

PART II

PART II

ACCOUNTS AND OPERATIONS OF THE CENTRAL BANK OF SRI LANKA

1. Accounts and Finance	1
2. Bank Supervision	71
3. Centre for Banking Studies	76
4. Communications	76
5. Currency	78
6. Domestic Operations	81
7. Economic Research	84
8. Employees' Provident Fund	87
9. Facilities Management	91
10. Finance	91
11. Financial Intelligence Unit	92
12. Foreign Exchange	94
13. Human Resources	98
14. Information Technology	101
15. Internal Audit	103
16. International Operations	103
17. Legal and Compliance	105
18. Macroprudential Surveillance	106
19. Payments and Settlements	108
20. Policy Review and Monitoring	110
21. Public Debt	111
22. Regional Development	113
23. Regional Office Management	117
24. Resolution and Enforcement	118
25. Risk Management	119
26. Secretariat	120
27. Security Services	121
28. Staff Services Management	122
29. Statistics	122
30. Supervision of Non-Bank Financial Institutions	125
31. Training and Development	129

1. ACCOUNTS AND FINANCE

Activity Report of the Monetary Board Advisory Audit Committee during and relating to the Financial Year 2019

1. Introduction

Monetary Board Advisory Audit Committee (AAC) is a sub-committee of the Monetary Board. AAC advises the Monetary Board on policies and matters relating to financial reporting, internal controls, internal audit, external audit and any other matter assigned by the Monetary Board. The AAC reported its performance and recommendations to the Monetary Board on a quarterly basis.

2. Composition of AAC

The AAC is chaired by an appointed member of the Monetary Board and is comprised of two other external audit professionals. The composition of the AAC as at 31st December 2019 was as follows:

- | | | | |
|------|----------------------|---|----------|
| i. | Mr. A N Fonseka | - | Chairman |
| ii. | Mr. H M A Jayasinghe | - | Member |
| iii. | Mrs. A I Mohotti | - | Member |

Secretary to the Monetary Board is the Secretary to the AAC and the Director of the Internal Audit Department is the Assistant Secretary to the AAC. The Internal Audit Department (IAD) provides secretarial facilitation to the AAC. The Audit Superintendent from the National Audit Office in-charge of the external audit of the Central Bank of Sri Lanka (CBSL), the Chief Accountant, the Compliance Officer and the Chief Risk Officer of the CBSL attend the AAC meetings as observers. Heads of the Department of the CBSL are invited by the Chairman of the AAC as and when necessary for discussions. The engagement partner of KPMG, the Audit Firm appointed by the Auditor General to carry out the external audit also attends when the financial statements of the CBSL are discussed.

The AAC is required to meet at least six (06) times a year or as may be decided by the Chairman of the AAC or as directed by the Monetary Board. Meetings of the AAC are convened by the Secretary to the Committee. A quorum for a meeting is two (02) including the Chairman.

3. Activities carried out during and relating to the Financial Year 2019

The AAC held ten (10) meetings in 2019 and the major activities performed by the AAC during 2019 and in relation to the 2019 financial statements are indicated below.

a) Financial Reporting and External Audit;

The AAC reviewed,

- i. the Interim Issues Memorandum, the final Management Letter submitted by KPMG relating to the audit of the Financial Statements of the CBSL for the year ended 31st December 2018 and the management comments for the same.
- ii. the Report of the Auditor General on the Financial Statements of the CBSL for the year 2018 and the management comments for the same.
- iii. the Audit Plan of KPMG with regard to the audit of the Financial Statements of the CBSL for the year 2019.
- iv. the Interim Management Letter with regard to the audit of the Financial Statements of the CBSL for 2019 and the management comments for the same.
- v. Financial Statements of EPF for the year ended 31st December 2018 audited by the Auditor General.
- vi. Financial Statements of EPF for the year ended 31st December 2019 audited by the Auditor General.

b) Internal Controls;

The AAC,

- i. reviewed and advised on internal controls of the CBSL.
- ii. reviewed the implementation progress of AAC recommendations by the respective Heads of Department.

c) Internal Audit;

The AAC reviewed,

- i. the progress of conduct of audits in 2019 on quarterly basis.
- ii. the internal audit findings and the rectifications of the same.
- iii. the Strategic Audit Plan of IAD for 2020 - 2022 and the Annual Internal Audit Plan for 2020.
- iv. the staff requirements of IAD.

Activity Report of the Board Risk Oversight Committee during and relating to the Financial Year 2019

1. Introduction

The Board Risk Oversight Committee (BROC) is a subcommittee appointed by the Monetary Board (MB), overseeing CBSL's overall Risk Management and Compliance Functions via a formal delegation from the MB. The BROC is responsible for laying the broad strategy and policies for the Bank's risk management and compliance functions, while assisting the MB to ensure a dedicated focus on risk management and compliance in the Bank.

2. Composition of BROC

The BROC is chaired by an appointed Board Member nominated by the MB (other than the Chairman of the Monetary Board Advisory Audit Committee) and comprises of two other Independent External Experts with relevant expertise who have not been involved in the Financial Services Sector for at least one year, prior to their appointments.

The composition of the BROC as at 31.12.2019 was as follows:

- i. Mr. C P R Perera, Monetary Board Member (Chairman)
- ii. Mr. Priyan Fernando (Independent External Member)
- iii. Mr. Naomal Goonewardena (Independent External Member)

The Secretary to the MB is the Secretary to the BROC and the Director of the Risk Management Department is the Assistant Secretary to the BROC. The Risk Management Department (RMD) provides secretarial facilitation to the BROC.

The Senior Deputy Governor and all Deputy Governors, Director - Legal and Compliance Department and the Director – Internal Audit Department of the Central Bank attend BROC meetings in the capacity of Observers.

The BROC is required to meet at least once every quarter or more frequently as may be decided by the Chairman of the BROC or as directed by the MB. Meetings of the BROC are convened by the Secretary to the Committee. A quorum for a meeting is two (02) members including the Chairman.

3. Activities carried out during and relating to the financial year 2019

The BROC held five (05) meetings in 2019 and major activities carried out are indicated below.

- i. Reviewed the Risk Management Policy Statement (RMPS) of the Central Bank providing relevant inputs and guidance to improve this document.
- ii. Guided RMD to obtain World Bank Technical Assistance (WBTA) to improve risk governance and operational risk management framework within the CBSL and was actively involved in the completion of the first Engagement in this regard.
- iii. Took initiatives to facilitate the implementation of the World Bank recommendations, with a view to nurture a risk culture within the Bank.
- iv. Reviewed the automated Incident Reporting System of the CBSL and related guidelines prior to deployment.
- v. Reviewed and provided inputs to improve the Operational Risk Management Guidelines of the CBSL, including the risk taxonomy, risk assessment scales and the risk matrix.
- vi. Reviewed and assessed the risk management and compliance information pertaining to the three funds monitored by RMD (the International Reserves, the Internal Investment Fund and the Employees' Provident Fund), on a quarterly basis to ensure that they are within the parameters stipulated in the respective Investment Policy Statements, Strategic Asset Allocations and Investment Guidelines.
- vii. Reviewed the investment policies of the fund management activities of the three funds and provided constructive inputs to enhance these policies, from a risk management perspective, including the risk appetite /tolerance levels and other market and credit risk parameters.

Central Bank of Sri Lanka

Management Statement

For the period ended 31 December 2019

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 KPMG, to carry out an audit under International Standards of Auditing to ensure compliance with the International Financial Reporting Standards.



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NATIONAL AUDIT OFFICE



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திகதி }
Date }

30 March 2020

The Honorable Minister of Finance

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the Central Bank of Sri Lanka for the year ended 31 December 2019 in terms of Section 12 of the National Audit Act, No. 19 of 2018 and Section 42(2) of the Monetary Law Act (Chapter 422)

1. Financial Statements

1.1 Opinion

The audit of the financial statements of Central Bank of Sri Lanka (the “Bank”), which comprise the statement of financial position as at 31 December 2019, and the statement of income, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No.19 of 2018, Section 13(1) of the Finance Act, No. 38 of 1971 and Section 42(2) of the Monetary Law Act (Chapter 422). My report to Parliament in pursuance of provisions in Article 154(6) of the Constitution will be tabled in due course. To carry out this audit, I was assisted by a firm of Chartered Accountants in public practice.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

1.2 Basis for Opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව | இல. 306/72, பொல்தூவ வீதி, பத்தரமுல்லை, இலங்கை | No. 306/72, Polduwa Road, Battaramulla, Sri Lanka.



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1.3 Responsibilities of Monetary Board and Those Charged with Governance for the Financial Statements

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

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

As per Section 16(1) of the National Audit Act, No. 19 of 2018, the Bank is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Bank.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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



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

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

2. Report on Other Legal and Regulatory Requirements

National Audit Act, No. 19 of 2018, includes specific provisions for following requirements:

- I have obtained all the information and explanation that were required for the audit and as far as appears from my examination, proper accounting records have been kept by the Bank as per the requirement of Section 12(a) of the National Audit Act, No. 19 of 2018.
- The financial statements presented is consistent with the preceding year as per the requirement of the Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- The financial statements presented includes all material recommendations made by me in the previous year as per the requirement of the Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

Based on the procedures performed and evidence obtained which were limited to matters that are material, nothing has come to my attention:

- to state that any member of the governing body of the Bank has any direct or indirect interest in any contract entered in to by the Bank which are out of the normal course of business as per the requirement of Section 12 (d) of the National Audit Act, No. 19 of 2018;
- to state that the Bank has not complied with any applicable written law, general and special directions issued by the governing body of the Bank as per the requirement of the Section 12 (f) of the National Audit Act, No. 19 of 2018;
- to state that the Bank has not performed according to its powers, functions and duties as per the requirement of Section 12 (g) of the National Audit Act, No. 19 of 2018;



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NATIONAL AUDIT OFFICE

- to state that the resources of the Bank had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of the Section 12 (h) of the National Audit Act, No. 19 of 2018.

