Less:		
Interest income earned on the securities purchased under agreement to resale	(16,317)	(3,438)
USD / LKR Derivative Gain	(4,361,415)	(11,750,595)
	<u>4,354,356</u>	<u>5,831,435</u>

### 33. OTHER INCOME

	2015 Rs. 000	2014 Rs. 000
Dividend Income - Related Party	31,214	22,014
Others	1,050	1,055
Gain on Disposal of Property, Plant & Equipment	2	21,884
Amortization of Deferred Grant	409	934
Licensing Fees of Financial Institutions	490,350	399,100
Rent Income	381,491	306,818
Charges collected from RTGS Participants	128,768	144,143
Miscellaneous Income	544,158	471,718
<b>Total Other Income</b>	<u>1,577,442</u>	<u>1,367,666</u>

Miscellaneous income includes amortization gain of Rs.1.24 Mn (2014-Rs.1.09 Mn) on debentures in Sri Lanka Savings Bank Ltd and Rs.5.73 Mn (2014-Rs.5.35 Mn) of gain on amortization of PRGF Deposit of SDR 788,783 with IMF over remaining period of 03 years (Note 07).

### 34. PERSONNEL EXPENSES

	2015 Rs. 000	2014 Rs. 000
Wages and Salaries	4,201,583	3,256,096
Defined Contribution Plan Costs	629,357	457,274
Post Employee Defined Benefit Plan Costs	1,329,578	1,289,040
<b>Total Personnel Expenses</b>	<u>6,160,518</u>	<u>5,002,410</u>

### 35. ADMINISTRATION AND OTHER EXPENSES

	2015 Rs. 000	2014 Rs. 000
Repairs and Maintenance	680,000	734,555
Operating Expenses for Reuters, Bloomberg, SWIFT etc.	154,937	129,918
Travelling	97,552	133,778
Rental Expenses	5,106	5,126
Printing	26,476	37,113
Audit Fees	7,768	7,568
Remuneration to Members of the Monetary Board	1,084	954
Interest Subsidy on CBSL Provident Fund	-	63
Advertising Cost	73,073	149,676
Consultancy, Communication, Advisory and Professional Fees	219,502	2,050,619
Credit Guarantee Scheme on Pawning Advances	-	500,000
Miscellaneous Expenses	346,038	301,488
<b>Total Administration and Other Expenses</b>	<u>1,611,537</u>	<u>4,050,858</u>

### 36. WITHHOLDING TAX

Bank is not liable for the income tax as per the Inland Revenue (Amendment) Act No. 10 of 2006 section 7b (xvi) and the Withholding Tax paid by the bank is treated as the final tax paid to Inland Revenue Department (IRD). From 2013 Bank is not liable to pay Economic Service Charge.

As per the Inland Revenue (Amendment) Act, No. 10 of 2007, dividend or interest will be liable to 10% withholding tax at the time of payment or crediting. The withholding tax on the interest income on the Government Securities is based on the weighted average yield rate of the closest primary auction adjusted to the days to maturity.

During the period an amount of Rs.1,788.16 Mn (2014 - Rs 777.50 Mn) was expensed in relation to such withholding tax, payable on interest income of Rs 8,859.71 Mn (2014 - Rs. 2,677.62 Mn) & dividend income of Rs.6.21Mn (2014-Rs.1.05 Mn).



**Comparative Figures as at 31 December 2014 are as follows:**

As at 31 December 2014	Total Rs. 000	Sri Lanka Government Rs. 000	Sri Lanka Public Rs. 000	Sri Lanka Commercial Banks Rs. 000	Supranational Financial Institutions Rs. 000	Other Rs. 000
<b>Foreign Currency Financial Liabilities</b>						
Banks and Financial Institutions	11,678,483	-	-	-	305,160	11,373,323
Derivative Financial Instruments	19,207,822	-	-	19,180,954	-	26,868
Asian Clearing Union	57,230,304	-	-	-	-	57,230,304
IMF	308,011,133	-	-	-	308,011,133	-
Other	72,146,159	22,063,900	-	805,214	837,539	48,439,506
<b>Total Foreign Currency Financial Liabilities</b>	<b>468,273,901</b>	<b>22,063,900</b>	<b>-</b>	<b>19,986,168</b>	<b>309,153,832</b>	<b>117,070,001</b>
<b>Local Currency Financial Liabilities</b>						
Deposits of Banks and Financial Institutions	161,009,323	-	-	161,004,331	-	4,992
Deposits of Government and Government Entities	311,950	311,832	118	-	-	-
Securities Sold Under Repurchase Agreements	328,252,000	-	-	328,252,000	-	-
Balances of Employee Benefit Plans	2,209,782	-	-	-	-	2,209,782
Currency in Circulation	416,895,362	-	416,895,362	-	-	-
Other Payable	8,867,823	26,190	-	182,000	-	8,659,633
<b>Total Local Currency Financial Liabilities</b>	<b>917,546,240</b>	<b>338,022</b>	<b>416,895,480</b>	<b>489,438,331</b>	<b>-</b>	<b>10,874,407</b>
<b>Total Financial Liabilities</b>	<b>1,385,820,141</b>	<b>22,401,922</b>	<b>416,895,480</b>	<b>509,424,499</b>	<b>309,153,832</b>	<b>127,944,408</b>
<b>Other Liabilities</b>						
Deferred Grants	515	-	-	-	-	515
Pension and Other Post Employment Benefit Plans	3,599,035	-	-	-	-	3,599,035
Miscellaneous Liabilities and Accruals	197,380	37,928	-	-	-	159,452
<b>Total Other Liabilities</b>	<b>3,796,930</b>	<b>37,928</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,759,002</b>
<b>Total Liabilities</b>	<b>1,389,617,071</b>	<b>22,439,850</b>	<b>416,895,480</b>	<b>509,424,499</b>	<b>309,153,832</b>	<b>131,703,410</b>

**42. RISK MANAGEMENT**

The CBSL has two statutory objectives, i.e., economic and price stability and financial system stability. The CBSL has been assigned with wide statutory powers to implement economic and financial policies to secure its objectives. The Monetary Board, the Governing Board of the CBSL is responsible for making all policy decisions related to the management, operations and administration of the Bank.

The CBSL's operations and policies are not aimed towards generating profits. However, the Bank is exposed to number of risks in the course of carrying out its functions. The two major dimensions of risks are financial risks and non financial risks. Financial risk includes market risk (interest rate risk and foreign exchange risk), credit risk and liquidity risk. Non-financial risk includes legal risk, compliance risk, human resource risk, fraud risk, strategic and policy risk, other operational risks etc. All these risks are ultimately the reputation risk of the Bank. Therefore, the Bank's management ensures that strong and effective risk management and control systems are in place at all times for assessing, monitoring and managing risk exposure.

The Monetary Board is responsible for identifying and controlling risk of the Bank. The Board has delegated this task to several departments and committees with the view of ensuring effective management and controlling of risks. Therefore, risk management is a responsibility as well as a critical area to all levels of decision making in the Bank. As such, a 'Three Lines of Defense' model was initiated in the Bank with the establishment of Risk Management Department (RMD) in 2015 to perform an independent risk management function.

Accordingly, the responsibility of the 'First Line of Defense' rests with the respective departments. The risks coming under 'First Line of Defense' are operational in nature so that such risks

are monitored and controlled by departments where they are originated. The 'First Line of Defense' would ensure proper internal risk management systems and controls are in place. The RMD as the 'Second Line of Defense' is responsible for assessing and monitoring of financial risks and independently reporting to the Governor. As such, the RMD undertakes financial risk management function pertaining to international reserve investments, investments by internal funds managed by the CBSL, monetary operations, public debt management and investments by the Employees Provident Fund (EPF) on pace by pace subject to availability of human resources and required infrastructure. Internal Audit Department (IAD) is entrusted with the responsibility of performing the risk assurance function as the 'Third Line of Defense' and it directly reports to the Governor.

Monitoring non-financial risk would ensure a risk compliance of work procedures, rules and guidelines as well as proper risk governance of the entire Bank. In view of this, in order to have a framework for overseeing non-financial risks, Non-Financial Risk Management Committee (NFRMC) was set up in October 2015. The Committee is chaired by the Governor and selected key departments that have relatively high exposure to risk are members of the committee. The principle objective of NFRMC is to assist the Monetary Board in its responsibility to identify, assess and monitoring non-financial risk of the Bank in order to safeguard Bank's reputation and mitigate any losses and damages. The Committee also reviews and assesses the quality, integrity and effectiveness of the risk management plan and internal control procedures.

The financial risks to which the Bank is exposed to are credit risk, foreign exchange risk, interest rate risk and liquidity risk. A significant proportion of these risks arise from the management of foreign reserves of the Bank. As such, while the International Operations Department (IOD) of the Bank manages the



foreign currency portfolio, the Middle Office of the IOD is responsible for monitoring and management of financial risks relating to the Bank's foreign assets portfolio. The financial risk management function handled by the Middle Office of IOD has been transferred to RMD with effect from 30 December 2015 as approved by the Foreign Reserves Management Committee (FRMC).

FRMC appointed by the Monetary Board has the responsibility to ensure that the foreign reserves management function is carried out effectively and efficiently. All policy measures including those in relation to risk management is considered by FRMC and recommended to the Monetary Board. A comprehensive set of guidelines incorporating risk mitigation policies have been issued to the dealers involved in the reserve management function.

A Counterparty Credit Risk Management System is used by the IOD to manage the credit risk of the foreign assets portfolio based on the credit ratings of the investments and the counterparties. Counterparty risk assessments are made under Counterparty Credit Rating Management System (CCRMS) Guidelines.

Interest rate risk or the exposure of the Bank's foreign assets portfolio to movements in the interest rate is managed through the appropriate adjustments of the duration of the portfolio as well as estimates of Value at Risk (VaR) for a time horizon of 10 days and a confidence level of 99 per cent. The foreign exchange risk or the capital loss as a consequence of fluctuations in the exchange rates is managed mainly through diversification of investment currencies. In order to mitigate liquidity risk, limits to asset classes, a maximum purchasing limit over total amount issued by the issuers of the securities are considered in the asset allocation process. In the management of foreign reserves, minimizing liquidity risk is the prime consideration in order to maintain an effective foreign exchange intervention capability. Policies for managing the credit, interest rate, foreign exchange and liquidity risks are outlined in sections 42.1, 42.2, 42.3 & 42.4, respectively.

The internal controls and the risk management processes are audited annually by the IAD of the Bank. It examines the adequacy of the procedures and the Bank's compliance with the procedures. All departments are subject to periodic internal audit review. The IAD reports directly to the Governor and reports its findings and recommendations to the Monetary Board Advisory Audit Committee.

The Monetary Board Advisory Audit Committee is chaired by an appointed member of the Monetary Board. The Monetary Board Advisory Audit Committee advises the Monetary Board on policies and issues relating to the audits of the Bank in the areas such as Annual Internal Audit Plan and any interim revision therein, management response to the management letters issued by external auditors, monitoring of implementation of the external and internal audit findings and recommendations agreed by the management, non-compliances reported by the Compliance Officer, advice for the heads of Audit Department on subjects/issues relating to audit for policy formulation and any other matters relating to audit. The Monetary Board Advisory Audit Committee reports its recommendations and performance to the Monetary Board for consideration quarterly and when necessary.

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

#### 42.1 Credit Risk

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

Concentrations of credit Exposure by geographical area	2015 Rs. 000	2014 Rs. 000
Sri Lanka	266,095,014	281,434,233
USA	314,591,946	247,455,622
Japan	47,722,367	82,055,393
Britain	170,829,879	164,344,228
Europe	101,096,757	93,737,444
Supranational	336,791,479	222,580,690
Other	57,917,502	233,542,023
<b>Total Financial Assets</b>	<b>1,295,044,944</b>	<b>1,325,149,633</b>

#### (b) Concentrations of Credit Exposure

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

	2015 Rs. 000	2014 Rs. 000
Governments	903,134,670	769,681,320
Supranational Financial Institutions	336,791,480	222,580,690
Foreign Banks and Financial Institutions	48,696,315	324,625,536
Sri Lanka Banks & Financial Institutions	909,033	3,041,059
Other	5,513,446	5,221,028
<b>Total Financial Assets</b>	<b>1,295,044,944</b>	<b>1,325,149,633</b>

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

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

<b>Credit Exposure by Credit Rating</b>		<b>Credit Rating</b>	<b>2015 Rs.000</b>	<b>%</b>	<b>2014 Rs.000</b>	<b>%</b>
<b>Cash &amp; Cash Equivalents</b>						
Federal Reserve Bank - USA/Reserve Bank of Australia/Bank for International Settlements/Bank of Japan/Deutsche Bundesbank/Bank of England/Sveriges Riks Bank/Bank of Canada/Reserve Bank of New Zealand						
			553,410,725	42.73%	209,580,134	15.82%
	AA	3,435		0.00%	-	0.00%
	AA-	-		0.00%	81,692,163	6.16%
	A+	2,127,405		0.16%	162,072,232	12.23%
	A	1,531,225		0.12%	33,555,560	2.53%
	A-	1,734		0.00%	-	0.00%
	BBB+	202,837		0.02%	-	0.00%
	BBB	-		0.00%	28,002	0.00%
	BBB-	1,325		0.00%	-	0.00%
	NR	195,999		0.02%	142,680	0.01%
			557,474,685	43.05%	487,070,771	36.76%
<b>Foreign Currency Trading/ Available for Sale Securities</b>						
Federal Reserve Bank - USA/Reserve Bank of Australia/Bank for International Settlements/ Bank of Japan/Deutsche Bundesbank/Bank of England/Sveriges Riks Bank/Bank of Canada/Reserve Bank of New Zealand						
			11,714,884	0.90%	10,855,885	0.82%
	AAA	180,207,061		13.92%	170,800,992	12.89%
	AA+	117,813,693		9.10%	160,197,811	12.09%
	AA	922,677		0.07%	3,537,900	0.27%
	AA-	15,356,209		1.19%	15,507,080	1.17%
	A+	22,574,134		1.74%	24,255,977	1.83%
	A	-		0.00%	1,051,456	0.08%
	A-	-		0.00%	739,460	0.06%
	BBB-	-		0.00%	2,455,004	0.19%
	NR	27,452,563		2.12%	63,486,285	4.79%
			376,041,221	29.04%	452,887,850	34.18%
Securities at Fair Value Through Profit or Loss						
	AA-	-		0.00%	16,796,957	1.27%
	A	11,792,926		0.91%	-	0.00%
			11,792,926	0.91%	16,796,957	1.27%
<b>Derivative Financial Instruments</b>						
Federal Reserve Bank - USA/Reserve Bank of Australia/Bank for International Settlements/ Bank of Japan /Deutsche Bundesbank/Bank of England /Sveriges Riks Bank/Bank of Canada/Reserve Bank of New Zealand						
		99		0.00%	-	0.00%
	AA-	-		0.00%	37,832	0.00%
	A+	-		0.00%	1,616	0.00%
	A	49		0.00%	-	0.00%
	A-	1,886		0.00%	47	0.00%
Locally Rated						
	AAA	-		0.00%	268,877	0.02%
	AA+	1,652		0.00%	461	0.00%
	AA	459		0.00%	802,792	0.06%
	AA-	-		0.00%	301,005	0.02%
	A-	-		0.00%	167,607	0.01%
			4,145	0.00%	1,580,237	0.12%
IMF Related Assets						
	AAA	83,636,350		6.46%	79,816,029	6.02%
			83,636,350	6.46%	79,816,029	6.02%
Other Receivables						
	AAA	344		0.00%	364	0.00%
	AA-	-		0.00%	426	0.00%
	A+	-		0.00%	2,153,902	0.16%
	A	2,370		0.00%	2,238,138	0.17%
	A-	-		0.00%	2,713,084	0.20%
	BBB-	4		0.00%	-	0.00%
Locally Rated						
	AAA	2,357		0.00%	-	0.00%
			5,075	0.00%	7,105,914	0.54%
<b>Total Foreign Currency Financial Assets</b>						
			1,028,954,402	79.45%	1,045,257,758	78.88%

<b>42.1 Credit Risk (Continued)</b>					
	Credit Rating	2015 Rs.000	%	2014 Rs.000	%
<b>Local Currency Financial Assets</b>					
Sri Lanka Government Securities	B+	102,866,967	7.94%	124,443,452	9.39%
Provisional Advances to Government	B+	151,131,672	11.67%	143,897,971	10.86%
Loans to Banks	AA+	503,989	0.04%	980,578	0.07%
	AA	6,328	0.00%	8,611	0.00%
	AA-	14,715	0.00%	79,003	0.01%
	A+	32,314	0.00%	-	0.00%
	A-	33,101	0.00%	41,988	0.00%
	BBB+	-	0.00%	222,340	0.02%
	BBB	6,835	0.00%	4,675	0.00%
	BB+	85,759	0.01%	108,788	0.01%
	B+	1,422	0.00%	-	0.00%
	B	4,860	0.00%	-	0.00%
	NR	197,034	0.02%	43,390	0.00%
Equity Investments in Financial and Other Institutions	NR	41,095	0.00%	41,095	0.00%
Other Assets	B+	5,671,536	0.44%	4,830,722	0.36%
	B	10,000	0.00%	-	0.00%
	NR	5,482,915	0.42%	5,189,262	0.39%
<b>Total Local Currency Financial Assets</b>		<b>266,090,542</b>	<b>20.55%</b>	<b>279,891,875</b>	<b>21.12%</b>
<b>Total Financial Assets</b>		<b>1,295,044,944</b>	<b>100.00%</b>	<b>1,325,149,633</b>	<b>100.00%</b>
<b>(d) Summary by Major Credit Category</b>					
<b>Foreign Currency Financial Assets</b>					
Federal Reserve Bank - USA/Reserve Bank of Australia/Bank for International Settlements/ Bank of Japan/ Deutsche Bundesbank/Bank of England/ Sveriges Riks Bank/Bank of Canada/Reserve Bank of New Zealand					
IMF Related Assets		565,125,708	43.64%	220,436,019	16.63%
		83,636,694	6.46%	79,816,393	6.02%
	AAA	180,207,061	13.92%	170,800,992	12.89%
	AA+/-	134,096,014	10.35%	277,770,169	20.96%
	A+/-	38,031,730	2.94%	228,781,472	17.26%
	BBB+/-	204,166	0.02%	2,483,006	0.19%
	NR	27,648,561	2.13%	63,628,965	4.80%
Locally Rated	AAA	2,357	0.00%	268,877	0.02%
	AA+	1,652	0.00%	461	0.00%
	AA	459	0.00%	802,792	0.06%
	AA-	-	0.00%	301,005	0.02%
	A-	-	0.00%	167,607	0.01%
<b>Total Foreign Currency Financial Assets</b>		<b>1,028,954,402</b>	<b>79.45%</b>	<b>1,045,257,758</b>	<b>78.88%</b>
<b>Local Currency Financial Assets</b>					
	AA+	503,989	0.04%	980,578	0.07%
	AA	6,328	0.00%	8,611	0.00%
	AA-	14,715	0.00%	79,003	0.01%
	A+	32,314	0.00%	-	0.00%
	A-	33,101	0.00%	41,988	0.00%
	BBB+	-	0.00%	222,340	0.02%
	BBB	6,835	0.00%	4,675	0.00%
	BB+	85,759	0.01%	108,788	0.01%
	B+	259,671,597	20.05%	273,172,145	20.61%
	B	14,860	0.00%	-	0.00%
	NR	5,721,044	0.44%	5,273,747	0.40%
<b>Total Local Currency Financial Assets</b>		<b>266,090,542</b>	<b>20.55%</b>	<b>279,891,875</b>	<b>21.12%</b>
<b>Total Financial Assets</b>		<b>1,295,044,944</b>	<b>100.00%</b>	<b>1,325,149,633</b>	<b>100.00%</b>



## 42.2 Interest Rate Risk

### (a) Foreign Currency Interest Rate Sensitivity

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

The interest rate sensitivity of the Fixed Income Securities portfolio measured by the potential loss incurred due to a rise in interest rate by 10 basis points is another risk measure used by the Bank. Sensitivity of the risk exposure of the segmented Fixed Income Securities Portfolio is given below:

Portfolio Segment	Potential Loss ( USD Mn)	
	2015	2014
Trading and Available for Sale	8.35	12.76

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

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

#### Modified Duration

Investment Segment	Modified Duration	
	2015	2014
Capital Market (Fixed Income Securities)	3.28	3.76

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

### Convexity of the segmented Fixed Income Securities portfolio

Portfolio Segment	Potential Loss (US\$ Mn)	
	2015	2014
Trading and Available for Sale	0.19	0.22

### iii) Value at Risk (VaR)

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

Portfolio Segment	Value at Risk (VaR) US\$ Mn	
	2015	2014
Trading and Available for Sale	69.82	116.13

### iv) Trading & Open Position Limits

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

### (b) Local Currency Interest Rate Sensitivity

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

<b>42.2 Interest Rate Risk (Continued)</b>							
<b>( c ) Assets and liabilities will mature or re-price within the following Periods</b>							
<b>Foreign Currency Interest Rate Sensitivity Gap:</b>	<b>Weighted Avg. Int. Rate %</b>	<b>2015 Total Rs. 000</b>	<b>6 Months or Less Rs. 000</b>	<b>6 to 12 Months Rs. 000</b>	<b>1 to 2 Years Rs. 000</b>	<b>2 to 5 Years Rs. 000</b>	<b>Over 5 Years Rs. 000</b>
<b>Interest Sensitive Foreign Currency Financial Assets</b>							
Cash & Cash equivalents	0.31	557,474,685	557,474,685	-	-	-	-
Securities at Fair Value through Profit or Loss and Available for Sale Investments	1.54	376,041,221	51,900,181	50,000,041	51,436,286	138,190,639	84,514,074
IMF related assets	0.04	10,523,672	10,523,672	-	-	-	-
<b>Total Interest Sensitive Foreign Currency Financial Assets</b>		<b>944,039,578</b>	<b>619,898,538</b>	<b>50,000,041</b>	<b>51,436,286</b>	<b>138,190,639</b>	<b>84,514,074</b>
<b>Non Interest Sensitive Foreign Currency Financial Assets</b>							
IMF Related assets		73,112,678	-	-	-	138,622	72,974,056
Derivative Financial Instruments		4,145	2,259	-	1,886	-	-
Other Receivables		5,075	5,075	-	-	-	-
Securities at Fair Value through Profit or Loss		11,792,926	11,792,926	-	-	-	-
<b>Total non Interest Sensitive Foreign Currency Financial Assets</b>		<b>84,914,824</b>	<b>11,800,260</b>	<b>-</b>	<b>1,886</b>	<b>138,622</b>	<b>72,974,056</b>
<b>Total Foreign Currency Financial Assets</b>		<b>1,028,954,402</b>	<b>631,698,798</b>	<b>50,000,041</b>	<b>51,438,172</b>	<b>138,329,261</b>	<b>157,488,130</b>
<b>Interest Sensitive Foreign Currency Financial Liabilities</b>							
IMF	0.00	99,720,675	37,825,083	27,509,152	34,386,440	-	-
Asian Clearing Union	0.23	68,887,459	68,887,459	-	-	-	-
RBI SWAP	2.45	158,766,606	158,766,606	-	-	-	-
<b>Total Interest Sensitive Foreign Currency Financial Liabilities</b>		<b>327,374,740</b>	<b>265,479,148</b>	<b>27,509,152</b>	<b>34,386,440</b>	<b>-</b>	<b>-</b>
<b>Non Interest Sensitive Foreign Currency Financial Liabilities</b>							
Banks and Financial Institutions		11,750,164	11,750,164	-	-	-	-
Derivative Financial Instruments		24,280,307	9,568,328	6,609,542	1,610,234	5,831,868	660,335
IMF		151,923,669	-	-	-	-	151,923,669
Commercial Banks' Capital in Foreign Currency		1,124,395	-	-	-	-	1,124,395
Other Foreign Liabilities		58,331,218	58,331,218	-	-	-	-
<b>Total non Interest Sensitive Foreign Currency Financial Liabilities</b>		<b>247,409,753</b>	<b>79,649,710</b>	<b>6,609,542</b>	<b>1,610,234</b>	<b>5,831,868</b>	<b>153,708,399</b>
<b>Total Foreign Currency Financial Liabilities</b>		<b>574,784,493</b>	<b>345,128,858</b>	<b>34,118,694</b>	<b>35,996,674</b>	<b>5,831,868</b>	<b>153,708,399</b>
<b>Foreign Currency Interest Rate Sensitivity Gap</b>		<b>616,664,838</b>	<b>354,419,390</b>	<b>22,490,889</b>	<b>17,049,846</b>	<b>138,190,639</b>	<b>84,514,074</b>

<b>42.2 Interest Rate Risk (Continued)</b>							
	Weighted Avg. Int. Rate %	2015 Total Rs. 000	6 Months or Less Rs. 000	6 to 12 Months Rs. 000	1 to 2 Years Rs. 000	2 to 5 Years Rs. 000	Over 5 Years Rs. 000
<b>Interest Sensitive Local Currency Financial Assets</b>							
Sri Lanka Government Securities	6.58	102,731,967	58,490,040	44,241,927	-	-	-
Treasury Bills and Bond Reverse Repo	7.50	135,000	135,000	-	-	-	-
Loans to Banks	8.39	886,357	215,559	190,756	285,486	183,562	10,994
Other Assets - Staff Loans	3.64	5,133,899	39,486	40,127	80,721	260,253	4,713,312
- Others	8.41	4,313,154	760,877	338,215	360,205	2,327,611	526,246
<b>Total Interest Sensitive Local Currency Financial Assets</b>		<b>113,200,377</b>	<b>59,640,962</b>	<b>44,811,025</b>	<b>726,412</b>	<b>2,771,426</b>	<b>5,250,552</b>
<b>Non Interest Sensitive Local Currency Assets</b>							
Provisional Advances to Government		151,131,671	151,131,671	-	-	-	-
Other Assets-Others		1,717,398	1,717,398	-	-	-	-
Investment in Equity Securities - Available for Sale		41,095	-	-	-	-	41,095
<b>Total Non Interest Sensitive Local Currency Assets</b>		<b>152,890,164</b>	<b>152,849,069</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>41,095</b>
<b>Total Local Currency Assets</b>		<b>266,090,541</b>	<b>212,490,031</b>	<b>44,811,025</b>	<b>726,412</b>	<b>2,771,426</b>	<b>5,291,647</b>
<b>Interest Sensitive Local Currency Financial Liabilities</b>							
Securities sold under Repurchase Agreements	6.42	23,650,000	23,650,000	-	-	-	-
Standing Deposit Facility	6.00	81,815,000	81,815,000	-	-	-	-
<b>Total Interest Sensitive Local Currency Financial Liabilities</b>		<b>105,465,000</b>	<b>105,465,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Non Interest Sensitive Local Currency Liabilities</b>							
Deposits of Banks and Financial Institutions		181,726,732	181,726,732	-	-	-	-
Deposits of Government and Government Entities		428,142	428,142	-	-	-	-
Balances of Employee Benefit Plans		7,212	7,212	-	-	-	-
Currency in Circulation		491,699,948	491,699,948	-	-	-	-
Other Payables		6,850,998	6,850,998	-	-	-	-
<b>Total Non Interest Sensitive Local Currency Financial Liabilities</b>		<b>680,713,032</b>	<b>680,713,032</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Local Currency Financial Liabilities</b>		<b>786,178,032</b>	<b>786,178,032</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Local Currency Interest Rate Sensitivity Gap</b>		<b>7,735,377</b>	<b>(45,824,038)</b>	<b>44,811,025</b>	<b>726,412</b>	<b>2,771,426</b>	<b>5,250,552</b>

<b>42.2 Interest Rate Risk (Continued)</b>							
<b>( c ) Assets and liabilities will mature or re- price within the following periods</b>							
Comparative figures as at 31 December 2014 were as follows:							
<b>Foreign Currency Interest Rate Sensitivity Gap:</b>	<b>Weighted Avg. Int. Rate %</b>	<b>2014 Total Rs. 000</b>	<b>6 Months or Less Rs. 000</b>	<b>6 to 12 Months Rs. 000</b>	<b>1 to 2 Years Rs. 000</b>	<b>2 to 5 Years Rs. 000</b>	<b>Over 5 Years Rs. 000</b>
<b>Interest Sensitive Foreign Currency Financial Assets</b>							
Cash & Cash equivalents	0.85	487,070,771	487,070,771	-	-	-	-
Securities at Fair Value through Profit or Loss and Available for Sale Investments	1.53	452,887,850	75,510,725	18,112,850	68,712,816	175,644,118	114,907,341
IMF Related assets	0.04	10,285,892	10,285,892	-	-	-	-
<b>Total Interest Sensitive Foreign Currency Financial Assets</b>		<b>950,244,513</b>	<b>572,867,388</b>	<b>18,112,850</b>	<b>68,712,816</b>	<b>175,644,118</b>	<b>114,907,341</b>
<b>Non Interest Sensitive Foreign Currency Financial Assets</b>							
IMF Related assets		69,530,137	-	-	-	126,356	69,403,781
Derivative Financial Instruments		1,580,237	1,498,615	81,575	47	-	-
Receivables		7,105,914	7,105,914	-	-	-	-
Securities at Fair Value through Profit or Loss		16,796,957	16,796,957	-	-	-	-
<b>Total Non Interest Sensitive Foreign Currency Financial Assets</b>		<b>95,013,245</b>	<b>25,401,486</b>	<b>81,575</b>	<b>47</b>	<b>126,356</b>	<b>69,403,781</b>
<b>Total Foreign Currency Financial Assets</b>		<b>1,045,257,758</b>	<b>598,268,874</b>	<b>18,194,425</b>	<b>68,712,863</b>	<b>175,770,474</b>	<b>184,311,122</b>
<b>Interest Sensitive Foreign Currency Financial Liabilities</b>							
IMF	0.00	163,520,370	32,704,074	35,974,481	62,137,741	32,704,074	-
Asian Clearing Union	0.05	57,230,304	57,230,304	-	-	-	-
<b>Total Interest Sensitive Foreign Currency Financial Liabilities</b>		<b>220,750,674</b>	<b>89,934,378</b>	<b>35,974,481</b>	<b>62,137,741</b>	<b>32,704,074</b>	<b>-</b>
<b>Non Interest Sensitive Foreign Currency Financial Liabilities</b>							
Banks and Financial Institutions		11,678,483	11,678,483	-	-	-	-
Derivative Financial Instruments		19,207,822	1,329,279	1,520,530	3,981,616	10,594,288	1,782,109
IMF		144,490,763	-	-	-	-	144,490,763
Commercial Banks' Capital in Foreign Currency		805,215	-	-	-	-	805,215
Other Foreign Liabilities		71,340,944	71,340,944	-	-	-	-
<b>Total Non Interest Sensitive Foreign Currency Financial Liabilities</b>		<b>247,523,227</b>	<b>84,348,706</b>	<b>1,520,530</b>	<b>3,981,616</b>	<b>10,594,288</b>	<b>147,078,087</b>
<b>Total Foreign Currency Financial Liabilities</b>		<b>468,273,901</b>	<b>174,283,084</b>	<b>37,495,011</b>	<b>66,119,357</b>	<b>43,298,362</b>	<b>147,078,087</b>
<b>Foreign Currency Interest Rate Sensitivity Gap</b>		<b>729,493,839</b>	<b>482,933,010</b>	<b>(17,861,631)</b>	<b>6,575,075</b>	<b>142,940,044</b>	<b>114,907,341</b>

## 42.2 Interest Rate Risk (Continued)

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

Comparative figures as at 31 December 2014 were as follows:

	Weighted Avg. Int. Rate %	2014 Total Rs. 000	6 Months or Less Rs. 000	6 to 12 Months Rs. 000	1 to 2 Years Rs. 000	2 to 5 Years Rs. 000	Over 5 Years Rs. 000
<b>Interest Sensitive Local Currency Financial Assets</b>							
Sri Lanka Government Securities	5.69	121,793,452	121,793,452	-	-	-	-
Treasury Bills and Bond Reverse Repo	8.00	2,650,000	2,650,000	-	-	-	-
Loans to Banks	7.83	1,489,372	397,073	273,406	300,351	518,542	-
Other Assets - Staff Loans	3.62	4,668,501	173,804	176,791	362,695	1,163,133	2,792,078
- Others	7.72	3,439,413	911,543	425,961	733,009	1,213,403	155,497
<b>Total Interest Sensitive Local Currency Financial Assets</b>		<b>134,040,738</b>	<b>125,925,872</b>	<b>876,158</b>	<b>1,396,055</b>	<b>2,895,078</b>	<b>2,947,575</b>
<b>Non Interest Sensitive Local Currency Assets</b>							
Provisional Advances to Government		143,897,971	143,897,971	-	-	-	-
Other Assets-Others		1,912,071	1,912,071	-	-	-	-
Investment in Equity Securities - Available for Sale		41,095	-	-	-	-	41,095
<b>Total Non Interest Sensitive Local Currency Assets</b>		<b>145,851,137</b>	<b>145,810,042</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>41,095</b>
<b>Total Local Currency Assets</b>		<b>279,891,875</b>	<b>271,735,914</b>	<b>876,158</b>	<b>1,396,055</b>	<b>2,895,078</b>	<b>2,988,670</b>
<b>Interest Sensitive Local Currency Financial Liabilities</b>							
Securities sold under Repurchase Agreements	6.42	321,220,000	321,220,000	-	-	-	-
Standing Deposit Facility	6.00	7,032,000	7,032,000	-	-	-	-
<b>Total Interest Sensitive Local Currency Financial Liabilities</b>		<b>328,252,000</b>	<b>328,252,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Non Interest Sensitive Local Currency Liabilities</b>							
Deposits of Banks and Financial Institutions		161,009,323	161,009,323	-	-	-	-
Deposits of Government and Government Entities		311,950	311,950	-	-	-	-
Balances of Employee Benefit Plans		2,209,782	2,209,782	-	-	-	-
Currency in Circulation		416,895,362	416,895,362	-	-	-	-
Other Payables		8,867,823	8,867,823	-	-	-	-
<b>Total Non Interest Sensitive Local Currency Financial Liabilities</b>		<b>589,294,240</b>	<b>589,294,240</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Local Currency Financial Liabilities</b>		<b>917,546,240</b>	<b>917,546,240</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Local Currency Interest Rate Sensitivity Gap</b>		<b>(194,211,262)</b>	<b>(202,326,128)</b>	<b>876,158</b>	<b>1,396,055</b>	<b>2,895,078</b>	<b>2,947,575</b>

## 42.3 Foreign Currency Risk

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

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

**42.3 Foreign Currency Risk (Continued)****Net Exposure to Foreign Currencies**

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

As at 31 December 2015	Currency							Total All Currencies Rs. 000
	United States Dollars Rs. 000	Euro Rs. 000	Japanese Yen Rs. 000	Sterling Pound Rs. 000	SDR Rs. 000	Australian Dollars Rs. 000	Other Currencies Rs. 000	
<b>Foreign Currency Financial Assets</b>								
Cash & Cash Equivalents	176,922,656	(43,264,954)	(14,336,028)	88,586,921	-	126,101,239	223,464,851	557,474,685
Securities at Fair Value through Profit or Loss and Available for Sale Investments	203,115,851	52,346,338	19,947,895	23,753,864	-	28,241,778	60,428,420	387,834,146
Derivative Financial Instruments	1,886	-	148	-	-	-	2,111	4,145
IMF Related Assets	-	-	-	-	83,636,350	-	-	83,636,350
Other Receivables	2,374	2,357	-	-	344	-	-	5,075
<b>Total Foreign Currency Financial Assets</b>	<b>380,042,767</b>	<b>9,083,741</b>	<b>5,612,015</b>	<b>112,340,785</b>	<b>83,636,694</b>	<b>154,343,017</b>	<b>283,895,382</b>	<b>1,028,954,401</b>
Proportion	36.93%	0.88%	0.55%	10.92%	8.13%	15.00%	27.59%	100%
<b>Foreign Currency Financial Liabilities</b>								
Banks and Financial Institutions	12,046,056	376	-	1,766	-	43	-	12,048,241
Derivative Financial Instruments	249	-	-	-	-	-	24,280,059	24,280,308
Asian Clearing Union	68,613,251	274,208	-	-	-	-	-	68,887,459
IMF	-	-	-	-	251,644,344	-	-	251,644,344
Other	209,792,285	7,483,464	-	-	-	-	648,393	217,924,142
<b>Total Foreign Currency Financial Liabilities</b>	<b>290,451,841</b>	<b>7,758,048</b>	<b>-</b>	<b>1,766</b>	<b>251,644,344</b>	<b>43</b>	<b>24,928,452</b>	<b>574,784,494</b>
Proportion	50.53%	1.35%	0.00%	0.00%	43.78%	0.00%	4.34%	100%
<b>Net Foreign Currency Exposure</b>	<b>89,590,926</b>	<b>1,325,693</b>	<b>5,612,015</b>	<b>112,339,019</b>	<b>(168,007,650)</b>	<b>154,342,974</b>	<b>258,966,930</b>	<b>454,169,907</b>

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

As at 31 December 2015	Sri Lanka Rupees Rs. 000	United States Dollars Rs. 000	Euro Rs. 000	Sterling Pound Rs. 000	Japanese Yen Rs. 000	Australian Dollars Rs. 000
Purchases	364,801,652	17,874,539	(985)	(62,622)	67,254	(6,352,618)
Sales	(60,385,247)	(351,208,306)	5,375,438	19,321,868	(67,106)	30,444
FX Forward Contra Account - Near Leg	7,732	-	-	-	-	-
Forward contra account	10,597,957	-	-	-	-	-
<b>As at 31 December 2014</b>						
Purchases	315,836,566	(18,113,664)	7,961,856	(62,622)	5,274,559	(6,351,590)
Sales	(24,459,676)	(304,517,720)	5,375,438	19,321,868	4,875,603	29,416
FX Forward Contra Account - Near Leg	(1,667)	-	-	-	-	-
Forward contra account	(297,639)	-	-	-	-	-