W.P.C. Wickramaratne

Auditor General

Central Bank of Sri Lanka Statement of Financial Position

As at 31 December

Assets	Note	2019 Rs. 000	2018 Rs. 000
Foreign Currency Financial Assets			
Cash & Cash Equivalents	9	420,709,469	372,175,176
Securities at Fair Value through Profit or Loss	10	38,493,268	37,467,239
Securities at Fair Value through Other Comprehensive Income	10	729,801,009	694,876,394
Derivative Financial Instruments	11	2,021,917	750
IMF Related Assets	12	147,159,174	147,427,452
Other Receivables		-	961,284
Total Foreign Currency Financial Assets		1,338,184,837	1,252,908,295
Local Currency Financial Assets			
Sri Lanka Government Securities	13	76,511,883	45,031,157
Securities Purchased under Resale Agreements	14	50,354,879	229,454,409
Provisional Advances to Government	15	236,608,971	198,632,571
Equity Investments in Financial and Other Institutions	16	1,500,487	1,381,879
Other Assets	17	17,601,747	14,879,268
Total Local Currency Financial Assets		382,577,967	489,379,284
Total Financial Assets		1,720,762,804	1,742,287,579
Foreign Currency Non-Financial Assets			
Gold	18	173,438,430	149,683,439
Non-Financial Assets			
Inventories	19	7,298,392	6,568,935
Other Receivables and Prepayments		1,069,076	1,914,087
Property, Plant and Equipment	20	16,810,691	16,955,854
Intangible Assets	21	38,046	30,437
Total Non-Financial Assets		198,654,635	175,152,752
Total Assets		1,919,417,439	1,917,440,331
Liabilities and Equity			
Foreign Currency Financial Liabilities			
Banks and Financial Institutions	22	958,248	19,301,160
Derivative Financial Instruments	11	989,958	14,056,460
Asian Clearing Union	23	82,995,147	79,158,977
International Monetary Fund	24	471,975,073	416,988,246
Others	25	57,091,538	134,730,933
Total Foreign Currency Financial Liabilities		614,009,964	664,235,776
Local Currency Financial Liabilities			
Deposits of Banks and Financial Institutions	26	254,581,620	320,106,183
Deposits of Government and Governmental Entities	27	499,639	348,718
Securities Sold Under Repurchase Agreements	28	43,298,325	28,311,221
Currency in Circulation	29	677,967,150	640,942,510
Other Payables	30	12,702,888	12,624,764
Total Local Currency Financial Liabilities		989,049,622	1,002,333,396
Total Financial Liabilities		1,603,059,586	1,666,569,172
Other Liabilities			
Deferred Grants	31	5	11
Pension and Other Post - Employment Benefit Plans	32	11,990,647	12,016,804
Miscellaneous Liabilities and Accruals	33	181,809	85,945
Total Other Liabilities		12,172,461	12,102,760
Total Liabilities		1,615,232,047	1,678,671,932
Equity			
Capital Funds		50,000,000	50,000,000
Reserves		254,185,392	188,768,399
Total Equity		304,185,392	238,768,399
Total Liabilities and Equity		1,919,417,439	1,917,440,331

The accounting policies and notes on pages 13 through 70 form an integral part of these Financial Statements.

The Governor and the Chief Accountant of the Central Bank of Sri Lanka authorised these Financial Statements for issue on 24th March 2020 and signed on behalf of the Monetary Board.


Prof. W. D. Lakshman – Governor


U.L. Muthugala - Chief Accountant

Central Bank of Sri Lanka

Statement of Income

For the year ended 31 December

	Note	2019 Rs. 000	2018 Rs. 000
Operating Income :			
Income from Foreign Currency Financial Assets			
Interest Income	36	32,950,560	25,556,932
Gain/(Loss) from Unrealized Price Revaluations	37	42,900,897	(18,259,956)
Gain/(Loss) from Realized Price Changes		1,057,273	(4,092,390)
Total Income from Foreign Currency Financial Assets		76,908,730	3,204,586
Expenses on Foreign Currency Financial Liabilities			
Interest Expense	38	(8,338,019)	(5,350,155)
Expected Credit Losses on Foreign Currency Financial Assets	39	(187,639)	(19,121)
Total Expenses on Foreign Currency Financial Liabilities		(8,525,658)	(5,369,276)
Net Foreign Exchange Revaluation Gain/(Loss)		(14,557,283)	146,854,048
Foreign Currency Investment Income		53,825,789	144,689,358
Net Income from Local Currency Financial Assets			
Interest Income	36	17,886,803	8,956,322
Gain/(Loss) from Realised Price Changes		(117,565)	117,771
Interest Expense	38	(3,763,302)	(2,880,220)
Expected Credit Losses on Local Currency Financial Assets	39	(27,241)	(10,966)
Net Income from Local Currency Financial Assets		13,978,695	6,182,907
Other Income	40	1,702,535	1,692,994
Total Net Operating Income		69,507,019	152,565,259
Operating Expenses:			
Personnel Expenses:	41		
— Salaries and Wages		(5,544,943)	(5,409,137)
— Defined Contribution Plan Costs		(1,103,233)	(1,536,049)
— Contribution to Post Employment Benefit Plan Costs		(1,120,381)	(205,147)
		(7,768,557)	(7,150,333)
Depreciation & Amortization		(439,918)	(498,189)
Cost of Inventory (Cost of new currency issue)		(3,234,336)	(3,999,000)
Administration and Other Expenses	42	(2,168,481)	(1,850,083)
Impairment Charges on Assets		-	(20,650)
Total Operating Expenses		(13,611,292)	(13,518,255)
Profit Before Tax		55,895,727	139,047,004
Tax	43	(290,888)	(1,119,286)
Profit for the Year		55,604,839	137,927,718

Figures in brackets indicate deductions

The accounting policies and notes on pages 13 through 70 form an integral part of these Financial Statements.

Central Bank of Sri Lanka Statement of Other Comprehensive Income

As at 31 December

	Note	2019 Rs. 000	2018 Rs. 000
Profit for the Year		55,604,839	137,927,718
Other Comprehensive Income (OCI)			
Items that are or may be re-classified subsequently to Profit/(Loss)			
Net Fair Value Gain/(Loss) on Securities at Fair Value through Other Comprehensive Income	34	10,628,206	(877,778)
Net Fair Value Gain on Government Securities at Fair Value through Other Comprehensive Income	34	113,231	5,259
Expected Credit Reversals/(Losses) on FVOCI Investments	10.2	37,245	(1,939)
		<u>10,778,682</u>	<u>(874,458)</u>
Items that will not be re-classified subsequently to Profit/(Loss)			
Post-Employment Benefit Plan Cost Recognized in Other Comprehensive Income	32	(873,926)	(11,823,458)
Net Fair Value Gain on Equity Investments at Fair Value through Other Comprehensive Income	34	115,859	122,747
		<u>(758,067)</u>	<u>(11,700,711)</u>
Other Comprehensive Income		<u>10,020,615</u>	<u>(12,575,169)</u>
Total Comprehensive Income		<u>65,625,454</u>	<u>125,352,549</u>

Figures in brackets indicate deductions

The accounting policies and notes on pages 13 through 70 form an integral part of these Financial Statements.

Central Bank of Sri Lanka Statement of Changes In Equity

For the year ended 31 December

	Contributed Capital Rs.000	Other Reserves (Note 34) Rs.000	Retained Earnings Rs.000	Total Rs.000
Balance as at 1 January 2018	50,000,000	52,708,582	25,879,432	128,588,014
Net Profit for the year	-	-	137,927,718	137,927,718
Transfer to RTGS Sinking Fund	-	291,983	(291,983)	-
Post Employment Benefit Plans cost recognized in Other Comprehensive Income	-	-	(11,823,458)	(11,823,458)
Transfer of Net Foreign Exchange Revaluation Gain (IRR)	-	146,854,048	(146,854,048)	-
Transfer of funds to Technical Advancement Reserve	-	2,000,000	(2,000,000)	-
Transfer to CBSL Internal Funds	-	-	(171,843)	(171,843)
Net Fair Value Loss on Securities at Fair Value through Other Comprehensive Income	-	(877,778)	-	(877,778)
Transfer of Funds from Retained Earnings to Market Revaluation Reserve	-	24,337,841	(24,337,841)	-
Transfer of Funds to General Reserve	-	5,013,869	(5,013,869)	-
Profit appropriation for the year 2017 - Recovery of outstanding GOSL obligations from 2017 profit	-	-	(15,000,000)	(15,000,000)
Transfer of Funds to CBSL Employees and Pensioners Distress Relief Fund	-	-	(321)	(321)
Transfer to Reserve for funding purposes of Post-Employment Benefits	-	5,372,178	(5,372,178)	-
Disposal Gain on Equity Investment Classified at Fair Value through Other Comprehensive Income	-	(16,289)	16,289	-
Gain on Market Valuation of Government Securities Classified at Fair Value through Other Comprehensive Income	-	5,259	-	5,259
Gain on Market Valuation of Equity Investments Classified at Fair Value through Other Comprehensive Income	-	122,747	-	122,747
Expected Credit Losses on FVOCI Investments	-	(1,939)	-	(1,939)
Transfer to Retained Earnings	-	(21,154,178)	21,154,178	-
Balance as at 31 December 2018	<u>50,000,000</u>	<u>214,656,323</u>	<u>(25,887,924)</u>	<u>238,768,399</u>
Balance as at 1 January 2019	<u>50,000,000</u>	<u>214,656,323</u>	<u>(25,887,924)</u>	<u>238,768,399</u>
Net Profit for the year	-	-	55,604,839	55,604,839
Transfer to RTGS Sinking Fund	-	333,334	(333,334)	-
Post Employment Benefit Plans cost recognized in Other Comprehensive Income	-	-	(873,926)	(873,926)
Transfer of Net Foreign Exchange Revaluation Loss (IRR)	-	(14,557,283)	14,557,283	-
Transfer to CBSL Internal Funds	-	-	(208,445)	(208,445)
Net Fair Value Gain on Securities at Fair Value through Other Comprehensive Income	-	10,628,206	-	10,628,206
Transfer of Funds from Retained Earnings to Market Revaluation Reserve	-	1,166,517	(1,166,517)	-
Transfer of Funds to CBSL Employees and Pensioners Distress Relief Fund	-	-	(16)	(16)
Gain on Market Valuation of Government Securities Classified at Fair Value through Other Comprehensive Income	-	113,231	-	113,231
Gain on Market Valuation of Equity Investments Classified at Fair Value through Other Comprehensive Income	-	115,859	-	115,859
Expected Credit Losses on FVOCI Investments	-	37,245	-	37,245
Balance as at 31 December 2019	<u>50,000,000</u>	<u>212,493,432</u>	<u>41,691,960</u>	<u>304,185,392</u>

Figures in brackets indicate deductions

The accounting policies and notes on pages 13 through 70 form an integral part of these Financial Statements.