**42.3 Foreign Currency Risk (Continued)**

As at 31 December 2014, the Central Bank of Sri Lanka's net exposure to major currencies were as follows:

As at 31 December 2014	Currency							Total All Currencies Rs. 000
	United States Dollars Rs. 000	Euro Rs. 000	Japanese Yen Rs. 000	Sterling Pound Rs. 000	SDR Rs. 000	Australian Dollars Rs. 000	Other Currencies Rs. 000	
<b>Foreign Currency Financial Assets</b>								
Cash & Cash Equivalents	(313,660,985)	(21,842,412)	7,381,899	56,016,904	-	112,362,714	646,812,651	487,070,771
Securities at Fair Value through Profit or Loss and Available for Sale Investments	227,526,935	53,915,502	23,868,150	44,810,723	-	60,990,957	58,572,540	469,684,807
Derivative Financial Instruments	47	-	37,832	-	-	-	1,542,358	1,580,237
IMF Related Assets	-	-	-	-	79,816,029	-	-	79,816,029
Other Foreign Receivables	426	-	558,018	6,547,106	364	-	-	7,105,914
<b>Total Foreign Currency Financial Assets</b>	<b>(86,133,577)</b>	<b>32,073,090</b>	<b>31,845,899</b>	<b>107,374,733</b>	<b>79,816,393</b>	<b>173,353,671</b>	<b>706,927,549</b>	<b>1,045,257,758</b>
Proportion	-8.24%	3.07%	3.05%	10.27%	7.64%	16.58%	67.63%	100%
<b>Foreign Currency Financial Liabilities</b>								
Banks and Financial Institutions	310,860	2,455	-	2,239,371	-	9,125,797	-	11,678,483
Derivative Financial Instruments	26,868	-	-	-	-	-	19,180,954	19,207,822
Asian Clearing Union	57,016,104	214,200	-	-	-	-	-	57,230,304
IMF	-	-	-	-	308,011,133	-	-	308,011,133
Other	71,303,530	-	-	-	-	-	842,629	72,146,159
<b>Total Foreign Currency Financial Liabilities</b>	<b>128,657,362</b>	<b>216,655</b>	<b>-</b>	<b>2,239,371</b>	<b>308,011,133</b>	<b>9,125,797</b>	<b>20,023,583</b>	<b>468,273,901</b>
Proportion	27.47%	0.05%	0%	0.48%	65.78%	1.95%	4.27%	100%
<b>Net Foreign Currency Exposure</b>	<b>(214,790,939)</b>	<b>31,856,435</b>	<b>31,845,899</b>	<b>105,135,362</b>	<b>(228,194,740)</b>	<b>164,227,874</b>	<b>686,903,966</b>	<b>576,983,857</b>

<b>42.4 Contractual maturities of un-discounted cash flows of Financial Assets and Liabilities</b>						
As at 31 December 2015	Less than	6 Months	1-2 Yrs	2-5 Yrs	Over 5	Total
	6 months	-1 Yr			Yrs	
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
<b>Foreign Currency Financial Assets</b>						
Cash & Cash Equivalents	557,474,685	-	-	-	-	557,474,685
Securities at Fair Value through Profit or Loss	43,171,272	-	-	-	-	43,171,272
Available for Sale Investments	29,321,065	52,530,133	56,153,333	145,590,515	85,886,120	369,481,166
IMF Related Assets	10,523,672	-	-	138,622	72,974,056	83,636,350
Other Receivables	5,075	-	-	-	-	5,075
<b>Total un-discounted Foreign Financial Assets</b>	<b>640,495,769</b>	<b>52,530,133</b>	<b>56,153,333</b>	<b>145,729,137</b>	<b>158,860,176</b>	<b>1,053,768,548</b>
<b>Local Currency Financial Assets</b>						
Sri Lanka Government Securities	104,889,169	-	-	-	-	104,889,169
Provisional Advances to Government	151,131,671	-	-	-	-	151,131,671
Loans to Banks	237,733	207,777	304,647	194,165	11,852	956,174
Equity Investments in Financial and Other Institutions	-	-	-	-	41,095	41,095
Other Assets	2,675,835	524,731	709,055	3,125,543	5,270,055	12,305,219
<b>Total un-discounted Local Financial Assets</b>	<b>258,934,408</b>	<b>732,508</b>	<b>1,013,702</b>	<b>3,319,708</b>	<b>5,323,002</b>	<b>269,323,328</b>
<b>Total un-discounted Financial Assets</b>	<b>899,430,177</b>	<b>53,262,641</b>	<b>57,167,035</b>	<b>149,048,845</b>	<b>164,183,178</b>	<b>1,323,091,876</b>
<b>Foreign Financial Liabilities</b>						
Banks and Financial Institutions	13,012,853	294,833	186,752	121,023	413,161	14,028,622
Asian Clearing Union	68,887,459	-	-	-	-	68,887,459
IMF	44,702,372	20,631,864	34,386,440	-	151,923,668	251,644,344
Other	216,799,748	-	-	-	1,124,394	217,924,142
<b>Total un-discounted Foreign Financial Liabilities</b>	<b>343,402,432</b>	<b>20,926,697</b>	<b>34,573,192</b>	<b>121,023</b>	<b>153,461,223</b>	<b>552,484,567</b>
<b>Local Currency Financial Liabilities</b>						
Deposits of Banks and Financial Institutions	181,726,732	-	-	-	-	181,726,732
Deposits of Government and Governmental Entities	428,142	-	-	-	-	428,142
Securities Sold Under Repurchase Agreements	105,607,860	-	-	-	-	105,607,860
Balances of Employee Benefit Plans	7,212	-	-	-	-	7,212
Currency in Circulation	491,699,948	-	-	-	-	491,699,948
Other Payables	6,910,166	-	-	-	-	6,910,166
<b>Total un-discounted Local Financial Liabilities</b>	<b>786,380,060</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>786,380,060</b>
<b>Total un-discounted Financial Liabilities</b>	<b>1,129,782,492</b>	<b>20,926,697</b>	<b>34,573,192</b>	<b>121,023</b>	<b>153,461,223</b>	<b>1,338,864,627</b>
<b>Net un-discounted Financial Assets/ (Liabilities)</b>	<b>(230,352,315)</b>	<b>32,335,944</b>	<b>22,593,843</b>	<b>148,927,822</b>	<b>10,721,955</b>	<b>(15,772,751)</b>
<b>As at 31 December 2015</b>						
	Less than	6 Months	1-2 Yrs			
	6 months	-1 Yr				
	Rs. 000	Rs. 000	Rs. 000			
Derivative Financial Assets	181,916,705	122,504,814	-			
Derivative Financial Liabilities	189,611,926	122,520,743	-			
<b>Foreign Currency Conversions</b>						
All future cash flows related to Foreign Currency Financial Assets & Liabilities are converted to reporting currency using the rate of exchange prevailing at the reporting date.						



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

As at 31 December 2014, contractual maturities of un-discounted cash flows of financial assets and liabilities are as follows:

As at 31 December 2014	Less than 6 months	6 Months -1 Yr	1-2 Yrs	2-5 Yrs	Over 5 Yrs	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
<b>Foreign Currency Financial Assets</b>						
Cash & Cash Equivalents	487,070,771	-	-	-	-	487,070,771
Securities at Fair Value through Profit or Loss	61,745,564	-	-	-	-	61,745,564
Available for Sale Investments	36,824,108	21,440,653	74,839,842	186,893,880	112,714,585	432,713,068
IMF Related Assets	10,285,892	-	-	126,356	69,403,781	79,816,029
Other Receivables	789	-	-	-	-	789
<b>Total un-discounted Foreign Financial Assets</b>	<b>595,927,124</b>	<b>21,440,653</b>	<b>74,839,842</b>	<b>187,020,236</b>	<b>182,118,366</b>	<b>1,061,346,221</b>
<b>Local Currency Financial Assets</b>						
Sri Lanka Government Securities	126,146,447	-	-	-	-	126,146,447
Provisional Advances to Government	143,897,971	-	-	-	-	143,897,971
Loans to Banks	397,073	343,377	337,628	545,564	1,404	1,625,046
Equity Investments in Financial and Other Institutions	-	-	-	-	41,095	41,095
Other Assets	3,172,290	736,309	1,319,793	2,505,689	2,964,554	10,698,635
<b>Total un-discounted Local Financial Assets</b>	<b>273,613,781</b>	<b>1,079,686</b>	<b>1,657,421</b>	<b>3,051,253</b>	<b>3,007,053</b>	<b>282,409,194</b>
<b>Total un-discounted Financial Assets</b>	<b>869,540,905</b>	<b>22,520,339</b>	<b>76,497,263</b>	<b>190,071,489</b>	<b>185,125,419</b>	<b>1,343,755,415</b>
<b>Foreign Financial Liabilities</b>						
Banks and Financial Institutions	4,973,823	673,045	726,957	260,896	374,477	7,009,198
Asian Clearing Union	57,230,304	-	-	-	-	57,230,304
IMF	32,704,074	35,974,481	62,137,740	32,704,074	144,490,763	308,011,132
Other	71,340,944	-	-	-	805,214	72,146,158
<b>Total un-discounted Foreign Financial Liabilities</b>	<b>166,249,145</b>	<b>36,647,526</b>	<b>62,864,697</b>	<b>32,964,970</b>	<b>145,670,454</b>	<b>444,396,792</b>
<b>Local Currency Financial Liabilities</b>						
Deposits of Banks and Financial Institutions	416,630,260	-	-	-	-	416,630,260
Deposits of Government and Governmental Entities	311,950	-	-	-	-	311,950
Securities Sold Under Repurchase Agreements	331,665,172	-	-	-	-	331,665,172
Balances of Employee Benefit Plans	2,209,782	-	-	-	-	2,209,782
Currency in Circulation	416,895,362	-	-	-	-	416,895,362
Other Payables	8,939,293	-	-	-	-	8,939,293
<b>Total un-discounted Local Financial Liabilities</b>	<b>1,176,651,819</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,176,651,819</b>
<b>Total un-discounted Financial Liabilities</b>	<b>1,342,900,964</b>	<b>36,647,526</b>	<b>62,864,697</b>	<b>32,964,970</b>	<b>145,670,454</b>	<b>1,621,048,611</b>
<b>Net un-discounted Financial Assets/ (Liabilities)</b>	<b>(473,360,059)</b>	<b>(14,127,187)</b>	<b>13,632,566</b>	<b>157,106,519</b>	<b>39,454,965</b>	<b>(277,293,196)</b>
<b>As at 31 December 2014</b>						
	Less than 6 months	6 Months -1 Yr	1-2 Yr			
	Rs. 000	Rs. 000	Rs. 000			
Derivative Financial Assets	212,727,267	91,893,999	731			
Derivative Financial Liabilities	210,190,966	90,813,211	-			

## 42.5 Liquidity Risk

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

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

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

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

## 43. MATURITY ANALYSIS OF ASSETS & LIABILITIES

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

<b>43. MATURITY ANALYSIS OF ASSETS &amp; LIABILITIES</b>			
<b>As at 31 December 2014</b>	<b>Less than 12 months</b>	<b>Over 12 months</b>	<b>Total</b>
	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>
<b>Assets</b>			
Cash & Cash Equivalents	487,070,771	-	487,070,771
Securities at Fair Value through Profit or Loss	61,495,307	-	61,495,307
Available for Sale Investments	48,925,225	359,264,275	408,189,500
Derivative Financial Instruments	1,580,190	47	1,580,237
IMF Related Assets	10,285,892	69,530,137	79,816,029
Other Foreign Receivables	7,105,914	-	7,105,914
Sri Lanka Government Securities	124,443,452	-	124,443,452
Provisional Advances to Government	143,897,971	-	143,897,971
Loans to Banks	670,479	818,893	1,489,372
Other Assets	3,600,170	6,419,815	10,019,985
Equity Investments in Financial and Other Institutions	-	41,095	41,095
Gold	100,190,635	-	100,190,635
Inventories	-	3,620,480	3,620,480
Other Receivables and Prepayments	12,610,671	14,764,723	27,375,394
Property, Plant and Equipment	-	14,686,696	14,686,696
Intangible Assets	-	306,084	306,084
<b>Total Assets</b>	<b>1,001,876,677</b>	<b>469,452,245</b>	<b>1,471,328,922</b>
<b>Liabilities</b>			
Banks and Financial Institutions	11,678,483	-	11,678,483
Derivative Financial Instruments	2,849,809	16,358,013	19,207,822
Asian Clearing Union	57,230,304	-	57,230,304
IMF	68,678,555	239,332,578	308,011,133
Other	71,340,944	805,215	72,146,159
Deposits by Banks and Financial Institutions	161,009,323	-	161,009,323
Balances with Government and Governmental Entities	311,950	-	311,950
Securities Sold Under Agreement to Repurchase	328,252,000	-	328,252,000
Balances with Employee Benefit Plans	2,209,782	-	2,209,782
Currency in Circulation	416,895,362	-	416,895,362
Other Payables	8,867,823	-	8,867,823
Deferred Grants	409	106	515
Pension and Other Post Employment Benefit Plans	-	3,599,035	3,599,035
Miscellaneous Liabilities and Accruals	168,389	28,991	197,380
<b>Total Liabilities</b>	<b>1,129,493,133</b>	<b>260,123,938</b>	<b>1,389,617,071</b>
<b>Net</b>	<b>(127,616,456)</b>	<b>209,328,307</b>	<b>81,711,851</b>

<b>44. PENSION AND OTHER POST EMPLOYMENT BENEFIT PLANS</b>	
<p>The Bank operates six defined benefit plans which cover all eligible employees. Under the Employees' Retirement Pension Scheme (old), employees who joined the Bank prior to 1 January 1998 and complete 10 years of service become eligible. The employees who joined the Bank after 1 January 1998 and complete 10 years of service become eligible for the new pension scheme. These Pension Schemes are non-contributory pension schemes where the cost of benefits is wholly borne by the Bank. The Widows' and Orphans' Pension Scheme for male employees and Widowers' and Orphans' Pension Scheme for female employees are open to employees of the Bank who had joined prior to 1 January 1998. Employees eligible under these plans contribute 5%</p>	<p>of the monthly basic salary, who were recruited before 1 August 1994 &amp; 10% of monthly basic salary who were recruited on or after 01 August 1994.</p> <p>The Bank also provides gratuity benefits to employees who have completed five years of service in the Bank and who are not eligible for a monthly pension payment under the Employees' Retirement Pension Scheme. In order to meet this liability, a provision is carried forward in the Statement of Financial Position, equivalent to the liability calculated using the actuarial valuation.</p> <p>The Bank has a Post Employment Medical Benefit Scheme which provides reimbursement of certain medical expenses incurred by retired employees on account of themselves or their spouses and by widows/widowers.</p>

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

Funds of the Employee Retirement Pension Schemes, Widows' and Orphans' Pension Scheme, Widowers' and Orphans' Pension Scheme are managed separately and separate books are maintained. However, Gratuity

Scheme & Medical Benefit Scheme are not separated from the books of accounts of the Bank. Further investments and investment income are recorded separately for these funds in the Bank books and the income earned from the investments are transferred back to these funds and reinvested without being distributed.

The total fair value of plan assets of Rs.36,912.71 Mn (2014 – Rs. 32,323.71 Mn) fall short the total present value of all benefit obligations of Rs. 45,682.71 Mn (2014 – Rs. 35,922.75 Mn) at the end of the reporting period resulting in a deficit of Rs. 8,770 Mn (2014 – Rs. 3,599.04 Mn).

## 2015

Benefit Liability/(Asset)	Employee Retirement Pension Scheme Rs. 000	Employee Retirement Pension Scheme - New Rs. 000	Widows' and Orphans' Pension Scheme Rs. 000	Widowers' and Orphans' Pension Scheme Rs. 000	Gratuity Scheme Rs. 000	Medical Benefit Scheme Rs. 000	Total 2015 Rs. 000
Present Value of Benefit Obligation	35,175,579	1,014,927	6,045,158	1,134,387	144,614	2,168,049	45,682,714
Fair Value of Plan Assets	(26,120,059)	(2,259,968)	(5,225,759)	(1,747,311)	(178,188)	(1,381,429)	(36,912,714)
<b>Benefit Liability/ (Asset) non-current</b>	<b>9,055,520</b>	<b>(1,245,041)</b>	<b>819,399</b>	<b>(612,924)</b>	<b>(33,574)</b>	<b>786,620</b>	<b>8,770,000</b>

The balance shown under Pension and Other Post Employment Benefit Plans in Statement of Financial Position (Note 44) differs from the net liability as per the actuary due to the following reasons:

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

Plans assets of the Pension, Widows' and Orphans' fund Widowers' and Orphans' fund include uncollateralized investments amounting to Rs. 283 Mn. If these investments are not recovered, net liability of the Bank will increase by Rs. 278 Mn. Assets of the Gratuity and Medical Benefit Scheme fund include uncollateralized investments amounting to Rs.129 Mn. If these investments are not recovered, the value of the assets allocated will also be reduced by the same amount.

Movement in the Benefit Liability / (Asset)	Employee Retirement Pension Scheme Rs. 000	Employee Retirement Pension Scheme - New Rs. 000	Widows' and Orphans' Pension Scheme Rs. 000	Widowers' and Orphans' Pension Scheme Rs. 000	Gratuity Scheme Rs. 000	Medical Benefit Scheme Rs. 000	Total 2015 Rs. 000
At 1 January 2015	4,609,763	-	(874,652)	(869,130)	97,453	635,601	3,599,035
Benefit Expense	852,981	1,014,927	(87,465)	(86,913)	(200,806)	115,379	1,608,103
Amount recognized in Other Comprehensive Income	4,922,631	(103,601)	1,815,056	356,027	105,625	161,340	7,257,078
Contribution Paid	(1,329,855)	(2,156,367)	(33,540)	(12,908)	(35,846)	(125,700)	(3,694,216)
<b>At 31 December 2015 - non-current</b>	<b>9,055,520</b>	<b>(1,245,041)</b>	<b>819,399</b>	<b>(612,924)</b>	<b>(33,574)</b>	<b>786,620</b>	<b>8,770,000</b>

Benefit Expense	Employee Retirement Pension Scheme Rs. 000	Employee Retirement Pension Scheme-New Rs. 000	Widows' and Orphans' Pension Scheme Rs. 000	Widowers' and Orphans' Pension Scheme Rs. 000	Gratuity Scheme Rs. 000	Medical Benefit Scheme Rs. 000	Total 2015 Rs. 000
Interest Cost on Benefit Obligation	460,977	-	(87,465)	(86,913)	9,746	63,561	359,906
Current Service Cost	392,004	-	-	-	28,390	51,818	472,212
Past Service Cost	-	1,014,927	-	-	-	-	1,014,927
Curtailment	-	-	-	-	(238,942)	-	(238,942)
<b>Benefit Expense</b>	<b>852,981</b>	<b>1,014,927</b>	<b>(87,465)</b>	<b>(86,913)</b>	<b>(200,806)</b>	<b>115,379</b>	<b>1,608,103</b>
<b>Actual Return on Plan Assets</b>	<b>2,116,753</b>	<b>103,601</b>	<b>431,654</b>	<b>156,161</b>	<b>18,660</b>	<b>125,149</b>	<b>2,951,978</b>
<b>Actual Return on Plan Assets as a % of Average Balance</b>	<b>8.40%</b>	<b>8.40%</b>	<b>8.40%</b>	<b>9.35%</b>	<b>12.00%</b>	<b>9.44%</b>	<b>8.53%</b>
<b>Excess of Interest Earned Over Benefit Paid</b>	<b>516,650</b>	<b>516,650</b>	<b>137,995</b>	<b>140,097</b>	<b>9,609</b>	<b>(13,165)</b>	<b>894,787</b>

<b>44. Pension and Other Post-Employment Benefit Plans (Continued)</b>							
<b>Changes in Fair Value of Plan Assets</b>	<b>Employee Retirement Pension Scheme</b> Rs. 000	<b>Employee Retirement Pension Scheme-New</b> Rs. 000	<b>Widows' and Orphans' Pension Scheme</b> Rs. 000	<b>Widowers' and Orphans' Pension Scheme</b> Rs. 000	<b>Gratuity Scheme</b> Rs. 000	<b>Medical Benefit Scheme</b> Rs. 000	<b>Total 2015</b> Rs. 000
Fair Value of Plan Assets at the beginning of the year	24,273,554	-	5,054,224	1,594,306	132,733	1,268,894	32,323,711
Actual Return on Plan Assets	2,116,573	103,601	431,654	156,161	18,660	125,149	2,951,798
Contribution Received	1,329,855	2,156,367	33,540	12,908	35,846	125,700	3,694,216
Benefits Paid	(1,599,923)	-	(293,659)	(16,064)	(9,051)	(138,314)	(2,057,011)
<b>Fair value of Plan Assets at the end of the year</b>	<b>26,120,059</b>	<b>2,259,968</b>	<b>5,225,759</b>	<b>1,747,311</b>	<b>178,188</b>	<b>1,381,429</b>	<b>36,912,714</b>
<b>2014</b>							
<b>Benefit Liability/(Asset)</b>	<b>Employee Retirement Pension Scheme</b> Rs. 000	<b>Employee Retirement Pension Scheme-New</b> Rs. 000	<b>Widows' and Orphans' Pension Scheme</b> Rs. 000	<b>Widowers' and Orphans' Pension Scheme</b> Rs. 000	<b>Gratuity Scheme</b> Rs. 000	<b>Medical Benefit Scheme</b> Rs. 000	<b>Total 2014</b> Rs. 000
Present Value of Benefit Obligation	28,883,317	-	4,179,572	725,176	230,186	1,904,495	35,922,746
Fair Value of Plan Assets	(24,273,554)	-	(5,054,224)	(1,594,306)	(132,733)	(1,268,894)	(32,323,711)
<b>Benefit Liability/ (Asset) non-current</b>	<b>4,609,763</b>	<b>-</b>	<b>(874,652)</b>	<b>(869,130)</b>	<b>97,453</b>	<b>635,601</b>	<b>3,599,035</b>
<b>Movement in the Benefit Liability /(Asset)</b>	<b>Employee Retirement Pension Scheme</b> Rs. 000	<b>Employee Retirement Pension Scheme-New</b> Rs. 000	<b>Widows' and Orphans' Pension Scheme</b> Rs. 000	<b>Widowers' and Orphans' Pension Scheme</b> Rs. 000	<b>Gratuity Scheme</b> Rs. 000	<b>Medical Benefit Scheme</b> Rs. 000	<b>Total 2014</b> Rs. 000
At 1 January 2014	5,508,804	-	(492,159)	(734,320)	78,253	575,761	4,936,339
Benefit Expense	1,163,340	-	(49,216)	(73,432)	35,846	125,700	1,202,238
Amount recognized in Other Comprehensive Income	(1,105,279)	-	(310,474)	(52,502)	3,064	(22,412)	(1,487,603)
Contribution Paid	(957,102)	-	(22,803)	(8,876)	(19,710)	(43,448)	(1,051,939)
<b>At 31 December 2014 - Non-Current</b>	<b>4,609,763</b>	<b>-</b>	<b>(874,652)</b>	<b>(869,130)</b>	<b>97,453</b>	<b>635,601</b>	<b>3,599,035</b>
<b>Benefit Expense</b>	<b>Employee Retirement Pension Scheme</b> Rs. 000	<b>Employee Retirement Pension Scheme-New</b> Rs. 000	<b>Widows' and Orphans' Pension Scheme</b> Rs. 000	<b>Widowers' and Orphans' Pension Scheme</b> Rs. 000	<b>Gratuity Scheme</b> Rs. 000	<b>Medical Benefit Scheme</b> Rs. 000	<b>Total 2014</b> Rs. 000
Interest Cost on Benefit Obligation	550,881	-	(49,216)	(73,432)	7,825	57,576	493,634
Current Service Cost	612,459	-	-	-	28,021	68,124	708,604
<b>Benefit Expense</b>	<b>1,163,340</b>	<b>-</b>	<b>(49,216)</b>	<b>(73,432)</b>	<b>35,846</b>	<b>125,700</b>	<b>1,202,238</b>
<b>Actual Return on Plan Assets</b>	<b>3,269,674</b>	<b>-</b>	<b>773,111</b>	<b>205,286</b>	<b>10,476</b>	<b>175,870</b>	<b>4,434,417</b>
<b>Actual Return on Plan Assets as a % of Average Balance</b>	<b>14.32%</b>	<b>-</b>	<b>16.18%</b>	<b>13.74%</b>	<b>8.78%</b>	<b>14.31%</b>	<b>14.56%</b>
<b>Excess of Interest Earned Over Benefit Paid</b>	<b>1,934,458</b>	<b>-</b>	<b>526,475</b>	<b>191,404</b>	<b>7,236</b>	<b>36,563</b>	<b>2,696,136</b>
<b>Changes in Fair Value of Plan Assets</b>	<b>Employee Retirement Pension Scheme</b> Rs. 000	<b>Employee Retirement Pension Scheme -New</b> Rs. 000	<b>Widows' and Orphans' Pension Scheme</b> Rs. 000	<b>Widowers' and Orphans' Pension Scheme</b> Rs. 000	<b>Gratuity Scheme</b> Rs. 000	<b>Medical Benefit Scheme</b> Rs. 000	<b>Total 2014</b> Rs. 000
Fair Value of Plan Assets at the beginning of the year	21,381,994	-	4,504,946	1,394,026	105,787	1,188,883	28,575,636
Actual Return on Plan Assets	3,269,674	-	773,111	205,286	10,476	175,870	4,434,417
Contribution Received	957,102	-	22,803	8,876	19,710	43,448	1,051,939
Benefits Paid	(1,335,216)	-	(246,636)	(13,882)	(3,240)	(139,307)	(1,738,281)
<b>Fair value of Plan Assets at the end of the year</b>	<b>24,273,554</b>	<b>-</b>	<b>5,054,224</b>	<b>1,594,306</b>	<b>132,733</b>	<b>1,268,894</b>	<b>32,323,711</b>

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

	2015	2014
Discount Rate	10.00%	10.00%
Expected Rate of Return on Assets	10.00%	10.00%
Future Salary Increases	8.50%	8.50%
Future Pension Increases	7.50%	7.50%
Attrition Rate	2.00%	2.00%
Average Remaining years of Service		
CBSL Pension	27 Years	27 Years
CBSL Pension - New	41 Years	-
W & OP Pension Scheme	27 Years	27 Years
WR & OP Pension Scheme	27 Years	27 Years
Gratuity Scheme	20 Years	21 Years
CBSL Medical Benefit Scheme	32 Years	31 Years
Retirement Age	60 Years	60 Years

Sensitivity Analysis at 0.5% (31-12-2015)	Employee Retirement Pension Scheme	Employee Retirement Pension Scheme-New	Widows' and Orphans' Pension Scheme	Widowers' and Orphans' Pension Scheme	Gratuity Scheme	Medical Benefit Scheme
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
<b>Projected benefit obligation on current assumptions</b>	35,175,579	1,014,927	6,045,158	1,134,387	144,614	2,168,049
Effect of "+" change in discount rate	(1,146,319)	(120,470)	(247,454)	(42,079)	(10,955)	(85,410)
Effect of "-" change in discount rate	1,999,463	139,811	404,884	88,676	2,337	92,659
Effect of "+" change in attrition rate	1,731,920	-	381,994	79,073	22,306	93,769
Effect of "-" change in attrition rate	(1,609,201)	-	(349,387)	(72,601)	(34,318)	(86,443)
Effect of "+" change in salary escalation rate	288,377	101,499	27,900	10,406	2,403	13,434
Effect of "-" change in salary escalation rate	(280,104)	(91,618)	(27,109)	(10,122)	(11,069)	(14,269)

#### 45. FAIR VALUE DISCLOSURES

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

The fair value of assets and liabilities is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms-length transaction. When a financial instrument is traded in an organised and liquid market that is able to absorb a significant transaction without moving the price against the trader, quoted market values represent the fair value.

The Bank uses the following hierarchy for determining

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

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

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

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

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

31 December 2015	Level 1 Rs. 000	Level 2 Rs. 000	Level 3 Rs. 000	Total Rs. 000
<b>Financial Assets</b>				
Securities at Fair Value through Profit or Loss	35,779,665	-	-	35,779,665
Available for Sale Investments	352,054,482	-	-	352,054,482
Derivatives	-	4,145	-	4,145
	<u>387,834,147</u>	<u>4,145</u>	-	<u>387,838,292</u>
<b>Foreign Currency Non-Financial Assets</b>				
Gold	97,723,836	-	-	97,723,836
	<u>97,723,836</u>	-	-	<u>97,723,836</u>
<b>Other Non-Financial Assets</b>				
Land	-	-	5,879,064	5,879,064
Building	-	-	7,930,666	7,930,666
	-	-	<u>13,809,730</u>	<u>13,809,730</u>
<b>Financial Liabilities</b>				
Embedded Derivatives - Currency Options	-	-	10,290,162	10,290,162
Derivatives	-	13,990,146	-	13,990,146
	-	<u>13,990,146</u>	<u>10,290,162</u>	<u>24,280,308</u>

31 December 2014	Level 1 Rs. 000	Level 2 Rs. 000	Level 3 Rs. 000	Total Rs. 000
<b>Financial Assets</b>				
Securities at Fair Value through Profit or Loss	61,495,307	-	-	61,495,307
Available for Sale Investments	408,189,500	-	-	408,189,500
Derivatives	-	1,580,237	-	1,580,237
	<u>469,684,807</u>	<u>1,580,237</u>	<u>-</u>	<u>471,265,044</u>
<b>Foreign Currency Non-Financial Assets</b>				
Gold	100,190,635	-	-	100,190,635
	<u>100,190,635</u>	<u>-</u>	<u>-</u>	<u>100,190,635</u>
<b>Other Non-Financial Assets</b>				
Land	-	-	5,833,100	5,833,100
Building	-	-	7,814,883	7,814,883
	<u>-</u>	<u>-</u>	<u>13,647,983</u>	<u>13,647,983</u>
<b>Financial Liabilities</b>				
Embedded Derivatives - Currency Options	-	-	16,350,511	16,350,511
Derivatives	-	2,758,520	-	2,758,520
	<u>-</u>	<u>2,758,520</u>	<u>16,350,511</u>	<u>19,109,031</u>
<b>Land &amp; Building</b>				
<b>Valuation Method</b>				
Discounted Cash Flow (DCF) method is used in valuing the Head Office building considering its highly commercial nature. Other buildings are valued by calculating the current cost of replacing the subject improvements and subtracting an approximate amount for depreciation.				
Land is valued by obtaining the current market value.				
<b>Sensitivity Analysis for Head Office Land &amp; Building</b>				
Discounting Rate	Rental Growth	Outgoings	Land Rs.000	Building Rs.000
5%	5%	45%	3,548,316	6,386,765
6%	5%	45%	2,906,605	5,231,722
7%	5%	45%	2,453,546	4,416,242
7%	4%	45%	2,297,649	4,135,637
6%	4%	45%	2,714,813	4,886,508
6%	5%	45%	2,906,605	5,231,722
6%	6%	45%	3,112,269	5,601,906
6%	5%	40%	3,170,842	5,707,333
6%	5%	45%	2,906,605	5,231,722
6%	5%	50%	2,642,368	4,756,111
<b>Assumptions Used for Valuation</b>				
The principal assumptions used in Sensitivity Analysis of Land & Building are shown below:				
Discounting Rate	6.5%			
Rental Growth	5%			
Outgoings	45%			
<b>Condominium Property - New York</b>				
<b>Valuation Method</b>				
The independent valuer has recommended the sales comparison approach, which values a property based on the principle of substitution, i.e. the value the market participants would pay to acquire a similar property.				
<b>Sales Comparison Approach</b>				
As at 31 December 2014				
Size (rentable square feet)				12,726
				<b>USD</b>
Unit value per square foot applied				550
Market value of the property				6,999,300
<b>Market value of the property (approx.)</b>				<b>7,000,000</b>
<b>Sensitivity Analysis on the Criteria used in Sales Comparison Approach - New York Property</b>				
Criteria	Description	Change in Criteria	Adjustment	Impact on Overall Value (USD)
Financing	Financing for cash transactions, a discount is generally received on the purchase price vs. credit/mortgaged transactions.	Cash purchase	Downward adjustment of 5%	-350,000
		Credit purchase	Upward adjustment of 5%	+350,000
Market conditions	Refers to real estate market conditions. For example, market conditions in 2014 were more favorable compared to those in 2013.	Favorable conditions	Upward adjustment 5 - 10%	-350,000 to -700,000
		Unfavorable conditions	Downward adjustment 5 - 10%	+350,000 to +700,000
Size	Larger units are generally sold on discounts due to economies of scale vs. those which are comparably smaller.	Larger properties	Downward adjustment of 5%	-350,000
		Smaller properties	Upward adjustment of 5%	+350,000
Floor height	Generally, higher the floor level, higher the price of a condominium unit.	Increasing floor level	Upward adjustment of 1% per floor	-70,000
		Decreasing floor level	Downward adjustment of 1% per floor	+70,000



## Derivatives

Derivative valuation models use forward prices (calculated by extrapolating the forward points available in the market) and discount rates calculated based on zero coupon yield curves of the respective currencies as of the valuation date. If the instrument that is valued contains a margin, adjustments are made to the forward prices and/or the interest rates to represent the impact of the margin rate.

### Embedded Derivatives - Currency Options

Fair Value of the Embedded Derivative Products was calculated using Black-Scholes model

	Level 3	
	2015 Rs.000	2014 Rs.000
Balance as at 1 January	16,350,511	10,162,977
Derivative Liabilities	(6,060,349)	6,187,534
Balance as at 31 December	<u>10,290,162</u>	<u>16,350,511</u>
Total unrealised gains included in earnings	6,159,141	1,239,699

### b). Repurchase and Reverse-Repurchase Agreements

The reported value of repurchase and reverse-repurchase agreements is considered to approximate their fair value due to the short term nature of the agreements. The carrying value of Sri Lanka Government Securities sold under agreements to repurchase as at 31 December 2015 was Rs. 23,650 Mn (2014 – Rs 321,220 Mn) and provided Standing Deposit Facility of Rs. 81,815 Mn (2014 – Rs 7,032 Mn). The carrying value of Sri Lanka Government Securities purchased under agreements to resell as at 31 December 2015 was Rs. 135 Mn (2014 – Rs 2,650 Mn).

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

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

	Carrying Amount		Fair Value	
	2015 Rs. 000	2014 Rs. 000	2015 Rs. 000	2014 Rs. 000
<b>Foreign Currency Financial Assets</b>				
Foreign Currency Trading/ Available for Sale Securities	387,834,147	469,684,807	387,834,147	469,684,807
Derivative Financial Instruments	4,145	1,580,237	4,145	1,580,237
<b>Local Currency Financial Assets</b>				
Sri Lanka Government Securities	102,866,967	124,443,452	102,799,824	124,072,219
Loans to Banks	886,357	1,489,372	839,898	1,398,678
Other Assets	11,164,452	10,019,985	7,973,781	7,624,184
<b>Foreign Currency Non Financial Assets</b>				
Allocated Gold	97,723,836	100,190,635	97,723,836	100,190,635
<b>Foreign Currency Financial Liabilities</b>				
Derivative Financial Instruments	24,280,308	19,207,822	24,280,308	19,207,822

Significant unobservable inputs used

Discount Rate	10%
Volatility	5%

### Sensitivity Analysis

	Discount Rate		Volatility	
	9% Rs.000	11% Rs.000	4% Rs.000	6% Rs.000

Embedded Derivatives - Currency Option	10,661,010	9,954,694	9,734,797	11,145,607
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### Deferred Asset on Embedded Derivatives

	2015 Rs.000	2014 Rs. 000
Balance as at 1st January	25,832,842	27,578,100
Premium Amortised during the year	(12,540,716)	(8,635,798)
Deferred Assets recognised during the year	-	6,890,540
Balance as at 31st December	<u>13,292,126</u>	<u>25,832,842</u>

### c). Currency in Circulation

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

### d.) Deposits

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

<b>46. COMPARATIVE INFORMATION</b>			
<b>a). As reported previously:</b>		<b>2014</b>	<b>2014</b>
		<b>Rs. 000</b>	<b>Rs. 000</b>
<b>Local Currency Financial Liabilities</b>			
Currency in Circulation		-	
<b>Other Liabilities</b>			
Currency in Circulation		416,895,362	
<b>Current Presentation:</b>	<b>2015</b>	<b>2014</b>	
	<b>Rs. 000</b>	<b>Rs. 000</b>	
<b>Local Currency Financial Liabilities</b>			
Currency in Circulation		491,699,948	416,895,362
<b>Local Currency Non Financial Assets</b>			
Other Receivables and Prepayments			27,446,864
<b>Local Currency Financial Liabilities</b>			
Other Payables			8,939,293
<b>Current Presentation:</b>		<b>2015</b>	<b>2014</b>
	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>
<b>Local Currency Non-Financial Assets</b>			
Other Receivables and Prepayments		14,347,811	27,375,394
<b>Local Currency Financial Liabilities</b>			
Other Payables		6,850,998	8,867,823
<p>Currency in circulation amounting to Rs.416.90 mn was included under other liabilities in 2014, has been included under local currency financial liabilities for better presentation.</p>			
<p>Rs.71.47 Mn that was reported under Other Receivable and Prepayments and Other Payables in 2014 has been netted off for better presentation in 2015 as per the provisions of IAS 01.</p>			
<b>47. RELATED PARTIES</b>			
<b>47.1 Transactions with State and State Controlled Entities</b>			
<p>In the normal course of its operations, the Bank enters into transactions with related parties. Related parties include the Government of Sri Lanka (State as the ultimate owner of the CBSL), various government departments, and State controlled entities. Particulars of transactions, and arrangements entered into by the Bank with the State and State controlled entities which are individually significant and for other transactions that are collectively, but not individually, significant as per IAS 24 -Amended Related Party Disclosures are as follows:</p>			
<b>Nature of the Transaction</b>	<b>2015</b>	<b>2014</b>	
	<b>Rs 000</b>	<b>Rs 000</b>	
<b>Transactions:</b>			
Outright sales of Government Securities	66,059,197	-	
CBSL and Government Securities Purchased / Sold under Agreement to Repurchase / Sales	8,558,487,853	3,723,185,303	
Cost of Printing currency notes, for the year ended 31 December (c)	1,954,763	851,816	
Payments for Goods, Services and Taxes, during the year ended 31 December (d)	762,417	603,729	
Paid Surplus to Government, during the year (Note 30)	-	8,500,000	
Gross Foreign Exchange Transactions during the year, (f)			
Sales	234,753,399	54,983,877	
Purchases	-	103,109,164	
USD/LKR Derivatives	836,162,191	509,122,447	
Funds Received in respect of Abandoned Property during the year	114,971	-	
Consultancy, Communication, Advisory and Professional Fees (g)	155,428	1,520,927	
<b>Balances:</b>			
Sri Lanka Government Securities Held by CBSL, (h)	102,731,967	121,793,452	
Provisional Advances to Government, (Note 9)	151,131,671	143,897,971	
Loans given under Susahana Phase I and II, Provincial Development Credit Scheme, Saubaghya Loan Scheme, Awakening North Loan Scheme (phase II), Resumption of Economic Activities in the East (phase II) and Repair of Damaged Houses in North and East	352,864	1,003,594	
Government Securities held for specific purposes	4,292,385	3,367,765	
RTGS Balances with Banks and Financial Institutions	115,013,766	104,511,467	
Nostro Balance with BOC London	195,999	137,486	
Receivable from Treasury and other Ministries	1,378,695	1,399,832	
Receivable from Ceylon Petroleum Corporation	3,146	283,114	
Payable to Treasury (Note 20)	8,203,776	-	
Payable to Ministry of National Policies and Economic Affairs (Note 20)	49,479,048	69,275,720	
Current Account Balances with Government and Government Entities as at 31 December	176,637	30,023	
Other Balances (k)	1,124,350	989,624	

a) Empowered by the sections 28-33 of the Monetary Law Act, the Bank Supervision Department of the Bank carries out the regulatory and supervisory functions of the banks licensed by the Monetary Board of the Central Bank. As at 31 December 2015, 03 Licensed Commercial Banks and 04 Licensed Specialised Banks which had been funded by the government or has a significant influence, came under the supervision of the department.

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

b) As per Section 113 of Monetary Law Act, the Monetary Board and the Bank are vested with the function of public debt management. Accordingly, as the agent of the government, the Public Debt Department (PDD) issues securities to the domestic market to meet the budgetary requirements and services both foreign and domestic debt. The PDD deals with public debt management and debt market development. It manages the government debt to ensure that financing needs of the government and its payment obligations are met.

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

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

e) The Bank commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets and liabilities on behalf of government, trusts, retirement benefit plans and other institutions, as explained in Note 49.

f) In accordance with the provisions of Monetary Law Act, International Operations Department of the Bank monitors the development in the domestic foreign exchange market and overnight net foreign exchange open positions of commercial banks. In monitoring the domestic foreign exchange market developments, the Bank is on both sides of the market to moderate the excessive volatility in the exchange rate of Sri Lanka Rupee. The amounts of purchases and sales of foreign exchange represents results of such monitoring activities.

g) This amount represents the payments made by the Bank for the Communication Programmes conducted by the Presidential Secretariat in 2014 and consultancy and professional fees on United Nations human rights investigations. These payments were recorded under administration expenses.

h) The Domestic Operations Department performs its direct functions of implementing the Bank's monetary policy mainly through open market operations as per the sections 90-92 of Monetary Law Act No 58 of 1949 (amended) and enforcing

Statutory Reserve Requirement as per the sections 93-98 of Monetary Law Act and functions as the banker to both commercial banks where government has shareholdings and certain other financial institutions and governmental entities. The aggregate balances arising from this function as at 31 December 2015 are given in Note 21 and 22. Interest earned on the government securities is given in Note 31.

i) The Bank also has custodial arrangements with one State-controlled bank, for which no charges were levied.

j) As per the circular issued by Director Bank Supervision, the banks who do not maintain the minimum advance limit of 10% to agriculture, contribute the shortfall to refinance fund operated by RDD of the bank. As at 31st December 2015 Rs. 200.45 Mn loans were outstanding under the refinance scheme, from People's Bank - Rs. 99.42 Mn (2014 - Rs.184.24 Mn), Bank of Ceylon - Rs. 21.21 Mn (2014 - Rs.38.28 Mn), Pradeshiya Sanwardana Bank - Rs.64.63 Mn (2014 - Rs.122.32 Mn) and Lankaputhra Development Bank Rs.15.19 Mn (2014 - Rs.22.94 Mn) and for which RDD has received an interest of Rs. 90.83 Mn.

k) Other Balances include the transactions carried out with the government, government departments and state controlled entities that are not individually significant.

#### 47.2 Transactions with Key Managerial Personnel

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

#### 47.3 Compensations to the Key Managerial Personnel

	2015 Rs 000	2014 Rs 000
Short Term Employee Benefits	107,904	67,816

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

#### 47.4 Other Transactions with Key Managerial Personnel

	2015 Rs 000	2014 Rs 000
Loans to Key Managerial Personnel	46,600	47,310

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

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

	2015 Rs 000	2014 Rs 000
Contributions paid and payable	68,382	39,925

The Bank contributed various amounts to Pension and Other Post Retirement Plans as disclosed in Note 44 and paid Rs.559.38 Mn (2014 – Rs. 406.49 Mn) to Employees Provident Fund. In the normal course of business the Bank provides banking and financial services to its post employment plans. Amounts of balances with such plans are given in Note 24.

## 48. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

### 48.1 Financial Guarantee Contracts

The Bank acting as an agent of the government or its agencies and institutions, provides guarantees to various parties on the strength of counter guarantees issued to Bank by the General Treasury. There were no such outstanding guarantees as at 31 Decemebr 2015.

### 48.2 Credit Guarantees

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

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

	Currency of Guarantee	Outstanding Guarantee Amount	
		2015 Rs. 000	2014 Rs. 000
Related Parties	Rupees		
- Bank Funded Projects		2,310,793	96,517
- Government Funded Projects		3,978,055	2,865,444
Others	Rupees		
- Bank Funded Projects		220,609	19,220
- Government Funded Projects		315,680	1,718,847
<b>Total Credit Guarantees</b>		<b>6,825,138</b>	<b>4,700,028</b>

### 48.3 Fiduciary Activities

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

### 48.4 Legal Claims

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

The Bank is a plaintiff in 03 cases claiming Rs 21.08 Mn for the damages and no provisions for such fines have been made in the financial statements.

Further, there were a number of legal proceedings outstanding against the Bank as at 31 December 2015 and no provision has been made as the bank is of the opinion that it is unlikely that any significant loss will arise.

### 48.5 Commitments

a) As at 31 December 2015, the Bank has capital commitments amounting to Rs. 405.53 Mn (2014 – Rs. 488.15 Mn ), in respect of the acquisition of Property, Plant and Equipment.

b) As at 31 December 2015 outstanding forward exchange transactions are as follows:

Forward exchange contracts	2015 Rs 000	2014 Rs 000
Forward Exchange Sales		
AUD	11,000	-
GBP	35,000	-
EUR	3,000	50,000
USD	2,160,805	2,239,119
Forward Exchange Purchases		
AUD	1,000	-
GBP	35,000	-
EUR	14,000	-
USD	25,000	-

### 48.6 Assets Pledged

In order to facilitate the securities settlement process, AUD 35 Mn -Carrying value - AUD 36.29 Mn (2014 - AUD 35 Mn -Carrying value - AUD 36.54 Mn) were pledged by the Bank to Euro Clear and obtained a credit facility of USD 30 Mn (2014 – USD 30 Mn). The pledged securities are held in a separate account at Euro Clear.

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

of Credit to Participants in the Euroclear System” guidelines.

#### 48.7 Bond Borrowing

The Bank has borrowed bonds from Employees Provident Fund at a Commission of 30 basis points. The face value of outstanding bonds as at 31 Dec 2015 is zero (2014 - Rs.191,781.43 Mn).

#### 49. TRUST AND CUSTODIAL ACTIVITIES

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

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

All Licensed Commercial Banks (LCBs), Licensed Specialized Banks (LSBs) & Licensed Finance Companies (LFCs) shall be the members of this Scheme. Accordingly, 77 institutions are members of this Scheme. The deposits to be insured include the demand, time and savings deposit liabilities of the member institutions excluding all borrowing instruments and specific exclusions as per section 5.2 of the said gazette notification. The deposit insurance fund has been created with the transfer of Rs. 350.20Mn of the investments of Voluntary Deposit Insurance Scheme and Rs. 1,168.31 Mn of investments made out of collections of abandoned property of LCBs.

As at 31 December 2015, the fund size is Rs.25.40 Bn (provisional). Currently, the amount of compensation payable per-depositor per-institution is limited to Rs.0.30 Mn or its equivalent in the case of foreign currency deposits. The payment of compensation shall not be a liability of the Monetary Board or the Bank and shall be limited to funds available or raised in the deposit insurance fund including any borrowings permitted and contributions received. The Monetary Board and the Bank shall not be responsible for any liability that exceeds the total amount lying to the credit of the fund.

The Deposit Insurance Unit established in the Bank Supervision Department is responsible for operation and management of the scheme under the instructions and supervision of the Director of Bank Supervision in terms of Directions/Regulations and policies as approved by the Monetary Board from time to time and shall maintain books and accounts distinctly separate from the Financial Statements of the Bank. The Auditor General should be the Auditor of this unit.

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

- e) The Bank carries out regulatory and supervisory functions in respect of LFCs and attends to related matters under the authority delegated to it by the Monetary Board. While carrying out such functions, with respect to failed LFCs, various actions are taken including the vesting of assets of persons responsible for the unviable and insolvent condition of such companies, with the Monetary Board as a form of security.
- f) As per the Circular issued by Director Bank Supervision, the banks who do not maintain the minimum advance limit of 10 % to agriculture are required to contribute the shortfall to refinance fund operated by Regional Development Department (RDD) of the Bank. RDD refines such amounts collected through Bank of Ceylon, Peoples’ Bank, Pradeshiya Sanwardena Bank and Lankaputhra Development Bank to agriculture under Viskam Refinance Scheme. The total collections outstanding as at 31 December 2015 amounted to Rs. 40.11 Mn (2014- Rs.188.93 Mn). As at 31 December 2015, RDD has granted Rs. 200.45 Mn (2014- Rs. 367.78 Mn) loans under the refinance scheme and received an interest of Rs. 90.82 Mn for loans given. Further, Rs.188.18 Mn (2014- Rs.188.18 Mn) of income was earned from the investments.

#### 49. TRUST AND CUSTODIAL ACTIVITIES (Continued)

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

##### Concluded Projects

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



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

### Ongoing Projects

Name of the Project	Total Allocation of the Fund (Mn.)	Purpose of the Loan	Refinance Granted to PFIs (Rs. Mn.)	Salient Features	Warranties & Assurance	General Conditions	Special Conditions
Tea Development Project – Revolving Fund	LKR 1,100.00	To provide credit facilities to develop the tea sector in the country.	947.00				
Small Plantation Entrepreneurship Development Project	SDR 2.60	To enhance the living standard of the low income communities in Moneragala, Kandy, Kegalle and Nuwera Eliya.	424.50				
Poverty Alleviation Micro Finance Project II - ( Probodini )	YEN 2,381.00	To enhance the living standard of households whose monthly income is less than Rs. 15,000/= in project location.	3,213.20				
Poverty Alleviation Micro Finance Project II (Probodini)– Revolving Fund	LKR 2,764.84	To enhance the living standard of households whose monthly income is less than Rs. 15,000/= in project location.	4,079.90				
Self Employment Promotion Initiative	LKR 250.00	To provide financial assistance to trained youth who passed out from recognized vocational training institutions in the country for establishment of their own self employment projects.	232.39		No Warranties and assurances	Financial Statements should be audited by the external auditors	The rights and obligations of the agreements will not be assigned, amended, abrogated or waived without the agreement of all relevant parties
Small Farmers and Landless Credit Project - Revolving Fund	LKR 345.69	To promote the intensification of agricultural production by small farmers and the establishment of small scale non- farming rural enterprises.	1,475.35				
Dry Zone Livelihood Support & Partnership Programme - Revolving Fund	LKR 252.95	To provide facilities to income generating activities in Anuradhapura, Moneragala, Kurunegala and Badulla Districts.	250.34	Collection of recoveries from PFIs as per scheduled date to be transferred to relevant accounts of the RDD			
Poverty Alleviation Micro Finance Project – Revolving Fund	LKR 1,031.28	To strengthen the economic conditions of low income families.	3,426.23				
Saubhagya	LKR 14,124.00	To extend credit to MSMEs and disaster affected MSMEs.	14,124.00				
Awakening North – Phase II	LKR 2,154.25	To extend credit to agriculture, livestock, micro and small enterprises in the Northern Province.	2,361.00				

RDD invests excess funds held by it under custodial arrangements in Repo investments. As at 31 December 2015, Repo Investments amounting to Rs. 1.40 Bn were found to be uncollateralized. These funds have been generated by the Department through the funds allocated for operation of various loan schemes and projects. There is no urgent repayment requirement using these funds. If these investments cannot be recovered, it affects the future functions of the Department and expansion of existing projects. Further, new projects cannot be implemented. If the investments cannot be recovered it will reduce the funding base by an equal amount.

### 50. INTEREST IN OTHER ENTITIES

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

Bank also earns a stated percentage, to cover administrative expenses from some GOSL funded projects operated by RDD. The contingent liabilities arising out of Bank issuing credit guarantees for the projects operated by RDD are disclosed in Note 48.2.

### 51. EVENTS OCCURRING SUBSEQUENT TO REPORTING DATE

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



## 2. BANK SUPERVISION

Bank Supervision Department (BSD) was established by Section 28 of the Monetary Law Act (MLA) with specific powers and duties to conduct continuous supervision and examination of banks. Further, the banking regulations and supervision are governed by the provisions of the Banking Act, No. 30 of 1988 as amended. The main functions of BSD are the preparation and issuance of prudential regulations, guidelines and permissions approved by the Monetary Board, conduct of continuous supervision, periodic examinations of licensed banks and administration of Sri Lanka Deposit Insurance and Liquidity Support Scheme (SLDILSS). The Department is also engaged in several other activities on awareness and capacity building of the banking sector. As at the end of 2015, the banks falling under the regulatory and supervisory purview of the Monetary Law Act and the Banking Act comprised 25 licensed commercial banks (LCBs) and 7 licensed specialised banks (LSBs). The list of these banks is provided in Annex II-1. The main functions and activities performed by BSD during 2015 are summarised below:

### 2.1 Issuance of Prudential Regulations, Permissions and Policy Formulation

#### 2.1.1 Issuance of Prudential Regulations and Guidelines

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

(a) **Liquidity Coverage Ratio (LCR) under Basel III Liquidity Standards** : Commencing 1 April 2015, licensed banks are required to maintain an LCR of 60 per cent and increase the ratio up to 100 per cent by 1 January 2019 on a staggered basis and to monitor liquidity position using the monitoring tools as recommended in Basel III.

#### (b) Recovery of Accommodation to Exporters

Previous Circulars which were withdrawn on 16 October 2014 were re-issued on 01 June 2015 with an amendment to reduce the applicable enhanced interest rate from 1,000 basis points to 500 basis points for delayed recovery of accommodation.

#### (c) Loan to Value Ratio for Loans and Advances in respect of Motor Vehicles

As a macro-prudential measure to prevent a possible system-wide risk from excessive exposure of banks to lending in respect of motor vehicles, a Direction was issued to licensed banks on 14 September 2015 imposing a cap on the maximum amount of loans granted for the purchase or utilisation of motor vehicles to 70 per cent of the value of such vehicles and the direction was implemented from 01 December 2015.

#### 2.1.2 Review of Regulations

In 2015, BSD initiated reviewing regulations issued on Corporate Governance, share ownership limits, minimum

capital requirement of licensed banks, mandatory lending to the Agriculture sector, accommodation granted to bank directors and the eligibility criteria for selection of auditors of banks. Further, views of the banks were obtained on the consultation paper issued on Implementation of Basel III: Minimum Capital Requirement and Leverage Ratio and BSD conducted a preliminary assessment on the impact of implementing the capital standards.

### 2.1.3 Permissions approved by the Monetary Board

#### (a) Branches and Other Banking Outlets

Approvals were granted for opening of 34 new branches, 1 Student Savings Unit and 3 mobile banking units, relocating 99 branches, installing 240 Automated Teller Machines (ATMs) and a representative office of a Japanese Bank in Sri Lanka. The approvals for opening of new branches were granted considering the financial performance of the respective banks, financial projections for the proposed branches and the banking density of the Divisional Secretariat. During 2015, approvals were granted to 3 LCBs to open a branch in Bengaluru, India, a representative office in Myanmar and a banking subsidiary in the Republic of Maldives. By the end of 2015, there were 3,538 branches, 3,045 Student Savings Units and 2,714 ATMs in operation.

#### (b) Other Regulatory Approvals

Approvals were granted for the merger between the DFCC Bank PLC and its subsidiary DFCC Vardhana Bank PLC and a new licence was issued to DFCC Bank PLC to carry on business as an LCB from 01 October 2015.

Further, BSD granted 5 approvals to exceed the maximum amount of accommodation, 2 approvals for foreign borrowings and 6 banks were permitted to consider debentures under Tier II capital.

## 2.2 Conduct of Continuous Supervision

(i) BSD continued to supervise banks on an on-going basis to assess their financial condition and to identify early warning signs of impending problems in order to initiate necessary corrective actions. Continuous supervision was conducted based on periodic financial and performance information submitted by banks through the web-based Finnet. Nearly, 27 statutory returns are submitted for each bank through Finnet covering financial and prudential information. In 2015, a new return was introduced to report cyber attacks. This process provided input to the internal supervisory rating of banks and to monitor the progress on addressing supervisory concerns identified during the statutory examinations of banks within agreed time targets. Further, measures were taken to address the issues in the areas of capital adequacy, minimum capital requirement, liquidity and corporate governance.

(ii) In addition, formats of periodical reports on performance of the banking sector covering asset quality, liquidity,

earnings, capital adequacy and growth were revised to include macro prudential assessments such as exposure of the banking system or a particular bank to risks of various unhealthy assets or liability bubbles and concentrations.

### 2.3 Conduct of Periodic Examinations

- (i) BSD conducted 45 examinations during 2015 including 12 that continued from the previous year. Examinations of 30 banks were completed in 2015 through formal discussions with the management of the respective banks and submission of reports to the Monetary Board while 15 examinations were in the process of completion. Major concerns raised at examinations included low efficiency, issues on corporate governance, lapses in systems and controls, and lapses in submission of statutory returns. In addition, several examinations with limited scope were conducted on specific issues of prudential nature and recommendations to strengthen the areas such as operational risk management, baseline security standards and IT systems were communicated to the banks.
- (ii) During the second half of the year, BSD explored for adoption of a new risk-based examination/supervision approach. This approach focuses on identification of risks on sustainability of banks. The examination analysis and findings are based on efficiency, risk indicators-based soundness and adequacy of the risk management systems. Supervisory concerns were communicated to respective Board sub-committees with overall responsibility of the Board for resolution of such concerns by taking appropriate measures. This approach envisages to promote the stability of the banking system through improved efficiency, soundness and risk management systems of all banks with a focus on long-term sustainability. This approach was adopted in examinations conducted in second half of 2015.

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

- (i) As at 31 December 2015, the Scheme comprised 77 member institutions with a total fund of approximately Rs. 25 billion (unaudited). The fund has invested in Government Securities of Rs. 18 billion and loans and receivables of Rs. 6 billion to a member institution under the liquidity support facility for restructuring. Licensed banks which maintained a capital adequacy ratio of 14 per cent or above at the end of the immediately preceding financial year were required to pay a premium of 0.10 per cent per annum on the total amount of all eligible deposits and all other banks were charged a premium of 0.125 per cent per annum. The premium applicable for licensed finance companies was 0.15 per cent per annum. Premia and penalties collected from member institutions during the year amounted to Rs. 5.6 billion.
- (ii) Subsequent to the proposal approved in the Budget 2015, the deposit insurance coverage per depositor

per institution was increased from Rs. 200,000 to Rs. 300,000, with effect from 01 January 2015.

Table II-1

### Financial Highlights of the Sri Lanka Deposit Insurance and Liquidity Support Scheme

Item	Rs.mn	
	As at 31.12.2014	As at 31.12.2015*
Size of the Fund	18,549	25,419
Total Income	6,572	7,374
Total Expenditure	249	504
Profit for the year (Before Tax)	6,323	6,870
Investment in Government Securities	12,562	18,123
Loans and Receivables	6,009	6,227
Available for Sale Reserve	1,129	259

\* Provisional

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

#### (a) Capacity Building

BSD continued its contribution to capacity building of the industry through enhancing the knowledge in the areas of corporate governance, risk management, bank examination, treasury operations, frauds in financial institutions, and legislations pertaining to banking and finance. During the year 2015, senior officers of BSD served as resource persons at the Centre for Banking Studies of the Central Bank of Sri Lanka and other external institutions, both local and foreign. A knowledge sharing session on the computation methodology of Liquidity Coverage Ratio (LCR) under Basel III Liquidity Standards was also arranged for the officers of licensed banks.

#### (b) Meetings with the Management of Banks and Auditors

BSD continued to function as the Secretariat for the meetings of the Governor with CEOs of banks that serve as a forum for exchange of views between the Central Bank and the banking sector on matters relating to the developments in the Sri Lankan economy and the banking sector, and regulatory and supervisory improvements. In addition, several meetings were held with the banks' Board of Directors, senior management and external auditors to discuss the bank specific matters, to ensure proper oversight and timely implementation of corrective action.

#### (c) Public Awareness Programmes

During 2015, public awareness campaigns on financial institutions authorised by the Central Bank to accept deposits from the public and the dangers in engaging in prohibited schemes were conducted

by BSD along with the Department of Supervision of Non-Bank Financial Institutions. Accordingly, 2 public notices were published in several newspapers in all three languages. Further, 2 press releases were issued to apprise the general public on operating instructions of the special interest scheme for senior citizens.

#### (d) Handling Litigation

During the first half of 2015, litigation with regard to the affairs including Pramuka Savings and Development Bank Limited, matters relating to exchange control regulations and investigations on prohibited schemes were handled by BSD with the assistance of the Attorney General's Department and other law enforcement agencies. The handling of these cases was transferred to the Legal and Compliance Department (LCD) of the Central Bank of Sri Lanka with the establishment of LCD in June 2015.

### Annex II - 1

#### List of Licensed Banks

##### Licensed Commercial Banks

1. Amana Bank PLC
2. Axis Bank Ltd
3. Bank of Ceylon
4. Cargills Bank Ltd
5. Citibank, N.A.
6. Commercial Bank of Ceylon PLC
7. Deutsche Bank AG
8. DFCC Bank PLC
9. Habib Bank Ltd
10. Hatton National Bank PLC
11. ICICI Bank Ltd
12. Indian Bank
13. Indian Overseas Bank
14. MCB Bank Ltd
15. National Development Bank PLC
16. Nations Trust Bank PLC
17. Pan Asia Banking Corporation PLC
18. People's Bank
19. Public Bank Berhad
20. Sampath Bank PLC
21. Seylan Bank PLC
22. Standard Chartered Bank
23. State Bank of India
24. The Hongkong & Shanghai Banking Corporation Ltd
25. Union Bank of Colombo PLC

##### Licensed Specialised Banks

26. Housing Development Finance Corporation Bank of Sri Lanka
27. Lankaputhra Development Bank Ltd
28. National Savings Bank
29. Pradeshiya Sanwardhana Bank
30. Sanasa Development Bank PLC
31. Sri Lanka Savings Bank Ltd
32. State Mortgage & Investment Bank

### 3. CENTRE FOR BANKING STUDIES

The Centre for Banking Studies (CBS), the training arm of the Central Bank of Sri Lanka (CBSL), is entrusted with the responsibility of designing and conducting training programmes, seminars and workshops particularly to build capacity of stakeholders in the financial sector. The focus of the CBS during the year 2015 was towards raising its standards to a higher level, both in terms of the quality of its training programmes and infrastructural facilities of the CBS. Participants from the Central Bank, Commercial Banks, Financial Institutions, government institutions and the general public benefitted from the local as well as international programmes conducted by the CBS.

During 2015, the CBS conducted a wide array of programmes in the areas of banking operations and regulations, financial management, economics, rural sector development, human resource and general management, information technology, languages and communication skills with the intention of addressing the training needs of financial institutions in relation to their core activities and support services. A total of 116 programmes which consisted of 70 calendar programmes, 35 special programmes (based on demand by various institutions), 7 diploma and certificate programmes and 4 International programmes were conducted during 2015. Keeping in line with its social responsibility to enhance the financial and economic literacy of the nation with a view to create a knowledge economy, CBS conducted several knowledge sharing events in the form of 7 public lectures, 3 programmes for university students and 13 programmes for school students and economics teachers in 2015. A total of 4,838 participants, including 115 foreign participants, patronised these events. Meanwhile, 2 television series titled "Thakshilawa" and "Ariwootroo", targeting Advanced Level students in Sinhala and Tamil medium respectively were also telecast in 2015 under the purview of the CBS.

The CBS also conducted a series of regional level programmes in collaborations with Provincial Offices, Provincial Office Monitoring Department and Regional Development Department of the CBSL during the year. A total of 9 programmes covering subject areas ranging from core banking activities to ancillary services were conducted during 2015.

By the end 2015, the CBS designed its calendar programmes for 2016 incorporating findings of training need survey conducted during the latter part of 2015, in order to be a centre of excellence in creating and sharing knowledge both in Sri Lanka and beyond the borders in the medium term.

### 4. COMMUNICATIONS

Communications Department (CMD) continued its contribution towards the mission of the Central Bank in maintaining economic and price stability and financial system stability to support sustainable growth during 2015 through

the dissemination of information to its stakeholders, by way of external and internal communication approaches, public awareness programmes and the Library and Information Centre.

### External Communication

The Bank's corporate website [www.cbsl.gov.lk](http://www.cbsl.gov.lk) was the main communication gateway and its popularity as an information source on the Central Bank's activities was evident from the increase in the number of visits by 67 per cent in 2015 over 2014 as given in Table below. The subscribers to e-mail alert service and SMS alert service also increased.

**Table II-2** Details of External Communications

Type of media	2014	2015
CBSL website visits	89.6 million	145.18 million
Facebook	567 posts	524 posts
Twitter	567 tweets	524 tweets
YouTube	51 video	33 video
e-mail Alert Service subscribers	1,800 (as at end of the year)	2,392 (as at end of the year)
SMS Alert Service subscribers	913	1,073

CMD carried out its regular traditional communications as well by issuing 1,529 press releases (including 187 key releases such as Monetary Policy Review, External Sector Performance, Inflation, etc.), 23 Gazette notifications and 100 notices (including advertisements) during 2015.

Nine press briefings on various important policy matters relevant to the Bank were held during 2015. In addition, CMD facilitated the Bank's events such as the 19th Commemoration of the victims of the CBSL bomb attack and the CBSL 65th anniversary oration on "The Global Financial System and Rules of the Game" by Dr. Raghuram Rajan, Governor of the Reserve Bank of India.

CMD represented the Bank at one national level event, "Colombo International Book Fair" held at the Bandaranaike Memorial International Conference Hall Colombo in 2015.

### Internal Communication

The internet site run by CMD "cbsldaily" ceased operation when IT Department new internet "mansala" (meaning "connect, collaborate, communicate") became fully active. Three issues of the official internal newsletter, "Kavuluwa" (meaning "window") were published during the year. The Media Monitoring Division in 2015 submitted 3,692 news clips, articles and public opinions collected from fifteen national newspapers published in three languages, in order to update the senior management with current affairs on the economy and matters relevant to the Bank.

### Public Awareness

Facilitating a widespread public awareness drive on economics and financial literacy was among the top priorities of CMD. The highlight was the "Econ Icon Season 3" programme Stage I, in which 317 Sinhala medium and 204 Tamil medium schools

from all districts of the country participated in the written examination for selection to take part in the inter-school Quiz Programme to be conducted through a popular TV channel. Further, CMD coordinated 56 educational and awareness programmes for 3668 participants as given below, while 14 programmes were coordinated away from the CBSL Head Office.

**Table II-3** Details of Public Awareness Programmes Conducted in 2015

Institution	No. of Programmes	No. of Participants
Schools	44	3,136
Universities	2	230
Sri Lanka Armed Forces and Defense University	3	138
Foreign Delegates (National Defense Colleges)	3	56
Ambassadors Designate and foreign service officers	2	57
School Teachers	2	51
Total	56	3,668

CMD facilitated 3 educational programmes conducted by the Economic Research Department and provided resource persons for the "Arivootru" (meaning "Spring of Knowledge") TV programme conducted by the Centre for Banking Studies of the CBSL. CMD handled sale of Central Bank publications amounting to Rs. 5.54 million during the year and distributed 21,909 copies of different publications free of charge among school children and teachers.

### Tamil Translation Services

The Tamil Translation Unit contributed to enable all major publications of CBSL including press releases to be released in Tamil language, thereby contributing its share to the CMD's task of providing information in all three languages.

### Photographic Coverage of Major Events of the Bank

The Photographic Unit aimed to showcase the Central Bank in colour to the world through visual media, both still and video. The Unit covered 145 events of the Bank, and maintained high professional standards by delivering all related services including editing, printing and framing of photographs, editing videos, preparing albums and CDs.

### Printing Press

A total of 467 printing assignments of the Bank were undertaken by the Printing Press during 2015. These included periodicals such as "News Survey", "Satahana", "Bulletin", "Sendewa", "Provincial News", "Kavuluwa" as well as "FIU Annual Report (2013 & 2014)", books such as "Arthika Vidya Muladhama saha Prathipatti" (reprint) authored by Mr. P Samarasinghe, Deputy Governor of the Central Bank, "An Introduction to Principles of Economics" in Sinhala and Tamil authored by Mr. C P A Karunatilake, Assistant Governor of the Central Bank, Staff Studies Volume 44 No. 1 & 2, Volumes for the International Research Conference and Bank's 65th Anniversary booklet.

Further, printing and supplying of various forms, stationery etc. of the Bank were also undertaken.

### Library and Information Centre

The Library and Information Centre (LIC) made its services available to the Bank staff as well as to permitted external users, with a collection of 29,498 books, 18,819 reports, 1,935 CD's and over 40,000 journal issues. LIC also continued its subscriptions to the online databases, 'ScienceDirect' and 'EconLit' Data bases, which provide access to a vast knowledge of information on economics, management and finance. In addition, LIC subscribed to several other online resources on subjects relevant to central banking activities.

The total numbers of foreign and local journals subscribed by LIC were 96 and 25, respectively. LIC continued to compile electronic bulletins such as Recent Additions (i.e. new books), Current Contents, International News Alert, Local Press reports on Economics, Banking and Finance on related subjects and disseminated them via the intranet. A Selective Dissemination of Information service was also maintained.

LIC maintained the Economics and Banking Library Network of Sri Lanka "EbanklibnetSL" providing a valuable service to the 24 member libraries in the country, sharing information via e-mail. Further, LIC was an active member of the Global Central Bank and Financial Institutions Library & Information Professionals' Network (CBFA List) which shares information resources and experience among the central banks and other international financial institutions across the globe. A digital library service was also maintained giving access to the Bank staff through the Library's intranet website.

## 5. CURRENCY

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

### 5.1. Currency Issuance

#### a) Currency in Circulation

During 2015, CRD issued both currency notes and coins into the circulation by way of new currency notes and coins

and re-issue of fit (serviceable) currency notes and coins to meet the demand for currency in the country through currency operations with LCBs. Accordingly, the value of total currency in circulation as at 31.12.2015 amounted to Rs. 491.1 billion recording an increase of 18 percent over that of 31.12.2014 as given in Table II-4.

**Table II - 4** Currency in Circulation (as at end of the year)

Item	Value (Rs. bn)					Change (%)				
	2011	2012	2013	2014	2015	2011	2012	2013	2014	2015
Notes	287.1	311.2	332.4	408.8	482.0	14.8	8.4	6.8	23.0	17.9
Coins*	5.6	6.3	6.8	7.5	9.1	8.9	13.5	7.5	10.7	21.3
<b>Total</b>	<b>292.7</b>	<b>317.5</b>	<b>339.2</b>	<b>416.3</b>	<b>491.1</b>	<b>14.7</b>	<b>8.5</b>	<b>6.8</b>	<b>22.7</b>	<b>18.0</b>

\* The commemorative coins are excluded

#### b) Currency Issues through LCBs

Currency notes and coins issued by CRD through LCBs during the year 2015, amounted to Rs. 503.4 billion and Rs. 1.6 billion, respectively (Table II-5).

**Table II - 5** Currency Notes and Coins issued to LCBs

Item	Value (Rs. bn)			Change (%)		
	2013	2014	2015	2013	2014	2015
Notes	401.9	431.8	503.4	13.1	7.4	16.6
Coins	0.5	0.8	1.6	(27.7)	41.1	112.8
<b>Total</b>	<b>402.4</b>	<b>432.6</b>	<b>505.0</b>	<b>13.0</b>	<b>7.5</b>	<b>16.7</b>

During the year 2015, CRD took several measures to issue more coins into circulation in order to address the public concern on shortage of coins. Accordingly, issuance of coins through the public counter at the Pettah Branch of Bank of Ceylon and through other LCBs increased during the year and a memorandum of understanding was signed with People's Bank to issue currency notes and coins to the public through its branch network island wide. As a result, issuance of coins by CRD to LCBs increased by 112.8 percent in 2015 when compared to the previous year.

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

In currency operations, CRD accepted currency deposits from LCBs, primarily for the maintenance of the statutory reserve requirement of LCBs imposed by CBSL. The deposits were mainly in the form of both serviceable (fit) and unserviceable (unfit) currency notes as given in Table II-6. In 2015, currency deposits of LCBs with CRD increased by 21.1 percent when compared to the previous year.

**Table II - 6** Currency Deposits by LCBs

Item	Value (Rs. bn)			Change (%)		
	2013	2014	2015	2013	2014	2015
Notes	381.0	354.7	429.6	15.0	(6.9)	21.1

Note : The value of coins deposited by LCBs with CBSL is not significant. For example, the total value of coins deposited by LCBs during 2015 was Rs.266,000.



**d) Clean Note Policy**

Unserviceable currency notes deposited by LCBs were destroyed while serviceable currency notes were re-issued to circulation. In 2015, CRD destroyed 115.68 million pieces of unserviceable notes amounting to a face value of Rs. 16.46 billion.

CRD encouraged good currency handling practices to extend the effective life of currency notes to reduce the cost of printing of currency notes, ensure clear visibility of security features to identify genuine notes, ease of processing and create a positive image of the people of the country. Accordingly, meetings with cash managers of LCBs were conducted to discuss issues on currency sorting and handling practices and barriers to efficient currency management operations.

**e) Currency Exchange Counter**

CRD continued to facilitate the currency exchange counter at the Bank of Ceylon Pettah Branch for the purpose of exchange of currency with the public to satisfy their preferred denominations. During the year 2015, Rs. 1,645.3 million worth of currency notes and Rs. 275.6 million worth of coins were exchanged through this counter.

**f) Issue of Commemorative Coins**

During 2015, CRD issued four commemorative coins. These include three un-circulation coins of Rs.500 to commemorate the 150th Birth Anniversary of Srimath Anagarika Dharmapala, the visit of His Holiness Pope Francis to Sri Lanka (Papal Visit - 2015) and the 150th Anniversary of Colombo Municipal Council and a circulation coin of Rs.5 to commemorate the 75th Anniversary of Bank of Ceylon. Further, commemorative collector items amounting to 62,168 pieces were sold through the CBSL Regional Offices and the Economic History Museum in Fort, Colombo.

**5.2 Currency Printing and Minting**

In order to meet the demand for currency notes in the economy, ensure good quality notes in circulation, and to ensure sufficient contingency stocks, CRD made arrangements to print 630 million pieces of currency notes. In addition arrangements were made to mint 215 million pieces of coins during 2015.

**5.3 System Improvements**

CRD took further steps to enhance the automation process by procuring necessary machinery and equipment to increase efficiency of currency operations. Action was initiated to procure fully automated currency note disintegration machine to destroy unfit currency notes in a secure manner with minimum human intervention.