Central Bank of Sri Lanka

Statement of Cash Flows

For the year ended 31 December

Cash Flows from Operating Activities

Receipts:

Interest Received - Foreign Currency
Interest Received - Local Currency - Others
Liquidity Management and Trading Income
Realised Exchange Loss
Other Income Received

Disbursements:

Interest Paid - Foreign Currency
Interest Paid - Local Currency
Payments to Employees
Payments to Suppliers
Tax Paid

Net Cash Flows used in Operating Activities

Cash Flows from Investing Activities

Receipts:

Net Increase in Other Local Currency Financial Assets
Disposal/Redemption of Investments in Financial & Other Institutes
Principal Recoveries from Loans and Advances to Other Institutions
Disposal/Redemption of Investments in Debentures
Proceeds on disposal of Property, Plant and Equipment
Net Increase/(Decrease) in Securities Purchased under Resale Agreements

Disbursements:

Net Increase in Foreign Currency Securities
Net Increase/(Decrease) in Other Foreign Currency Financial Assets
Net Increase/(Decrease) in Other Foreign Currency Financial Liabilities
Net Increase/(Decrease) in Other Local Deposits and Payables
Purchase of Property, Plant and Equipment net of Grants
Purchase of Intangible Assets
Net Decrease in Gold Inventory
Loans and Advances Granted to Other Institutions

Net Cash Flows generated from/(used in) Investing Activities

Cash Flows from Financing Activities

Receipts :

Issue of Circulating Currency
Withdrawal of Circulating Currency
Net Issue of Circulating Currency

Disbursements:

Net Issues/(Withdrawals) of Circulating Currency on Government Transactions
Net Issues of Circulating Currency on Transactions with Banks and Financial Institutions
Net Issues/(Withdrawals) of Circulating Currency

Net Increase/(Decrease) in Circulating Currency

Disbursements:

Repayment of Foreign Currency Term Liabilities
Payments to Other Funds
Payments to Pension Fund
Transfer of Profits to Consolidated Fund

Net Cash Flows Generated from/(used in) Financing Activities

Net Increase/(Decrease) in Cash and Cash Equivalents

Exchange Rate Effect on Cash and Cash Equivalents
Cash and Cash Equivalents at the Beginning of the Year

Cash and Cash Equivalents as at 31 December

Note	2019 Rs. 000	2018 Rs. 000
	32,610,501	25,346,571
	1,219,056	821,348
	939,708	(3,974,618)
	(17,363,660)	(9,065,597)
	1,676,979	1,605,833
	19,082,584	14,733,537
	8,452,517	4,855,646
	3,094,863	2,368,605
	7,312,048	6,765,420
	6,768,262	3,380,162
	290,888	1,100,219
	25,918,578	18,470,052
44	(6,835,994)	(3,736,515)
	(2,093,732)	(2,487,565)
	-	19,789
	56,793	127,584
	-	15,178
	36,821	10,284
	14,987,104	(12,340,173)
	12,986,986	(14,654,903)
	27,507,003	5,592,252
	1,308,261	(263,842)
	90,905,310	(34,064,176)
	10,735	(14,311)
	215,654	104,362
	22,227	25,484
	(2,663,074)	(19,060,015)
	2,750	-
	117,308,866	(47,680,246)
	(104,321,880)	33,025,343
	777,061,814	796,515,572
	(740,037,174)	(753,626,964)
	37,024,640	42,888,608
45	(126,565,213)	233,216,924
46	65,524,563	23,010,511
	(61,040,650)	256,227,435
	98,065,290	(213,338,827)
	(58,497,399)	(39,813,671)
	16	321
	1,344,579	-
	-	14,227,097
	(57,152,804)	(25,586,253)
	155,218,094	(187,752,574)
	44,060,220	(158,463,746)
	4,624,467	70,882,845
	372,246,740	459,827,641
9	420,931,427	372,246,740

Figures in brackets indicate deductions

The accounting policies and notes on pages 13 through 70 form an integral part of these Financial Statements.

Central Bank of Sri Lanka

Notes to the Financial Statements

For the year ended 31 December 2019

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 authorized for issue by the Governor and Chief Accountant for and on behalf of the Monetary Board on 24th March 2020.

1.1 Principal 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.
- Management of the official international reserves.
- Oversight of the financial system.
- Licensing, regulating and supervising of banks and selected Non- Bank Financial Institutions.
- Provision of settlement facilities and the regulation of the payment system.
- Compilation, dissemination and analysis of economic data and statistics.
- Providing loans and advances to the Government, bank and financial institutions under various facilities.
- Banker to the government and its agencies, and provision of current account facilities to LCBs and non-commercial bank primary dealers for government securities.

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 Operating Activities in the context of the Statement of Income.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Statement of Compliance

These financial statements of the Bank for the year ended 31 December 2019 have been prepared in accordance with International Financial Reporting Standards (IFRS).

This is the first set of the Financial Statements in which IFRS 16 – "Leases" has been applied. Changes to significant accounting policies are described in Note 4.

2.2 Basis of Measurement

The financial statements are prepared on the historical cost basis, except for the following,

- Gold is measured at fair value through profit or loss (FVTPL).
- Derivative financial instruments and non-derivative financial instruments held at fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI) are measured at fair value.
- Land and buildings are measured at cost at the time of acquisition and subsequently at revalued amounts less accumulated depreciation and impairment losses.
- Liability for defined benefit obligations is measured as the present value of the defined benefit obligation less the fair value of the plan assets.

2.3 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 operations. 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 7.

2.4 Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees (LKR), which is the Bank's functional currency. Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand. There was no change in the Bank's presentation and functional currency during the year under review.

2.5 Materiality and Aggregation

Each material class of similar item is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial.

2.6 Offsetting

Financial assets and liabilities are offset and the net amount presented in Statement of Financial Position when, and only when, the Bank has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

2.7 Comparative Information

The comparative information is reclassified whenever necessary to conform with the current year's presentation.

3. USE OF ESTIMATES AND JUDGMENTS

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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements are described in the following notes.

3.1 Classification and Impairment of Financial Assets

The Bank used judgements when assessing of the business model within which the assets are held and whether the contractual terms of the financial assets are solely-payment-of-principal-and-interest (SPPI) on the principal amount of the outstanding. The Bank also used judgements when establishing the criteria for determining whether credit risk on the financial assets has increased significantly since initial recognition, determining methodology for incorporating forward looking information into measurement of Expected Credit Losses (ECL) and selection and approval of models to measure ECL.

3.2 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 in the actuarial valuation are disclosed in Note 32 to the Financial Statements.

3.3 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, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer-dated derivatives.

4. CHANGES TO SIGNIFICANT ACCOUNTING POLICIES

There were no changes to the accounting policies and accounting policies adopted are consistent with those of the previous financial year, except for the IFRS 16 "Leases" related policies mentioned in detail below.

4.1 IFRS 16 - Leases

The Bank initially applied IFRS 16 "Leases" from 1 January 2019 modified retrospective approach (Option B). Therefore, the comparative information has not been restated and continues to be reported under IAS 17 Leases and IFRIC 4 "Determining whether an arrangement contains a lease".

The effect of initially applying this standard mainly attributed to the following;

- recognition of right-of-use assets
- recognition of corresponding lease liabilities

The impact on classification and measurement of leases due to adoption of IFRS 16 is disclosed in Note 8. Except for the changes below, the Bank has consistently applied the accounting policies as set out in Note 5 to all periods presented in these Financial Statements.

Definition of a lease

Previously, the Bank determined at contract inception whether an arrangement is or contains a lease under IAS 17. Under IFRS 16, the Bank assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 5.22.

On transition to IFRS 16, the Bank elected to apply the practical expedient to the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases.

Accounting treatment by lessee

As a lessee, the Bank previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Bank. Under IFRS 16, the Bank recognizes right-of-use assets and lease liabilities for the leases – i.e. these leases are on-balance sheet.

a) Leases previously classified as operating leases under IAS 17

Previously the Bank classified property leases as operating leases under IAS 17. On transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. The Bank applied this approach to all the leases.

The Bank has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Bank used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Impact on financial statements

On transition to IFRS 16, the Bank recognized additional right-of-use assets and additional lease liabilities of which the quantitative impact as at 1 January 2019 is disclosed in Note 8.

5. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies have been applied consistently by the Bank, except for the changes in accounting policies described in Note 4.

5.1 Foreign Currency Translations and Balances

Transactions in foreign currencies are translated to Sri Lankan Rupees at the rate of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Sri Lankan Rupees at the rate of exchange prevailing at the reporting date. The foreign currency translation gain or loss on monetary items are taken to the

Statement of Income. For the purposes of retranslation, as at the reporting date, the following Sri Lanka Rupee exchange rates for major currencies were used:

Currency	2019 Rs.	2018 Rs.
1 Australian Dollar	127.5343	128.8113
1 Canadian Dollar	139.8206	134.0153
1 Euro	203.6571	209.5593
1 Japanese Yen	1.6724	1.6661
1 Special Drawing Rights (SDR)	250.7887	253.5111
1 Sterling Pound	240.7922	233.0792
1 United States Dollar	181.6340	182.7499
1 Chinese Yuan (Offshore)	26.0905	26.5988

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

5.2 Fair Value Measurement

The Bank measures financial instruments, such as, foreign securities, derivatives, and non-financial assets such as Gold, at fair value at each reporting date. The fair values of financial instruments measured at amortised cost are disclosed in Note 51.

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, maximizing the use of relevant observable inputs and minimizing 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.

5.3 Financial Assets and Financial 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.

5.3.1 Recognition and Initial Measurement

All financial assets and liabilities are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. All regular way purchases and sales of financial assets and liabilities 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.

5.3.2 Classification

Financial Assets

On initial recognition, Bank classifies the financial assets as measured at;

- Amortized Cost
- Fair Value through Other Comprehensive Income (FVOCI)
- Fair Value through Profit or Loss (FVTPL)

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cashflows that are Solely Payment of Principle and Interest.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL.

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cashflows that are Solely Payment of Principle and Interest.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. All other financial assets are classified as measured at FVTPL.

Business Model Assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes but not limited to:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel.
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis

are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether Contractual Cash Flows are Solely Payments of Principal and Interest

The Bank assesses the contractual terms of financial assets to identify whether they meet the SPPI test. For the purpose of this assessment, "Principal" is defined as the fair value of the financial asset at initial recognition and "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs.

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than the minimum exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

5.3.3 Derecognition

Financial Assets

Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is

not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognized on its Statement of Financial Position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognized. Examples of such transactions are securities lending and sale-and-repurchase transactions. In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial Liabilities

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expired.

5.3.4 Impairment of Financial Assets

The Bank recognizes loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- Financial assets at Fair Value through Other Comprehensive Income
- Financial Assets at Amortized Cost
- Credit guarantee contracts of Regional Development Department

No impairment loss is recognized on equity investments.

The Bank measures loss allowances at an amount equal to 12 months ECL for investments which are in investment grade (rated Baa3/BBB- and above). Majority of the investments of the bank which are classified as Fair Value through Other Comprehensive Income and Amortized cost are above Baa3/BBB- rate. Financial instruments for which a 12-month ECL is recognised are referred to as "Stage 1 financial instruments".

Life time ECL is calculated for those instruments which are below the investment grade at initial recognition or whose credit risk deteriorates below Baa3/BBB- or when a doubling of the probability of default has occurred after initial recognition. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as "Stage 2 financial instruments". Life time ECL would also be computed for credit impaired assets which would be referred to as "Stage 3 financial instruments".

Measurement of ECL

The mechanism of the ECL calculations are outlined below with the key elements.

Probability of Default (PD): The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio. The bank uses specific equity PD's of issuers/counterparties from Bloomberg for all its foreign investments at FVOCI and amortized cost and in the absence of equity PDs, the PD's applicable to the rating of the specific issuer/counterparty from the Bloomberg common PD table at a given reporting date.

Exposure at Default: The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected draw downs on committed facilities, and accrued interest from missed payments.

Loss Given Default: The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. The Bank has an approved internal policy in applying the LGD for different types of Financial Assets based on their risk exposure to the bank.

Economic Factor Adjustment: Bank uses the Economic Factor Adjustment for the conversion of through the cycle PD to Point in Time PD and the Bank mainly uses GDP data as the main economic factor in stimulating the PD.

Assessing the Significant Increase in Credit Risk (SICR)

Bank will consider that the financial instruments have Significant Increase in Credit Risk (SICR) when doubling of PD has occurred from initial recognition and any rating downgrade below BBB- after initial recognition. This is based on the observation that all ratings downgrades from an investment grade rating to a non-investment grade rating, including the marginal one notch downgrade from Baa3 to Ba1, results in a two-fold or greater increase of PD.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortized cost, at FVOCI, and credit guarantees are credit-impaired (referred to as "Stage 3 financial assets"). A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization

Presentation of allowance for ECL in the Statement of Financial Position

Loss allowances for ECL are presented in the Statement of Financial Position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets.
- Investments measured at FVOCI: no loss allowance is recognised in the Statement of Financial Position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in Other Comprehensive Income.
- Credit guarantee contracts: generally, as a provision.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level. Recoveries of amounts previously written off are included in "impairment losses on financial instruments" in the Statement of Income and OCI.

5.4 Financial Assets 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". Upon initial recognition, attributable transaction cost are recognized in profit or loss as incurred. These securities are subsequently valued at quoted market prices. Changes in market values are recognised as an increase or decrease in the value of the securities in the Statement of Financial Position while resulting gains and losses are recognised in the Statement of Income.

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

5.5 Financial Assets at Fair Value through Other Comprehensive Income

Investments at Fair Value through Other Comprehensive Income are non-derivative investments that are designated

as Fair Value through Other Comprehensive Income or are not classified as another category of financial assets. Investments at Fair Value through Other Comprehensive Income comprise equity securities and debt securities.

Foreign Currency debt securities at Fair Value through Other Comprehensive Income are subsequently valued at quoted market prices. Changes in market value are recognized as an increase or decrease in the value of the Investments at Fair Value through Other Comprehensive Income in the Statement of Financial Position.

The equity investments at Fair Value through Other Comprehensive Income are subsequently valued based on the Net Assets of the respective institutions due to the non-availability of quoted prices.

Gains and losses arising from changes in the market value of Foreign and Local Currency debt securities and Equity Investments at Fair Value through Other Comprehensive Income 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 Statement of Income with the exception of fair value changes in equity investments which will not be recycled to Statement of Income upon derecognition. Interest income is recognised in Statement of Income using the effective interest method.

5.6 Instruments held at Amortized Cost

The items that are held within the business model whose objective is to hold financial assets in order to collect contractual cashflows and the contractual terms give rise to cash flows on specific dates that are solely principle and interest are classified as instruments held at amortized cost. These instruments are subsequently measured at amortized cost using the effective interest method.

5.7 Derivative Instruments

The Bank uses derivatives such as cross currency swaps, currency options, forward foreign exchange contracts, 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 Unrealized Price Revaluations".

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 Unrealized 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 Statement of Income when inputs become observable, or when the instrument is derecognised.

5.8 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. The IMF quota asset and the SDR holding is classified as FVTPL while other IMF related assets and liabilities are recognized at amortised cost using the effective interest method. Exchange gains and losses arising on revaluation of IMF assets and liabilities at the exchange rate applying at reporting date as published by the IMF are recognised in the Statement of Income.

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

5.9 Cash and Cash Equivalents

Cash and cash equivalents comprise cash at foreign banks and financial institutions, short-term deposits and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortized cost in the Statement of Financial Position.

As a part of local currency activities CBSL generates certain income and incurs expenses, which do not involve in movement of cash. Those activities result in certain assets and liabilities and mainly comprise of the transactions with the Government of Sri Lanka (GOSL) and transactions with domestic banks and financial institutions. Transactions with GOSL include the purchase of Treasury bills and bonds that are issued by the Government as a monetary policy mechanism. Such purchases, disposals or interest thereon are reflected as mere book entries in the records of CBSL. These are disclosed separately in Note 45 and Note 46 to the 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.

5.10 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 recognised as a liability. The difference between the sale and repurchase price in repurchase transactions and the purchase price and sale price in reverse-repurchase transactions represents an expense and income respectively and recognised in the Statement of Income.

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

5.11 Standing Deposit and Lending Facilities

With effect from 01 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 and both are recognized at amortized cost in the Statement of Financial Position.

5.12 CBSL Securities

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

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

5.13 Sri Lanka Government Securities

Sri Lanka Government Securities consists of Treasury Bills and Bonds purchased from GOSL. Investments

in Sri Lanka Government Securities is recorded in the Statement of Financial Position at Fair value through Other Comprehensive Income.

5.14 Provisional 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.

5.15 Loans to Other Institutions

Loans granted to Other Institutions are recognized and carried at amortized cost.

5.16 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 the 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.

5.17 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 IFRS 9 "Financial Instruments" 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 loan 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.

5.18 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. Section 67(2), Monetary Board is required to endeavor to hold at least a nuclear reserve in gold or currencies freely convertible by the Central Bank, whether directly or indirectly, in to gold as per the MLA. 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 Statement of Income. Prior to appropriation of profits, the unrealised gains from gold are transferred to the relevant reserve account.

5.19 Currency Inventory

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

5.20 Other Inventories

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

5.21 Property, Plant and Equipment

Property, Plant and Equipment excluding land & building are stated at cost, 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 revalued amount, being their fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

Class of Asset	Useful Life
Buildings on Freehold Lands	Over 50 Years
Buildings on Lease hold lands	Lower of 50 years or over the lease hold 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 Property, Plant and Equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Policy for revaluation of Land & Building of the Bank is at least once in five years or at any shorter interval when a significant valuation adjustment becomes evident. Any revaluation surplus is credited to the Revaluation Reserve included in the equity section of the Statement of Financial Position, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in Statement of Income, in which case the increase is recognized in Statement of Income. A revaluation deficit is recognized in Statement of Income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the Revaluation Reserve. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred to retained earnings.

An item of Property, Plant and Equipment is de-recognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Income in the year the asset is de-recognized. The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, regularly.

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalization.

5.22 Leases

Policy applicable from 1 January 2019

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange of consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16. This policy is

applied to contracts entered into (or changed) on or after 1 January 2019.

Bank acting as a lessee

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjustment for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to the lands or office premises.

The right-of-use asset is subsequently depreciated using straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicated in the lease or if that rate cannot be determined, the Bank's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- Exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise an extension option, and penalties for early termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in Statement of Income if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets in "Property Plant and Equipment" (Note 20) and lease liabilities in "Miscellaneous Liabilities and Accruals" (Note 33) in the Statement of Financial Position.

Policies applicable before 1 January 2019

For contracts entered before 1 January 2019, the Bank determined whether the arrangement contained a lease based on the assessment of whether:

- Fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- The arrangement has conveyed a right to use the asset.

As a lessee

The Bank did not have any finance leases classified under IAS 17.

Assets held under other leases were classified as operating lease and were not recognised in the Bank's Statement of Financial Position. Payments made over operating leases were recognised in Statement of Income on a straight-line basis over the term of lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

5.23 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 and accumulated impairment. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in Statement of Income on a straight-line basis over the useful life of 4 years, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

5.24 Other Assets

Other assets are carried at expected realisable values.

5.25 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. Impairment losses are recognized in Statement of Income.

5.26 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.

5.27 Currency in Circulation

Currency issued by the Bank 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.

5.28 Pension and Other Post Employment Benefit Plans

Pension and other Post Employment Benefit Plans operated by the bank are disclosed in Note 32.

5.29 Defined Benefit Plans

A defined benefit plan is a post employment benefit plan other than a defined contribution plan. Bank operates defined benefit schemes for Pension, 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. The Bank's obligation in respect of defined benefit plan is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the valuation date on Government Bonds that have maturity dates approximating to the average remaining years of service. All principal actuarial assumptions disclosed in Note 32 are revised annually.

5.30 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.

Obligations for contributions to defined contribution plans are recognized as expense in the Statement of Income as and when they are due.

5.31 Grants

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

5.32 Contingent Liabilities and Commitments

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. All guarantees of indebtedness, forward foreign exchange transactions and other commitments, which are not recognized in Statement of Financial Position, are shown under respective headings disclosed as Contingent Liabilities and Capital Commitments items. Where applicable, such amounts are measured at best estimates.

STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME

5.33 Revenue and Expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. Expenses are recognised in the Statement of Income on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to income in arriving at the result for the year.

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

5.33.1 Interest Income and Expenses

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

5.33.2 Dividends

Dividend income is recognized when the Bank's right to receive the payment is established.

5.33.3 Miscellaneous Income and Expenses

Miscellaneous income and expenses are recognised on an accrual basis.

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

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

5.33.4 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.

5.33.5 Income Tax Expense

The income of the Bank is exempted from tax under section 118 of the Monetary Law Act No. 58 of 1949 as amended and as per section 9 (1) of Inland Revenue Act No. 24 of 2017. In terms of the Economic Service Charge (amendment) Act No. 07 of 2017, the Bank is liable for ESC commencing from 1 April 2017. However, unrealized gain on exchange rate and unrealized marked to market gain on foreign currency financial assets are exempted from ESC with effect from October 2018 as per the ESC (amendment) Act, No. 33 of 2018. Further, the Bank is exempted from Value Added Tax on supply of financial services as per Value Added Tax (Amendment) Act No.17 of 2013.

5.34 Events Occurring after the Reporting Date

All material subsequent events after the reporting date have been considered and where appropriate adjustments or disclosures have been made in the respective notes to the Financial Statements.

STATEMENT OF CASH FLOWS

The Cash Flow Statement has been prepared by using the "Direct Method" of preparing of Cash Flow Statement in accordance with the IAS 7-Statement of Cash Flow.

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.

6. NEW ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE AS AT REPORTING DATE

The following standards and related interpretations issued by International Accounting Standards Board (IASB) which

will become applicable for financial periods beginning after 1 January 2020. Accordingly, the Bank has not applied the following new standards in preparing these Financial Statements

The following amended standards are not expected to have a significant impact on the Bank's Financial Statements.

- Amendments to references to conceptual framework in IFRS Standards
- Definition of a business (Amendments to IFRS 3)
- IFRS 17 - Insurance Contracts

7 NATURE AND EXTENT OF ACTIVITIES

7.1 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 majorities are denominated in United States Dollars, Australian Dollars, Euros, Sterling Pounds, Japanese Yen and New Zealand Dollar. 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 Bank also holds, from time-to-time, foreign currency assets and liabilities that arise from international market operations.

7.2 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 of 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.

7.3 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.

8. TRANSITION DISCLOSURES

On transition to IFRS 16, the Bank recognised additional right-of-use assets and additional lease liabilities. The impact on transition is summarised below.