**5.4 Assistance Provided to Law Enforcement Authorities**

In 2015, CRD took the following action to assist law enforcement authorities regarding violation of the provisions of MLA on counterfeiting of currency;

- a) Closely co-operated with the Counterfeit Currency Bureau of the Criminal Investigation Department (CID) of the Police and law enforcement authorities pertaining to counterfeiting attempts. Counterfeit notes detected in 2015 were 6,410 pieces.
- b) Endorsed and issued 192 certificates with the signature of the Governor as conclusive evidence for imitation of currency notes to facilitate proceedings in courts.
- c) Attended 15 court cases to give evidence on currency counterfeiting cases.

**5.5 Public Awareness**

CRD continued its public awareness programs at various levels as noted below in order to educate the public and public officials on the security features, identification of counterfeit notes and good care of currency notes and coins.

- a) Conducted 33 seminars/workshops on the clean note policy and security features of currency notes at the Center for Banking Studies, various LCBs, Road Development Authority, National Transport Commission, National Schools, etc.
- b) Displayed mobile currency museum at four exhibitions in Kotugoda, Bandarawela, Belihul Oya and Pannipitiya.
- c) Facilitated about 13,000 visitors mainly school children, tourists and general public to the three currency museums of CBSL and distributed information material and leaflets highlighting the clean note policy and consequences of counterfeiting currency notes to educate the public.

**5.6 Approvals for Reproduction of currency**

During 2015, three approvals were granted for reproduction of currency notes in advertisements, in terms of the policy approved by the Monetary Board for such reproduction.

**6. DEPARTMENT LEVEL REGIONAL OFFICES**

In terms of section 33 of the Monetary Law Act, five Departmental Level Regional Offices (DLROs) were established in September 2015 covering all Provinces. In the setting up of these DLROs, the Central, Sabaragamuwa and Uva Provinces have been clustered under DLRO - Upcountry. The Northern and Eastern Provinces and North Central and North Western Provinces were also clustered together to form two DLROs considering logistical and administrative convenience. Western and Southern Provinces have two separate DLROs.

In terms of section 7 of the Monetary Law Act, a new Regional Office (RO) in Kilinochchi was established in May 2015 at Ariviyalnagar, with a view of enhancing the CBSL participation in the development activities in the Northern Province. CBSL also opened a RO in Nuwara Eliya in January 2016 in order to promote development credit and facilitate other CBSL operations particularly activities related

to Employees' Provident Fund (EPF) operations considering the concentration of plantation sector employees in Nuwara Eliya and Badulla Districts. With the opening of these two ROs, the total number of CBSL ROs has increased to seven. The other five ROs are in Matara, Anuradhapura, Matale, Trincomalee and Jaffna.

The supervision of ROs was vested with the DLROs based on their geographical location.

### 6.1. Development related Activities

During 2015, the six ROs in Matara, Anuradhapura, Matale, Jaffna, Trincomalee and Kilinochchi engaged in development activities in the areas coming under their purview mainly focusing on increasing the efficiency of the credit delivery mechanism by facilitating the smooth and timely supply of financial assistance, promoting agricultural, animal husbandry, and Micro, Small and Medium Enterprises (MSMEs) sectors. ROs supported the loan beneficiaries and prospective borrowers of development credit through coordinating with commercial banks, development credit institutions and other government agencies to carry out their loan projects. The necessary knowledge on financial literacy, entrepreneurship development, technological advancement and best entrepreneurial practices was provided to borrowers as well as to the members of the grass root level community based organizations through training programmes and workshops. ROs also assisted in these borrowers in their marketing efforts through arranging of market linkages, buyer-seller dialogues and trade fairs during the festive seasons. Credit counselling services were also provided to the borrowers who faced difficulties in repayments of their loan installments due to various reasons. During the year, 70 credit camps were held providing various facilitation services to 7,138 entrepreneurs. Promoting access to finance, 1,975 credit links were established for the entrepreneurs. Further, about 100 programmes were conducted covering the areas of financial literacy, application of new technology, best practices and skills development with the participation of about 5,800 entrepreneurs.

Two meetings were conducted by DLRO – Upcountry and DLRO – North Central and North Western Provinces in Kandy and Kurunegala, respectively, with the participation of provincial Governors, senior government officials, provincial government authorities and officials of the financial institutions in those regions. The purpose of these meetings was to discuss and identify financial and banking needs of the provinces for development activities, issues related to access to finance and increasing the level of financial inclusion in the provinces.

### 6.2. Representing Regional presence of the CBSL

ROs represent the regional presence of the CBSL by actively supporting to carry out various programmes of the CBSL in the respective regions. ROs conducted 122

programmes during the year, which included programmes on building countrywide awareness on clean note policy, identification of forged notes, unauthorised financial institutions, prohibited schemes, government securities market, exchange control regulations and educational programmes for students and teachers. A total of 13,010 persons participated for these programmes. Special attention was paid to provide member services to EPF members and 33,679 members were benefitted from these services. In addition, during the year, 12 programmes were conducted for the benefit of employers as well as members of the EPF and 1,213 persons participated for these programmes. ROs supported the Centre for Banking Studies of the CBSL to conduct 9 training programmes in the regions and about 440 staff members of the branches of banks and financial institutions outside Western Province were benefitted from these programmes.

## 7. DOMESTIC OPERATIONS

### 7.1 Functions of DOD

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

### 7.2 Implementation of Monetary Policy

The department continued to implement monetary policy by maintaining short term interest rates at an appropriate level within the Standing Rate Corridor (SRC) formed by Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR). This was facilitated by managing the availability of liquidity in the inter-bank market to ensure stability in the short term interest rates.

The implementation of monetary policy involves making desired changes in short term interest rates to ensure sustainable price stability. For this purpose, DOD relied on OMO as the main monetary operation tool. In addition, standing facilities and Statutory Reserve Requirements (SRR) also played a crucial role in steering short term interest rates towards the desired level. Commercial banks, assisted by the added space of two weeks of reserve calculation and maintenance period, effectively managed their daily liquidity in such a way as to minimise the volatility in the call market interest rates. The monetary policy measures implemented during the year are as follows;



- Withdrawal of the special Standing Deposit Facility (SDF) rate of 5.00 per cent that was imposed in September 2014, in February 2015 in order to help stabilise the overnight interest rates within the SRC.
- Revision of SLFR downward from 8.00 per cent to 7.50 per cent, and SDFR from 6.50 per cent to 6.00 per cent, in April 2015, maintaining the SRC at 150 basis points, with a view to encourage economic activities by enhanced credit flows and investments due to lower cost of funds and behaviour of market interest rates to be consistent with economic growth outlook.
- Imposition of a requirement of a 100 per cent cash margin on Letter of Credit (LC) opened for the importation of motor vehicles in October 2015, for a period of one month from 30 October 2015 to 01 December 2015 in order to curtail the excessive outflows of foreign exchange in relation to said imports.
- Increase of SRR ratio from 6.00 per cent to 7.50 per cent on 31 December 2015 to be effective from 16 January 2016 in order to prevent undue expansion in monetary aggregates which might fuel future inflation in the economy.

**7.3 Market Developments**

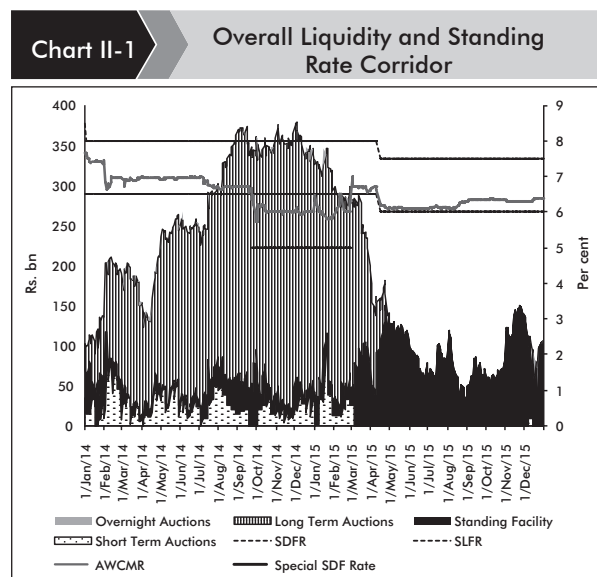
High excess reserves that prevailed during previous year showed a similar trend till January 2015 due to Treasury bills purchases by Central Bank. Starting from end January 2015, excess reserves gradually declined till end August 2015 mainly due to forex sales by Central Bank of Sri Lanka (CBSL), early retirement and maturing of Treasury bills under the CBSL holding. Thereafter, excess reserves continued to increase, nevertheless remained substantially low compared to previous year. Occasional spikes were witnessed due to forex sales by CBSL, purchase of Sri Lanka Development Board (SLDB) proceeds by the CBSL and Treasury bill purchases by CBSL. However, from November 2015, excess reserves started to increase and remained high till end of the year mainly due to purchase of Sovereign bond proceeds by the CBSL. However, there was a decline in excess reserves in December due to festive demand for currency.

Average Weighted Call Money Rate (AWCMR) showed some volatility until mid April 2015. First two months of the year showed the same trend that was seen after introducing special standing deposit facility rate, that is, high call rates during first few days of the month and low rates through the remaining part of the month. After the removal of special SDF rate, AWCMR increased and settled around 6.70 per cent till the downward revision of policy interest rates by 50 basis points in mid April 2015. As a result, AWCMR also came down by same number of basis points and with the general reduction in market liquidity in the second half of the year, an upward pressure was built up on AWCMR. However, in the second half, the AWCMR settled largely closer to the lower bound of the SRC.

The daily call market volume ranged between Rs. 0.33 billion and Rs. 31.47 billion and few banks resorted to call borrowing persistently due to such banks financing part of their credit growth through call borrowings. In terms of the distribution of call borrowing, around 65.13 per cent of the total borrowing was accounted for by 4 banks.

The market repo rate, which is closely associated with and moves in line with the call rate, exhibited intermittent volatility due to structural and taxation issues in the market. Accordingly, margin between the call rate and the market repo rate ranged between zero to 131 basis points during the year.

In line with the monetary policy stance, few OMO auctions were conducted during the year compared to the previous year. Since the CBSL held adequate government securities to cover repo auctions and that auctions were not conducted on a daily basis, there was no requirement to borrow securities under Government Security Borrowing Programme.



**7.3.1 Open Market Operations**

**(a) Liquidity Forecast**

DOD makes a market liquidity forecast on a daily basis to determine the type of monetary operation required. This forecast is based on several factors such as the transactions of CBSL with the government and the licensed commercial banks (LCB), foreign loan receipts and repayments of the government handled by the CBSL, international and domestic issues of the foreign currency bonds by the government, currency withdrawals and deposits by LCB, changes in the holdings of Treasury bills of the CBSL and interventions of the CBSL in foreign exchange market. Based on the outcome of the forecast, the following OMO were conducted.

**(b) Overnight Auctions****(i) Repo Auctions**

In 2015, there was less need for the conduct of repo auctions on a regular basis considering the overall monetary policy stance and sudden decline in overall liquidity compared to the previous year. Accordingly, overnight repo auctions were carried out only in 7 occasions in 2015. On average, Rs. 21.3 billion per day was offered for the overnight auction of which Rs. 12.6 billion was accepted. This volume represented 3.3 per cent of the actual surplus reserves on days of surplus. The weighted average yield rate of overnight repo auction varied between 5.91 per cent and 6.14 per cent.

**(ii) Reverse Repo Auctions**

Throughout the year of 2015, market liquidity remained in surplus requiring less need for the CBSL to intervene in the market. However, reverse repo auctions were conducted in few occasions to ease off any upward pressure on overnight interest rates. Accordingly, DOD conducted 8 such auctions, where, on average Rs. 13.8 billion per day was offered and Rs. 5.5 billion per day was accepted. The weighted average yield rate of overnight reverse repo auction varied between 6.15 per cent and 6.30 per cent.

**(c) Short Term Auctions****(i) Repo Auctions**

Short term auctions are conducted as a strategy to absorb liquidity upto one week on a same day settlement basis. However, short term repo auctions were conducted only on 17 days in 2015. On average, Rs. 28.2 billion per day was offered and Rs. 22.4 billion per day was absorbed from the short term repo auction whilst the weighted average yield rate varied in the range of 5.86 per cent and 6.28 per cent.

**(ii) Reverse Repo Auctions**

DOD did not conduct short term Reverse Repo auctions during the year, as the market was in surplus on a continued basis.

**(d) Long Term Auctions****(i) Repo Auctions**

Long term repo auctions were carried out only in the months of January, February and December in 2015. DOD conducted 14 long term repo auctions. Although the tenure of the long term repo auctions varied between 10 days and 77 days, trading activities were largely confined to tenors less than 34 days.

**(ii) Reverse Repo Auctions**

DOD did not conduct any long term Reverse Repo Auctions during the year 2015.

**(e) Outright Transactions**

The CBSL conducted outright sale auctions to absorb excess reserves on a permanent basis by selling Treasury bills out of its own portfolio. In 2015, total amount absorbed through 29 outright sales were Rs. 128 billion. On average, Rs. 5.2 billion was offered per auction whilst Rs. 4.4 billion was accepted per auction.

**7.3.2. Standing Facilities**

Standing facilities were provided throughout the year at SDFR and SLFR to Participating Institutions (PI) which were unable to manage their short term liquidity requirements fully through interbank money market and daily OMO auctions. DOD continued to offer standing facilities at SDFR and SLFR in 2015 to PI. SDF transactions under the standing facility which reflect the daily excess liquidity position, amounted to a daily average of about Rs. 75.0 billion and a total of Rs. 17,990 billion during the year. The total volume lent under the SLF was Rs. 23 billion in 2015.

**7.3.3. Statutory Reserve Requirement**

The SRR is the minimum amount of reserves that each commercial bank is required to hold in terms of the regulations of the CBSL in the reserve account with the CBSL in proportion to the total rupee deposit liabilities of each bank. The DOD was responsible for both administering the maintenance of SRR and monitoring compliance by commercial banks. The applicable rate of SRR remained at 6 per cent throughout 2015. However, with the objective of preventing undue expansion in monetary aggregates which might fuel future inflation in the economy, the SRR was revised upward by 1.50 percentage points to 7.5 per cent in December 2015 with effect from 16 January 2016. As a result, about Rs. 52 billion of excess liquidity was absorbed by the CBSL from the money market at the beginning of 2016.

**7.3.4. Bank Rate**

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

**7.4 Banker to Commercial Banks and the Government****7.4.1. Accounts of Financial Institutions**

DOD continued to provide current account facilities to commercial banks and primary dealers, to ensure an efficient interbank payment and settlement system, performing Central Bank's role as the banker to commercial banks. At the end of 2015, CBSL maintained accounts for 25 commercial banks and 8 primary dealers. These accounts were operated on a Real Time Gross Settlement (RTGS) basis.

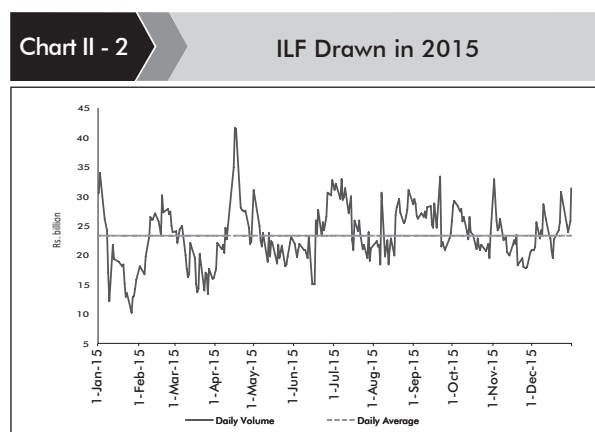
### 7.4.2 Government Accounts

Performing the role of the banker to the Government, DOD maintained the accounts of government departments, agencies, institutions and statutory boards and provided the required banking facilities to them. The total number of accounts maintained by CBSL amounted to 59 as at end 2015. Accordingly, DOD handled 20,976 transactions worth of Rs. 16,495.46 billion, during the year, on behalf of the Government. More than 90 per cent of such transactions belonged to the Deputy Secretary to the Treasury (DST) Account, Public Debt Department's Current Account, Inland Revenue Commissioner's VAT Refund Account and the President Fund Account. During the year, one account was closed at the request of the government.

In terms of Section 89 of the MLA, the CBSL provided provisional advances to the government, free of charge, with the ceiling being 10 per cent of the estimated government revenue in a given fiscal year. At the beginning of 2015, the ceiling of the provisional advance was increased by Rs.13.1 billion to Rs.159.4 billion based on the higher government revenue estimated for the year 2015. However, with the revised budget which was approved by the parliament in February 2015, the provisional advance was revised downward to 153.2 billion. As at end 2015, the provisional advance stood at Rs. 151.1 billion compared to Rs. 143.9 billion as at end 2014. Similarly, the ceiling of the provisional advance to the government increased to Rs. 185.1 billion in 2016 with the issuance of additional advance of Rs. 31.9 billion at the beginning of 2016 based on estimated government revenue for the year 2016.

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

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



The total value and average daily value of ILF drawn during the year amounted to Rs. 5,594 billion and Rs. 23.3 billion,

respectively. This shows an increase in ILF utilisation over that of the previous year which amounted to a total of Rs. 5,144 billion with an average of Rs. 21.3 billion, respectively.

### 7.6 Supervision of Money Brokers

Money brokers perform an intermediary role in money, foreign exchange and government securities markets. They play a significant role in the price discovery process in the market and hence are a vital source of information for market analysis and policy actions. The Money Broking Regulations No. 1 of 2013 was issued under Section 10 (c) of the MLA No. 58 of 1949 and came into effect from 15 February 2013 with the intention of increasing the coverage of monitoring activities on different types of financial institutions operating in the economy. A total number of nine companies were issued with "Certificate of Authorisation" under this regulation in 2013 and designated as "Authorised Money Brokers". The number of authorised money brokers remained unchanged during 2015. DOD conducted 6 on-site supervisions for 6 money broking companies during the year and 4 meetings were held with Boards of Directors of these companies.

#### List of Money Brokers

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

## 8. ECONOMIC RESEARCH

Economic Research Department (ERD) was established in 1950 at the time of the establishment of the Central Bank of Sri Lanka (CBSL), as per Section 25 of the Monetary Law Act (MLA) of 1949. ERD was entrusted with functions of preparing economic and social statistics and conducting economic research for the guidance of the Monetary Board and the Governor to formulate, implement, and execute policies and measures, as well as disseminating information to the public, on the subject of money and banking and other economic subjects of general interest. ERD performed its main responsibilities of maintaining economic and price stability to facilitate high and sustainable economic growth and maintaining external sector stability to improve the country's resilience to external shocks. Further, in discharging the role of the CBSL as the economic advisor to the government,

ERD continued to provide recommendations and policy advice to the government on emerging economic issues and fiscal policy measures required for maintaining macroeconomic stability while analysing the impact of fiscal policy measures already adopted. In addition, ERD published its statutory and other publications on a timely and regular basis. In fulfilling the effective communications requirement, ERD continued to disseminate information to all stakeholders as well as the general public through regular press releases and by updating the CBSL website. ERD continued to conduct comprehensive research during 2015 on topical domestic, regional and global issues.

### **8.1 Maintaining Price Stability to Ensure a High and Sustainable Economic Growth**

With the view of maintaining economic and price stability, at the beginning of the year, ERD announced the desired path for inflation and monetary expansion consistent with expected macroeconomic developments, and thereafter closely monitored the trends and developments throughout the year to ascertain deviations that would require any policy intervention. ERD discharged its duties by compiling macroeconomic statistics and providing comprehensive analyses to the Monetary Policy Committee (MPC), which evaluated emerging monetary and macroeconomic conditions and made recommendations on the future direction of the monetary policy stance for the consideration of the Monetary Board. ERD continued to project headline and core inflation while estimating output gap measures. The Monetary Board was also continuously updated with assessments of risks arising from developments in real, external, fiscal and monetary sectors and the possible impact of these developments on inflation and economic growth. Meanwhile, ERD coordinated the technical assistance mission from the International Monetary Fund (IMF) that visited the CBSL to assist with building a dynamic stochastic general equilibrium (DSGE) model for Sri Lanka, which would strengthen policy making in future. The mission worked on modelling and forecasting with a task group composed of staff members of ERD and other departments using computer-based exercises and a series of discussions on modelling topics. The mission discussed the individual modelling elements and a strategy for building necessary capacities and skills with the management. The second visit of the technical assistance mission took place in February 2016. Further, two internal committees were formed to prepare a financial programme for Sri Lanka and to conduct a debt sustainability analysis. Preliminary work relating to these analyses has been completed during the year. Further, ERD continued to compile average weighted interest rates for new loans and deposits that were introduced in May 2014. A preliminary Agriculture Cost of Production

Index was also compiled and presented to the staff at a Departmental Seminar. At the same time, background work relating to the compilation of the Factory Industry Production Index (FIPI) based on the chain weighted methodology was also completed during the year.

The Monetary Board decisions on the monetary policy stance were disseminated to the market through press releases. These press releases were helpful in effectively communicating the policy rationale to manage inflation expectations and to build up public confidence while maintaining policy credibility. Policy recommendations of ERD and timely implementation of such policies helped to sustain inflation at a single digit level for a continued period of seven years, which helped maintaining relatively low interest rates to channel credit flows to the private sector as an impetus to achieving higher economic growth.

### **8.2 Maintaining External Sector Stability**

In order to support the maintenance of external sector stability of the country, ERD continued to monitor and assess external sector developments. Monthly developments on the Balance of Payments (BOP) and external sector statistics and analyses were provided to the MPC and the Monetary Board to facilitate appropriate policy decisions making. Evaluations of monetary implications on 23 foreign loans obtained by the government and observations on 5 unsolicited loan proposals submitted by the line Ministries as per the requirement of the Standing Cabinet Appointment Review Committee (SCARC) were completed during the year. A concept paper was drafted to identify the threshold level of external reserves while a booklet covering changes and improvements in the compilation of External Sector Statistics was prepared, and is expected to be published in 2016.

ERD further improved the compilation and dissemination of External Sector Statistics during 2015. ERD continued the publication of BOP statistics and the International Investment Position (IIP) statistics in the BPM6 (IMF BOP Manual 6) format on a quarterly basis, the submission of Quarterly External Debt Statistics (QEDS) to the World Bank, participation in the Coordinated Direct Investment Survey (CDIS) on an annual basis and the publication of the International Reserve Data Template (RDT) on a monthly basis, which were introduced in 2013 and 2014. With these new developments, Sri Lanka fulfilled all external sector statistical requirements to subscribe to the Special Data Dissemination Standard (SDDS) of the IMF. ERD continued to conduct several surveys, including the Annual International Investment Survey (AIIS), to gather information on assets and liabilities of about 1,200 private companies, monthly surveys on inward and outward remittances of foreign exchange, quarterly survey on external debt and surveys on the services sector. ERD coordinated the implementation of the Tourism Satellite

Account (TSA) system for Sri Lanka and discussions were held during the year with officials of the Sri Lanka Tourism Development Authority (SLTDA) and the Department of Census and Statistics (DCS).

### 8.3 Providing Proactive Policy Advice

In providing proactive policy advice, ERD submitted several policy papers to the management highlighting areas to be addressed in formulating fiscal policy. As in the previous years, the September 15<sup>th</sup> report was submitted to the Hon. Minister of Finance in terms of the Section 116 (1) of the MLA, including a detailed confidential analysis on the economy and policy proposals that may be used by the Hon. Minister of Finance in the process of preparing the forthcoming budget. In addition, various reports highlighting the areas, which require proactive policy measures in order to improve the fiscal position of the country in the medium term were also submitted. Further, ERD submitted 4 reports to the Hon. Minister of Finance as required under Sections 64 (2) and (3) of the MLA, highlighting the possible risks on economic development and domestic monetary and price stability. ERD provided observations on various matters raised by the government during the year. Senior officials of the Department served on various committees and boards in the Bank as well as in outside institutions during the year. Representations at external committees included National Data Committee, Committee on National Information for Evidence Based Decision Making (CNI), Study Group on Middle Class Housing and Infrastructure Development, Subcommittee of Techno-economic Analysis on Extension of Validity Period of Retired Independent Power Producers, Committee on Developing a Guideline to Operate an Open Platform Electronic Fare Collection System, Review Committee on the Proposed Free Trade Agreement between Sri Lanka and the USA, Committee on Developing the Tourism Satellite Account, and Government Finance Statistics (GFS) Coordinating Committee. Furthermore, two officers served as board members of the Hector Kobbekaduwa Agrarian Research and Training Institute (HARTI) and the Sri Lanka Sustainable Energy Authority. In addition to coordinating the meetings of MPC, the Department provided inputs and participated in the deliberations of various internal committees within the CBSL, such as the Market Operations Committee (MOC), the Domestic Debt Management Committee (DDMC), Financial Sector Stability Committee (FSSC) and Foreign Reserve Management Committee (FRMC).

### 8.4 Making Statutory and Other Publications Available On Time

Preparation of statutory and other reports of the CBSL is a primary responsibility of ERD. As in the previous years, ERD prepared the Annual Report of the Central Bank for the year 2014 in all three languages with the support of other departments and submitted it to the Hon. Minister of Finance within the stipulated time period. In addition, ERD

also published the mid-year review of the economy, "Recent Economic Developments: Highlights of 2015 and Prospects for 2016", in November 2015.

One of the key responsibilities of ERD is to disseminate important economic data and information on different dimensions of the economy for the benefit of the general public. Fulfilling this requirement, 12 press releases on monetary sector performance and 11 press releases on external sector performance were released to communicate the latest developments in the economy and to improve transparency of monetary policy operations. Further, ERD published the Monthly Statistical Bulletin as well as other economic and financial indicators on daily, weekly, monthly, quarterly and annual bases on the Central Bank website and continued to publish a macroeconomic chart pack consisting of useful economic and financial data and information in three languages during the year to further strengthen the information dissemination process. Meanwhile, the policy statement of the Central Bank, "Road Map 2015: Monetary and Financial Sector Policies for 2015 and Beyond" was announced to the public on 02 January 2015.

### 8.5 Engaging in Policy Research and Enhance Public Awareness on Topical Issues

ERD continued to prepare comprehensive economic and monetary analyses on a regular basis to facilitate proactive decision making on monetary policy by the MPC and the Monetary Board. The MPC was continually updated on the state of the economy by providing analyses of global economic developments and its impact on the domestic economy, developments in inflation, including demand and supply side analyses of inflation, developments and issues in key macroeconomic sectors and developments in capital and financial markets to facilitate monetary policy recommendations to the Monetary Board.

The Research Advisory Panel (RAP), which was set up to facilitate research and knowledge sharing activities within ERD, continued its activities in 2015 as well. A research methodology workshop was completed successfully by the RAP in order to enhance the research skills of ERD officers. Officers of ERD who attended the workshop were allocated supervisors within the department to guide and facilitate the writing of research papers. The completed research papers are expected to be discussed at ERD seminars during 2016 and to publish appropriately. The Macroeconomic Modelling Unit (MMU) of ERD that was established in 2012 provided technical software and a conducive research environment for ERD staff to carry out research activities. ERD published Volume 44 of Staff Studies, the research journal of the Central Bank, which included two research papers of ERD officers. Further, an educational booklet on "Monetary Policy in Sri Lanka" has been drafted and is expected to be published in 2016. Meanwhile, a research paper was presented by an ERD officer at an international research conference held in Turkey. Two officers attended research



workshops organised by the South East Asian Central Banks (SEACEN) Centre on “Living with Volatilities” and “Monetary Transmission Mechanism in SEACEN Economies” and completed research papers as per the requirement of workshops. During the year, 16 Departmental Seminars were conducted with the view of enhancing and exchanging knowledge on emerging issues. Further, ERD organised the “Monthly Economic Forum” in collaboration with the Human Resources Department and the Training and Development Department by inviting professionals from various disciplines to share their knowledge and experience with the officials of the Central Bank.

ERD continued to share the expertise of its staff to improve knowledge on economics, both within and outside the Central Bank. Officials of ERD served as resource persons at the Centre for Banking Studies (CBS), educational institutions such as universities, schools and various other government and private sector institutions. In addition, ERD officers made presentations on central banking and macroeconomic developments to both local and foreign delegations who visited the Bank. Further, senior officers of ERD continued to assist postgraduate aspirants of the Central Bank to prepare research proposals and research papers. Accordingly, 17 research papers and 29 research proposals were evaluated during 2015. Meanwhile, several staff members of ERD rendered their services as resource persons at the “Thakshilawa” TV educational programme for the benefit of Advanced Level students and for the first time, a similar programme was conducted in the Tamil medium under the name of “Arivootru” with the participation of ERD officials. Further, ERD assisted in conducting the “Interbank Quiz Competition” programme of the Institute of Bankers of Sri Lanka.

For the eighth consecutive year in 2015, ERD successfully organised the International Research Conference (IRC) aiming to stimulate research on current themes, while providing a forum for researchers to present recent theoretical and empirical work on issues relating to central banking. The Conference was held under the broad theme of “Global Economic Challenges and Implications for Macroeconomic Policy Making in Emerging Market Economies”. Indicating its growing popularity as an international conference in the region, which brings together distinguished members of academia, central banks, government institutions, policy institutions and research institutions, IRC 2015 attracted over 100 research proposals. After a careful and thorough review process, eight research papers on monetary policy and macroeconomic issues as well as on financial sector issues were presented at the conference by researchers from various institutions, representing France, Portugal, the Netherlands, and India, as well as three researchers from ERD. This year’s conference also featured the D S Wijesinghe Memorial Award presented to the best research paper at the conference. At the same time, ERD published the conference proceedings of the IRC held in 2014.

## 8.6 Strengthening the Engagement with International Organisations

ERD continued to maintain relationships with international multilateral financial organisations such as the IMF, the SEACEN Centre, the SEANZA group and the SAARC on behalf of the Central Bank and the government. Further, ERD assisted the Ministry of Finance to coordinate their work with the World Bank (WB), Asian Development Bank (ADB) and other agencies. Officers in ERD engaged in coordinating with other coordinators from regional central banks in SAARCFINANCE activities, such as SAARCFINANCE Group Meeting, SAARCFINANCE Governors’ Symposium, SAARCFINANCE Coordinators’ Meeting and Inter-Governmental Expert Group (IGEG) Meeting. Further, ERD coordinated a number of familiarisation and training programmes for the SAARCFINANCE Staff Exchange programmes while providing data, information, and write-ups for the SAARCFINANCE database, half yearly e-newsletters and other SAARCFINANCE reports. ERD facilitated visits from representatives of international agencies, including IMF Article IV Consultation missions and IMF fourth Post Programme Monitoring mission, SDDS mission, GFS mission, Monetary Statistics mission, and the mission from IMF South Asian Regional Training and Technical Assistance Centre (SARTRAC). ERD staff regularly represented the Central Bank at international meetings, forums and conferences engaging in policy dialogue. Meanwhile, an international workshop on “External Statistics Improvement in Trade in Services” was organised by ERD and technical assistance was obtained to improve the external sector statistics.

ERD continued to provide economic updates and macroeconomic statistics to international organisations, such as IMF and WB, as well as international investors, international sovereign rating agencies and advisors, ambassadors and other relevant stakeholders on a regular basis. Meanwhile, ERD facilitated to subscribe Sri Lanka to SDDS commencing November 2015 from General Data Dissemination Standard (GDDS), after carrying out a successful trial run under the close monitoring of the IMF. Sri Lanka will benefit from adopting the SDDS mainly through consistency in data compilation, improved data quality and transparency. ERD worked closely with three international sovereign rating agencies, namely, Fitch Ratings, Standard and Poor (S&P) Ratings and Moody’s Ratings services. Further, ERD undertook to address all policy related inquiries and extended all documentary support and prepared presentations with economic updates for the issuance of the seventh and eighth international sovereign bond issues, which were successfully completed in May and October 2015.

## 9. EMPLOYEES' PROVIDENT FUND

The Employees' Provident Fund (EPF/the Fund), the largest superannuation fund in Sri Lanka, was established under the Employees' Provident Fund Act No.15 of 1958 to provide retirement benefits for the semi government and private sector employees. In terms of the provisions of the Act, all the administrative powers and functions of the Fund are vested with the Commissioner General of Labour while all the powers, duties and responsibilities of the fund management, are vested with the Monetary Board of the Central Bank of Sri Lanka as the custodian of the Fund. The Monetary Board has empowered the Employees' Provident Fund Department of CBSL to act as the operational arm in performing its functions.

### 9.1 Functions of the Department

The EPF Department is entrusted with responsibilities of collection of member contributions and surcharges, maintenance of general accounts and member accounts, crediting interest to member accounts, payment of benefits to beneficiaries of the Fund, investment of surplus funds and charging the expenditure incurred by the Monetary Board and Commissioner General of Labour in the performance of their duties and functions. In 2015, the EPF Department was engaged in the above activities as per the policies and directions approved by the Monetary Board and in close collaboration with the Commissioner General of Labour.

### 9.2 Performance of the Activities

#### (a) Membership, Member Balances and Refunds

Total number of member accounts was estimated to be around 16.0 million by end 2015, which was an increase of 1.3 per cent compared to that of 15.8 million recorded at end 2014 (Table II-7).

The total value of the Fund increased by 12.0 per cent to Rs. 1,664.9 billion as at end 2015 compared to Rs.1,486.9 billion as at end 2014, both due to the income generated from investments and net contributions (after deducting refunds from contributions) received. Total liability to the members including member interest stood at Rs. 1,625.5 billion as at end 2015 recording a 12.5 per cent increase from Rs.1,445.5 billion as at end 2014 (Table II-7). The net contribution decreased to Rs. 24.7 billion compared to Rs. 24.9 billion recorded in the previous year, while the total refunds made to the members and their legal heirs in 2015 amounted to Rs. 77.8 billion, which was an increase of 19.5 per cent over 2014 mainly due to refunds under the facility to withdraw 30 per cent against member balances for housing and medical requirements. The net income of the Fund increased to Rs. 156.9 billion in 2015 compared to Rs.

150.7 billion during the previous year, registering a growth of 4.1 per cent.

**Table II - 7 Selected Key Information of the Fund**

Item	2014	2015(a)	Change (%)
Total number of member accounts (mn)	15.8	16.0	1.3
Contributing member accounts (mn)	2.4	2.4	-
Non-contributing member accounts (mn)	13.4	13.6	1.5
Contributing employers	69,683	72,917	4.6
Total contributions (Rs.bn)	90.0	102.5	13.9
Total refunds (Rs. bn)	65.1	77.8	19.5
Number of refunds	127,951	127,107	(0.7)
Net income (Rs.bn)	150.7	156.9	4.1
Total liability to members (Rs.bn)	1,445.5	1,625.5	12.5
Total value of the Fund (Rs.bn)	1,486.9	1,664.9	12.0

(a) Provisional

Source: EPF Department, Central Bank of Sri Lanka

#### (b) Investment of the Fund and Return

##### (i) Investment Portfolio:

The total investment portfolio (book value) of the Fund grew by 11.6 per cent from Rs. 1,437.7 billion in 2014 to Rs. 1,604.2 billion in 2015 (Table II-8). The investment policy of the Fund continued to focus on providing a long-term positive real rate of return to the members while ensuring the safety of the Fund and maintaining a sufficient level of liquidity to meet refund payments and other expenses of the Fund.

The investment portfolio consisted of 92.7 per cent in government securities, 5.5 per cent in equity and 1.6 per cent in corporate debentures, commercial papers and trust certificates. The remaining 0.2 per cent was in high liquid assets such as Reverse Repurchase Agreements on government securities to meet day to day liquidity requirements. The maturity profile of the government securities portfolio together with yield rates is given in the Table II-9.

**Table II - 8 Investment Portfolio**

Type of Investment	2014		2015(a)	
	Amount (Rs.bn)	Share (%)	Amount (Rs.bn)	Share (%)
Treasury Bonds & Bills	1,287.5	89.6	1,487.0	92.7
Rupees Loans to Government	23.1	1.6	-	-
Equity	96.6	6.7	87.6	5.5
Corporate Debts	22.4	1.5	25.5	1.6
Reverse Repos	8.1	0.6	4.1	0.2
<b>Total</b>	<b>1,437.7</b>	<b>100.0</b>	<b>1,604.2</b>	<b>100.0</b>

(a) Provisional

Source: EPF Department, Central Bank of Sri Lanka



**Table II - 9** Maturity Profile of Government Securities Portfolio (As at end of 2015)

Maturity	Maturity Value (Rs.bn)(a)	Share (%)	Weighted Average Yield (%)
Less than 1 year	49.77	3.08	9.60
1-2 years	181.07	11.22	10.78
3-4 years	168.41	10.43	10.01
More than 5 years	1,215.01	75.27	11.13
<b>Total</b>	<b>1,614.26</b>	<b>100.0</b>	<b>10.93</b>

(a) Provisional

Source: EPF Department, Central Bank of Sri Lanka

**(ii) Investment Income:**

The Fund earned a total investment income of Rs. 171.5 billion in 2015, recording an increase of 5.1 per cent compared to that of the previous year (Table II-10). Interest income was the major source of income (83.4 per cent of the income) to the Fund. Interest income grew by 12.2 per cent from Rs.127.5 billion in 2014 to Rs.143.1 billion in 2015. Further, income generated from the equity portfolio which included both capital gains and dividends decreased by 27.4 per cent to Rs. 4,065 million in 2015, compared to Rs. 5,598 million earned in 2014. However amortization gains from discounted Treasury Bonds increased by 2.7 percent to Rs. 26.6 billion in 2015 from Rs. 25.9 billion in 2014 (Table II-10).

**Table II - 10** Income on Investments

Source of Income	2014		2015(a)	
	Amount (Rs.mn)	Share (%)	Amount (Rs.mn)	Share (%)
Interest	127,499	78.1	143,055	83.4
Amortisation gains	25,897	15.9	26,591	15.5
Capital gains from Government securities	4,082	2.5	1,171	0.7
Marked to market gain/loss	89	0.1	(394)	(0.2)
Capital gains from equity	2,277	1.4	553	0.3
Dividends	3,321	2.0	3,512	2.0
Impairment of Assets	-	-	(2,956)	(1.7)
<b>Total</b>	<b>163,165</b>	<b>100.0</b>	<b>171,532</b>	<b>100.0</b>

(a) Provisional

Source: EPF Department, Central Bank of Sri Lanka

**(iii) Expenditure:**

The total operational expenditure of the Fund increased by 14.2 per cent to Rs. 1,191 million in 2015 compared to Rs.1,043 million in 2014, and as a ratio of total gross income, it increased marginally to 0.69 per cent in 2015, compared to 0.64 per cent in 2014 (Table II-11). Over the years, the Fund has maintained its operational expenditure below 1 per cent of the total gross income.

**Table II-11** Operational Expenditure

Item	Amount (Rs.mn)		Change (%)
	2014	2015(a)	
Personnel expenses	579	749	29.4
Administrative expenses	421	397	(5.7)
Other expenses	43	45	4.7
<b>Total</b>	<b>1,043</b>	<b>1,191</b>	<b>14.2</b>
<b>Total Expenses as a % of Gross Revenue</b>	<b>0.64</b>	<b>0.69</b>	

(a) Provisional

Source: EPF Department, Central Bank of Sri Lanka

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

A sum of Rs. 154.4 billion was available for distribution as interest to the members of the Fund as at end 2015, compared to Rs.141.6 billion in 2014 (Table II-12).

**Table II-12** Payment of Interest to Members

Item	Amount (Rs.mn)		Change (%)
	2014	2015(a)	
Gross revenue	163,873	171,855	4.9
Total operating expenses	(1,043)	(1,191)	14.2
Income tax	(12,169)	(13,727)	12.8
Net income for the year	150,662	156,937	4.2
Prior year adjustment	-	-	-
Prior year retained profit	141	311	120.6
Interest paid on current year refunds	(3,201)	(2,833)	(11.5)
Provision for Dividend	(6,000)	-	(100.0)
Net income available for distribution (after payment of interest on current year refunds)	141,602	154,416	9.0
Transfers from /(to) reserves	(4,000)	-	(100.0)
Net income available for distribution after transferring from / (to) reserves	137,602	154,416	12.2
Interest paid on member balances	(137,291)	(154,200)	12.3
Retained profit	311	216	(30.5)
Interest rate paid on member balances %	<b>10.5</b>	<b>10.5</b>	

(a) Provisional

Source: EPF Department, Central Bank of Sri Lanka

**Table II - 13** Rate of Interest paid on Member Balances

Year	Interest Rate Paid (%)	Effective Interest Rate (%) <sup>1</sup>
2005	9.00	9.13
2006	10.10	10.30
2007	11.20	11.40
2008	13.20	13.44
2009	13.75	13.92
2010	12.50	12.65
2011	11.50	11.58
2012	11.50	11.62
2013	11.00	11.14
2014	10.50	10.60
2015(a)	10.50	10.57

(a) Provisional

Source: EPF Department, Central Bank of Sri Lanka

<sup>1</sup> EIR = (Interest paid to member) / [(Beginning of the year member balances + year end member balances before crediting interest)/2]

### 9.3 Member Services

#### (a) Member Account Statements

Issuing of account statements to the members through their employers for the first half of 2015 commenced from January 2016. Arrangements will also be made to issue account statements for the second half of 2015 by end July 2016. Further the printing and posting of semi-annual member account statements was outsourced with relevant controls to enhance the efficiency of the work.

#### (b) Housing Loan Facility

The Housing Loan facility, introduced in 1988 with the objective of facilitating the members to obtain housing loans from participating lending institutions, viz., Housing Development and Finance Corporation Bank, State Mortgage and Investment Bank, Bank of Ceylon, People's Bank and Co-operative Rural Banks continued in 2015 providing an essential service to the EPF members.

Under this scheme, EPF issued 13,132 guarantee certificates to members against their EPF balances to participating lending institutions for the approval of housing loans amounting to Rs. 5,489 million (Table II-14). Further, nearly Rs. 2,522 million was deducted from the relevant member accounts and was remitted to the participating lending institutions in 2015 to settle the loans in arrears during the year 2014.

Table II-14		Housing Loan Facility	
Year	Issued Certificates (No.)	Credit Approved (Rs. mn)	Amount Remitted to Lending Institutions (Rs. mn)
2005	14,600	2,766	900
2006	15,136	3,049	1,078
2007	12,969	2,872	1,240
2008	12,519	3,008	1,192
2009	10,383	2,680	1,552
2010	13,848	4,512	2,093
2011	20,041	6,355	1,896
2012	11,234	3,973	2,019
2013	16,268	6,914	2,178
2014	17,786	8,021	2,394
2015(a)	13,132	5,489	2,522
<b>Total</b>	<b>157,916</b>	<b>49,639</b>	<b>19,064</b>

(a) Provisional

Source: EPF Department, Central Bank of Sri Lanka

#### (c) EPF Mobile Service Programme

Improving awareness on EPF operations is one of the main goals of the Department as a means of facilitating the move towards an integrated model. Accordingly, several mobile services were organised during the year 2015 as a major mechanism for achieving the above goal.

In 2015, EPF Department conducted six mobile services in different areas including Jaffna, Killinochchi, Sandalankawa and Hatton.

These mobile services were conducted in collaboration with the Department of Labour and other government organisations such as the Department of Registration of Persons, Registrar General's Department, Police Department and respective District/Divisional Secretariats.

Mobile services offer almost all services generally available to the public in Colombo, to the members of the EPF at their own area or work place. Such services included:

- (i) Issuing of EPF Balance Statements
- (ii) Amendment of EPF member details and accounts
- (iii) Re-registration of member details
- (iv) Promoting online member service. i.e. SMS and internet inquiry facility
- (v) Issuing of National Identity Cards and related services by Department of Registration of Persons
- (vi) Issuing of Birth Certificates / Presumptive Age Certificates / Null Reports and related services by Registrar General's Department
- (vii) Providing advice on overall EPF procedures

In addition, awareness activities were conducted in parallel to the mobile services targeting members, employers and other stakeholders on the services offered by the EPF using a mix of communication media such as posters, leaflets, video clips and presentations.

Prior to each mobile service programme, a special awareness programme is conducted for relevant employers, managers and other administrative staff members of respective employers with a view to enhance the effectiveness of the mobile services.

#### (d) Pre-Retirement Refund Scheme

In terms of the provisions of the Employees' Provident Fund (Amendment) Act, No. 02 of 2012 and the subsequent procedures passed by the Parliament, payments under the 30 per cent EPF pre-retirement refund scheme commenced from July 2015.

As per the EPF (Amendment) Act, every member who

- a) has made contributions to the Fund for a period of not less than ten years,
- b) is presently employed and
- c) possesses not less than three hundred thousand rupees to his credit in his individual account, is eligible to obtain the above benefit for the purpose of a Housing Loan or Medical Treatment.

As at the end of 2015, Rs. 8.5 billion have been paid to over 10,000 eligible members under this scheme.

#### (e) Image Scanning Project

The Image Scanning Project (ISP) was implemented with a view to improving efficiency of services provided by the EPF

Department by establishing a near-paperless operating system.

Four main phases of the project are,

- (i) Conversion of existing documents into electronic form,
- (ii) Real time scanning of documents,
- (iii) Establishment of the E-Records Room and
- (iv) Linking of the Document Management System with the existing EPF computer systems.

Phase I of the Image Scanning project was successfully completed during 2015 enhancing the operational efficiency of EPF Department considerably. All the Master File records, Form D and Re-registration Documents have been scanned, indexed and uploaded to a Digital Document Management System, where document retrieval, file updating, notifications and all other related functions have been made available for nearly 300 EPF officials simultaneously at their own desktop.

The traditional model of the record room of EPF has been converted into an e-Record in the Phase I of the project. Most of the manual processes have been automated minimising the involvement of staff members. This transformation has resulted in a considerable saving of time, space and the human resources.

Considering the operational efficiency that has been achieved by implementing the phase I of the project and the opportunities made available to the Department in embracing more advanced technologies based on the process automation platform laid by the project, EPF has already initiated the Phase II of the Image Scanning Project with a view of digitizing the other frequently retrieved hard records. The image scanning project has been outsourced to a private vendor adhering to the stipulated tender procedures and will be implemented by early 2016.

#### **(f) Establishment of Fully Fledged EPF Units at Regional Level**

Seven regional fully fledged EPF units have been established in Matara, Matale, Anurahapura, Trincomalee, Jaffna, Kilinochchi and Nuwara Eliya to make available all EPF related services at the regional level. Introduction of this kind of regional operations became feasible with the introduction of the automated Document Management System.

The EPF Department has experienced a considerable demand for services at the regional level and expects that the service availability at the regional level would be an added advantage to members in the remote areas. The Department has already planned further expansion of its functions into other areas of the country. The establishment of an EPF Unit in Nuwara Eliya in January 2016 was a result of this planned expansion.

#### **(g) Creating Faster and Convenient Service to Members**

During the year, EPF Department introduced a SMS Alert facility dedicated for EPF members to create interactivity

between the Department and members on the status and issues related to EPF refund applications. The facility was successfully launched in 2015.

The members who wish to obtain the service must submit their mobile phone numbers to the Department of Labour with the refund application and can receive notifications and relevant instructions when the application is passed through to different stages within the refund payment process of the EPF Department.

This scheme was designed to increase the efficiency of the refund process resulting in reduced processing time, daily member visits and inquiries on related issues leading to reduction in costs to all stakeholders through detecting and resolving discrepancies early.

In order to ease submission of contributions from small and medium employers, the collection of contribution and "C" forms are facilitated through branches of the People's Bank. A pilot scheme was successfully launched during the year to collect contributions and "C" forms through the branch network of People's Bank in the Western Province.

#### **(h) e-Return System for EPF Payments**

EPF Department has taken several measures to encourage employers to submit member contribution details electronically (e>Returns) to replace the manual payment system (C and C3 returns). Submission of e>Returns, a total paperless solution, minimises the cost and delays and enhances the efficiency of the operation facilitating a better service to the members. The Availability of an online system to make EPF contributions together with details of contributions is also one of the requirements to achieve the target set under the Ease of Doing Business Index, which is crucial for attracting foreign investments to the country.

Since 2013, filing e>Returns is mandatory for all employers with 50 or more employees. However this was not pursued strictly until 2015. Filing e>Returns was made mandatory for employers with 50 or more employees with effect from August 2015. EPF Department has obtained services from major licensed commercial banks by appointing them as collecting agents under the e-collection system which is a value added service to the customers.

#### **(i) Re-registration of EPF Members**

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

By end 2015, NIC details of approximately 1.7 million active EPF members (contributing members) had been collected. Of these, 79 per cent of the member accounts (1.3 million

accounts) were assigned UIDs, while the details of the remaining members are being processed after verification from their employers as discrepancies between collected data and the existing data were observed.

Registering of new EPF members under NIC details on real time basis was commenced in November 2010. Accordingly, a monthly monitoring system has been put in place to capture NIC details of all new members to whom member contributions are received by EPF for the first time in each month. Accordingly 152,532 members were registered and information related to 167,747 members were updated to the New Member Registry (NMR) during the year.

## 10. EXCHANGE CONTROL

In terms of Section 2(2) of the Exchange Control Act, No. 24 of 1953 (ECA), the Department of Exchange Control (ECD) has been established for the purpose of carrying out the provisions of the ECA. Accordingly, ECD exercises and performs the powers, duties and functions vested and authorised under the provisions of ECA, through the issuance of Directions to Authorised Dealers (ADs), issuance of Gazette Notifications, granting of approvals for specific foreign exchange transactions, surveillance on various foreign exchange transactions and investigations into violations of the provisions of the ECA. A summary of the main activities performed by ECD during 2015 is given below.

### 10.1 Issuance of Gazette Notifications

During the year 2015, several policy decisions were taken with a view to further relaxing foreign exchange transactions. Accordingly, new directions on Non Resident Foreign Currency Accounts (NRFC), Resident Foreign Currency Accounts (RFC), Resident Non Nationals' Foreign Currency Accounts (RNNFC) and Foreign Exchange Earners' Accounts (FEEA) were issued in the early 2016, allowing such account holders to freely remit funds in such accounts outside Sri Lanka.

To facilitate such relaxations, three new Gazette Notifications were issued during 2015, as summarised below. The Gazette Notifications appear in the Part III of this Report.

- a) Permission for persons resident in Sri Lanka who hold NRFC, RFC, RNNFC and FEEA to: (Gazette No. 1947/13 dated 29 December 2015).
  - acquire, hold and transfer securities issued outside Sri Lanka by utilising balances lying in such accounts;
  - acquire, hold and transfer shares issued by way of capitalisation of reserves or current year profits as a benefit on the shares, or by way of a sub division or split of the shares which have been acquired initially in terms of the above provisions.
- b) Permission for persons resident in Sri Lanka who maintain NRFC, RFC, RNNFC and FEEA accounts to make payments out of balances in such accounts to persons

resident outside Sri Lanka to: (Gazette No. 1947/14 dated 29 December 2015).

- acquire securities as permitted in the Gazette referred to in (a) above;
  - acquire any other asset of capital nature or for current account transactions.
- c) Grant exemption for persons resident in Sri Lanka from the application of the requirements under Section 6AB of the ECA in respect of the following: (Gazette No. 1947/15 dated 29 December 2015).
    - Securities acquired, held and transferred in terms of the permissions granted in the Gazette referred to in (a) above.
    - Any other asset of capital nature acquired under the permission granted in the Gazette Notification referred to in (b) above.

### 10.2 Issue of Approvals/Permits

- a) **Approvals** : Granted approvals for eleven companies to invest US dollars 65.66 million abroad and three companies to borrow a sum of US dollars 280 million from abroad.

- b) **Permits**

Three new money changing permits were issued to limited liability companies in 2015. Accordingly, as at 31 December 2015, the total number of authorised money changers stood at 78 which comprised 6 licensed finance companies, 2 licensed specialised banks, a supermarket, a tourist hotel and 68 other limited liability companies.

Further, the total number of money changers permitted to sell foreign currencies was 14 including 6 licensed finance companies, 2 licensed specialised banks, a supermarket and 5 limited liability companies as at the end of 2015.

### 10.3 Transfer of Migrants' Funds

During the year 2015, permission was granted to ADs to open 335 Migrant Blocked Accounts in order to release the migration allowance to Sri Lankans who have obtained the Permanent Residency (PR) in another country after 12 June 2013. Further, 464 Sri Lankan migrants who have obtained the Permanent Residency in another country before 12 June 2013 were given permission to remit funds outside Sri Lanka through Non Resident Blocked Accounts.

### 10.4 Surveillance/Investigations

203 investigations were conducted during 2015 on non-compliance with exchange control regulations and Rs. 26.36 million collected as penalties on such violations were transferred to the Consolidated Fund. Most investigations covered unauthorised payments by residents to non-residents, violations of conditions given in permits by permitted entities and issue and transfer of securities contravening the procedure set out in the general permissions.

## 10.5 Public Awareness

Eight exchange control awareness programmes were conducted in collaboration with the Centre for Banking Studies of the Central Bank of Sri Lanka (CBSL) targeting banks, general public, officers in Foreign Service and other interested parties. Further, seven awareness programmes were conducted at the Regional Offices of CBSL with the aim of educating those who are in the remote areas with the basics on foreign exchange control and enhancing exchange control literacy and knowledge on recent relaxations of capital account transactions among various stakeholders including banks, corporates and investors. Further, the official website of the ECD which was launched on the 01st January 2014 was duly updated to increase public awareness on Exchange Control regulations.

## 11. FACILITIES MANAGEMENT

In 2015, Facilities Management Department (FMD) continued the development and maintenance works of the buildings of the Central Bank with the objective of creating a pleasant environment to improve work efficiency and to enhance the image of the Bank. Measures have also been taken to improve running efficiencies of the vehicle fleet of the Bank in order to ensure safety of the Bank staff and vehicles and cost efficiency.

In 2015, FMD maintained a high degree of operational reliability of all critical services such as electricity, air conditioning, water supply, transport and insurance. The Department was able to achieve nearly 100 per cent reliability in providing these services thereby contributing to achieve uninterrupted business continuity of the Bank.

The evaluation and management of projects by a professional team of the officers led to achieve cost efficiency of projects while outsourcing of projects to reputed contactors and close monitoring were helpful to achieve time targets and required quality standards.

During the year FMD completed the construction work of the building complex in Kilinochchi to house Central Bank's Northern Regional Office. The FMD also undertook the task of renovation of an old building obtained from the Government to establish a Regional Office at Nuwara Eliya by end of 2015, which was opened for the public in January 2016. The refurbishment work of the "Whiteaways Building" was completed in 2015 restoring its historical glory and heritage value. The Bank completed a project for upgrading and beautification of the Atrium to provide a better experience for the audience. In addition, FMD also completed a number of projects in the year 2015, such as evaluation of structural soundness for the safety and proper functioning of the CBSL Head Office building, further improvements to the multi storied car park and optimising of the energy usage in CBSL premises.

Other construction works undertaken by FMD in 2015 included the construction work of a new building complex at the Centre for Banking Studies premises in Rajagiriya to be used as Disaster Recovery site to ensure the continuity of business operations of CBSL in an unlikely event of disaster. Construction of nine additional units for the Holiday Home at Katharagama and constructing of a new Gymnasium at the 10th floor of the CBSL car park, and Holiday Home in Anuradhapura are in progress. The above mentioned projects are scheduled to be completed in 2016.

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

## 12. FINANCE

Finance Department (FD) undertakes the financial reporting function of the Central Bank of Sri Lanka. Functions of FD include preparation of the financial statements of the Central Bank in terms of relevant provisions of the Monetary Law Act (MLA) and International Accounting Standards (IAS) /International Financial Reporting Standards (IFRS), preparation and monitoring of the annual budget of the Central Bank, maintaining a payment system for internal and external financial transactions of the Central Bank, maintaining systems for internal reporting of financial transactions, management of 13 internal funds, maintaining Fixed Assets Register for the Central Bank and maintaining the data base of staff loans.

### 12.1 Preparation of the Financial Statements

- i. **Monthly Balance Sheet** : As per the requirement of the MLA, the monthly Balance Sheets for December 2014 and January to November 2015 were prepared and published in the Government Gazette during the year 2015.
- ii. **Quarterly Reports** : Quarterly financial performance, positions and macro economic impact of the financial operations were reported to the Monetary Board in the year 2015.
- iii. **Annual Financial Statements** : IAS and IFRS have been adopted for this purpose since 2002. These statements are published in the Annual Report of the Central Bank. FD updated accounting systems and procedures to comply with relevant accounting standards and requirements on a continuous basis during the year 2015. Audited Financial Statements of the Central Bank for the year 2015 signed by the Governor and the Chief Accountant are presented at the beginning of Part II of the Annual Report.

### 12.2 Preparation of the Annual Budget and the Activity Based Budget

The annual income and expenditure budget and capital budget of the Central Bank for the year 2016 were prepared



in line with action plans under the strategic plan of each department of the Central Bank. The activity-based and functional budget was also prepared along with the budget to show the activity-wise cost and function-wise cost of the Central Bank. This process started in August 2015 and finalised in December 2015. The approval of the Monetary Board was obtained in December 2015 and the budget was made available to the departments on the first day of 2016. Quarterly budgetary performance statements for the year 2015 were submitted to departments and the Monetary Board in the interest of effective monitoring of budgetary control.

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

- i. All internal payments for employee remunerations, staff loans, operational expenses, etc., were made in 2015 within the time targets.
- ii. All external payments to local and foreign suppliers were made as per the procedures laid down under the standing orders of the Central Bank. During the year 2015, the total payments were 4,599 which included 4,344 to local suppliers and 255 to foreign suppliers.
- iii. Nearly 2,915 disbursements to the General Treasury and relevant projects and 558 installments on repayment of foreign loans were made during the year 2015.

### 12.4 Management of Internal Funds

FD managed 13 internal funds which cover 6 superannuation funds of the staff and pensioners, 3 medical benefit funds and 4 special funds. Managing cash flows, investments of funds, making settlements and payments, keeping books of accounts and preparing annual financial statements are the major functions in this regard. The funds were invested mainly in Government Securities, bank deposits and high rated corporate debentures. The average rate of return on investments of all these funds was 7.31 percent for the year 2015. The audited financial statements of these funds for 2014 were submitted to the Monetary Board as per the rules of those funds.

**Table II - 15** Performance of Funds Management - 2015

Funds	Inflows	Out flows	Investments	Rs. mn	
				Investments Year-end	Average Yield (% p.a.)
Superannuation funds	21,137.60	3,681.54	17,450.12	41,562.90	7.31
Medical funds	58.97	4.52	54.05	1,428.99	7.95
Special funds	1,632.10	25.64	1,603.60	2,812.48	7.18
<b>Total</b>	<b>22,828.67</b>	<b>3,711.70</b>	<b>19,107.77</b>	<b>45,804.37</b>	<b>7.31</b>

### 12.5 Maintaining Fixed Assets Register

FD maintained all records of the fixed assets of the Central Bank in the Fixed Assets Register in the fixed asset module

of the General Ledger System. All changes such as new purchases and locations, change of locations, revaluations, depreciation and disposals were recorded in this register during the year 2015. The register was updated during the year 2015 with 1,192 items procured and 377 retirements.

### 12.6 Maintaining the Data Base of Staff Loans

FD continuously maintained the loan data base of the Central Bank staff with the assistance of the Information Technology Department to facilitate loan recovery record process and to supply information to employees and to the Management during the year 2015.

### 12.7 Other Operations

#### i. Procurement Process

According to the Rules of the Central Bank, the officers of FD are required to attend all Technical Evaluation Committees and Tender Boards for procurement of goods and services and the Board of Survey. Nearly 237 Tender Boards and all Technical Evaluation Committees related to those procurements were attended during the year 2015.

#### ii. Investment Oversight Committee

FD provided secretarial facilities in the Investment Oversight Committee. The Committee was established by the Monetary Board to advise and monitor the investments of several funds managed by several departments of the Central Bank. The Committee chaired by an Assistant Governor supervising the FD is represented by the Heads and other officers of respective fund management departments. The committee had 12 meetings during the year 2015 and reported quarterly to the Monetary Board for ratification of investments. At the end of 2015, the total value of the funds under management was Rs. 65.9 billion. As per new policy approved by the Monetary Board, the Investment Oversight Committee will be replaced by the Investment Committee to be chaired by the Deputy Governor in 2016. Under the new policy, a separate Investment unit will be established in FD to centrally manage investments of all internal funds excluding Employees Provident Fund.

## 13. FINANCIAL INTELLIGENCE UNIT

Financial Intelligence Unit (FIU) established in terms of the provision of the Financial Transactions Reporting Act, No. 6 of 2006 (FTRA) has been operating in the Central Bank of Sri Lanka since March 2007. The key functions of the FIU include collection and receipt of information on financial transactions for the purpose of detecting possible links to Money Laundering (ML), Terrorist Financing (TF) and other related unlawful activities defined in the FTRA, analysis of suspicious financial transactions relating to the above unlawful activities and dissemination of information and



details of such investigations to relevant law enforcement and/or regulatory authorities for appropriate actions. The highlights of key functions and other activities of the FIU during 2015 were as follows.

### 13.1 Conduct of Mutual Evaluation

In line with the revised recommendations of the Financial Action Task Force (FATF) the third round Mutual Evaluation (ME) on Sri Lanka was conducted during 2014/15 by the Asia Pacific Group on Money Laundering (APG) with the intention of assessing Sri Lanka's AML/CFT framework against the FATF standards on Anti Money Laundering (AML) and Countering the Financing of Terrorism (CFT). Sri Lanka had its first ME in 2006. In this second ME on Sri Lanka, AML/CFT legal and institutional framework as well as the effectiveness of the implementation of relevant actions were assessed by a panel of 8 experts from the APG member countries and the APG Secretariat. At the culmination of the ME process, the above mentioned panel of assessors made an on-site visit to Sri Lanka and had discussions with more than 50 institutions representing both public and private sectors. The ME was adopted at the APG plenary held in New Zealand in July 2015 and the APG has recommended series of actions to be implemented by Sri Lankan authorities under 'expedite enhanced follow up' process. Further, the FIU is required to report the progress made to rectify AML/CFT deficiencies identified in the ME, to the APG bi-annually.

### 13.2 Collection of Information, Investigations and Dissemination

Licensed Commercial Banks (LCBs), Licensed Specialised Banks (LSBs), Licensed Finance Companies (LFCs), Stock Brokers (SBs) and Insurance Companies (ICs) continued to report to the FIU on cash transactions and electronic funds transfers (both local and foreign) of Rs. 1.0 million and above or its equivalent in foreign currencies through the FIU's on-line database management system, "LankaFIN". The Authorised Money Changers (AMC) who came under the FIU purview since January 2013 also reported their cash transactions exceeding threshold amount through the Controller of Exchange who monitors and regulates the AMC sector. Accordingly, over 6.09 million of cash/fund transfers and 783 suspicious transactions (STRs) were reported during the year 2015. After conducting financial analyses, 426 STRs were referred to the law enforcement and regulatory authorities for further investigation.

### 13.3 Examinations of Reporting Institutions

During the year 2015, the FIU conducted 10 examinations on reporting institutions mainly covering banking and finance companies to assess their exposure to risk of ML/TF and non-compliances with the provisions of the FTRA and other rules and directions issued by the FIU. Further, the FIU conducted 10 one-on-one meetings with reporting

institutions to provide guidance on the threshold reporting deficiencies identified.

### 13.4 Other Activities

#### i. Moving Towards the Risk-Based Approach (RBA)

The RBA is the key pillar to the effective implementation of the FATF 40 recommendations. The global trend in AML/CFT environment is to use the risk based regulatory approach. During the year, the FIU drafted Customer Due Diligence (CDD) rules that would require Financial Institutions to identify and mitigate ML/FT risk under the RBA, in consultation with all stakeholders.

#### ii. Institutional Capacity Building and Awareness Programmes:

In continued efforts to enhance the awareness on detecting, analysing and reporting of ML/TF related transactions, 15 awareness/training programmes were conducted during the year, accommodating more than 980 participants from LCBs, LSBs and LFCs. This includes two large-scale capacity building and awareness programs conducted at Trincomalee and Hambantota for participants from Financial Institutions and Sri Lanka Police. Further, in 2015 the FIU conducted a special programme for a team of officers from the Bangladesh FIU to provide the technical know-how in conducting a ME. The annual symposium on AML/CFT was also conducted for the Compliance Officers of around 190, representing the LCBs, LSBs and LFCs during the year.

#### iii. International Relations:

- a). Egmont Group : The FIU obtained assistance from members of the Egmont Group, the Association of the FIUs consisting of 151 member FIUs globally to exchange information to carry out investigations and collaborated with the member countries gathering evidence on their investigations. Total number of instances that FIU exchanged information with foreign Egmont members stood at 19 in the year 2015.
- b). Asia Pacific Group on Money Laundering: Sri Lanka, as a founder member of the APG, attended its 18th Annual Meeting held in Auckland, New Zealand in July 2015 and the 18th Annual Typologies and Technical Seminars held in Nepal in November 2015. Sri Lanka as the incoming co-chair of the APG for 2016/2018 period, is preparing to conduct the annual APG Plenary in Colombo in 2017.

#### iv. Signing of Memorandums of Understanding:

As a mechanism to facilitate sharing of information and intelligence for the purpose of investigation and prosecution of suspicious transactions, in terms of provisions of the FTRA, the FIU signed a Memorandum of Understanding (MOU) with Financial Intelligence Unit of Kyrgyz Republic during the year. Accordingly, the total number of such MOUs signed increased to 28 as at end of 2015.

## 14. FINANCIAL SECTOR RESEARCH

The department was established in 2006 in the name of Financial System Stability Department (FSSD). It was renamed 'Financial Stability Studies Department' in 2011 and again in 2014 as 'Financial Sector Research Department' (FSRD) in consideration of the need for financial stability related studies and research. The Department is still in its initial stages in terms of required technical capacity and human resources. During the year 2015, FSRD began early stage research activities focused mainly on financial sector development needs and financial system stability. Accordingly, activities of FSRD during the year included research on specific financial sector topics, periodical reports on financial sector developments and stability and compilation of the Chapter 8 of the Central Bank Annual Report.

### (a) Research on Specific Financial Sector Topics

FSRD conducted ten research studies during the year for internal policy purposes focusing on four main areas; lending activities of banks and non-bank financial institutions with emphasis on leasing and hire purchase activities, impaired assets of the financial sector; diversifying lending activities of non-bank financial sector and credit obtained by private sector from banks and non-bank financial institutions.

### (b) Periodical Reports on Financial Sector Developments and Stability

- (i) Proposals for establishing an assets management company to deal with impaired assets of regulated financial institutions and setup a Bond Clearing House for transactions in government securities were submitted to decision making and accordingly, proposals were announced in the National Budget 2016.
- (ii) Financial sector risk assessment monthly reports to the Monetary Policy Committee and the quarterly reports on the financial sector development to the Monetary Board were submitted highlighting the trends and developments in the financial sector as revealed by a series of standard performance indicators and stress testing compiled by FSRD. The Department also contributed to similar activities of other Departments of the Central Bank by way of compilation of financial sector data, submission of regular reports and contributing to publications.
- (iii) The Financial System Stability Review-2015 (FSSR), 11 of its series since 2004, was published in January 2016 with a view to improve awareness and also to encourage debate on issues which may affect financial system stability. FSSR 2015 includes an overall assessment of financial system stability and risk mitigation measures, global and domestic macroeconomic developments, performance of domestic financial markets, the banking sector

performance and risks, developments and risks of other financial institutions and the functioning of main payment and settlements systems.

- (iv) Chapter 8 - 'Financial Sector Developments and Stability' in the Recent Economic Developments – 2015 highlighting the performance of major subsectors of the financial system during the first eight-month period of 2015 and their potential implications on financial system stability was collated by FSRD on the basis of individual reports submitted by relevant departments of the Central Bank, the Securities and Exchange Commission (SEC) and the Insurance Board of Sri Lanka (IBSL).

### (c) Compilation of the Chapter 8 in the Central Bank Annual Report

The Department compiled the Chapter 8 – 'Financial Sector Developments and Stability' - in the Central Bank Annual Report 2014 by collating individual reports submitted by relevant departments and institutions. This Chapter provides a comprehensive analysis on financial institutions, financial markets and financial infrastructure of the country with particular emphasis on performances, risks and risk management, resource availability and regulatory developments pertaining to each of the three areas together with an assessment on potential implications by each sector on the overall financial system stability of the country.

### (d) Other Activities

The Department continued to serve as the secretariat for the Financial System Stability Committee, which is an inter-departmental forum chaired by the Deputy Governor-in-charge of FSRD for the identification of risks affecting the financial sector, discussion of measures to mitigate risks and the co-ordination of efforts to promote financial system stability. FSRD also coordinated foreign missions on financial sector capacity building in 2015.

## 15. HUMAN RESOURCES

With the objective of ensuring the availability of highly productive, motivated and contended team of employees who could contribute towards the achievement of the objectives of Central Bank of Sri Lanka (CBSL), Human Resources Department (HRD) carried out various activities to develop human resources of the Bank, such as motivation of existing staff, recruitment of new staff, performance management, promotions, job rotation, grievance handling and employee remuneration during the year 2015. HRD also initiated various measures to maintain cordial relationship with the CBSL management, employees and trade unions with a view of improving industrial peace and overall work efficiency of the Bank. The welfare of the CBSL pensioners was also taken care of during the year. Human Resources structure of the Bank and a summary of the activities carried out by the HRD during the year are given below.

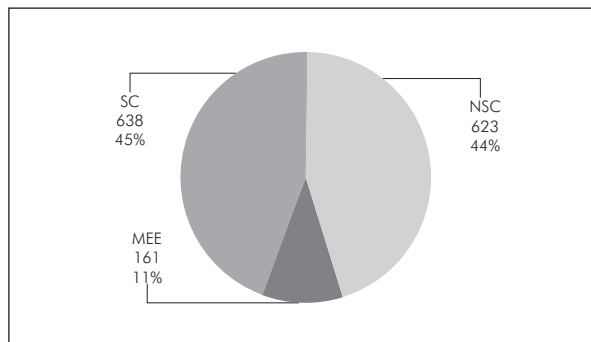
### 15.1 Human Resources Structure

The total number of employees of the CBSL as at end December 2015 stood at 1,422 consisting of 638 Staff Class (SC), 623 Non-Staff Class (NSC) and 161 Minor Employees (MEE). The composition of staff: class-wise, gender-wise and age-wise are depicted in the following charts.

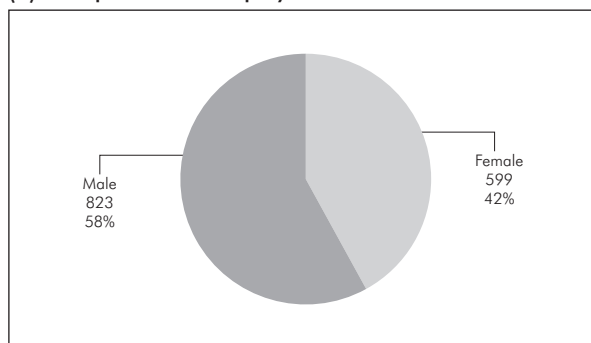
Chart II - 3

Composition of the Staff as at  
31.12.2015

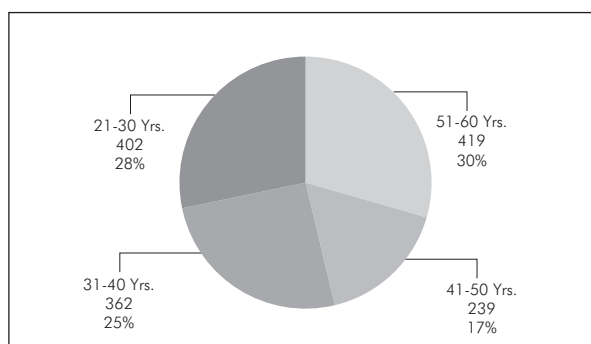
#### (a) Composition of Employees : Class-wise



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



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



### 15.2 Educational and Professional Qualifications of the Employees

The Bank maintained a diverse and talented pool of employees mostly among the SC and NSC in 2015. Table II-16 shows the details of the educational and professional qualifications possessed by the employees of the CBSL at the end of December 2015.

Taking into consideration the qualifications, skills, competencies and experiences of the employees, they were positioned in departments and regional offices of the CBSL in order to perform their functions in an efficient and productive manner.

### 15.3 Human Resources Management

#### (a) Recruitments

During the year, the HRD was in the process of recruiting Management Trainees, Banking Assistants (Trainees) and Junior Personal Assistants (Sinhala and English). In addition, Junior Personal Assistants (Tamil Steno-Typists) were recruited under the lateral recruitment policy of the CBSL in 2015.

Further, HRD facilitated to obtain services on outsourced basis for the Facilities Management Department, Security Services Department, Staff Services Management Department and Secretariat Department of the CBSL.

#### (b) Performance Management

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

The HRD carried out the employee performance evaluation process as planned during the year. Further, the HRD reviewed the mid-year performance review process of the departments and obtained goals of employees from departments for 2015.

Table II - 16

Educational/Professional Qualifications of Officers of CBSL as at 31.12.2015

Categories	Educational/Professional Qualifications					
	Postgraduate, First Degree and Professional Qualifications	Postgraduate and First Degree	Postgraduate and Professional Qualifications	First Degree and Professional Qualifications	First Degree	Professional Qualifications
Staff Class	69	165	12	79	178	18
Non-Staff Class	4	10	6	15	52	32
<b>Total</b>	<b>73</b>	<b>175</b>	<b>18</b>	<b>94</b>	<b>230</b>	<b>50</b>

**(c) Promotions**

Under the employee promotion scheme of the CBSL, grade promotions were granted to 397 employees during the year 2015. Accordingly, 139 officers in SC, 190 officers in NSC and 68 MEE were promoted in line with the applicable promotion criteria.

**(d) Job Rotation**

The CBSL implements the annual job rotation scheme to facilitate the Bank to achieve its overall objectives more effectively while providing opportunities for officers to gain experiences in different areas of the Bank. Accordingly, in 2015, the HRD effected transfers of 74 SC officers, 74 NSC officers and 77 MEE under the annual job rotation scheme, with effect from 01 October 2015.

**(e) Industrial Harmony**

In 2015, HRD continued to perform its role as the facilitator for maintaining a closer dialogue between the management and trade unions. Accordingly, number of discussions were arranged during the year.

**(f) Grievance Handling**

HRD successfully resolved the grievances of current employees and pensioners of the Bank during the year 2015.

**15.4 Establishment of New Departments/Regional Offices**

HRD was instrumental in establishing new departments depending on the requirements of the Management.

1. Accordingly, with the view of enhancing the risk management, legal and compliance functions of the Bank, Risk Management and Legal and Compliance Departments were established with effect from 09 February 2015.
2. With the view of providing more strategic training opportunities for Bank employees, Training and Development Department was established with effect from 30 July 2015.
3. In line with the government intention of focusing the development of regional areas, Department Level Regional Offices (DLROs) for nine (09) Provinces of the country were established with effect from 22 October 2015. The DLROs were formed by integrating some regions appropriately such as Western Province, Southern Province, Northern and Eastern Provinces, Upcountry, North Central and North Western Provinces.
4. Considering the requirement of the availability of supervisory and regulatory arm for micro finance institutions, the Department of Supervision of Microfinance Institution was established with effect from 22 October 2015.