	Balance as at 1 January 2019 Rs. 000
Right of Use Assets Presented in Property, Plant & Equipment	66,287
Lease Liabilities	47,411

When measuring lease liabilities for leases that were classified as operating leases, the Bank discounted lease payments using the T-bond purchase yield corresponding to the tenor of the lease as at 1 January 2019 as there was no implied interest rate given in the lease agreements nor an applicable incremental borrowing rate to the Bank.

	Balance as at 1 January 2019 Rs. 000
Operating Lease Commitments at 31 December 2018 as per IAS 17	145,540
Discounted using the T-bond purchase yield rate at 1 January 2019	47,411
Lease liabilities recognised at 1 January 2019	47,411

9. CASH AND CASH EQUIVALENTS

	2019 Rs. 000	2018 Rs. 000
Cash Balances with Banks	278,004,505	117,035,257
Time Deposits with Banks	79,519,728	92,862,673
Overnight Placements	63,353,939	162,300,186
Interest Receivable on Cash and Cash Equivalents	53,255	48,624
Cash and Cash Equivalents for Cash Flow Purpose	420,931,427	372,246,740
Less: Expected Credit Losses on Cash and Cash Equivalents (Note 9.1)	(221,958)	(71,564)
Total	420,709,469	372,175,176

9.1 Movement in Expected Credit Losses on Cash and Cash Equivalents

	2019			2018
	Stage 1 Rs. 000	Stage 2 Rs. 000	Total Rs. 000	Stage 1 Rs. 000
Balance as at 1 January	71,564	-	71,564	-
Adjustment on Initial Application of IFRS 9	-	-	-	50,505
Adjusted Balance as at 1 January	71,564	-	71,564	50,505
Charge during the Year	147,767	2,627	150,394	21,059
Balance as at 31 December	219,331	2,627	221,958	71,564

10. INVESTMENTS IN FOREIGN SECURITIES

	2019 Rs. 000	2018 Rs. 000
Securities at Fair Value through Profit or Loss		
-Investment in Foreign Securities (Note 10.1)	38,493,268	37,467,239
	38,493,268	37,467,239
Securities at Fair Value through Other Comprehensive Income		
-Investment in Foreign Securities	729,801,009	694,876,394
	729,801,009	694,876,394
Total Investment in Foreign Securities	768,294,277	732,343,633
Expected Credit Loss on Securities at Fair Value through Other Comprehensive Income (Note 10.2)	100,894	63,649

10.1 Investment in foreign securities classified as securities at fair value through profit or loss includes the investments made by the Bank in the Reserve Advisory Management Program (RAMP) managed by the World Bank. The value of the investment with RAMP as at 31 December 2019 was Rs. 38,493.27 Mn (2018 - Rs. 37,467.24 Mn).

10.2 Movement in Expected Credit Losses on Securities at Fair Value through Other Comprehensive Income

	2019			2018
	Stage 1 Rs. 000	Stage 2 Rs. 000	Total Rs. 000	Stage 1 Rs. 000
Balance as at 1 January	63,649	-	63,649	-
Adjustment on Initial Application of IFRS 9	-	-	-	65,588
Adjusted Balance as at 1 January	63,649	-	63,649	65,588
Charge/(Reversal) during the Year	17,610	19,635	37,245	(1,939)
Balance as at 31 December	81,259	19,635	100,894	63,649

11. DERIVATIVE FINANCIAL INSTRUMENTS

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

	2019			2018		
	Assets	Liabilities	Notional Amount	Assets	Liabilities	Notional Amount
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Currency SWAPS	2,021,917	923,039	284,757,444	-	13,590,145	203,257,715
Forex Forward	-	-	-	750	-	548,250
Embedded Derivatives - Currency Options	-	66,919	3,087,778	-	466,315	5,299,747
Total	2,021,917	989,958	287,845,222	750	14,056,460	209,105,712

11.2 The above derivatives consisting of Currency Swaps, Currency Options and Foreign Exchange Forward Contracts were used for the purpose of managing market and liquidity risks in international reserves held by the Bank in line with the statutory objectives of maintenance of international reserves. In addition, the Bank entered into Swap transactions with Licensed Commercial Banks (LCBs), Licensed Specialized Banks (LSBs) and Foreign Central Banks in order to maintain international stability of the Sri Lankan Rupee, to strengthen the financial system of the Country and to encourage those Banks to bring foreign funds.

11.3 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.

11.4 A significant part of derivatives portfolio of the Bank consists of currency swaps entered into as a strategy to manage exchange rate risk and the short term liquidity requirements. In a currency swap, the Bank pays/ receives a specified amount of a currency on an agreed date in exchange of another currency at agreed rates.

11.5 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.

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

12. IMF RELATED ASSETS

Measured at Fair Value through Profit or Loss

	2019 Rs. 000	2018 Rs. 000
Holding of Special Drawing Rights (Note 12.1)	1,319,576	217,126
IMF Quota (Note 12.2)	145,156,517	146,732,242
Interest Receivable on IMF Quota	8,711	9,667

Measured at Amortized Cost

Deposits with IMF (Note 12.3)	189,326	199,965
Prepaid Charges - IMF Loans	485,048	268,456
Less: Expected Credit Losses on IMF Related Assets (Note 12.4)	(4)	(4)
	674,370	468,418
	147,159,174	147,427,452

12.1 Holding of Special Drawing Rights

Holding of Special Drawing Rights (SDR) is potentially a claim on the freely usable currencies of IMF members in which 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.

12.2 IMF Quota

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

The IMF, based on the General Quota Review Agreement, decided to increase the quotas of each of the IMF's 189 members in January 2016. As a result, Sri Lanka's IMF quota increased to SDR 578.80 Mn on 17 February 2016 from the previous quota amount of SDR 413.40 Mn.

The amounts payable in respect of the IMF Quota is shown under the heading Quota Liability in Note 24. 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 per cent 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 fixed the number of basic vote 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 145 per cent of its quota annually and 435 per cent cumulatively. Access to finance may be higher in exceptional circumstances.
- (iv) **SDR allocations:** Members' shares of SDR allocations are established in proportion to their quotas.

12.3 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. The 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. This was later extended until 2024.

12.4 Movement in Expected Credit Losses on IMF Related Assets

	2019 Rs. 000	2018 Rs. 000
Stage 1		
Balance as at 1 January	4	-
Adjustment on Initial Application of IFRS 9	-	3
Adjusted Balance as at 1 January	4	3
Charge for the Year	-	1
Balance as at 31 December	4	4

13. SRI LANKA GOVERNMENT SECURITIES

Portfolio of government securities is 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.

	2019 Rs. 000	2018 Rs.000
Treasury Bills	25,125,790	43,443,802
Treasury Bonds	50,177,084	1,542,796
Interest Receivable	1,209,009	44,559
	76,511,883	45,031,157

14. SECURITIES PURCHASED UNDER RESALE AGREEMENTS

	2019 Rs. 000	2018 Rs.000
Securities Purchased under Resale Agreements	50,275,000	229,333,000
Interest Receivable on Securities Purchased under Resale Agreements	79,879	121,409
	50,354,879	229,454,409

15. 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 expenditures authorised to be incurred out of the Consolidated Fund.

16. EQUITY INVESTMENTS IN FINANCIAL AND OTHER INSTITUTIONS

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

16.1 Investment position

Company	Nature of the Business	2019		2018	
		No. of Shares	Fair Value Rs. 000	No. of Shares	Fair Value Rs. 000
Lanka Clear (Private) Limited	Automated Clearing	2,950,000	498,268	2,950,000	417,128
Lanka Financial Services Bureau Limited	Automated Fund Transfers	500,000	81	225,000	1,396
Credit Information Bureau of Sri Lanka Limited	Provision of Credit Information	48,244	1,002,138	48,244	963,355
			<u>1,500,487</u>		<u>1,381,879</u>

16.2 The equity investments were carried at fair value as at 31 December 2019 based on Net Assets per share basis as per the latest available unaudited financial statements of those Companies at the time of preparation of the Bank's financial statements. Accordingly, the Net Asset per share as at the following dates were used.

Lanka Clear (Private) Limited - 31 December 2019
Lanka Financial Services Bureau Limited - 30 November 2019

Credit Information Bureau of Sri Lanka Limited - 31 December 2019

17. OTHER ASSETS

	2019 Rs. 000	2018 Rs. 000
Financial Assets		
Investments by Internal Funds	10,180,258	7,955,537
Less: Provision for Impairment of Assets (Note 17.1)	(190,908)	(163,144)
Net Investment by Internal Funds	9,989,350	7,792,393
Loans to Banks (Note 17.2)	39,324	96,117
Expected Credit Loss on Loans to Banks (Note 17.3)	(35)	(154)
	39,289	95,963
Staff Loans at Amortized Cost	5,447,883	5,780,754
Receivable from Treasury and Other Ministries	11,763	18,785
Other Receivables	56,615	126,086
	5,516,261	5,925,625
	15,544,900	13,813,981
Non Financial Assets		
Deffered asset on Staff Loan	2,056,847	1,065,287
	<u>17,601,747</u>	<u>14,879,268</u>

17.1 Movement in Provision for Impairment of Assets

	2019				2018		
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 3	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Balance as at 1 January	92	-	163,052	163,144	-	151,674	151,674
Adjustment on Initial Application of IFRS 9	-	-	-	-	8	-	8
Adjusted Balance as at 1 January	92	-	163,052	163,144	8	151,674	151,682
Charge during the Year	15,525	16	12,223	27,764	84	11,378	11,462
Balance as at 31 December	<u>15,617</u>	<u>16</u>	<u>175,275</u>	<u>190,908</u>	<u>92</u>	<u>163,052</u>	<u>163,144</u>

17.2 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.