**15.5 Closure of Departments**

1. The Governor's Secretariat Department (GSD) was closed down with effect from 09 February 2015 and activities of the GSD were transferred to the Secretariat Department.
2. The Regional Offices Monitoring Department was closed down with effect from 22 October 2015.

**15.6 Meetings Attended by the Governor Abroad During the Year 2015**

1. Attended meetings with the Managing Directors of IMF and World Bank in Washington D.C. and investors in New York and Boston, USA in February.
2. Attended meetings with investors in Singapore, Los Angeles and San Francisco, USA in March.
3. Participated in official meetings accompanying the Hon. Minister of Finance, in Japan in June.
4. Attended the 18th annual meeting of the Asia/Pacific Group on Money Laundering in Auckland, New Zealand in July.
5. Attended the Joint IMF - Bank of Indonesia Conference on 'Future of Asia's Finance: Financing for Development 2015' held in Indonesia and attended meetings with officials of Banks and Sri Lanka Financial Institutions in Dubai and Abu Dhabi as the head of delegation of Bank Chief Executive Officers in September.
6. Delivered the key note Speech at the De La Rue Regional Conference held in Maldives, on an invitation by the Governor, Maldives Monetary Authority, attended a meeting with the Sri Lankan High Commissioner in Singapore who is based in Singapore to discuss bilateral co-operation matters ahead of the visit to Singapore by the Hon. Prime Minister and attended official meetings conducted in Singapore as member of the VVIP delegation headed by Hon. Prime Minister Ranil Wickramasinghe in October.
7. Lead a team of officials from the Central Bank of Sri Lanka to attend meetings with officials of Central Provident Fund Board and Housing Development Board in Singapore, accompanied the Hon. Prime Minister Ranil Wickremasinghe to attend meetings with investors and the officials of the Central Provident Fund Board and the Housing Development Board in Singapore, visited the Regional Office of the Reserve Bank of India in Thiruvananthapuram on an invitation by the Regional Director for Kerala and Lakshadweep of the Reserve Bank of India in Kerala, India and attended the 51st SEACEN Governors' Conference and the 35th meeting of the SEACEN Board of Governors in Manila, Philippines in November.
8. Participated as a keynote speaker at the Joint Official Monetary and Financial Institutions Forum (OMFIF) at

the Lee Kuan Yew School of Public Policy and National University of Singapore, attended meetings with the officials of Fitch Ratings and Singapore Cooperation of Enterprise in Singapore, led the Sri Lankan Banking Sector delegation to Kingdom of Saudi Arabia to attend meetings and discussions with the officials of Saudi Arabian Banking Sector and visited the Regional Office of the Reserve Bank of India in Chennai and Staff Training College on an invitation by the Regional Director of the Office of Reserve Bank of India, Chennai in December.

### 15.7 Appointments

1. Mr. E A Hettiarachchi, Director of the Staff Services Management Department, was appointed as Director of the Information Technology Department with effect from 09 February 2015 and subsequently he was appointed as Director of the Facilities Management Department with effect from 21 September 2015.
2. Mrs. R B Weerasinghe, Director of the Payments and Settlements Department, was appointed as Director of the Staff Services Management Department with effect from 09 February 2015 and subsequently she was appointed as Director of the Department Level Regional Office-Western Province with effect from 21 September 2015.
3. Mr. H M Ekanayake, Director of the Financial Sector Research Department, was appointed as Director of the Security Services Department with effect from 09 February 2015.
4. Mrs. C M D N K Seneviratne, Superintendent of the Currency Department, was appointed as Superintendent of the Public Debt Department with effect from 09 February 2015 and subsequently she was appointed as Director of the Information Technology Department with effect from 21 September 2015.
5. Mr. M J S Abeyasinghe, Director of the Regional Development Department, was appointed as Director of the Centre for Banking Studies with effect from 09 February 2015 and subsequently he was appointed as Director of the Department Level Regional Office-Southern Province with effect from 21 September 2015.
6. Mrs. R A S M Dayarathna, Director of the Information Technology Department, was appointed as Director of the Payments and Settlements Department with effect from 09 February 2015.
7. Mr. S J A Handagama, Director of the Communications Department, was appointed as Director of the Regional Development Department with effect from 09 February 2015.
8. Mrs. K M A N Daulagala, who had been released to the Ministry of Finance was appointed as Director of the Department of Supervision of Non-Bank Financial Institutions with effect from 09 February 2015 and subsequently she was appointed as Director of the Department Level Regional Office-North Central and North Western Provinces with effect from 21 September 2015 and then appointed as Deputy Secretary to the Monetary Board with effect from 05 November 2015.
9. Mr. N W G R D Nanayakkara, Superintendent of the Public Debt Department, was appointed as Director of the Financial Sector Research Department with effect from 09 February 2015.
10. Mr. P W D N R Rodrigo, Superintendent of the Employees' Provident Fund Department, was appointed as Director of the Domestic Operations Department with effect from 09 February 2015.
11. Mr. R A A Jayalath, Director of the Domestic Operations Department, was appointed as Superintendent of the Employees' Provident Fund Department with effect from 09 February 2015.
12. Mr. J P R Karunaratne, Director of the Department of Supervision of Non-Bank Financial Institutions, was appointed as Superintendent of the Currency Department with effect from 09 February 2015.
13. Mr. C N Wijayasekara, Acting Director of the Centre for Banking Studies, was appointed as Acting Director of the International Operations Department with effect from 09 February 2015 and subsequently he was appointed as the Director of the same department with effect from 28 February 2015.
14. Mr. A A M Thassim, Acting Director of the International Operations Department, was appointed as Acting Director of the Communications Department with effect from 09 February 2015 and subsequently he was appointed as Director of the same department with effect from 28 February 2015.
15. Mrs. K Dassanayake, Director of the Governor's Secretariat Department, was appointed as Director of the Risk Management Department with effect from 10 February 2015.
16. Mr. K M M Siriwardana, who had been released to the Ministry of Finance, was appointed as Acting Director of the Economic Research Department with effect from 01 May 2015 and subsequently he was appointed as Director of the same department with effect from 01 November 2015.
17. Mr. P V L Nandasiri, Chief Accountant of the Finance Department, was appointed as Director of the Legal and Compliance Department with effect from 09 June 2015.
18. Mr. P A Wijeratne, Additional Chief Accountant of the Finance Department, was appointed as Acting Chief



- Accountant of the Finance Department with effect from 09 June 2015 and subsequently he was appointed as Chief Accountant of the same department with effect from 09 December 2015.
19. Mrs. K Gunatilake, Director of the Human Resources Department, was appointed as Director of the Internal Audit Department with effect from 19 June 2015.
  20. Mr. A M N Gunawardana, Director of the Internal Audit Department, was appointed as Director of the Human Resources Department with effect from 19 June 2015.
  21. Mr. K M Abeykoon, Additional Director of the Human Resources Department, was appointed to act as the Director of Training and Development Department with effect from 03 August 2015.
  22. Mr. D M Rupasinghe, Controller of Exchange, was appointed as Director of the Department Level Regional Office-Upcountry with effect from 21 September 2015 and subsequently he was appointed as Director of the Department Level Regional Office-North Central and North Western Provinces in addition to the above position, with effect from 05 November 2015.
  23. Mr. U H E Silva, Director of the Facilities Management Department, was appointed as Director of the Centre for Banking Studies with effect from 21 September 2015.
  24. Mr. U P Alawattage, who reported for duty after the study leave, was appointed as Director of the Department of Supervision of Non-Bank Financial Institutions with effect from 21 September 2015.
  25. Mr. M I Sufiyan, Secretary of the Secretariat Department, was appointed as Director of the Department Level Regional Office-Northern and Eastern Provinces with effect from 21 September 2015.
  26. Mrs. T M J Y P Fernando, Director of the Bank Supervision Department, was appointed as Controller of Exchange with effect from 21 September 2015.
  27. Miss. S H Gunawardana, Additional Superintendent of the Currency Department, was appointed as Acting Director of the Bank Supervision Department with effect from 21 September 2015.
  28. Mr. T H B Sarathchandra, Additional Director of International Operations Department, was appointed as Acting Superintendent of the Public Debt Department with effect from 21 September 2015.
  29. Mr. B W Jinasena, Additional Secretary of the Secretariat Department, was appointed to act as the Director of the Staff Services Management Department with effect from 21 September 2015.
  30. Mr. M S K Dharmawardana, Additional Superintendent of the Employees' Provident Fund Department, was appointed as Additional Director of the Regional Development Department with effect from 21 September 2015.
  31. Dr. M Z M Aazim, Additional Superintendent of the Public Debt Department, was appointed as Additional Director of the Statistics Department with effect from 21 September 2015.
  32. Mr. K H A S Ariyaratna, Additional Director of the Statistics Department, was appointed to act as the Secretary of the Secretariat Department with effect from 21 September 2015.
  33. Mr. T D H Karunarathne, Additional Superintendent of the Employees' Provident Fund Department, was appointed as Additional Superintendent of the Currency Department with effect from 21 September 2015 and subsequently he was appointed as Additional Director of the Communications Department with effect from 01 October 2015.
  34. Mr. T M Z Mutaliph, Additional Director of the Communications Department, was appointed as Additional Director of the Financial Sector Research Department with effect from 01 October 2015.
  35. Mr. D A G K Wijetunga, Director of Regional Offices Monitoring Department, was appointed as Director of the Department of Supervision of Microfinance Institutions with effect from 22 October 2015.
  36. Mr. V Baskaran, Additional Director of Regional Offices Monitoring Department, was appointed as Additional Director of the Department of Supervision of Microfinance Institutions with effect from 22 October 2015.

#### 15.8 Officers on Release

1. Mr. S R Attygalle, Assistant Governor, to the Ministry of Finance as a Deputy Secretary
2. Mrs. S Gunaratne, Staff Class Grade IV officer, to the International Monetary Fund as an Alternate Executive Director
3. Dr. R A Perera, Staff Class Grade IV officer, to the Ministry of Public Enterprise Development
4. Mrs. D S W Samaratunga, Staff Class Grade III (2) officer, to the Ministry of Finance
5. Dr. P K G Harischandra, Staff Class Grade III (2) officer, to the Ministry of Finance
6. Mr. S G S D Jayasekera, Staff Class Grade II officer, to the Ministry of Defence
7. Mr. S J K Guruge, Staff Class Grade II officer, to the Ministry of Defence
8. Mrs. H S S Silva, Staff Class Grade II officer, to the International Monetary Fund
9. Mr. N B Janagan, Staff Class Grade I officer, to the Ministry of Finance
10. Mr. S N W Karunadasa, Driver, to the Ministry of Power & Renewable Energy



### 15.9 Retirements

1. Dr. W M Hemachandra, Assistant Governor, retired from the Bank service with effect from 12 September 2015.
2. Mr. C B Pathberiya, Additional Director of the Information Technology Department, retired from the Bank service with effect from 02 February 2015.
3. Mr. L D D Y Perera, Additional Director of the Internal Audit Department, retired from the Bank service with effect from 07 April 2015.
4. Mr. H Sriyaratne, Additional Director of the Facilities Management Department, retired from the Bank service with effect from 19 April 2015.
5. Mr. H P G S Ratnasiri, Additional Director of the Financial Sector Research Department, retired from the Bank service with effect from 23 May 2015.
6. Mr. T W Ariyaratne, Additional Director of the Staff Services Management Department, retired from the Bank service with effect from 06 November 2015.
7. Mr. A J L Peiris, Additional Director of the Payments and Settlements Department, retired from the Bank service with effect from 17 December 2015.

## 16. INFORMATION TECHNOLOGY

Information Technology Department (ITD) was established in 1981 to arrange and provide IT facilities to all operations of the Bank. During the year, ITD functions were involved in four major areas, namely, (a) Delivering cost-effective IT solutions, (b) Continuous enhancements of the ICT infrastructure in the Bank, (c) Facilitating national payment system infrastructure, and (d) IT risk management.

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

ITD planned 33 new projects in total to provide IT solutions during the year, including 6 projects for the Economic Policy Advisory Cluster, 8 projects for the Financial Sector Regulation and Supervision Cluster and 14 projects for the Capacity Building and Support Cluster of the Bank. By the end of the year, 23 projects were completed and implemented whereas 7 projects were under testing by user departments and 3 projects were under software development stage. The following eight major system developments were among the projects undertaken during the year.

- i) Currency Inventory Management System (CIMS) to manage the movement of currency between vaults and to provide fast and accurate information for inventory of currency by denomination on real time basis.
- ii) The Bank's Human Resource (HR) Management System (eHRNet) to implement four modules and to commence development of additional four modules to cater to different types of staff payments.
- iii) An Integrated Payment System (IPS) to handle the payment process of staff payroll and all other payment sub-systems through Sri Lanka Inter-bank Payment System (SLIPS) settlement. The IPS is capable of processing one million transactions per day.
- iv) A Common Debt Database for the Public Debt Department to facilitate a repository of information relating to debt instruments. System development was completed and made available for the user testing.
- v) Improvements to FinNet application with the addition of new returns as per the requirements of Bank Supervision and Supervision of Non-Bank Financial Institutions Departments. Consequently, FinNet facilitated about 250 different types of returns by the end of the year.
- vi) Refinement of Employees' Provident Fund (EPF) Web services to expedite the EPF member contribution collection with real time data validation and a SMS alert facility to inform the status of refund applications and housing loans to members.
- vii) Common Electronic Research Database to build a common format for data from different departments and thereby to provide a wide range of social and economic data from a central location for policy-research purposes.
- viii) A Web based Recruitment System to facilitate staff recruitments to the Central Bank with an option for applicants to submit their applications online, resulting in a significant time saving in processing applications by the Human Resources Department.

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

ITD continued to enhance the ICT infrastructure of the Bank during the year 2015 to strengthen the resilience of information systems while keeping in par with the latest advancements in technology. Accordingly, following activities were carried out during the year:

#### i. Enhancement of IT Systems

- Internal Domain infrastructure was enhanced by upgrading the 4 Domain Controllers, 3 Mail Servers and other System Center Servers.
- Other supporting IT services such as SharePoint and Skype for Business were also upgraded to facilitate effective information sharing and collaboration within the Head Office as well as Regional Offices by widening the capabilities of the internal working environment of the Bank. An enhanced monitoring platform was introduced in order to make administration and troubleshooting of the ICT infrastructure more robust.

#### ii. Enhancement of Network Infrastructure

- Data network was installed at the Kilinochchi Regional Office in May 2015, enabling the staff to access CBSL corporate network and EPF system.

- Fiber backbone was completed in the Bank's Head Office and rearranged the existing network infrastructure during the year in order to increase the reliability and to facilitate faster troubleshooting.
- The bandwidth of the Internet Leased Line was doubled and upgraded the common Wi-Fi Internet link in the Bank's Head Office in order to facilitate high speed browsing and to meet the increasing demand.

#### (c) Facilitating National Payment System Infrastructure

ITD continued to play its facilitator's role by providing technical advice and expertise for following projects involved in National Payment System during the year:

- Served in Technical Evaluation Committees for Common ATM Switch (CAS), Common Electronic Funds Transfer Switch (CEFTS), Common Mobile Payment Switch (CMobS) and Common PoS Switch (CPOS) under the Common Card and Payment System (CCAPS) by LankaClear (Pvt) Limited (LCPL).
- Served in Technical Evaluation Committees as requested by Institute of Bankers of Sri Lanka (IBSL), Department of Elections and Credit Information Bureau (CRIB).
- Served in the Working Committee and provided technical know-how for the establishment of e-Trading platform and Central Counter Party System project initiated by the Colombo Stock Exchange to strengthen the domestic debt market.

#### (d) IT Risk management

Managing IT risk is critical to any organisation in order to minimise threats and strengthen the IT security. During the year, ITD initiated several measures to proactively manage the IT risk in terms of best practices:

- Setting up of the new Disaster Recovery Site (DRS) with necessary IT infrastructure facilities in compliance with ISO27001 standard. An IT security testing lab to enhance information security management of the Bank is a part of the above DRS.
- Conduct of vulnerability assessments on critical information systems in the Bank on an ongoing basis through specially trained IT experts/Staff of the Bank.
- Continuous surveillance to maintain a secured network to minimise internal and external security threats to achieve virtually no security breaches.
- Conduct of two BCP drills successfully during the year from the Disaster Recovery Site (DRS) with all stakeholders to test the disaster preparedness of critical IT systems.

## 17. INTERNAL AUDIT

The internal audit function has been in operation since 1951 in the CBSL. The mission, scope of work, accountability, independence, responsibility and the authority of the Director and the staff of the Internal Audit Department (IAD) have been included in the Internal Audit Charter. The IAD conducted audits in line with the global standards and industry best practices. A summary of the activities carried out by the Department during 2015 is given below.

### 17.1 Conduct of Audit Assignments

#### a) Annual Audit Plan

The Annual Audit Plan (AAP) was prepared based on the updated Audit Universe of the CBSL for the year. In this regard, the activities included in the Activity Based Costing System were compiled, assessed and significant activities were selected for the AAP, covering the core objectives, ancillary to core objectives, agency functions and other activities of the CBSL prioritising functions relating to the core objectives and ancillary to core objectives. Information Systems audits were also included in the AAP. The AAP was implemented with the approval of the Monetary Board Advisory Audit Committee (AAC).

#### b) Internal Audit Procedure

Each audit engagement was carried out in four sequential steps, i.e., planning, performing, communicating and taking resolution actions. During the performing stage, audit evidences were gathered and documented. In line with global standards, four step process was followed for the communication of audit results; conduct of closing conference in order to get audit observations validated, communication of audit observations in writing, issuing of draft audit report and issuing of final report. Follow-up audits were also conducted at regular intervals to obtain assurances that the agreed audit recommendations were implemented by process owners.

IAD reviewed the systems (including information systems) and internal controls of the departments and their adherence to manuals, policies and procedures. In line with that, audits were conducted covering numerous departments and highlighted the internal control weaknesses, system deficiencies while recommending measures to be taken to minimise the risks attached with such observations. Accordingly, it lead to improve the efficiency of the work performed by those departments and minimise the risks of potential frauds, waste and other material losses to the Bank.

In addition, the reviews were conducted focusing the investment procedures carried out by the departments of CBSL, fund management functions, information systems controls, other internal controls, and compliance with manuals, policies and procedures upon the requests of senior management. The reviews covered the activities

of several departments. The Monetary Board, having considered the review findings and recommendations made by the IAD, approved to setup a separate unit for investment of funds, to improve the internal controls and modifications to the systems. The relevant departments have already implemented such recommendations. For instance a separate unit has already been established for the CBSL investments.

### c) Reporting the Progress of the Conduct of Audits

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

### 17.2 Awareness Programmes and Provision of Training

Public Debt Department and Domestic Operations Department of the CBSL conducted knowledge sharing sessions to the IAD staff. Further, internal presentations and knowledge sharing sessions were conducted regularly for the benefit of the IAD staff. As requested by the Human Resources Department, the IAD continued to provide training on internal audit and related disciplines to graduates, undergraduates and the students of the Institute of Chartered Accountants of Sri Lanka in 2015.

### 17.3 Monetary Board Advisory Audit Committee

The AAC comprises of one member from the Monetary Board (MB) and two external audit professionals. Secretary to the MB is the Secretary to AAC and the Director of the Internal Audit Department is the Assistant Secretary to AAC. The IAD provided secretarial facilitation for the AAC. Further a representative from Auditor General's Department attends as an observer to the AAC meetings.

As mandated, six AAC meetings were conducted during the year. The progress of IAD on conducting internal audit assignments together with management responses to internal audit reports were reviewed by AAC and the progress of AAC and decisions arrived at the meetings were reported to the MB.

### 17.4 Facilitation for External Audit

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

## 18. INTERNATIONAL OPERATIONS

In terms of the Monetary Law Act (MLA), Central Bank of Sri Lanka (CBSL) is responsible for managing the official

foreign exchange reserves of the country. As per MLA, the Monetary Board has vested the responsibilities of international reserves management and monitoring of the domestic foreign exchange market to the International Operations Department (IOD).

The MLA provides the necessary legal framework for international reserves management, covering areas on the maintenance and composition of international reserves, actions to preserve the international stability of the rupee, scope of foreign exchange operations of CBSL and the powers and responsibilities of the Monetary Board pertaining to international reserves management. In this aspect, Section 67 of MLA deals with the parameters in respect of asset types, counterparties, instruments and issuers. The Monetary Board may also direct to further widen the scope of reserves management activities to enhance the safety, liquidity and return objectives of reserves management.

### 18.1 International Reserves Management

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

The year 2015 was dominated by major events instigated by central banks across the globe. The year started with the European Central Bank (ECB) launching a quantitative easing programme and an unscheduled rate cut by the Reserve Bank of India (RBI), in January. Mid-year, the IMF announced its widely anticipated decision to include the Renminbi in the Special Drawing Rights (SDR) basket from October 2016 onwards. The year ended with the Federal Reserve raising rates for the first time in nine years, signaling optimism for better economic climate in the US.

During the course of 2015, there was notable volatility in the financial markets caused by events originating in China. The slowdown in Chinese economy in the first quarter affected the crude oil and commodity markets along with equities and concern on its implications on global growth

emerged. In the third quarter, the decision by the People's Bank of China to devalue the yuan by letting market forces play a larger role along with the effect of "Black Monday", the Chinese stock market crash, which ended with Chinese equities down 8.5 per cent and its ripple effect resulted in the 4-5 per cent drops in the Tokyo, London and New York stock exchanges, rattled markets.

Crude oil continued its slide, which began in 2014. There was some market optimism that OPEC would curtail its production but when that did not transpire, oil prices sank to multi-year lows. Gold on the other hand, did not fare as badly as oil, but it did continue its downswing for the third consecutive year.

As the developed economies were considering rate hikes, as in the case of the US, investors sought to move their investments from emerging markets to developed markets for comparatively lower risk investments. Further, the financial market volatility triggered by concerns of a potential spillover effect from the Chinese stock markets, created uncertainty amongst investors leading to greater safe haven demands, which in turn lead to capital outflows from Asian economies. In this challenging global setting, the IOD secured a realised return of US dollars 111.4 million during the year 2015 through foreign currency trading, money market investments, capital gains and coupon income derived from FIS.

CBSL and RBI signed two currency swap agreements in 2015 enabling Sri Lanka to draw US dollars 1,500 million. Under these agreements US dollars 400 million became available to CBSL in April 2015 under the financing facility for South Asian Association for Regional Cooperation (SAARC) member country Central Banks and additional US dollars 1,100 million was available under special currency swap agreement. These facilities were entered with objectives of CBSL to further strengthen its position in the financial market and bring greater stability to the exchange rate in line with macroeconomic fundamentals and movements of other currencies of major trading partners.

## 18.2 Analysis and Facilitation of Investment Activities

In 2015, middle office functions of IOD including market and credit risk management were transferred to the Risk Management Department. Accordingly, IOD set up Investment Analysis and Facilitation Division (IAFD) which is entrusted with following main activities relating to the reserve management.

### (a) Performance Measurement

IOD assesses performance of the reserve management activities on a monthly, quarterly and annual basis with special emphasis on total return, asset and currency distribution and presents to the FRMC and the Monetary Board together with an analysis of reserve position and its trend. Further, the returns generated through FIS investments are benchmarked against a passively managed portfolio

weighted according to the Strategic Asset Allocation (SAA) approved by the Monetary Board. In addition to income comparison, benchmarking helps to determine the effectiveness of active management strategy by showing whether extra risk assumed by dealers is adequately compensated by the extra return.

### (b) Treasury Management System (TMS) Administration

IOD, apart from being the main user of the TMS, is responsible for the administration function including housekeeping activities related to TMS of CBSL and ensures a proper coordination among user Departments, the software vendor and the local partner. Further, IOD ensure TMS is fully connected with internal systems such as SWIFT, RTGS and GL and external interfaces such as Bloomberg and Reuters to ensure efficient functioning of TMS.

### (c) New Products and Market Research

IOD carries out various analysis on new products, concepts and market research for the internal purpose as well as for the use of management. During 2015, several counterparties visited IOD and discussed about new products and shared their market insight with the officers in IOD.

### (d) Monitoring of Non- Financial Risks and Compliance

During the year, IOD facilitated two bilateral currency swap arrangements with India. Further IOD provided necessary information to the Legal and Compliance Department with regard to Know Your Customer/ Customer Due Diligence (KYC/CDD) requirements of foreign counterparties. IOD prepared and monitored the non-financial risk profile relating to the reserve management activities together with relevant risk treatments and report to the newly set up Non-Financial Risk Management Committee on a quarterly basis starting from last quarter of 2015.

## 18.3 Domestic Foreign Exchange Market Developments

The operations of the domestic foreign exchange market was streamlined during 2015 by IOD through continuous monitoring of its activities, with the objective of curbing the excess volatility in the exchange rate. CBSL decided to accommodate greater flexibility in the determination of the exchange rate on 4 September 2015, by allowing the domestic foreign exchange market to play a greater role in determining the exchange rate. This initiative was taken to reduce the pressure on the Sri Lankan rupee resulting from the ongoing rise in the import demand. The Net Foreign Exchange Open Position limit of the Licensed Commercial Banks (LCBs) remained unchanged at US dollars 189 million during the year 2015. Total interbank foreign exchange transaction volumes have dropped during the year to US dollars 13.6 billion from US Dollars 15.5 billion in 2014 (Table II-17). However, transactions on Spot and Forward basis have marginally increased while transactions on Tom and Cash basis have decreased markedly. Further, CBSL intervention indicated a net sales position of US dollars 3,249.53 million (Table II-18).

Table II - 17

### Inter-Bank Foreign Exchange Transactions Volume - 2015

US\$ mn

Month	Spot	Tom	Cash	Forward	Total
January	81.00	147.55	75.35	654.51	958.41
February	159.10	144.53	93.30	484.65	881.58
March	247.40	82.50	71.75	655.16	1,056.81
April	204.35	93.40	69.50	602.30	969.55
May	248.05	70.75	71.00	515.53	905.33
June	463.10	95.25	166.75	511.94	1,237.04
July	268.90	105.10	106.05	515.34	995.39
August	378.49	110.50	128.00	522.61	1,139.60
September	493.87	186.35	140.55	476.62	1,297.39
October	457.83	257.03	219.05	609.31	1,543.21
November	369.00	191.65	186.75	563.17	1,310.57
December	498.93	135.75	48.48	614.96	1,298.11
<b>Total</b>	<b>3,870.00</b>	<b>1,620.35</b>	<b>1,376.53</b>	<b>6,725.60</b>	<b>13,592.48</b>

Source : International Operations Department, Central Bank of Sri Lanka

Table II - 18

### Purchases and Sales of Foreign Exchange by the Central Bank - 2015

US\$ mn

Month	Purchases	Sales	Net Purchases/(Sales)
January	-	173.81	(173.81)
February	49.40	122.00	(72.60)
March	18.10	101.65	(83.55)
April	60.50	159.50	(99.00)
May	8.80	157.83	(149.03)
June	15.00	506.97	(491.97)
July	-	352.58	(352.58)
August	-	447.25	(447.25)
September	-	523.80	(523.80)
October	27.60	305.55	(277.95)
November	-	306.00	(306.00)
December	-	272.00	(272.00)
<b>Total</b>	<b>179.40</b>	<b>3,428.93</b>	<b>(3,249.53)</b>

Source : International Operations Department, Central Bank of Sri Lanka

## 19. LEGAL AND COMPLIANCE

The role of the legal and compliance function has been identified as an important aspect of business continuity and corporate governance in recent years. The preventive role that the legal and compliance function plays in averting crises has led to many international standard setting institutions mandating a strong compliance function in banks and other financial institutions in order to effectively address the issues and challenges in the increasingly volatile global financial sector. In consideration of the developments in the international arena, the Monetary Board of the Central Bank of Sri Lanka (CBSL) established a Legal and Compliance Department (LCD) in February 2015, under the provisions of Section 33 of the Monetary Law Act.

After the administrative arrangements were finalised, the Department became operational in June 2015. The Legal Department had been closed down in 2006.

Year 2015, was a challenging year for CBSL as several cases were filed against CBSL. However, these issues were handled by the department in a successful manner. In addition to the representations made before various legal – fora for CBSL, the Legal and Compliance Department worked towards facilitating the creation of an appropriate legal framework within which CBSL could achieve its objectives optimally and continued its services in advising CBSL on legal matters. In addition, many departments within CBSL were able to issue by-laws and regulations incorporating the input of the LCD. For example, the Department was able to assist the process of liberalising exchange controls by the Exchange Control Department, by submitting observations and granting legal clearance for several directions and gazette notifications.

During the year, the Department played a complementary role by co-coordinating with regulatory authorities, Ministries and government departments in order to effectively address legal and implementation issues pertaining to financial system stability, financial market operations and payment systems and for the enforcement of laws applicable to the financial system of the country. As a result, LCD was able to resolve issues relating to the financial institutions as well as the financial system as a whole and to take appropriate resolution actions to strengthen financial stability. Finalisation of Microfinance Bill by this Department was a key milestone that focused on widening financial inclusion within the country.

With the co-operation of the LCD, CBSL was able to cater to the needs of the country and staff of CBSL through its respective departments that are carrying out agency functions of the government and for departments which are providing support services in CBSL. Currently, the LCD is in the process of introducing a Compliance Manual for CBSL and preparing amendments to laws relating to the financial sector in keeping with new developments in the financial arena.

## 20. PAYMENTS AND SETTLEMENTS

Payments and Settlements Department (PSD) was established in 2002 to discharge the responsibilities entrusted to the Central Bank under Section 62A of the Monetary Law Act which provides authority for the Central Bank to establish and operate systems for transfer of funds, settle payment obligations and issue system rules to participating institutions. In addition, with the enactment of the Payment and Settlement Systems Act, No. 28 of 2005, PSD was entrusted to discharge the Central Bank's responsibilities under this Act as well.



Main functions carried out by PSD are; operation of the Real Time Gross Settlement (RTGS) System, providing back-office service for financial transactions, management of the SWIFT Communication System, facilitating transactions under the Asian Clearing Union, facilitating the development of the national payment switch, regulation and oversight of Payment and Settlement Systems (PSS). A summary of the main functions performed by the PSD during 2015 is given below:

### 20.1 Operation of the Real Time Gross Settlement (RTGS) System

PSD operated the RTGS System which settles time critical large value inter-participant payments on real time gross basis and facilitated the provisioning of the Intraday Liquidity Facility (ILF) to the Participating Institutions (PIs) to ensure smooth functioning of the RTGS System. PIs of the RTGS System are the Central Bank, Licensed Commercial Banks (LCB), Non-Bank Primary Dealer companies, Employees' Provident Fund and Central Depository System of the Colombo Stock Exchange.

As at the end of 2015, the number of PIs was 36. During the year, the total number of transactions settled by the RTGS System were 322,234 with a total value of Rs. 84,432 billion. On average, Rs. 23.28 billion per day was released to participants as ILF. Business Continuity Drills for the System were conducted bi-annually from the remotely located Disaster Recovery Site with the participation of PIs. Adhering to the international best practices, the RTGS system availability was maintained at a high 99.98 per cent during the year.

### 20.2 Providing Back-Office Service for Financial Transactions of the Central Bank

#### (a) Back-Office Service for Foreign Exchange Transactions

During 2015, back-office services provided to facilitate international reserve management of the Central Bank covered the following:

- i. Settled 17,588 transactions relating to foreign exchange trading and funding, money market, fixed income securities, gold trading, Asian Clearing Union and Repo/Reverse Repo amounting to US dollars 486.9 billion during 2015.
- ii. Shift-based working system continued throughout the year 2015 as well, in order to facilitate the settlement of transactions originating from International Operations Department due to extended dealing room activities.

#### (b) Back-office service for Open Market Operations

The back-office functions of open market operations with LCBs and primary dealers were carried out to facilitate the management of liquidity requirements of the open market participants. During 2015, PSD effected

and facilitated 545 repo transactions amounting to Rs. 750 billion, 5,413 Standard Deposit Facility transactions amounting to Rs. 17,990 billion and 35 Standing Lending Facility transactions amounting to Rs. 23 billion.

### 20.3 Management of the SWIFT Communication System

Society for Worldwide Interbank Financial Telecommunication (SWIFT) is the communication platform for exchanging payment instructions and other relevant information in financial transactions in a safe and a secure environment.

During 2015, total SWIFT messages sent and received were 1,460,270 and 804,852, respectively, facilitating domestic and foreign exchange transactions of the Central Bank. SWIFT System was upgraded by the service provider to a new version (version 7.1.10) to provide a more efficient service with improved facilities for their customers. Accordingly, the Central Bank too successfully installed the new version to be in line with the international standards introduced by the SWIFT.

### 20.4 Facilitating Transactions under the Asian Clearing Union (ACU)

During 2015, PSD continued to facilitate settlement of international trade transactions among 9 member countries of the ACU. The total number of transactions effected through the ACU mechanism was 6,663 and the value of transactions was Rs. 448.6 billion. The value of net settlements made under the ACU mechanism was Rs. 375.1 billion. The 44th meeting of the ACU Board of Directors was held in Bangladesh in June 2015 and the Deputy Governor and the Director of PSD participated at the meeting representing the Governor as a Director of the Board of Directors and the Alternate Director, respectively.

### 20.5 Facilitating the Development of the National Payment Switch

PSD provided assistance to implement the Common Electronic Fund Transfer Switch (CEFTS), which is the second phase of the Common Card and Payment Switch (CCAPS) launched by LankaClear (Pvt) Limited, in order to establish a common infrastructure to settle retail payments on real-time basis through multiple payment channels. CEFTS was implemented on 21 August 2015 and at the end of 2015, six LCBs and two licensed finance companies had obtained the membership of CEFTS.

### 20.6 Regulation and Oversight of Payment and Settlement Systems (PSS)

PSD continued its regulatory and oversight activities to ensure security and efficiency of the electronic payment systems. Accordingly, the following major activities were carried out by PSD during 2015:

- a) Issued licences to 03 financial institutions to function as service providers of payment cards as per the provisions of the Payment Cards and Mobile Payment Systems



Regulations No. 01 of 2013. As at the end of 2015, the number of service providers increased to 33.

- b) Issued 04 circulars to promote the use of CCAPS implemented by LankaClear (Pvt) Ltd. and consumer protection;
- i. Payment and Settlement System Circular No. 01 of 2015 to impose maximum limit of a transaction effected through CEFTS at Rs. 5 million, the maximum fee that can be charged in respect of fund transfers effected through Internet Banking, Mobile Banking and ATMs of respective member of CEFTS at Rs. 50 per transaction and the maximum fee for fund transfers effected over the counter and through ATMs of other members of CEFTS at Rs. 100 per transaction.
  - ii. Payment and Settlement Systems Circular No. 02 of 2015 to impose maximum fee that can be charged from a customer for effecting a fund transfer through the Sri Lanka Interbank Payment System at Rs. 50 per transaction.
  - iii. Payment and Settlement Systems Circular No. 03 of 2015 to impose the maximum fee charged from customers for effecting fund transfers through the RTGS System at Rs. 1,000 per transaction and to reduce the charge levied by the Central Bank on participating institutions from Rs. 600 to Rs. 450.
  - iv. Payment and Settlement System Circular No. 07 of 2015 imposing following timelines for joining CCAPS in order to assist implementation of CCAPS in view of its national importance;
    1. Licensed Banks which function as issuers and/or acquirers of payment cards for ATM transactions and own ATM switch shall join Common ATM Switch (CAS) by 31 March 2016.
    2. All Licensed Banks shall join Common Electronic Fund Transfer Switch (CEFTS) by 30 September 2016.
    3. Licensed Banks which function as issuers and/or acquirers of payment cards for Point of Sale (POS) transactions shall join Common POS Switch by 31 December 2016.
    4. Licensed Banks which offer Mobile Payment Services shall join Common Mobile Switch (CMoS) by 30 September 2017.
- c) Conducted one on-site examination and off-site surveillance to examine compliance with the service providers with the Credit Card and Mobile Payment Guidelines and other regulations in order to ensure secure and reliable payment systems to carry out day to day retail payment transactions.

- d) Evaluated the Business Continuity Plans of the LankaSettle participants and LankaClear (Pvt) Ltd in order to ensure their readiness to continue business operations in an emergency.

## 20.7 National Payment Council (NPC)

PSD served as the executing arm of the NPC, which was set up in 2006 in terms of provisions of the Payment and Settlement Systems Act, No. 28 of 2005. The NPC is the industry consultative and monitoring committee on payment systems. In 2015, the membership of the NPC was increased to 29 to represent more banks and mobile payment service providers. The NPC commenced consultative process for preparation of a road map for medium-term development of payment systems covering application of new technology, new payment products and system stability and consumer protection focused regulation. The road map was under preparation to be finalised within 1st quarter 2016 for submission to the Monetary Board for approval.

## 20.8 Public Awareness

PSD continued to publish the quarterly "Payments Bulletin" on the Central Bank website for dissemination of information and statistics on payment and settlement systems operating in the country. Further, PSD conducted 10 awareness programs on a need basis to educate the general public and the banking community on payment systems and other related issues.

## 21. POLICY REVIEW AND MONITORING

Policy Review and Monitoring Department (PRMD) is responsible for coordinating the preparation of the Strategic Plan, monitoring and reporting the progress of the implementation of the Strategic Plan and conducting policy reviews and studies on matters of current importance to the Central Bank.