	2019 Rs. 000	2018 Rs. 000
Medium & Long Term Credit Scheme		
- Related Parties	24,757	26,951
Saubaghya Loan Scheme		
- Related Parties	-	13,122
- Others	-	8,345
Resumption of Economic Activities in the East (RF Phase III)		
- Related Parties	50	12,358
- Others	-	16,403
Repair of Damaged Houses North & East		
- Related Parties	14,517	18,830
Awakening North Loan Scheme (RF Phase II)		
- Related Parties	-	108
	<u>39,324</u>	<u>96,117</u>

17.3 Movement in Expected Credit Losses on Loans to Banks

	2019			2018		
	Stage 1	Stage 2	Total	Stage 1	Stage 2	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Balance as at 1 January	15	139	154	-	-	-
Adjustment on Initial Application of IFRS 9	-	-	-	26	616	642
Adjusted Balance as at 1 January	15	139	154	26	616	642
Reversal during the Year	(15)	(104)	(119)	(11)	(477)	(488)
Balance as at 31 December	-	35	35	15	139	154

18. GOLD

This is the value of physical gold held as required under Section 67 (1) and Section 67(2) of the Monetary Law Act

20. PROPERTY, PLANT AND EQUIPMENT

Cost	Land and Buildings	Plant & Plant Integrals	Furniture & Equipment	Vehicles	Computers	Right-of-use Assets	Others	Construction In progress	2019 Total	2018 Total
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
As at 1 January	16,009,028	1,576,664	1,311,372	601,263	895,550	-	56,739	16,322	20,466,938	21,157,497
Initial recognition of Right of Use Asset	-	-	-	-	-	66,287	-	-	66,287	-
Adjusted balance at 1 January	16,009,028	1,576,664	1,311,372	601,263	895,550	66,287	56,739	16,322	20,533,225	21,157,497
Additions during the Year	-	1,355	42,951	-	54,389	-	715	116,244	215,654	104,514
Disposals during the Year	-	(277)	(7,943)	(39,970)	(1,852)	-	-	-	(50,042)	(772,671)
Transfers/Write-off during the Year	97,418	-	-	-	-	-	-	(97,418)	-	(22,402)
As at 31 December	16,106,446	1,577,742	1,346,380	561,293	948,087	66,287	57,454	35,148	20,698,837	20,466,938
Depreciation	Land and Buildings	Plant & Plant Integrals	Furniture & Equipment	Vehicles	Computers	Right-of-use Assets	Others	Construction In progress	2019 Total	2018 Total
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
As at 1 January	376,087	938,641	932,954	423,064	803,039	-	37,299	-	3,511,084	3,196,980
Depreciation for the Year	188,423	78,652	80,602	25,923	44,101	6,240	1,068	-	425,009	421,451
Disposals during the Year	-	(127)	(6,088)	(39,970)	(1,762)	-	-	-	(47,947)	(107,347)
As at 31 December	564,510	1,017,166	1,007,468	409,017	845,378	6,240	38,367	-	3,888,146	3,511,084
Net Book Value	15,541,936	560,576	338,912	152,276	102,709	60,047	19,087	35,148	16,810,691	16,955,854

(MLA) as part of the International Reserve of the Bank. As per Section 67(2) of MLA, Monetary Board is required to endeavor to hold at least a nuclear reserve in gold or currencies freely convertible by the Bank, whether directly or indirectly, in to gold as per the MLA.

19. INVENTORIES

	2019 Rs. 000	2018 Rs. 000
Notes for Circulation	2,912,568	2,495,222
Coins for Circulation	4,028,748	2,194,055
Coins in Transit from the Supplier	-	613,432
Notes in Transit from the Supplier	345,954	1,253,694
	7,287,270	6,556,403
Less: Provision for Slow Moving Items	(45,000)	(45,000)
	7,242,270	6,511,403
Stationery and Sundry Inventory	55,890	57,318
Medical Center Stock	232	214
Total Inventories	7,298,392	6,568,935

In 2019, inventories of Rs. 3,234.34 Mn (2018 Rs. 3,999.00 Mn) were recognized as an expense during the year and included in "Cost of Inventory (Cost of New Currency Issue)".

The carrying values of Land and Buildings are recorded at fair value. The latest independent valuation was performed by FM Valuers and a fair value of Rs. 16.67 Bn was recorded as at 31 December 2016.

The properties of the bank at New York and Brazil were sold to the Ministry of Foreign Affairs at cost in May 2018.

During the financial year, the Bank has acquired property, plant and equipment by means of cash with an aggregated cost of Rs. 215.65 Mn (2018 - Rs. 104.36 Mn).

The value of the fully depreciated assets which are still in use as at 31 December 2019 was Rs. 1,660.12 Mn. (2018 - Rs. 1,611.38 Mn).

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

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

Composition of Land and Buildings

	Carrying Value 2019 Rs. 000	Carrying Value 2018 Rs. 000
Freehold Land	8,930,375	8,930,375
Buildings on Freehold Land	6,366,871	6,449,206
Buildings on Leasehold Land	244,690	253,360
	15,541,936	15,632,941

The carrying amount of revalued Land and Buildings that would have been included in the financial statements had they been carried at cost less depreciation is Rs. 7,751.14 Mn (2018 - Rs. 7,796.82 Mn).

21. INTANGIBLE ASSETS

	2019 Rs. 000	2018 Rs. 000
Computer Software:		
Cost:		
As at 1 January	982,688	957,204
Additions during the Year	22,227	25,484
As at 31 December	1,004,915	982,688
Amortization:		
As at 1 January	952,251	876,581
Amortization Charge for the Year	14,618	75,670
As at 31 December	966,869	952,251
Net Book Value:		
As at 31 December	38,046	30,437

The Bank has acquired intangible assets by means of cash with an aggregated cost of Rs. 22.23 Mn during the year (2018 - Rs. 25.48 Mn).

The value of fully amortized intangible assets which are still in use as at 31 December 2019 was Rs. 948.65 Mn. (2018 - Rs. 927.38 Mn).

22. BANKS AND FINANCIAL INSTITUTIONS

	2019 Rs. 000	2018 Rs. 000
Payable to Foreign Banks	609,483	16,864,115
Payable to Other Foreign Financial Institutions	348,765	2,437,045
	958,248	19,301,160

23. ASIAN CLEARING UNION

The Asian Clearing Union (ACU) was established in 1974 at the initiative of the United Nations Economic and Social Commission for Asian and the Pacific (ESCAP) as a mechanism to settle, on a multilateral basis of payments for intra-regional transactions among participating Central Banks. The participants of ACU are Sri Lanka, Bangladesh, Bhutan, India, Iran, Maldives, Myanmar, Nepal and Pakistan. Net settlement position of each ACU participant is calculated based on the daily outstanding balance held over the two months period and settlement will take place within four working days of the following month. Interest rate was spread between 1.60% and 2.51% during the year 2019 (2018 - 1.45% and 2.28%).

24. INTERNATIONAL MONETARY FUND

	2019 Rs. 000	2018 Rs. 000
Interest Bearing Loans	238,808,553	181,318,765
Allocation of Special Drawing Rights	99,176,963	100,253,563
Quota Liability	67,332,745	68,063,665
Other Amounts Payable to IMF	66,656,812	67,352,253
	471,975,073	416,988,246

24.1 Interest Bearing Loans consist of the Extended Fund Facility (EFF) obtained from the IMF.

24.2 Extended Fund Facility (EFF) is a three year facility provided by the IMF to support the Balance of Payments and Government's economic reform agenda. The IMF approved the EFF fund facility of SDR 1.10 Bn (approximately USD 1.50 Bn) in June 2016. This amount is equivalent to 185 per cent of the country's current quota with the IMF. The first tranche under the EFF amounting to SDR 119.89 Mn (approximately USD 168.10 Mn) was made available in June 2016. The second tranche to the value of SDR 119.89 Mn (approximately USD 162.56 Mn), third tranche to the value of SDR 119.89 Mn (approximately USD 167.20 Mn), fourth tranche to the value of SDR 177.77 Mn (approximately USD 251.40 Mn), the fifth tranche to the value of SDR 177.77 Mn (approximately USD 252.00 Mn), the sixth tranche to the value of SDR 118.50 Mn (approximately USD 164.10 Mn) and the seventh tranche to the value of SDR 118.50 Mn (approximately USD 164.00 Mn) were disbursed in June 2016, July 2017, December 2017, June 2018, May 2019 and November 2019, respectively. With the disbursement of the seventh tranche, a total of USD 1.31 Bn has been received so far by Sri Lanka on account of EFF. The remaining amount is expected to be disbursed in 2020. The interest rate applicable on the EFF comprise of the basic rate of charge, which is equivalent to the SDR interest rate (currently stands at 0.05 per cent per annum) plus 100 basis points.

	Effective Maturity interest rate %	2019 Rs. 000	2018 Rs. 000
Extended Fund Facility	0.74 2029	238,808,553	181,318,765
Total Interest Bearing Loans		238,808,553	181,318,765

24.3 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 12. 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.

24.4 Other Payable to IMF represent amounts owed by the Bank to IMF on account of operational and administrative transactions.

24.5 Quota Liability The amounts payable in respect of the IMF Quota as described in Note 12.2.

25. OTHERS

	2019 Rs. 000	2018 Rs. 000
Moragahakanda Development Project Loan under Escrow Agreement (Note 25.1)	640,278	1,577,068
DST - PRP III under Escrow Agreement (Note 25.2)	2,458,292	5,968,519
DST - PRP III Phase II under Escrow Agreement (Note 25.3)	2,527,891	6,242,573
DST's Dollar A/C - Hambantota Port (Note 25.4)	-	91,374,950
DST Special Dollar A/C 2 (Note 25.5)	51,409,578	29,493,915
Other Foreign Liabilities	55,499	73,908
	57,091,538	134,730,933

25.1 Moragahakanda Development Project Loan under Escrow Agreement

This Loan Agreement was signed between China Development Bank and the Government of Sri Lanka on 28 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 in 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. During the year

2019, USD 5.10 Mn was disbursed and the balance as at 31 December 2019 is USD 3.53 Mn.

25.2 Priority Road Project III under Escrow Agreement

This Facility Agreement was signed between the China Development Bank and the Government of Sri Lanka on 11 March 2014 for USD 300.00 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. During the year 2019, USD 19.13 Mn was disbursed and the remaining balance as at 31 December 2019 is USD 13.53 Mn.

25.3 Priority Road Project III Phase II under Escrow Agreement

The Phase II of this agreement was received on 24 November 2014 for USD 100.00 Mn. During the year 2019, USD 20.24 Mn was disbursed and the remaining balance as at 31 December 2019 is USD 13.92 Mn.

25.4 DST's Dollar A/C - Hambantota Port

This is a special dollar account maintained on behalf of the Treasury Operations Department crediting the proceeds from China Merchant Port Holdings Co. Ltd, received for handing over the operations of Hambantota Port subsequent to the agreement signed between Sri Lanka Ports Authority and the China Merchant Port Holdings Co. Ltd. Initial proceeds of USD 292.10 Mn was received on 22 December 2017. Second and third proceeds of USD 97.37 Mn and USD 584.19 Mn were received on 24 January 2018 and 25 June 2018 respectively. The balance of USD 500.00 Mn of the account was transferred to DST Special Dollar 2 account on 11 January 2019 while keeping the account with nil balance.

25.5 DST Special Dollar A/C 2

This is a dollar account maintained on behalf of the Treasury Operations Department in order to credit the proceeds received on behalf of Treasury in USD. During the year 2019, the proceeds of SLDB, FCBU Loans and Term Financing Facility have been credited and utilized for repayment of loans on behalf of Government. The remaining balance as at 31 December 2019 is USD 283.04 Mn.

26. DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS

These are the deposits maintained by LCBs for the purpose of meeting Statutory Reserve Requirement under section

93 of the Monetary Law Act and deposits maintained by LCBs, Primary Dealers and the Employee Provident Fund 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 securities 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.