### 21.1 Coordinating the Strategic Planning and Monitoring Process

The Strategic Plan for 2015- 2020 under the theme '7k+@2020.sl' was launched at the Work Commencement Ceremony on 01 January 2015. Thereafter, copies of the Strategic Plan 2015-2020 were distributed to all staff to create awareness on the goals and strategies of the departments as well as the mechanisms to be adopted to achieve the strategic objectives and the key performance indicators (KPI) used to measure the progress of the implementation of the Strategic Plan.

Performance review meetings were held with the departments to monitor the progress of the Strategic Plan every quarter and a Progress Report was submitted to the Strategic Plan Review Committee (SPRC) and periodic reports were submitted to the Monetary Board. The recommendations and suggestions made by the SPRC and Monetary Board were communicated to the departments

for necessary action. In 2015, the departments and provincial offices recorded an achievement of 97.7 per cent of the work assigned under the Strategic Plan for 2015-2020.

The preparation of the Strategic Plan for 2016-2018 was commenced in the second half of 2015. The framework of the new Strategic Plan was changed. The Strategic Plan for 2016-2018 will focus on the key strategic priorities identified by the Bank for the medium term. This in effect includes only new policies, projects and initiatives that would be implemented to achieve strategic goals and objectives, based on the mission and mandates of the Bank. The theme for the Strategic Plan 2016-2018 is Human Capital Development and Capacity Building. In addition, all departments prepare business plans that include all activities to be carried out.

### 21.2 Conducting Policy Studies

During the year, the PRMD was also engaged in developing a regulatory framework for Microfinance Institutions. This process culminated in the preparation of a Microfinance Bill that was presented to Parliament. A policy related study on "Developing a strategy for Financial Inclusion in Sri Lanka" was prepared. Proposals were prepared on the need for a Securitization law, the regulation of Superannuation Funds and an Electronic Trading and Clearing system for Government Securities. In addition, the e-Policy and Procedure Library, which provides an electronic collection of policy related materials continued to be updated with 805 documents now available in the library.

## 22. PUBLIC DEBT

Public Debt Department (PDD) was established on 28 August 1950, at the inception of Central Bank of Sri Lanka to discharge statutory responsibilities of the Central Bank as agent of the government for management of public debt in terms of section 113 of the Monetary Law Act. Major functions of the PDD are raising of funds to meet the gross borrowing requirement of the government as stated in the Appropriation Act, timely payment of debt service obligations, facilitation of smooth functioning of settlement of Government Securities through LankaSecure system and maintenance of Registry of Government Securities in the Central Depository System (CDS). In addition, PDD also engages in development of debt markets and regulation and supervision of PDs in terms of the Local Treasury Bills Ordinance and the Registered Stock and Securities Ordinance to ensure safety of investors of Government Securities and stability of the Primary Dealer (PD) system.

### 22.1 Raising of Funds to Meet the Government Gross Borrowing Requirement as Specified in the Appropriation Act

In 2015, PDD raised funds from domestic and foreign sources through the issuance of Treasury bills (T-bills),

Treasury bonds (T-bonds), Sri Lanka Development Bonds (SLDBs) and International Sovereign Bonds (ISBs) for financing the government's gross borrowing requirement. A summary of such financing activities under the said instruments is given below:

- a) **Treasury bills:** The face value of total T-bill issuances in 2015 amounted to Rs.1,589.5 billion. These issuances were made mainly through weekly primary auctions. Total T-bill maturities for the year 2015 amounted to Rs.1,676.5 billion. Accordingly, T-bills amounted to Rs.662.6 billion were retired by using funds raised through the issuance of medium to long term T-bonds and through funds received from International Sovereign Bonds. Net foreign outflow from T-bills amounted to US dollars 381.7 million in 2015.
- b) **Treasury bonds:** The face value of total T-bond issuances in 2015 amounted to Rs.869.9 billion. During 2015, Rs.712.3 billion was raised through 37 primary auctions compared to Rs.27.8 billion raised through 6 primary auctions in 2014. T-bonds amounted to Rs.511.7 billion matured during the year. In 2015, the net outflow of foreign funds from T-bonds amounted to US dollars 711.8 million.
- c) **Sri Lanka Development Bonds:** SLDBs amounting to US dollars 2,491.4 million were issued in 2015. SLDBs totaling US dollars 835.6 million matured during the year.
- d) **International Sovereign Bonds:** In 2015, ISBs amounting to US dollars 2,150 million were issued in two auctions, one in June for US dollars 650 million and the other in November 2015 for US dollars 1,500 million in line with the overall Government Borrowing Programme of the year. Government has re-paid US dollars 500 million in January 2015.

Financing strategies, in view of the prevalence of low and stable interest rate environment in 2015, enabled PDD to actively opt to issue long term debt instruments to expand the Average Time to Maturity (ATM) of the outstanding domestic debt stock to 6.28 years by end 2015 from 5.75 years at end 2014. Since March 2015, all Government Securities issuances to the market were on auction basis. Further, successful regular issuances of longer term T-bonds in the primary market activated the longer end of the yield curve.

### 22.2 Servicing of Public Debt

Total debt service payments made in the year amounted to Rs.1,303.2 billion that consist of domestic debt of Rs. 918.1 billion and foreign debt of Rs. 385.1 billion of the government.

### 22.3 Facilitation of the Settlement of Government Securities

PDD continued to facilitate settlement of primary and secondary market transactions in Government Securities by ensuring uninterrupted real-time operations of the

LankaSecure system. The total value of holdings in scripless securities in LankaSecure amounted to Rs.4,363.2 billion as at end December 2015. Participants of LankaSecure consist of 33 dealer direct participants (25 licensed commercial banks and 8 primary dealer companies) and 3 direct participants.

#### 22.4 Maintenance of the Registry in Government Securities

Facilitation of real-time update of the Registry of Government Securities in the CDS maintained at PDD helped the smooth conduct of secondary market activities in Government Securities. The process of sending periodic statements to the account holders in CDS on their holdings, transactions and payments were further improved in 2015 with the automation of sending periodic statements through e-mail to the account holders in CDS. PDD has sent 2,955 statements in electronic form and 24,722 semiannual statements of holdings, 64,596 monthly statements of transactions and 49,274 payment statements by mail to the account holders of CDS during 2015. Furthermore, account holders of CDS were provided with the facility to view their account details online through the Internet. The total number of registered account holders of CDS stood at 89,696 as at end December 2015.

#### 22.5 Debt Market Development

As decided by the Monetary Board, raising funds from the market was entirely done through auctions since March 2015. Therefore, the yield rates were entirely determined through the market forces, thus deriving a more representative and liquid long term benchmark yield curve for the Government Securities that had been a vital factor to create a vibrant government securities market.

#### 22.6 Regulation of Primary Dealers in Government Securities

Primary Dealers (PDs) in Government Securities play a pivotal role in the financial market by strengthening the Government Securities market through building a stable and dependable source of demand for Government Securities via active market participation and acting as market makers. With a view of ensuring stability of the PD system and the safety of investors in Government Securities, PDD conducted oversight activities, in terms of the Local Treasury Bills Ordinance and the Registered Stock and Securities Ordinance. A summary of regulatory actions taken by PDD in 2015 is given below.

##### (a) Prudential Regulation

- (i) Assessing the compliance of each PD with the regulations and directions issued by CBSL to strengthen the stability of the PD system and the safety of investors in Government Securities.

- (ii) Issued Directions on Minimum Core Capital and Risk Weighted Capital Adequacy Ratio-Amendment, on 28 October 2015, requiring primary dealer companies to maintain an unimpaired core capital not less than Rs.1,000 million and a minimum risk weighted capital adequacy ratio of 10 per cent.
- (iii) Two specific directions were issued to primary dealers requiring them to carry on business in a manner which shall not be detrimental to the interest of its customers, Primary Dealer System and the Government Securities Industry.

##### (b) Examination of Primary Dealers

PDs' exposure to various risks (market, liquidity, operational etc.) and adequacy of resources to mitigate any residual risks were assessed during the on-site examinations. Accordingly, 13 risk-based on-site examinations were completed in 2015. Time bound action plans have been put in place to rectify the remaining supervisory concerns highlighted in such examination reports. The progress of the rectification of regulatory concerns was monitored through quarterly reports received from respective PDs.

##### (c) Off-site Surveillance

PDD continued to engage in off-site surveillance of PDs through FInNet System, which is an online monitoring mechanism of the financial soundness and operational performance of individual PDs as well as the industry as a whole. Prompt corrective actions were taken by PDD, as and when necessary, based on the findings of such monitoring action. Many improvements were also introduced to the FInNet System in order to enhance the effectiveness of financial reporting by PDs.

##### (d) Meetings with CEOs of PDs

Five meetings of the Chief Executive Officers of PDs with the Governor and the Superintendent/ Registrar of Public Debt were organised by PDD in 2015. These meetings served as the forum for exchanging views on the economic and monetary developments, performance of PD industry and many other areas that have an impact on the performance of primary and secondary market activities in Government Securities and market development.

#### 22.7 Coordinating Sovereign Rating Review Missions

With the view to ensure the availability of international sovereign ratings, the PDD of the Central Bank of Sri Lanka coordinates with the international rating agencies, namely Fitch Ratings Ltd., Moody's Investor Services and Standard & Poor's, in assessing their ratings for Sri Lanka. The PDD facilitated the rating agencies with their 2015 annual rating reviews while assessing their rating services for Sri Lanka.

**Annex II-2****Primary Dealers in Government Securities (in alphabetical order)**

1. Acuity Securities Ltd
2. Bank of Ceylon
3. Capital Alliance Ltd
4. Commercial Bank of Ceylon PLC
5. Entrust Securities PLC
6. First Capital Treasuries PLC
7. NatWealth Securities Ltd
8. NSB Fund Management Co. Ltd
9. People's Bank
10. Pan Asia Banking Corporation PLC
11. Perpetual Treasuries Ltd
12. Sampath Bank PLC
13. Seylan Bank PLC
14. The Hongkong and Shanghai Banking Corporation Ltd
15. Union Bank of Colombo PLC
16. WealthTrust Securities Ltd

**23. REGIONAL DEVELOPMENT**

Regional Development Department (RDD) of the Central Bank, which was established in January 2002 by amalgamating the Rural Credit Department and Development Finance Department, continued to coordinate, facilitate and implement various refinance schemes, interest subsidy programmes and credit guarantee schemes and delivered credit supplementary services in 2015. The main objectives of the Department were to support the efforts to achieve balanced growth and promoting financial inclusiveness in the country.

Accordingly, RDD continued to provide affordable finance through the Participating Financial Institutions (PFIs) for needy people and business ventures, particularly focusing on the Agriculture, Animal Husbandry and Micro, Small and Medium scale Enterprises (MSMEs) with a view to ensuring that beneficiaries of the loan schemes are well geared to meet the challenges ahead. The Department also conducted a series of awareness building and skill development programmes, especially for those who were outside the formal financial sector and used print and electronic media to enhance access to finance and financial inclusiveness.

In addition, RDD introduced a number of policy measures, with the special focus on revising the rate of interest, eligible loan limit to produce project appraisals and the maximum grace period of SME loan schemes, etc. in 2015, in line with the current developments of the economy.

**23.1 Implementation of Credit/Credit Guarantee Schemes**

During 2015, 13 credit schemes were implemented and coordinated by RDD (Table II-19). Of these schemes, 4 were implemented targeting the Agriculture and Animal Husbandry sector while 5 credit schemes were for the Small and Medium scale Enterprise (SME) sector. The other

4 credit lines were operated by the Department targeting the Microfinance sector. These credit schemes and credit supplementary services were funded by the Government of Sri Lanka (GOSL), the Central Bank of Sri Lanka (CBSL), donor agencies and PFIs.

Overall, RDD disbursed Rs. 16,678.8 million loans to 141,298 beneficiaries through PFIs in 2015. Of this, 67.9 per cent of loans were directed towards the Agriculture and Livestock Sector, while 19.3 per cent and 12.8 per cent were delivered to the SME and Microfinance sectors, respectively. Of the total beneficiaries of these loan schemes, a majority of 65.2 per cent of borrowers were in the Agriculture sector, while 24.3 per cent and 10.5 per cent were in the Microfinance and SME sectors, respectively. During the year, 67.8 per cent of loans were granted through the interest subsidy schemes while 32.2 per cent were disbursed through refinance credit schemes.

A brief account of the loan schemes implemented by RDD is given below.

**23.2 Agriculture and Animal Husbandry Sector**

In view of the strategic importance of increasing the production of essential food items and ensuring food security, the Department continued to deliver credits through the two main schemes, namely, the Sarusara or the New Comprehensive Rural Credit Scheme (NCRCS) and the Commercial Scale Dairy Development Loan Scheme (CSDDL). In addition, RDD also involved in implementing the interest subsidy component of the Working Capital Loan Scheme for Tea Factories (WCLSTF) introduced by the GOSL in August 2015.

- Through these schemes, a total of Rs. 11,319.9 million loans were disbursed to 92,081 beneficiaries in the Agriculture and Livestock Sector. These loans accounted for 67.9 per cent of total disbursements extended under all credit schemes operated by the Department. Of them, NCRCS continued to dominate in terms of the value of loan disbursements and the number of beneficiaries who received these loans in 2015.
- During the year, NCRCS alone disbursed a total of Rs 7,137.5 million loans among 90,533 farmers to meet their short term working capital requirements. Of this amount, a sum of Rs. 4,240.6 million was disbursed among 55,545 farmers during the 2014/2015-Maha season while the balance Rs. 2,896.9 million was granted among 34,988 farmers during the 2015-Yala season.
- The Anuradhapura District (19.1 per cent) received the highest amount of agriculture loans disbursed under NCRCS, followed by Polonnaruwa (12.4 per cent), Hambantota (9.6 per cent) and Badulla (8.7 per cent) districts, respectively.
- In July 2015, RDD introduced the Warehouse Receipts

Table II-19

### Lending Programmes Implemented by the Regional Development Department in 2015

Amounts in Rs. mn

	Name of the Project	Source of Funds	Broad Mission	Total Fund Allocation	Funds Disbursed in 2015	Balance to be Disbursed	Annual Interest Rate to Borrowers (by the year end)
<b>1</b>	<b>Agriculture and Animal Husbandry Sector</b>						
1.1	Tea Development Project -Revolving Fund (TDP-RF)	GOSL	Increasing tea smallholders' income on a sustainable basis and developing the necessary infrastructure to meet the requirements of the export market by modernizing tea factories to obtain HACCP* certification.	1,100	8.3	152.9	9%
1.2	New Comprehensive Rural Credit Scheme (NCRCS)	PFI's own funds and Interest Subsidy by GOSL	Uplifting the socioeconomic conditions of micro and small scale farmers who engage in cultivation of paddy and short term crops.	Depends on the demand for funds	7,137.5	N.A.*	7%
1.3	Commercial Scale Dairy Development Loan Scheme (CSDDL)	PFI's own funds and Interest Subsidy by CBSL	Support to achieve self-sufficiency in milk and milk products through promoting commercial scale dairy farms.	Depends on the demand for funds	1,229.8	N.A.	6%
1.4	Working Capital Loan Scheme for Tea Factories (WCLSTF)	PFI's own funds and Interest Subsidy by GOSL	To assist the registered tea factories to meet their working capital requirements.	Depends on the demand for funds allocated for Interest Subsidy	2,943.8	N.A.	(AWPR + 1.0% 2.0%)
<b>2</b>	<b>Micro, Small and Medium Enterprises Sector</b>						
2.1	Self-Employment Promotion Initiative Loan Scheme (SEPI)	GOSL	To provide financial assistance to youth trained by recognized vocational training institutions in the country for establishment of their own self-employment projects.	250	29.7	18.3	9%
2.2	Awakening North Loan Scheme - Phase II (ANLS-Ph II)	CBSL	To assist prospective loan beneficiaries in the Northern Province to strengthen their economic activities.	2,157	203.6	Concluded	9%
2.3	The Prosperity Loan Scheme ("Saubhagya")	CBSL	To start up or expand any micro, small and medium scale enterprise (MSME) or any MSME affected by disasters.	12,317	2,889.6	390	8%
2.4	Smallholder Plantation Entrepreneurship Development Program (SPEDP)	IFAD*	Enhancing the living standard of the low income community in the 'Hadabima' and 'Mahaweli' resettlement schemes in the mid country area and the poor smallholders in the intermediate zone of the Moneragala District.	474	84.6	54	7%
2.5	Dry Zone Livelihood Support and Partnership Programme - Revolving Fund (DZLiSPPRF)	IFAD*	Poverty alleviation and assisting in income generation among the poor farmers in the districts of Monaragala, Kurunegala, Badulla and Anuradhapura.	253	11.7	2.2	10%
<b>3</b>	<b>Microfinance Sector</b>						
3.1	Small Farmers & Landless Credit Project - Revolving Fund (SFLCP-RF)	GOSL	Channelling formal credit to income generating activities for the rural poor to improve the economic conditions and general welfare of the beneficiaries.	346	215.7	Recoveries will be revolved	12% - 14%
3.2	Poverty Alleviation Microfinance Project - Revolving Fund (PAMP-RF)	GOSL	Poverty alleviation through promotion of income generating activities and organizing low income groups to link them with formal banking system.	1,031	505.1	Recoveries will be revolved	12%
3.3	Poverty Alleviation Microfinance Project II (PAMP II)	GOSL JICA*		2,000	86.8	Concluded	12%
3.4	Poverty Alleviation Microfinance Project II- Revolving Fund (PAMP II - RF)	GOSL		2,764	1,331.7	Recoveries will be revolved	10% from PFI to borrower

\* HACCP - Hazard Analysis and Critical Control Points  
 N.A. - Not Applicable  
 IFAD - International Fund for Agricultural Development  
 JICA - Japan International Cooperation Agency  
 OPA - On Lending Partner Agencies  
 AWPR - Average Weighted Prime Lending Rate



Financing System for NCRCS. Through this system, the small farmers can obtain short-term credit from the registered financial institutions, by pledging the warehouse receipts issued by the government owned warehouses as a collateral.

- Under the CSDDL, which operates as an interest subsidy scheme to provide loans island-wide, to meet funding requirement of dairy farmers and dairy entrepreneurs who engage in all activities relating to the dairy industry, disbursed Rs. 1,229.8 million among 1,424 borrowers. Of the total loan disbursements, the Kurunegala District (21.9 per cent) received the highest amount of loans, followed by Puttalam (12.1 per cent), Anuradhapura (6.8 per cent), and Hambantota (6.5 per cent) districts, respectively.
- Since many dairy farmers/entrepreneurs need more than 6 months to generate income, the grace period under CSDDL was extended up to a maximum period of 12 months from the prevailing 6 months, depending on the nature of the project. The extension of the grace period was effective from January 2016.
- With regard to the newly introduced WCLSTF, the Department is responsible to implement the Scheme by providing the interest subsidy of 2 per cent for 2 years from the funds provided by the GOSL. The Scheme was expected to assist the registered tea factories to meet their working capital requirements. By end December 2015, loans totaling Rs. 2,943.8 million were disbursed to 79 borrowers under the Scheme.
- RDD, as the implementing agency, initiated actions in December 2015 to recommence the operations of microfinance component of the National Agribusiness Development Programme (NADeP), as per the policy decision taken by the GOSL. The ultimate objective of the Programme is to contribute to poverty reduction and sustainable livelihood improvement of smallholder farmers and landless, particularly, women and youth in rural households. It is funded by the International Fund for Agricultural Development (IFAD).

### 23.3 Small and Medium scale Enterprises Sector (SMEs)

- With a view to promoting high potential and promising SMEs, the Central Bank continued to provide concessionary financing to the SME sector through 5 credit schemes, namely, the Saubhagya Loan Scheme (SLS), Awakening North Loan Scheme - Revolving Fund - Phase II (ANLS-RF-PhII), Self-Employment Promotion Initiative Loan Scheme (SEPI), Smallholder Plantation Entrepreneurship Development Programme (SPeNDP), and the Dry Zone Livelihood Support and Partnership Programme - Revolving Fund (DZLiSPP-RF). Through

these schemes, loans totaling Rs. 3,219.3 million were disbursed to 14,832 beneficiaries in the SME Sector, who engaged in agriculture, manufacturing and service related activities.

- Of these schemes, SLS, which is considered as the principal refinance scheme for the SME sector, provided Rs. 2,889.6 million loans among 12,317 entrepreneurs. It alone contributed 90 per cent of disbursements granted through the Central Bank credit schemes to the SME sector. When providing loans under the scheme, a special attention was given to the new and innovative businesses, and women and young entrepreneurs.
- From the policy viewpoint, a number of measures were introduced to popularise the refinance schemes implemented by the Central Bank, aiming further development of the SME sector. These measures included, relaxing certain terms and conditions adopted in implementation of the loan schemes; encouraging PFIs to setup dedicated SME banking units and SME centers; and amalgamating similar loan schemes to lessen the unnecessary administrative burden of processing the different sets of loan applications which were for similar purpose/s etc.
- In view of the potentials in the cultivation of the perennial crops and the long gestation period to generate income, the maximum grace period of loans granted under SLS for cultivation of the perennial crops was extended to 12 months from 6 months, since November 2015.
- Since many enterprises attempt to operate with the least possible number of employees by adopting mechanisation, the existing requirement of the minimum number of employees (i.e. 5 persons) for an enterprise to be eligible under SLS was totally removed. Accordingly, SMEs with less than 100 persons are eligible to receive loans under SLS. Concurrently, the eligible loan limit for which the project appraisal is needed under SLS was also increased to Rs. 1 million from Rs. 500,000, in view of the cost effectiveness. These measures were expected to reduce the unnecessary additional administrative burden hitherto existed and expedite the processing of loans.
- ANLS, which was operated to provide refinance for the loans granted to Agriculture, Livestock, Fisheries and MSMEs in the Northern Province, was concluded after its successful operation for more than 6 years and consolidated with SLS since November 2015. Total loans disbursed under ANLS-RF-Phase II during its operation period in 2015 amounted to Rs. 203.6 million.
- Under SEPI, loans amounting to Rs. 29.7 million were disbursed to the youth, who had obtained vocational training qualifications from the special accredited



technical institutions to commence small scale enterprises. The remaining SME loan schemes, namely, SPEnDP and DZLiSPP together disbursed Rs. 96.3 million to 709 borrowers in 2015.

- In line with the prevailing low interest rates in the market, the rate applicable for loans granted under SPEnDP was reduced to 7 per cent per annum from 9 per cent per annum with effect from May 2015.

#### 23.4 Microfinance Sector

The microfinance loan schemes were continuously in operation to uplift the livelihood of low income earners by providing loans to commence additional income generating activities and by educating them on financial management. The Poverty Alleviation Micro-Finance Project - Revolving Fund (PAMP - RF), Poverty Alleviation Micro-Finance Project II (PAMP II), Poverty Alleviation Micro-Finance Project II - Revolving Fund (PAMP II - RF) and the Small Farmers & Landless Credit Project - Revolving Fund (SFLCP - RF) were the principal loan schemes designed to target this sector.

- These schemes together disbursed loans amounting to Rs. 2,139.5 million among 34,385 beneficiaries during the year.
- In line with the prevailing interest rates in the market, the applicable interest rate for PAMP II and PAMP II - RF was reduced to 10 per cent per annum from 12 per cent per annum since November 2015.

#### 23.5 Credit Guarantee Scheme for Pawning Advances (CGSPA)

CGSPA, which was introduced on 17 June 2014, was concluded by end 2015, considering the monetary developments and movement of gold prices in the domestic and international markets. Under the scheme, pawning advances totaling Rs. 29,248.1 million disbursed by PFIs were guaranteed by RDD. Pawning advances disbursed in 2015 amounted to Rs. 17,757.9 million.

#### 23.6 Skills Development and Capacity Building

The department, recognising the importance of financial inclusion, conducted 278 awareness programmes, especially focusing on the financial literacy, entrepreneurship development, skills development etc. to educate beneficiaries and other stakeholders. Through the financial literacy programmes, they were educated the advantages of linking with the formal financial sector, good banking habits, new financial instruments and services, financial discipline etc. RDD also involved in forming Self Help Groups and educating them on financial management and good financial habits. Details of the programmes conducted by RDD are given in Table II-20.

**Table II - 20** Awareness Programmes Conducted by RDD during 2015

Type of Programme	No. of Programmes
Financial Literacy	101
Entrepreneurship Development	57
Training of Trainers (TOT sessions)	20
Project Appraisal Workshops	58
Radio Programmes	27
Other	15

#### 24. RISK MANAGEMENT

Risk Management Department (RMD) of the Central Bank of Sri Lanka (CBSL) was established on 09 February 2015 under Section 33 of the Monetary Law Act (MLA) No.58 of 1949 for the purpose of strengthening risk management function of the Bank. With the setting up of RMD, the Central Bank established a new risk management framework, i.e., 'Three Lines of Defense' model<sup>1</sup> in which the RMD is the Second Line of Defense. As the 'Second Line of Defense', the RMD is entrusted to perform an independent risk management function in which reporting line is independent from the operational departments which naturally serve as the 'First Line of Defense'. Accordingly, the responsibility of the RMD is to identify, assess, monitor and report financial risks of the Central Bank, i.e., risks relating to investments of foreign reserves, investments by the Employees' Provident Fund Department and investments of internal funds of the CBSL. In addition, the RMD is entrusted with managing risk relating to public debt management and monetary operations. The types of risks included market risk, (interest rate risk and exchange rate risk), credit risk, liquidity risk and rollover risk pertaining to public debt. Accordingly, management of financial risk in the Bank is centralised at the RMD and it is expected to contribute towards the propagation of a robust and pervasive risk management culture at the Bank to ensure that Bank's objectives are met in a proper risk governance structure.

The activities of RMD commenced with developing of vision and mission statements and preparing medium term strategic plan in line with the Monetary Board approved Terms of Reference (TOR) and risk management structure of the Department. At the same time, the RMD is in the process of acquiring IT infrastructure facilities and developing skills and capacity building pertaining to the risk management in order to take over risk management activities assigned to the Department on pace by pace basis as it is virtually impossible to handle financial risk management without sophisticated IT Models together with skilled staff to deal with them. The highlights of the key functions and other activities of the RMD during 2015 are given below.

<sup>1</sup> The First Line of Defense ensures that a proper internal controls are established as part of day-to-day operations by the operational departments. The Second Line of Defense is the oversight function through an independent risk management function, i.e., RMD and the Third Line of Defense comprises the auditors who ensure that both business frontlines and oversight functions are being carried out to the required level of competency.

**BOX 16****New Risk Management Framework of the Central Bank of Sri Lanka**

Central Banks around the world have been exposed to a wide array of risks due to their multi-faceted operations and dealings with external parties. Therefore, much more attention has been paid to develop independent and centralized risk management systems for Central Banks in order to manage risks prudently. An effective risk management mechanism is vitally important to Central Banks due to several reasons.

Firstly, in order to achieve Central Banks' objectives, i.e., generally price stability and financial system stability, banks have to maintain their credibility for facilitating monetary policy for which a crucial element required is risk protection provided by its risk management framework.

Secondly, risk factors create pressure on the balance sheet of Central Banks particularly banks' capital position and therefore, an effective risk management function would ensure that the Central Bank has adequate capital and reserves to protect the bank.

Thirdly, since Central Banks act as risk managers for the economy using monetary and financial policies including exchange rate policy, a proper risk management framework would protect the economy from adverse shocks and therefore it showcases the sovereign credit worthiness of a country.

Fourthly, Central Banks are considered as trustees of public assets. As such the principles of prudence, transparency and governance are critical factors for a public institution entrusted with the management of foreign reserves or any other, government funds or public funds, for which it is essential to have a comprehensive risk management mechanism in place.

Finally, any risk to the Central Bank is a matter of reputation which is essential for the policy credibility of the Central Bank.

### **Evolution of the Risk Management Function of the Central Bank**

Until fairly recently, particularly till the global economic and financial crisis emerged in 2008, risk management was not a topic that Central Bankers paid much attention to and the Central Bank of Sri Lanka was no exception. During the pre-crisis period, risk management was a topic only considered in academic circles. As such, since its inception, the risk management of the Central Bank of Sri Lanka (CBSL) was more decentralized and individual departments were entrusted with managing their own risks and reporting to the senior management. Learning lessons from global risk governance failures, the focus of risk management at the Central Bank

centered on adherence to widely accepted standards, guidelines and best practices. Having recognized the importance of monitoring risk of the Central Bank in the early 2000s, the CBSL adopted a risk management process by conducting Risk Management Meetings chaired by a Deputy Governor. In May 2010, a more formal arrangement was made for risk management with the setting up of a Risk Management Committee (RMC). The types of risks that were overseen by the RMC included financial risks, i.e., interest rate risk, foreign currency risk and liquidity risk, and non-financial risks, i.e., policy risk, payments and settlements risk, risk arising from distressed banks and financial institutions, disaster risk, information system risk, environmental risk, human capital and management risk etc.

### **New Risk Management Framework of the Central Bank**

Having identified the importance and need for a strong and independent risk management framework for the CBSL which is also in line with the global trends in risk management function in central banking, the CBSL is also in the process of gradually moving into a centralized risk management framework. As an initial step, the Monetary Board has set up the Risk Management Department (RMD) in 2015 for the purpose of strengthening the risk management function of the Central Bank and thereby established a centralized risk management system for managing financial risks under the RMD while a decentralized mechanism is in place under each department for managing non-financial risks. Therefore, the current risk management mechanism of the Central Bank has a dual nature, i.e., centralized risk management for financial risk management and decentralized risk management for non-financial risks.

In view of the growing complexity in Central Bank activities and the development of the domestic and international financial environment in which the Central Bank operates, the bank's activities expose it to a wide array of non-financial risks. Any disruption to the bank's operations or damage to its reputation could seriously hamper the bank's role and responsibilities. Therefore, managing non-financial risk would ensure a risk compliance of work procedures, rules and guidelines as well as proper risk governance of the entire bank. In view of this, in order to have a framework for overseeing non-financial risks, Non Financial Risk Management Committee (NFRMC) was set up in October 2015. The NFRMC would help to centralize non-financial risks at the committee level which would give an overall picture of the non-financial risk exposure of the bank.

### **Three Lines of Defense**

The CBSL follows 'Three Lines of Defense' risk management model under the new risk management

framework. The responsibility of the 'First Line of Defense' rests with the respective departments. The risks coming under 'First Line of Defense' are operational in nature so that such risks have to be monitored and controlled where they originate as these particular departments have awareness of their operations. The 'First Line of Defense' would ensure that proper internal risk management systems and controls are in place. The RMD as the 'Second Line of Defense' is responsible for assessing, monitoring, and reporting financial risks. As such the RMD undertakes financial risk management function pertaining to international reserve investments, investments by internal funds managed by the CBSL, monetary operations, public debt management and investments by the Employees Provident Fund (EPF). The 'Third Line of Defense' is the independent audit function of the Central Bank. Internal Audit Department of the CBSL is entrusted with the responsibility of performing the risk assurance function as the 'Third Line of Defense'.

### **Risk Management Process**

Risk management process involves risk assessment, risk monitoring and control, and performance analysis against benchmarks and reporting. Risk management process starts with risk assessment that involves risk

identification and measurement. Market risk is captured through measures of Modified Duration, Sensitivity Analysis and Value at Risk while credit risk is measured with continuous assessments of counterparties based on counterparty credit ratings as well as other internally developed risk parameters. These risks relating to foreign reserve investments are monitored on continued basis to ensure that these are within the Monetary Board approved Foreign Reserve Management Guidelines and Counterparty Credit Management Systems Guidelines. Any breaches are independently reported to the Management. With regard to non-financial risks, a similar risk management process is followed by respective departments. Non-financial risks of selected departments which have relatively high risk exposures are reported to the NFRMC on quarterly basis. However, non-financial risks of a critical nature are directly and immediately reported to the management by the risk owner. The new risk management system would help to create a risk management culture in the Central Bank with the engagement of all employees in the bank as risk officers extending the responsibility of risk management to all employees of the bank. Highest governance standards both in terms of the reporting lines and the organization of the risk management function are key elements in the risk management process.

#### **(i) Take Over the Task of Managing Financial Risks from the International Operations Department (IOD)**

The task of identification, assessing and monitoring the financial risks associated with the investment of foreign reserves hitherto being handled by the Middle Office of the IOD has been transferred to RMD as and when the RMD was equipped with necessary IT infrastructure and skills that are needed to handle such tasks. Accordingly, the responsibility of managing market risk as well as counterparty credit risk transferred from IOD to the RMD towards the end of the year with the approval of the Foreign Reserve Management Committee (FRMC).

The market risk was captured by Value at Risk (VaR) and Modified Duration (MD). VaR is the measure of the risk of the losses of overall value of the portfolio for a certain time horizon at a given confidence level. MD has been used for measuring the sensitivity of fixed income and money market portfolios to yield curve changes. The RMD continued with Counterparty Credit Risk Management System (CCRMS) implemented by the IOD in managing counterparty credit risk. Counterparty evaluations and assessments were made based on financial indicators, counterparty credit ratings and their market exposures. Accordingly, several counterparty credit limits were revised in line with credit rating changes by Fitch, Standards and Poors, and Moodys during the period and revised credit limits were submitted to the IOD in

order to comply with limits in their trading. In addition, counterparty selections, credit risk assessments together with limit revisions during the period were presented to the FRMC. Adherence to credit limits has been monitored on continuous basis in line with CCRMS Guidelines.

#### **(ii) Analysis of Daily Market Information**

RMD daily analyses market data and information on the market liquidity, behavior of short term interest rates, asset allocation of foreign reserves (currency-wise and product-wise), dealer performances, yield curve behavior for Government Securities and treasury fund requirements, etc. and report to the Governor on daily basis. This analysis based on information from the Domestic Operations Department (DOD), IOD and Public Debt Department (PDD). In addition, any major developments relating to global financial markets were reported to the Governor.

#### **(iii) Contribution to Foreign Reserves Management Committee (FRMC)**

RMD obtained an observer status at the FRMC and made a few presentations on the new risk measures, market risk and credit risk factors in Reserve Management Portfolio and proprietary trading, etc. particularly towards the end of the year with the transferring of risk management functions previously handled by the IOD. In addition, the RMD submitted a few discussion papers for the FRMC during the period.

**(iv) Special Assignments/Concept Papers**

Special assignments and concept papers relating to liquidity of banks, trading activities of foreign reserves, operations of internal funds and compilation of interest rates by the CBSL, etc. were carried out and submitted to Governor.

**(v) Contribution to Non-Financial Risk Management Committee (NFRMC)**

RMD initiated setting up of Non-Financial Risk Management Committee (NFRMC) chaired by Governor in October 2015 in order to oversee non-financial risks of the departments which have relatively high exposure for non-financial risks. RMD has designed a new Risk Matrix for reporting risks pertaining to non-financial risks to the NFRMC and such information from member departments were combined and prepared a summary report for the NFRMC. Director of RMD serves as the secretary to the Committee by way of conveying meetings, preparing minutes and collecting and combining the information from other member departments into a risk matrix and submit to the NFRMC.

**(vi) Building up Necessary Infrastructure**

In fulfilling the infrastructure requirements of the Department, the RMD obtained services of Bloomberg. The Bloomberg system facilitates for market risk assessments and counterparty risk assessments as well as to obtain real time financial information such as market data, global news and credit ratings, etc. Reuter's news screen also provides with current global news.

**(vii) Skills Development and Engage in Knowledge Sharing Activities**

In order to share the knowledge, the RMD initiated departmental presentations and writing articles relating to risk management by the staff. The presentations and discussions by officers in the Department provided a platform for knowledge sharing among officers in the Department. In addition, knowledge was shared by officers those who have participated in foreign training. With a view to enhancing knowledge on risk management relating to foreign reserves investment, the RMD arranged some presentations with foreign experts as resource persons in addition to study visits by the RMD staff to other Central Banks which are experiencing very comprehensive risk management mechanisms.

**25. SECRETARIAT**

Secretariat Department (SD) is one of the first departments established at the inception of the Central Bank of Sri Lanka (CBSL). The main functions of SD are procurement of goods and services; administration of superannuation funds; implementation of leave rules and handling other general administration matters; making payments pertaining to postgraduate studies, foreign trainings and foreign travels;

provision of general services such as organising ceremonies, handling activities relating to the Board of Survey on obsolete and unserviceable equipment, and mail room service; and provision of services required to the Governor.

**(a) Procurement of Goods and Services:**

SD procured capital and non-capital goods and services amounting to Rs. 159.03 million during 2015 mainly through tenders within the time schedule. In order to ensure the timely supply of goods and services to the Central Bank, procurement planning was continued in 2015 too. As a result, SD was able to complete 88 per cent of the total procurement requirements of the Bank for the year. Further, SD obtained a cost effective and comprehensive insurance cover for all CBSL properties, including the Public Liability Insurance. In addition, officers of the SD participated in Tender Boards and Technical Evaluation Committees on procurement of goods and services by other departments under the prevailing procedures.

**(b) Administration of Superannuation Funds:**

SD administered payments and other correspondence relating to the Central Bank Pension Scheme, Widows' and Orphans' Pension Fund, Widowers' and Orphans' Pension Fund and Central Bank Provident Fund, which involved nearly 2000 beneficiaries.

**(c) Implementation of Leave Rules and Handling Other General Administration Matters:**

During 2015, SD granted 432 approvals to employees for private and official travels abroad. SD handled correspondence relating to services provided to trade unions, clubs, associations and other organisations during the year while steps were taken to provide more formal responses to requests of employees in relation to leave rules and other administration rules.