	2019 Rs. 000	2018 Rs. 000
Deposits by Banks :		
- Related Parties	148,823,686	192,367,084
- Others	95,155,405	127,555,665
	<u>243,979,091</u>	<u>319,922,749</u>
Deposits by Financial Institutions :		
- Related Parties	67	177
- Others	10,602,462	183,257
	<u>10,602,529</u>	<u>183,434</u>
Total Deposits by Banks and Other Financial Institutions	<u>254,581,620</u>	<u>320,106,183</u>

27. DEPOSITS OF GOVERNMENT AND GOVERNMENTAL ENTITIES

	2019 Rs. 000	2018 Rs. 000
Government Deposits	160,442	167,537
Government Agencies and Funds	339,197	181,181
	<u>499,639</u>	<u>348,718</u>

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

28. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

	2019 Rs. 000	2018 Rs. 000
Standing Deposit Facility	43,298,325	28,311,221
	<u>43,298,325</u>	<u>28,311,221</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.

Standing Deposit Facility (SDF) is also undertaken for OMO to regulate liquidity in the money market. This facility is available for those participating institutions which are unable to obtain their liquidity requirements at the daily Repo auctions. This is an uncollateralized facility which is only provided on over-night basis.

29. 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:	2019 Rs. 000	2018 Rs. 000
1 cent	3,631	3,631
2 cent	5,709	5,707
5 cent	23,266	23,260
10 cent	39,236	39,232
25 cent	121,247	121,046
50 cent	185,149	185,247
1 rupee	963,796	929,905
2 rupee	1,477,366	1,414,466
5 rupee	4,695,714	4,408,327
10 rupee	6,721,241	6,101,195
Commemorative coins	591,386	590,240
	14,827,741	13,822,256
Notes:		
1 rupee	4,981	4,981
2 rupee	26,694	26,694
5 rupee	37,191	37,192
10 rupee	1,259,975	1,271,474
20 rupee	5,876,733	5,607,149
50 rupee	5,720,916	5,456,882
100 rupee	23,662,737	22,612,502
200 rupee	127,820	128,307
500 rupee	41,697,085	40,093,478
1000 rupee	134,367,933	136,787,726
2000 rupee	4,044,172	5,331,902
5000 rupee	446,313,172	409,761,967
	663,139,409	627,120,254
Total Currency in Circulation	677,967,150	640,942,510

30. OTHER PAYABLES

	2019 Rs. 000	2018 Rs. 000
Provision and Charges	1,392,762	1,706,541
Deposits by RDD	1,924,674	2,082,061
Liability against Abandoned Properties Received (Note 30.1)	7,645,575	6,188,502
Balances of Employee Benefit Plans (Note 30.2)	7,599	18,333
Other Payables	1,732,278	2,629,327
	12,702,888	12,624,764

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

30.2 Balances of Employee Benefit Plans

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

	2019 Rs. 000	2018 Rs. 000
Balances in CBSL Provident fund, Pension schemes and Widows' / Widowers' & Orphans' Pension Schemes	7,599	18,333
	7,599	18,333

31. DEFERRED GRANTS

	2019 Rs. 000	2018 Rs. 000
As at 1 January	11	45
Amortization during the Year	(6)	(34)
As at 31 December	5	11

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.

32. PENSION AND OTHER POST EMPLOYMENT BENEFIT PLANS

The Bank operates seven defined benefit plans which cover all eligible employees. Under the Employees' Retirement Pension Scheme (old), employees who joined the Bank prior to 1 January 1998 and complete 10 years of service become eligible to the scheme. The employees who have 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 whereas the new Widows' and

Orphans and Widowers' and Orphans' Pension Scheme is open for employees of the Bank who joined after 1 January 1998. Eligible Employees under the Widowers' and Orphans' Pension Scheme (old) and Widowers' and Orphans' Pension Scheme (old) plans who were recruited before 1 August 1994 contribute 5% of the monthly basic salary & employees who were recruited on or after 01 August 1994 contribute 10% of the monthly basic salary whereas the eligible employees under the new Widowers' and Orphans' and Widowers' and Orphans' Pension Scheme contribute 5.5% of the monthly basic salary.

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

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

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

Funds of the Employee Retirement Pension Schemes, Widowers' and Orphans' Pension Scheme, Widowers' and Orphans' Pension Scheme are managed separately and separate books are maintained. However, Gratuity Scheme and Medical Benefit Scheme are not separated from the books of accounts of the Bank. Further, investments and investment income are recorded separately for these funds in the Bank books and the income earned from the investments are transferred back to these funds and reinvested without being distributed.

The total present value of all benefit obligations of Rs. 52,461.11 Mn (2018 – Rs. 48,245.66 Mn) exceeds the total fair value of plan assets of Rs. 43,931.50 Mn (2018 – Rs. 38,884.03 Mn) at the end of the reporting period resulting in a deficit of Rs. 8,529.61 Mn (2018 – deficit of Rs. 9,361.63 Mn).

As at 31 December 2019

Benefit (Asset)/Liability	Employee Retirement Pension Scheme	Employee Retirement Pension Scheme - New	Widowers' and Orphans' Pension Scheme	Widowers' and Orphans' Pension Scheme	Widowers' and Orphans' and Widowers' and Orphans' Pension Scheme - New	Gratuity Scheme	Medical Benefit Scheme	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Present Value of Benefit Obligation	37,116,752	1,376,825	7,840,685	1,343,408	693,189	373,017	3,717,231	52,461,107
Fair Value of Plan Assets/ Investments	(28,458,298)	(4,450,843)	(5,550,824)	(2,466,612)	(667,087)	(284,777)	(2,053,059)	(43,931,500)
Net Benefit Liability/ (Asset)	8,658,454	(3,074,018)	2,289,861	(1,123,204)	26,102	88,240	1,664,172	8,529,607

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

- The net asset position of the and Widowers' and Orphans' Pension Scheme is not reflected in the financial statements due to remote possibility of distributing any residual balance of the fund to the Bank.
- For both gratuity and medical benefit schemes, the financial statements 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).

	2019 Rs. 000	2018 Rs. 000
Employee Retirement Pension Scheme	8,658,454	9,851,097
Employee Retirement Pension Scheme-New	(3,074,018)	(2,463,637)
Widowers' and Orphans' Pension Scheme	2,289,861	903,848
Widowers' and Orphans' and Widowers' and Orphans' Pension Scheme - New	26,102	665,884
Gratuity Scheme	373,017	290,932
Medical Benefit Scheme	3,717,231	2,768,680
	11,990,647	12,016,804

Movement in the Benefit Liability/(Asset)	Employee Retirement Pension Scheme	Employee Retirement Pension Scheme - New	Widows' and Orphans' Pension Scheme	Widowers' and Orphans' Pension Scheme	Widows' and Orphans' and Widowers' and Orphans' Pension Scheme - New	Gratuity Scheme	Medical Benefit Scheme	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
As at 1 January 2019	9,851,097	(2,463,637)	903,848	(978,132)	665,884	47,765	1,334,808	9,361,633
Net Benefit Expense	1,182,132	(245,782)	71,561	(127,165)	(177,540)	36,512	194,747	934,465
Amount recognized in Other Comprehensive Income	(1,135,396)	(92,561)	1,314,452	(17,907)	24,120	3,963	777,255	873,926
Contribution Paid	(1,239,379)	(272,038)	-	-	(486,362)	-	(642,638)	(2,640,417)
As at 31 December 2019	8,658,454	(3,074,018)	2,289,861	(1,123,204)	26,102	88,240	1,664,172	8,529,607
Movement in the Present Value of Projected Benefit Obligations	Employee Retirement Pension Scheme	Employee Retirement Pension Scheme - New	Widows' and Orphans' Pension Scheme	Widowers' and Orphans' Pension Scheme	Widows' and Orphans' and Widowers' and Orphans' Pension Scheme - New	Gratuity Scheme	Medical Benefit Scheme	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
As at 1 January 2019	35,971,523	1,055,695	6,241,591	1,199,154	718,088	290,932	2,768,680	48,245,663
Interest Cost	4,316,583	126,683	748,991	143,898	86,171	34,912	332,242	5,789,480
Current Service Cost	-	49,855	-	-	-	30,780	42,080	122,715
Past Service Cost	-	-	-	-	(205,335)	-	-	(205,335)
Benefit Paid From the Fund	(2,798,204)	(988)	(502,519)	(32,405)	-	(13,609)	(291,406)	(3,639,132)
Actuarial (Gain)/Losses on Obligations	(373,149)	145,580	1,352,622	32,761	94,265	30,002	865,635	2,147,716
As at 31 December 2019	37,116,752	1,376,825	7,840,685	1,343,408	693,189	373,017	3,717,231	52,461,107
Movement in Fair Value of Plan Assets/ Investments	Employee Retirement Pension Scheme	Employee Retirement Pension Scheme - New	Widows' and Orphans' Pension Scheme	Widowers' and Orphans' Pension Scheme	Widows' and Orphans' and Widowers' and Orphans' Pension Scheme - New	Gratuity Scheme	Medical Benefit Scheme	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
As at 1 January 2019	26,120,425	3,519,332	5,337,743	2,177,286	52,204	243,167	1,433,872	38,884,029
Interest Income	3,134,451	422,320	640,529	261,274	6,264	29,180	172,065	4,666,083
Contributions by the Employer	1,239,379	272,038	-	-	486,362	-	642,638	2,640,417
Contributions by the Employees	-	-	36,901	9,789	52,112	-	7,510	106,312
Benefit Paid from the Fund	(2,798,204)	(988)	(502,519)	(32,405)	-	(13,609)	(291,406)	(3,639,131)
Return on Plan Assets, excluding Interest Income	762,247	238,141	38,170	50,668	70,145	26,039	88,380	1,273,790
As at 31 December 2019	28,458,298	4,450,843	5,550,824	2,466,612	667,087	284,777	2,053,059	43,931,500

There are uncollateralized investments under Pension, Widows' and Orphans' fund, Widowers' and Orphans' fund, Gratuity and Medical Benefit Scheme fund worth of Rs. 561.39 Mn for which 100% provision has been made and thus not included in the value of plan assets (2018 - Rs. 522.23 Mn). Even without the value of such investments, the Bank has a net asset position under its Widowers' and Orphans' Pension liability as per actuarial valuation.