**(d) Making Payments pertaining to Postgraduate Studies, Foreign Trainings and Foreign Travels:**

During 2015, SD made payments pertaining to postgraduate studies of 43 employees and provided 430 training allowances for short term foreign trainings of employees. In addition, 177 subscriptions made by employees to recognised professional bodies in 2015 was reimbursed.

**(e) Conducting the Board of Survey on Obsolete and Unserviceable Equipment, Organising Events, and Providing Mail Room Service:**

During the year, activities relating to the Board of Survey was conducted at the CBSL Head Office for the disposal of obsolete and unserviceable office equipment as per the procedure stipulated in the Central Bank Manual. In 2015, SD coordinated and organised various commemorative events such as New Year Work Commencement Ceremony and Long Service Awards Ceremony, Programme to commemorate those who died at the bomb blast in 1996 and the 65th Anniversary

Oration to mark the establishment of CBSL. SD has facilitated to send 98,777 mail letters and 13,103 courier letters locally and internationally through its mail room service in 2015.

**(f) Provision of Services Required for the Governor:**

During the year, SD provided secretarial and protocol assistance to facilitate the performance of functions and duties of the Governor. The secretariat assistance provided included the scheduling of appointments and meetings, preparation and compilation of presentations, speeches, notes, articles, etc., and provision of financial market information, media news and other reports. The protocol assistance included arranging Governor's local and foreign travels and functions hosted by the Governor and the Deputy Governors and services provided to VIP visitors of the Governor and the Bank.

## 26. SECURITY SERVICES

Security Services Department (SSD) continued to strengthen the security of the Central Bank of Sri Lanka (CBSL) to protect its employees, buildings, properties and currency consignments in transit during the year. Strengthening of Security Services involved primarily in two areas, i.e. system improvement and training as summarized below.

### 26.1 System Improvement

**(a) Centralised Integrated Access Control System**

SSD was able to complete installation of the latest Centralised Integrated Access Control System in 2015 with the assistance of Facilities Management and Information Technology Departments.

**(b) Fire Suppression System**

The installation of fire protection system for the CBSL new car park was completed during the year. Also new fire alarm system was installed at Anuradhapura Regional Office replacing its existed outdated system. Initiatives have been taken to install fire suppression system for back up site at Centre for Banking Studies (CBS) at Rajagiriya in 2015. Operational fitness of all fire-fighting equipment located at head office and all other outside premises was checked, repaired and replaced on a regular basis during the year.

**(c) CCTV Monitoring System**

The installation of CCTV monitoring system for new back up site at Rajagiriya, new car park at head office, all regional offices and holiday bungalows was initiated during the year.

**(d) Business Continuity Plan**

SSD participated and co-operated in all business continuity drills conducted by Payment and Settlement and Information Technology Departments.

**(e) Security System Assessment**

At the request of the Central Bank, an expert team appointed by the Ministry of Defence commenced an

assessment on the prevailing security system to make recommendation on the setting up of the new system with relevant new technology.

### 26.2 Training

**(a) Fire Prevention, Fire Fighting and First Aid Programmes**

A two day comprehensive training program on fire prevention, fire fighting, first-aid and disaster management was conducted for 70 fire-wardens selected from all departments of CBSL with the assistance of Fire Services Department, St. John Ambulance and Disaster Management Center. Further, a demonstration on fire fighting and fire-drills was conducted for all employees at the Head Office with the assistance of Air Force and Colombo Fire Brigade in April 2015. Three security officers nominated to follow an advanced fire-fighting programme conducted by CINEC Maritime Campus, Malabe to enhance the efficiency in the field of fire fighting.

**(b) Skills and Competency Building**

Two day residential programme for 30 security officers was conducted at National Institute of Plantation Management in order to enhance the skills and competencies of the security officers on providing security for important locations, VIP handling, escort duties and public relations. In order to improve the skills of the security officers, SSD arranged several educational programmes for its staff. These educational programmes covered the arrears of security, information technology, urban agriculture, security features of currency and leadership etc. Five overseas trainings on security & disaster management were provided for three officers of SSD to enhance the knowledge during the year.

**(c) Special Training for Control Room Management**

A special practical and theoretical training was provided for selected 29 security officers of SSD on control room management during the year to enhance efficiency and effectiveness of the control room functions.

**(d) Weapon Handling and Live Firing**

Weapon handling and live firing were conducted for all security officers with the co-operation of the Sri Lanka Army during the last quarter of the year.

## 27. STAFF SERVICES MANAGEMENT

Staff Services Management Department (SSMD) continued to extend welfare facilities to all beneficiaries in an efficient and effective manner throughout the year. These welfare facilities included provision of loans under the Staff Housing (Mortgage) Loan Scheme, Provident Fund Loan Scheme and Staff Benefit Scheme; reimbursement of expenses under the Employer Contributory Medical Benefit



Scheme (MBS) and provisions of restaurant facilities. The number of registered beneficiaries under MBS consisting of employees, pensioners, their registered dependents together with widows/widowers was approximately 10,500 as at end 2015.

During 2015, SSMD granted 1,828 loans which included Housing Loans, Provident Fund Loans, Vehicle Loans, Computer Loans and other loans under the Staff Benefit Scheme. The SSMD has taken measures to grant these loans within a stipulated time frame after receiving the application together with all relevant documents by the applicant. The loan monitoring system introduced by the Department enabled effective supervision of loan disbursement to employees.

The CBSL restaurant continued to improve its service in providing food for CBSL staff. Further, the tea service/herbal drink provided by SSMD was supplemented with fresh milk served in the morning and evening on the basis of a survey conducted on the demand for fresh milk and herbal drinks. Measures were also taken to improve the environment of the restaurants and restaurant facilities during 2016.

SSMD continued to reimburse medical expenditure incurred by all registered beneficiaries under MBS. The total amount of reimbursement of medical expenditure increased by 2 per cent in 2015 compared to the previous year. With the approval of Monetary Board, the expenditure limits were increased under the MBS beginning from 01.01.2016. The medical facilities at the Medical Centre were made available to the CBSL employees during working hours by outsourcing such services to a reputed private hospital. Further, medical tests and laboratory service facilities were also provided at the Medical Centre at a reasonable charge. During the year, SSMD conducted three awareness programmes to enhance the knowledge of the CBSL staff on important health issues.

## 28. STATISTICS

During 2015, Statistics Department (STD) continued its main functions of forecasting and estimating of short term key macroeconomic variables; compiling price and wage indices, the Sri Lanka Prosperity Index (SLPI) and the Provincial Gross Domestic Product (PGDP); conducting surveys in order to collect economically important forward looking data to facilitate the monetary policy decision making process; collecting and processing data through the Country-Wide Data Collection System (CWDCS); timely dissemination of statistics and information through publications and press releases and contributing towards improving Sri Lanka's position in key global rankings. In addition, STD engaged in developing the common Economic Research Database, acting as a liaison and resource source for capacity building initiatives with local and international organisations, throughout the year.

### 28.1 Forecasting Key Macroeconomic Variables

To facilitate the overall goal of the CBSL on maintaining the economic and price stability, STD forecasts consumer price inflation and economic growth on short term basis. These results are submitted to the Monetary Policy Committee (MPC) and the Monetary Board in view of the monetary policy formulation purposes of the country. Moreover, the inflation projections are updated frequently in line with the realised and perceived changes in variables which impact on inflation based on the movements of producer and consumer prices, along with the developments in input and output prices as reflected through findings of surveys conducted by the Department.

A range of inflation forecasting methods were used, depending on the time frame of the forecast. Short term inflation forecasts are mainly based on recent price trends and expected short term price movements associated with market developments. Medium to long term forecasts are based on econometric techniques while continuously exploring new variables that reflect both supply and demand side impact on inflation.

Meanwhile, Department of Census and Statistics (DCS) released a new consumer price index namely, National Consumer Price Index (NCPI) in November 2015. The NCPI expands the coverage of price developments to the entire island. The Colombo Consumers' Price Index (CCPI) covered only the behavior of prices observed in the Colombo urban areas. STD continued to monitor the price developments in both NCPI and CCPI for policy making purposes.

Growth forecasts were prepared with sectoral composition of Gross Domestic Product (GDP) on quarterly and annual basis using primary and secondary data related to each sub activities of the economy. Indicators related to sub activities of the economy are used in compiling indicator based forecasts while model based forecasts employed statistical techniques to develop the accuracy of projections. Indicator based forecasting method was streamlined with the new classification based on the GDP rebasing to year 2010.

### 28.2 Compiling Price and Wage Indices

Provincial Consumer Price Indices (PCPI) for the nine provinces and composite Consumer Price Index (CPI) covering the entire island were also compiled and analysed on a monthly basis, by the Department. For the purpose of comparing price movement at provincial level, price data of the CWDCS is used with data from few other additional sources in compiling PCPIs.

The Wholesale Price Index (WPI) is also compiled on a monthly basis to measure the movements of producer and wholesale prices at the primary market level. Data for the WPI is collected through CWDCS, and other relevant government and private sector institutions.

In addition to price indices, STD also compiles wage rate indices to assess the movements of salaries and wages in the economy. The Department computes nominal and



real wage rate indices for public sector employees and real wage rate indices for formal private sector employees. Informal private sector wage movements are analysed based on the informal private sector wage rate index based on information collected through the CWDCS.

STD has been constructing a Land Price Index (LPI) over the past few years using price data provided by the Valuation Department for Divisional Secretary (DS) divisions in the Colombo District. Data for around 50 sub-divisions in Colombo, Dehiwala, Homagama, Kaduwela and Kesbewa covering residential, commercial and industrial properties are used for the purpose. In order to maintain homogeneity, three separate indices are compiled for residential, commercial and industrial price data, while the simple average of the three depicts the overall LPI. The LPI is compiled semi-annually.

### 28.3 Compiling the Sri Lanka Prosperity Index

To assess the overall status of prosperity in the country and in each of its provinces, the SLPI was first introduced in 2008 by the CBSL. The SLPI is a multi-dimensional indicator reflecting the economic and social developments in the country and the provinces, comprising of three sub-indices, namely, Economic and Business Climate, Well-being of the People and Socio-Economic Infrastructure. The SLPI is compiled by the department on an annual basis and last computed was for the year 2014. The department is continuously exploring for improvements in variables through which the sub-indices are calculated and methodological revisions are also being considered to enhance the representativeness of the index in explaining the overall prosperity of the country.

### 28.4 Computation of the Provincial Gross Domestic Product

In 2015, DCS has revised the base year of GDP compilation from 2002 to 2010. Accordingly, a number of methodological changes were introduced adhering to System of National Accounts (SNA) 2008. Thus STD has computed the PGDP in nominal terms for 2014 by disaggregating the rebased series of GDP estimates using relevant indicators at provincial level. PGDP figures for the year 2014 and the recompiled figures for 2013 based on the new series were published in October 2015.

### 28.5 Statistical Surveys

Quarterly Business Outlook Survey (BOS) initiated in 2014 was continued during the year 2015 to foresee the business conditions and to capture the short term market developments to monitor current economic situations and to forecast trends. The BOS will serve as an early warning indicator. Target population of this survey was large scale enterprises covering three major activities (Agriculture, Industry and Services) of the economy. Sample was selected using judgmental sampling method with stratification based on the contribution of the major activities to GDP. Four rounds

of the survey were carried out continuously during the year, and based on the results of the survey, Business Sentiment Indices (BSI) namely, Business Condition, Profitability, Skilled Labour Availability, Sales, Demand and Capacity Utilisation were computed. The results were presented to MPC and a detail report on the survey findings was submitted to the senior management for their information on quarterly basis. These results were published in aggregate form on quarterly basis for the information of the general public in the CBSL website.

Credit Conditions Survey, initiated during the second half of 2014 with semi-annual frequency to capture demand and supply side developments in the credit market was also continued during the year 2015. This consists of a credit demand survey which was designed to capture the demand side developments and a credit supply survey which was designed to capture the supply side developments of the credit market. The credit supply survey was designed to capture all banking institutions of the country. With regard to the credit demand survey, the target population was Small and Medium Enterprises (SME) of the economy. The sample frame for the credit demand survey was developed through a list of institutions obtained from Employees' Trust Fund (ETF) and a stratified random sample was selected stratifying the sample frame into small and medium enterprises. The credit demand survey now extends to provinces in which the CBSL has its regional presence starting from 1st half of 2015, in addition to its coverage in Western province. The results of this survey were presented to the management internally on a semi-annual basis for policy decision making.

Another flagship survey, Purchasing Managers' Index (PMI) for manufacturing and services activities, was initiated since May 2015 on monthly basis to provide purchasing professionals, business decision-makers and economic analysts with an accurate and timely set of data to help better understand industry conditions. With regard to the manufacturing activities PMI survey, Purchasing Managers of the Manufacturing Industries of the economy predominantly concentrating on the Western province is the target population. The sample frame for selecting sampling units was compiled based on a list of institutions obtained from Employees' Provident Fund (EPF) Department. Large manufacturing companies located in Western province were screened out to develop the required sample frame and a sample of 100 institutions was selected from this sample frame using Simple Random Sampling method. Sample of 100 institutes for services activities PMI survey was selected based on judgmental sampling. The survey is carried out during the last week of each month. The PMI-Manufacturing with the sub-indices of New Orders, Production, Employment, Suppliers' Delivery Time and Stock of Purchases and, PMI-Services with sub-indices of New Businesses, Business Activity, Employment, Backlogs of Work and Expectations for Activity were computed assessing the Month-on-Month change and reported to the MPC for policy decision making process.

Declining interest rates and gold price fluctuations prevailed in 2014 created the necessity of exploring their effect in detail for the other Pawn Brokers excluding Licensed Banks, Finance Companies and Leasing Companies. Hence STD conducted the Survey on Pawn Brokers – 2014 as a postal survey. Initial work of this survey was carried out in 2014 and data collection, analysis and report writing were completed during 2015. The findings of the survey were presented to the management in 2015.

The Inflation Expectations Survey has been conducted by the department on monthly basis since its introduction in 2006. The survey covers around 200 respondents from financial institutions, public sector institutions and schools. Responses are collected through e-mails and interviews. Respondents provide both quantitative and qualitative information on current inflation perceptions and expected inflation for the future 12 months period. The results of the survey on monthly basis were reported to the MPC and for policy decision making process.

The Annual Public Sector Employment Survey (APSES) was conducted covering all public sector institutions to ascertain the developments in the public sector employment. The Quarterly Public Sector Employment Survey (QPSES) was also conducted covering government and semi government organisations with employment count greater than or equal 1,000. The information collected through QPSES is used by the Department as a leading indicator to estimate the value added of the Government Services sub-sector in PGDP compilation. Based on the survey findings, annual and quarterly analytical reports were prepared. Moreover, information collected on the labour force and the labour market were also analysed with respect to employment, unemployment, foreign employment, labour relations, labour market reforms and labour productivity in the country.

A survey on Microcredit was conducted as a special project in 2015 with the objective of understanding the developments in the microcredit sector and to assess the financial literacy and financial inclusion of microcredit beneficiaries. The survey population was the microcredit beneficiaries in Sri Lanka and the sample size was 1588 microcredit beneficiaries, which was equally distributed among 15 districts. The sample was selected from the microcredit beneficiaries of the member institutes of the Lanka Microfinance Practitioners' Association (LMPA) and Non-Bank Financial Institutes. This survey was carried out during the period from October to December 2015. Further details and findings of the survey are available in the Box Article on this subject in the Part I of the Annual Report.

### 28.6 Country-Wide Data Collection System

CWDCS has been operating since 1978 and the system operates through an island-wide network of school teachers who function as statistical investigators. These statistical investigators cover 106 market centers spread

in various parts of the country. Under this system retail prices of consumer goods, producer prices of agricultural and fisheries commodities, daily wages of the informal private sector and projections on future production levels of agriculture and fisheries commodities are collected on a weekly, monthly and quarterly basis. Further, the system also utilises service of a few non-teacher data investigators to report data on wholesale and retail prices from Pettah market, the Maradagahamula rice market, Dambulla and Narahenpita Special Economic Centers and the Negombo and Peliyagoda fish markets on daily and weekly basis. The data collected under CWDCS is utilised for variety of purposes such as compilation of price indices, forecasting price movements, evaluation of the impact of policy changes on prices, estimation of national expenditure and income and dissemination of price and wage data to the general public. In order to strengthen the management information system, the Department in 2015 commenced to collect wholesale and retail price of a range of food commodities from selected markets on daily basis.

The quality and timeliness of data collection was strengthened through conducting on-site supervisions and continuous monitoring of data submitted by the investigators and also by revising data format used for Early Warning System (EWS). The accuracy of the data was further verified through exercising cross checks with the base price data collected from selected markets in the Colombo district by officers of this Department. As feedback from data investigators is crucial for improving the data system, five regional seminars were held during the year for teacher investigators in Colombo, Anuradhapura, Kandy, Matara and Jaffna to share experience and to discuss issues relating to the operations of the programme. The seminars were also aimed at capacity development of the statistical investigators.

### 28.7 Improving Sri Lanka's Position in Global Rankings "Ease of Doing Business" Ranking

STD continued its efforts in contributing towards the improvement of the "Ease of Doing Business" ranking of Sri Lanka. Consequently, STD had constant dialogue with the relevant government institutions to keep a track of the progress of the ongoing reforms; organised contributors meetings to make them aware of the most recent developments; facilitating World Bank (WB) missions to discuss with public and private officials working on areas related to the Doing Business (DB); coordinated the Sri Lankan participation at International Seminars on improving the DB ranking and most importantly the timely dissemination of information to the WB Group on reforms implemented focusing on variables tracked under this ranking. Based on our highlights, the WB has confirmed and reflected two reforms pertaining to Starting a Business and Dealing with Construction Permits sub-areas of the DB ranking, as initiatives Sri Lanka has taken towards easing doing

business for local entrepreneurs in the DB report released in 2015. Further, the country position has improved to 107 from the comparable ranking of 113 for the previous year, due to the implementation of these reforms.

In line with the initiatives and priorities of the government, a new operational mechanism for implementing reforms in line with the overall objective of improving the investment climate was established towards the end of the year. The strategic actions in taking the country to a much higher position in the DB ranking are being explored, where STD is a key stakeholder.

### Other Global Rankings

Global Indices namely Worldwide Governance Indicators, The Global Competitiveness Index, Index of Economic Freedom, Corruption Perceptions Index, Human Development Index and Economic Freedom of the World Index were monitored continuously, and information regarding the current position of Sri Lanka was submitted to the management. Macroeconomic information and data were continued to be provided to the compilers of above mention indices on weekly and monthly basis. The Organization for Economic Co-operation and Development (OECD) country risk classification of the participants to the Arrangements on Officially Supported Export Credits was also being evaluated and a process of bilateral discussions is proposed to address outstanding issues.

### 28.8 Dissemination of Statistics

STD is responsible for disseminating a wide range of socio-economic data of current interest to policymakers, researchers, academics, professionals, students and the general public. During the year, the Department released its two main annual publications titled "Economic and Social Statistics of Sri Lanka 2015 – Volume XXXVII" for the fourth consecutive year in all three languages in April 2015 and "Sri Lanka Socio-Economic Data Folder 2015 – Volume XXXVIII" in June 2015 and released a CD for the Economic and Social Statistics of Sri Lanka publication in 2015. In addition, it continued publishing the Weekly and Monthly Economic Indicators. During 2015 also, STD has contributed two chapters to the Central Bank Annual Report and Recent Economic Developments and made regular contributions to the Monthly Bulletin. STD also initiated, after making available the Statistics data on the StaNet in the departmental web page in the local area network (accessible via Mansala), developing an electronic database including data not only from Statistics but also from Economic Research, Bank Supervision, Domestic Operations, Payments and Settlements and Financial Sector Research, for the benefit of all internal data users. The main objective behind was to assist in policy research purposes and STD has already taken steps to expand the existing database to get the rest of the departments on board.

## 29. SUPERVISION OF MICROFINANCE INSTITUTIONS

In terms of the Monetary Board decision at its Meeting No. 23/2015 held on September 25, 2015, the Department of Supervision of Microfinance Institutions (DSMI) was established at the Central Bank with effect from 22 October 2015.

The main objectives of the DSMI are to carry out responsibilities as stipulated in the Part VI and VII of the Draft Microfinance Bill, implement policies approved by the Monetary Board to ensure good governance, transparency and stability of Microfinance Institutions (MFIs), identify key issues of microfinance sector for policy guidance, disseminate information to stakeholders, conduct in-depth research and surveys on critical microfinance issues and provide policy guidance to support the national strategy for poverty alleviation, promote financial literacy and financial inclusion at grass root level and arrange training for Microfinance Companies (MFCs) and linking them with the formal financial system to facilitate efficient allocation and management of resource.

### Functions and Responsibilities of DSMI

In terms of the Microfinance Bill, major functions of DSMI include issuance of licenses for MFCs, preparation and issuance of directions and guidelines with the approval of the Monetary Board (MB) to MFCs and Microfinance Non-Governmental Organizations (Microfinance NGOs), conduct continuous supervision and periodic on-site examinations of licensed MFCs, cancellation of licenses and winding up of MFCs on behalf of the MB and report to the MB about the progress and issues related to MFCs.

The activities of the DSMI will be effectively commenced after the Draft Microfinance Bill is passed by the Parliament. However, DSMI has already initiated preliminary work relating to formulation of principles, standards and guidelines to Microfinance NGOs, formulation of rules and directions for MFCs, conducting a survey on MFIs, drafting of departmental operational manual and preparation of capacity building programmes for the staff of DSMI, NGO Secretariat and MFIs.

## 30. SUPERVISION OF NON-BANK FINANCIAL INSTITUTIONS

The Department of Supervision of Non-Bank Financial Institutions (DSNBFI) was established in 1988 to regulate and supervise finance business with the enactment of the Finance Companies Act No.78 of 1988 (FCA) replacing the Control of Finance Companies Act, No.27 of 1979. The DSNBFI's operations are now governed by the Finance Business Act, No.42 of 2011 (FBA) which replaced FCA and became effective from 09.11.2011. The regulation and supervision of finance leasing business is also under the purview of DSNBFI with the enactment of the Finance Leasing Act, No.56 of 2000

(FLA). The major functions of DSNBFI include supervision of Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) through examinations and continuous surveillance, granting regulatory approvals, issuance of directions and prudential requirements, investigating into companies carrying on finance business and accepting deposits without authority, conducting public awareness programmes and attending to public complaints.

As at end 2015, there were 46 LFCs and 70 Registered Finance Leasing establishments (RFLEs). The names of these LFCs and RFLEs are provided in Annex II-3. Regulatory requirements issued in 2015 are given in Part III of this report.

### 30.1 Supervision of LFCs/SLCs

The objective of supervision of LFCs/SLCs is to promote the safety and soundness of the supervised institutions (micro-prudential supervision) and the overall LFC/SLC system (macro-prudential supervision). The supervisory process comprises of examinations, continuous surveillance and problem resolutions. In 2015, risk focused supervisory mechanism was re-designed to focus on efficiency and sustainability of institutions.

#### a. Examinations

During 2015, DSNBFI conducted annual examinations of 34 LFCs/SLCs. Inadequate loan loss provisioning, lapses on internal controls, non-compliances on the corporate governance direction, related party transactions, concentration risks on few products and business going concerns on some institutions were the main findings of the examinations. The examination reports and recommendations approved by the Monetary Board with time bound action plans for corrective actions were provided to the respective Boards of Directors and follow up action was undertaken continuously to ensure that LFCs/SLCs take measures to address the supervisory concerns within the agreed time frames.

#### b. Continuous surveillance

- i Surveillance is performed by on-going basis by analysing the financial performance of companies on the basis of periodic returns submitted by LFCs/SLCs and review of other financial information including audited reports, management letters, external ratings and press reports.
- ii Surveillance is carried on to identify the potential risks of LFCs/SLCs through early warning indicators and internal rating system on capital, liquidity, provisioning, corporate governance and management. On the basis of findings, companies are required to take prompt

corrective actions to resolve the supervisory concerns within the agreed time frame.

#### c. Resolution Actions

Several companies, which were affected negatively during the 2008 liquidity crisis, continued to face shortages on capital and liquidity. The Board of Directors of a company was reconstituted with the view to restructuring the company. In addition, regular meetings were held with Board of Directors, senior management and external auditors to monitor the progress. The Central Bank conducted discussions with prospective investors to infuse capital for two weak companies.

### 30.2 Granting of Regulatory Approvals

- a. During 2015, DSNBFI granted regulatory approvals to LFCs/SLCs to amend the Articles of Associations, form subsidiaries, issue debt instruments, increase share capital, outsource business operations, appoint new Directors and officers performing executive functions and open 84 new branches. Further, three amalgamations were completed during 2015. Those are Bartleet Finance PLC merging with Orient Finance PLC, Merchant Bank of Sri Lanka PLC merging with MCSL Financial Services Ltd and MBSL Savings Bank Ltd and TKS Finance Ltd. merging with Asian Finance Ltd.
- b. In addition, 5 finance leasing licences namely; DFCC Vardhana Bank PLC, MCSL Financial Services Ltd., MBSL Savings Bank Ltd., Bartleet Finance PLC and Asian Finance Ltd. were cancelled during 2015. These were mainly due to their strategic decisions.

### 30.3 Issue of Directions and Prudential Requirements

- a. Direction on opening, closure and relocation of business places of LFCs/SLCs: A new regulatory framework was designed to strengthen and streamline the existing policies and practices in respect of the opening, closure and relocation of business places of LFCs/SLCs. This Direction was issued during January 2016.
- b. Direction on Loan to Value ratio for loans in respect of motor vehicles: In order to mitigate the potential systemic risk arising from the excessive exposure to vehicle loans, Directions were issued to all LFCs/SLCs prescribing the maximum loan facilities not exceeding 70 per cent of the market value of vehicles to be effective from 1st December 2015.

### 30.4 Investigation on Conduct of Finance Business without Authority

During 2015, 11 investigations were carried out in terms of section 42 of FBA in order to ascertain whether such

## Annex II-3

## Licensed Finance Companies and Registered Finance Leasing Establishments Licensed with the Central Bank of Sri Lanka in Accordance with the Law (As at end 2015)

## Licensed Finance Companies

- |   |  |
|---|--|
| 1. Abans Finance PLC  | 24. Mercantile Investments and Finance PLC   |
| 2. Alliance Finance Co. PLC   | 25. Merchant Bank of Sri Lanka & Finance PLC   |
| 3. AMW Capital Leasing and Finance PLC                                    | 26. Multi Finance PLC  |
| 4. Arpico Finance Co. PLC   | 27. Nation Lanka Finance PLC   |
| 5. Asia Asset Finance PLC   | 28. Orient Finance PLC   |
| 6. Associated Motor Finance Co. PLC                                       | 29. People's Leasing & Finance PLC   |
| 7. Bimpuh Finance PLC   | 30. People's Merchant Finance PLC  |
| 8. BRAC Lanka Finance PLC   | 31. Richard Peiris Finance Ltd.  |
| 9. Central Finance Co. PLC  | 32. Sarvodaya Development Finance Ltd. (formerly, Deshodaya Development Finance Co. Ltd) |
| 10. Central Investments and Finance PLC*                                  | 33. Senkadagala Finance PLC  |
| 11. Chilaw Finance PLC  | 34. Serendib Finance Ltd. (formerly, Indra Finance Ltd.)                                 |
| 12. Citizens Development Business Finance PLC                             | 35. Singer Finance (Lanka) PLC   |
| 13. City Finance Corporation Ltd.   | 36. Sinhaputhra Finance PLC  |
| 14. Colombo Trust Finance PLC (formerly, Capital Alliance Finance PLC)    | 37. Siyapatha Finance PLC  |
| 15. Commercial Credit and Finance PLC                                     | 38. Softlogic Finance PLC  |
| 16. Commercial Leasing & Finance PLC                                      | 39. Summit Finance PLC (formerly, George Steuart Finance PLC)                            |
| 17. ETI Finance Ltd.  | 40. Swarnamahar Financial Services PLC   |
| 18. HNB Grameen Finance Ltd. (formerly, Prime Grameen Micro Finance Ltd.) | 41. The Finance Co. PLC  |
| 19. Ideal Finance Ltd.  | 42. The Standard Credit Finance Ltd.   |
| 20. Kanrich Finance Ltd.  | 43. TKS Finance Ltd.   |
| 21. L B Finance PLC   | 44. Trade Finance & Investments PLC  |
| 22. LOLC Finance PLC (formerly, Lanka ORIX Finance PLC)                   | 45. U B Finance Co. Ltd.   |
| 23. Melsta Regal Finance Ltd.   | 46. Vallibel Finance PLC   |

\* Managed by the managing agent appointed by the Central Bank of Sri Lanka and undergoing restructuring. In the meantime, deposit mobilisation has been suspended.

## Registered Finance Leasing Establishments

- |  |  |
|--|--|
| <b>(A) Licensed Commercial Banks</b>                         | 2. Lankaputhra Development Bank Ltd.   |
| 1. Amana Bank PLC  | 3. Pradeshiya Sanwardana Bank  |
| 2. Bank of Ceylon  | 4. Sanasa Development Bank PLC   |
| 3. Commercial Bank of Ceylon PLC                             | 5. Sri Lanka Savings Bank Ltd.   |
| 4. DFCC Bank PLC   |  |
| 5. Hatton National Bank PLC                                  | <b>(C) Specialised Leasing Companies</b>   |
| 6. MCB Bank Ltd.   | 1. Assetline Leasing Co. Ltd.  |
| 7. National Development Bank PLC                             | 2. Co-operative Leasing Co. Ltd.   |
| 8. Nations Trust Bank PLC                                    | 3. Isuru Leasing Co. Ltd.  |
| 9. Pan Asia Banking Corporation PLC                          | 4. LOLC Micro Credit Ltd.  |
| 10. People's Bank  | 5. Newest Capital Ltd.   |
| 11. Sampath Bank PLC   | 6. SMB Leasing PLC   |
| 12. Seylan Bank PLC  | 7. Unisons Capital Leasing Ltd. (formerly, Laugfs Capital Ltd.)                              |
| 13. Union Bank of Colombo PLC                                |  |
| <b>(B) Licensed Specialised Banks</b>                        | <b>(D) Licensed Finance Companies listed above except Sarvodaya Development Finance Ltd.</b> |
| 1. Housing Development Finance Corporation Bank of Sri Lanka |  |



persons/institutions are carrying on finance business and accepting deposits from public without authority. One institution was determined for the violation of FBA and referred to the Attorney General's Department to initiate legal action. Further, 2 investigations were closed as it was revealed that respective institutions had not engaged in unauthorized finance business. As at end of 2015, there were 15 investigations in progress.

### 30.5 Public Awareness Programmes and Handling of Public Complaints

DSNBFI conducted 14 public awareness sessions and broadcast 18 electronic media advertisements with the view to educating the public of the risk of investing in unauthorised financial institutions and investments schemes. Around 12,000 leaflets containing lists of Licenced Banks and LFCs with other useful information were distributed among the general public. Further, DSNBFI mediated to resolve complaints received with regard to LFCs/SLCs from the general public mainly with respect to unfair customer practices and seeking reliefs on loans obtained. Such complaints were directed to respective LFC/SLC for resolution.

### 30.6 Facilitating Court Proceedings on Failed Financial Institutions

- i Golden Key Credit Card Company Ltd.
  - The Supreme Court on 04.08.2015 terminated the proceedings of case no. SC. FR. 191/2009 filed by several Security Deposit Holders (SDHs) of The Golden Key Credit Card Company Ltd. (GKCC) and ordered the Central Bank to take appropriate steps to give effect to the modalities submitted by the Central Bank to the Supreme Court on 03.08.2015 for repayment to the SDHs of the GKCC.
  - As per the modalities, the 41 per cent of the remaining deposits of SDHs are to be made using the funds advanced by the Treasury in 3 tranches, i.e., balances less than Rs. 2 million as 1st tranche, balances between Rs. 2-10 million as 2nd tranche and balances over Rs. 10 million as 3rd tranche. Accordingly, Rs. 544.3 million was provided by the Treasury on 21.07.2015 to pay the 1st tranche and repayments to 2,536 SDHs were made during the months of July and August 2015.
  - Further Rs. 3,945.6 million was provided by the Treasury on 14.12.2015 to pay the 2nd tranche and repayments to respective SDHs have commenced in December 2015 accordingly.

- ii Other unauthorised financial institutions

Based on the case submitted by the depositors of The Finance and Guarantee Property Developers Private Ltd.

(FGPD) and F&G Real Estate Company Ltd. (FGRECL) on 10.03.2015, the Supreme Court approved the appointment of 4 members to Boards of FGPD & FGRECL representing 2 each from the Independent Associations of Depositors of two companies. The Court further ordered the new Board of Directors to proceed with the implementation of the Plan of Action dated 23.10.2013 submitted by the Central Bank. Accordingly, the Board is presently in the process of making arrangements for repayments.

- iii In addition, during the year DSNBFI carried out work relating to Court proceedings of 16 cases out of which 2 cases were closed.

## 31. TRAINING AND DEVELOPMENT

Training and Development Department (TDD) was established by the Monetary Board in July 2015 with the view of strengthening the Bank's training function to meet the emerging needs of the Human Capital Development of the Bank and to equip the Central Bank of Sri Lanka (CBSL) staff with modern technological advancements in the financial sector in the globe. Key functions of the TDD are identifying training needs and prepare strategies to fill training gaps of the Bank, preparing and implementing annual training plan, facilitating intellectual capacity building, providing opportunities for foreign/local short-term training for the Bank's employees and facilitating knowledge sharing of the staff. The TDD steers Bank's training functions with a view of ensuring the overall career development of the employees.

### Short-term Training

TDD provided 1,508 appropriate short-term foreign and local training opportunities to the Bank staff with the objective of minimising the competency gaps of the Bank employees. These training gaps were identified through an annual competency mapping exercise carried out at the end of 2014.

### Short-term Foreign Training

In 2015, TDD provided 309 short-term foreign training opportunities by the way of training programmes, workshops, seminars and study visits conducted by the reputed foreign training institutions, key central banks such as Bank of England, Deutsche Bundesbank, Reserve Bank of India, Bank Negara Malaysia and Federal Reserve System of USA. The Central Bank staff also participated for the training opportunities offered by international funding agencies and research organisations such as International Monetary Fund (IMF), World Bank, Asian Development Bank, SEACEN, Bank for International Settlements (BIS) etc. Table II -21 below shows the details of the short-term foreign training opportunities provided to Central Bank employees in 2015.



Table II - 21

### Short-term Foreign Training Opportunities – 2015

Field	No. of Programmes	No. of Opportunities
Monetary Policy, Economics & Statistics	64	77
Financial System Stability	48	65
Risk Management, Legal & Compliance	31	42
Portfolio Management	22	25
Central Banking	6	16
IT / Payment & Settlement	9	22
Currency Management	3	4
Human Resource Management	4	6
Microfinance	5	7
Other	23	45
<b>Total</b>	<b>215</b>	<b>309</b>

The Central Bank of Sri Lanka (CBSL) continued to evaluate the effectiveness of the short-term foreign training received by the respective officers, by way of assigning them various assignments to be carried out using the knowledge and the exposure gained through the training programmes. These activities were monitored by a training sub-committee appointed by the management. Accordingly, 159 such assignments were completed during 2015 by the officers who have participated in the short-term foreign training programmes. The details of assignments completed by the officers during 2015 are summarised in Table II-22 below.

Table II - 22

### Completion of Assignments by Participants of Short-term Foreign Training Programmes during – 2015

Category	No. of Assignments
Guidelines for supervision of financial institutions	12
Knowledge sharing and public awareness through articles and presentations	97
Proposals for improving systems and processes	50
<b>Total</b>	<b>159</b>

Table II - 23

### Number of Officers Who Commenced and Completed Postgraduate Studies under the CBSL Scholarship Programme (2011-2015)

Studies	2011		2012		2013		2014		2015	
	Commenced	Completed	Commenced	Completed	Commenced	Completed	Commenced	Completed	Commenced	Completed
PhD	2	2	4	2	6	0	5	2	3	1
Master's Degree	17	10	18	17	11	19	24	11	19	21

### Short-term Local Training

In 2015, TDD provided 1,199 short-term local training opportunities to the Bank staff mainly at the Centre for Banking Studies (CBS) and other reputed local institutions mainly in the areas of legal, balance of payment, economics and commerce, accountancy, investments, management, secretarial practices, payment and settlement system, human resource management, auditing, supervision of banks and financial institutions, financial markets, microfinance, etc. The number of officers who participated in the training programmes conducted by the CBS and other institutions were 669 and 530, respectively.

### Workshops and Knowledge Sharing

TDD, in collaboration with CBS, organised 4 workshops in 2015 covering the areas of leadership, motivation, communication skills and report writing with the objective of increasing productivity of the staff. In addition, under the Monthly Economic Forum series organised by the TDD in collaboration with the Economic Research Department, 12 presentations were delivered by industry specialists on different, timely important topics in economics, banking and finance during the year, facilitating knowledge enhancement of the CBSL employees.

### Postgraduate Studies

TDD continued to facilitate the staff class officers to pursue their postgraduate studies during the year 2015. The TDD facilitated 2 officers to embark on PhD programmes and 19 other officers to start their Master's degree programmes in reputed universities in UK, USA, Australia and Japan. One officer commenced a PhD programme in a local university in 2015. Meanwhile, 1 officer who completed the PhD programme and 21 officers who completed their Master's degree programmes resumed duties at CBSL during the year. Table II-23 below shows the number of officers who commenced and completed postgraduate studies under the CBSL scholarship programme from 2011 to 2015.