Expenses Recognised in Other Comprehensive Income (OCI) for the Year Ended 31 December 2019	Employee Retirement Pension Scheme	Employee Retirement Pension Scheme - New	Widows' and Orphans' Pension Scheme	Widowers' and Orphans' Pension Scheme	Widows' and Orphans' and Widowers' Pension Scheme - New	Gratuity Scheme	Medical Benefit Scheme	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Actuarial (Gains)/Losses on Obligations for the Period								
Due to Change in Financial Assumptions	2,958,314	146,525	372,103	75,815	75,881	14,411	154,256	3,797,305
Due to Experience	(3,331,463)	(945)	980,519	(43,054)	18,384	15,591	711,379	(1,649,589)
Return on Plan Assets, excluding Interest Income	(762,247)	(238,141)	(38,170)	(50,668)	(70,145)	(26,039)	(88,380)	(1,273,790)
Net (Income)/Expense For the Period Recognized in OCI	(1,135,396)	(92,561)	1,314,452	(17,907)	24,120	3,963	777,255	873,926
Benefit Expense for the Year Ended 31 December 2019								
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Interest Cost on Benefit Obligation	4,316,583	126,683	748,991	143,898	86,171	34,912	332,242	5,789,480
Interest Income on Plan Assets	(3,134,451)	(422,320)	(640,529)	(261,274)	(6,264)	(29,180)	(172,065)	(4,666,083)
Current Service Cost	-	49,855	-	-	-	30,780	42,080	122,715
Past Service Cost	-	-	-	-	(205,335)	-	-	(205,335)
Contributions by the Employees	-	-	(36,901)	(9,789)	(52,112)	-	(7,510)	(106,312)
Benefit Expense	1,182,132	(245,782)	71,561	(127,165)	(177,540)	36,512	194,747	934,465
Composition of the Plan Assets								
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Investment in Government Securities	21,339,406	3,899,255	3,932,975	1,983,543	657,190	258,908	1,218,959	33,290,236
Investment in Reverse Repo	2,975,118	55,066	343,015	127,180	5,348	-	346,217	3,851,944
Investment in Debentures	593,468	146,543	448,893	42,288	-	8,509	-	1,239,701
Investment in Fixed Deposits	3,548,628	349,170	823,951	312,782	4,062	17,360	487,883	5,543,836
Balances Remaining in Current Accounts	1,678	809	1,990	819	487	-	-	5,783
Total Plan Assets As at 31 December 2019	28,458,298	4,450,843	5,550,824	2,466,612	667,087	284,777	2,053,059	43,931,500
As at 31 December 2018								
Movement in the Benefit Liability/(Asset)								
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
As at 1 January 2018	892,685	(2,533,060)	(424,605)	(1,279,273)	-	(22,218)	942,158	(2,424,313)
Net Benefit Expense	283,821	(294,427)	(88,343)	(176,350)	665,884	14,991	145,554	551,130
Amount recognized in Other Comprehensive Income	9,059,635	567,448	1,416,796	477,491	-	54,992	247,096	11,823,458
Contribution Paid	(385,044)	(203,598)	-	-	-	-	-	(588,642)
As at 31 December 2018	9,851,097	(2,463,637)	903,848	(978,132)	665,884	47,765	1,334,808	9,361,633

Movement in the Present Value of Projected Benefit Obligations	Employee Retirement Pension Scheme	Employee Retirement Pension Scheme-New	Widows' and Orphans' Pension Scheme	Widowers' and Orphans' Pension Scheme	"Widows' and Orphans' and Widowers' and Orphans' Pension Scheme - New	Gratuity Scheme	Medical Benefit Scheme	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
As at 1 January 2018	29,232,145	718,032	5,218,411	912,262	-	153,167	2,158,269	38,392,286
Interest Cost	3,800,179	93,344	678,393	118,594	-	19,912	280,575	4,990,997
Current Service Cost	167,772	34,871	-	-	-	17,879	30,481	251,003
Past Service Cost	-	-	-	-	718,088	-	-	718,088
Benefit Paid From the Fund	(2,365,843)	(966)	(479,098)	(30,040)	-	(5,570)	(218,416)	(3,099,933)
Actuarial Losses on Obligations	5,137,270	210,414	823,885	198,338	-	105,544	517,771	6,993,222
As at 31 December 2018	35,971,523	1,055,695	6,241,591	1,199,154	718,088	290,932	2,768,680	48,245,663
Movement in Fair Value of Plan Assets/Investments	Employee Retirement Pension Scheme	Employee Retirement Pension Scheme-New	Widows' and Orphans' Pension Scheme	Widowers' and Orphans' Pension Scheme	"Widows' and Orphans' and Widowers' and Orphans' Pension Scheme - New	Gratuity Scheme	Medical Benefit Scheme	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
As at 1 January 2018	28,339,459	3,251,092	5,643,016	2,191,535	-	175,385	1,216,111	40,816,598
Interest Income	3,684,130	422,642	733,592	284,900	14,346	22,800	158,094	5,320,504
Contributions by the Employer	385,044	203,598	-	-	-	-	-	588,642
Contributions by the Employees	-	-	33,144	10,044	37,858	-	7,408	88,454
Benefit Paid from the Fund	(2,365,843)	(966)	(479,098)	(30,040)	-	(5,570)	(218,416)	(3,099,933)
Return on Plan Assets, Excluding Interest Income	(3,922,365)	(357,034)	(592,911)	(279,153)	-	50,552	270,675	(4,830,236)
As at 31 December 2018	26,120,425	3,519,332	5,337,743	2,177,286	52,204	243,167	1,433,872	38,884,029
Expenses Recognised in Other Comprehensive Income (OCI) for the Year Ended 31 December 2018	Employee Retirement Pension Scheme	Employee Retirement Pension Scheme-New	Widows' and Orphans' Pension Scheme	Widowers' and Orphans' Pension Scheme	"Widows' and Orphans' and Widowers' and Orphans' Pension Scheme - New	Gratuity Scheme	Medical Benefit Scheme	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Actuarial (Gains)/Losses on Obligations for the Period								
Due to Change in Financial Assumptions	3,809,336	200,760	638,640	156,561	-	76,750	460,701	5,342,748
Due to Experience	1,327,934	9,654	185,245	41,777	-	28,794	57,070	1,650,474
Return on Plan Assets, excluding Interest Income	3,922,365	357,034	592,911	279,153	-	(50,552)	(270,675)	4,830,236
Net (Income)/Expense For the Period Recognized in OCI	9,059,635	567,448	1,416,796	477,491	-	54,992	247,096	11,823,458

Benefit Expense for the Year Ended 31 December 2018	Employee Retirement Pension Scheme	Employee Retirement Pension Scheme-New	Widows' and Orphans' Pension Scheme	Widowers' and Orphans' Pension Scheme	"Widows' and Orphans' and Widowers' and Orphans' Pension Scheme - New	Gratuity Scheme	Medical Benefit Scheme	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Interest Cost on Benefit Obligation	3,800,179	93,344	678,393	118,594	-	19,912	280,575	4,990,997
Interest Income on Plan Assets	(3,684,130)	(422,642)	(733,592)	(284,900)	(14,346)	(22,800)	(158,094)	(5,320,504)
Current Service Cost	167,772	34,871	-	-	-	17,879	30,481	251,003
Past Service Cost	-	-	-	-	718,088	-	-	718,088
Contributions by the Employees	-	-	(33,144)	(10,044)	(37,858)	-	(7,408)	(88,454)
Benefit Expense	283,821	(294,427)	(88,343)	(176,350)	665,884	14,991	145,554	551,130
Composition of the Plan Assets								
Composition of the Plan Assets	Employee Retirement Pension Scheme	Employee Retirement Pension Scheme-New	Widows' and Orphans' Pension Scheme	Widowers' and Orphans' Pension Scheme	"Widows' and Orphans' and Widowers' and Orphans' Pension Scheme - New	Gratuity Scheme	Medical Benefit Scheme	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Investment in Government Securities	18,951,019	3,138,194	3,665,611	1,682,559	43,131	214,815	1,150,734	28,846,063
Investment in Reverse Repo	219,425	21,471	44,950	26,096	3,883	-	4,013	319,838
Investment in Debentures	761,114	43,004	449,408	20,335	-	6,633	-	1,280,494
Investment in Fixed Deposits	6,173,983	315,885	1,176,978	448,149	4,848	21,719	279,125	8,420,687
Balances Remaining in Current Accounts	14,884	778	796	147	342	-	-	16,947
Total Plan Assets as at 31 December 2018	26,120,425	3,519,332	5,337,743	2,177,286	52,204	243,167	1,433,872	38,884,029
The principal assumptions used in determining Employee Benefit Obligations for all the plans are shown below:								
					2019	2018		
Discount Rate					11.50%	12.00%		
Expected Rate of Return on Assets					11.50%	12.00%		
Rate of Salary Increases - Gratuity, W & OP, WR & OP, Old Pension Schemes					11.50%	11.50%		
Rate of Salary Increase - Pension New, W & OP and WR & OP New					6.50%	6.50%		
Future Pension Increases					7.50%	7.50%		
Attrition Rate					2.00%	2.00%		
Medical Cost Inflation Rate					4.50%	4.50%		
Average Remaining years of Service								
CBSL Pension					26 Years	26 Years		
CBSL Pension - New					38 Years	38 Years		
W & OP Pension Scheme					26 Years	26 Years		
WR & OP Pension Scheme					26 Years	26 Years		
W & OP and WR & OP Pension Scheme - New					38 Years	38 Years		
Gratuity Scheme					18 Years	19 Years		
CBSL Medical Benefit Scheme					26 Years	26 Years		
Retirement Age					60 Years	60 Years		

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. 50.0 Bn. Accordingly, the Bank has increased its capital up to Rs. 50.0 Bn by capitalizing the Bank's reserves with the concurrence of Minister of Finance in September 2014.

34.2 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.

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

Considering the marked to market gains recorded in 2018, an amount of Rs. 1.17 Bn was transferred to MRR from Retained Earnings in 2019 as per the Monetary Board decision MB/F/8/3/2019 dated 27 February 2019.

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 Securities at Fair Value through Other Comprehensive Income**: Unrealized gains and losses on the revaluation of securities and unit investments designated as Fair Value through Other Comprehensive Income are transferred to this reserve.

v). **RTGS Sinking Fund** : This fund is built up with the charges collected from the participants for the use of the RTGS system.

vi). **Pension Fund Reserve** : This reserve is made up by transferring an additional Rs.3.0 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. 1.0 Bn have been transferred to this reserve from 2011 profits. During June 2015, Rs. 2.0 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. During March 2018, an additional Rs. 2.0 Bn was transferred from 2017 profits to this reserve.

viii). **Provincial Development Credit Scheme** : During 2010, the Bank has commenced a refinance credit scheme for medium & long term development purposes by creating a fund from the profits, amounting to Rs.2.90 Bn. Such loans are granted through Bank of Ceylon & People's Bank. During April 2019, due to the completion of Provincial Development Credit Scheme the balance of Rs. 2.90 Bn has been transferred to Medium & Long term Credit Reserve.

ix). **Special Credit Guarantee Scheme Reserve** : This reserve was set up in the year 2014 by transferring Rs. 2.0 Bn from Medium and Long Term Credit Fund, of which Rs. 1.0 Bn 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. 1.0 Bn is allocated to implement a special credit guarantee scheme to support lending to Small and Medium Enterprises by Commercial Banks.

x). **Reserve for Funding purpose of Post Employment Benefit Plans** : As per Monetary Board decision MB/F/39/20/2016 dated 16 December 2016, it is proposed to allocate 50 per cent of the benefit expenses of the actuary of a given year (starting from 2016) to a separate reserve, if there are adequate distributable profits with a view to compensate the possible negative impact to the equity attributed to actuarial losses and benefit expenses. CBSL did not make any allocations to this in year 2018 due to the negative distributable profits. However, an allocation of Rs. 742.48 Mn was made to this fund from the distributable profits of year 2019.

xi). **Revaluation Reserve** : This reserve is made up of the revaluation surpluses of Property, Plant and Equipment as per IAS 16.

The movements in the other reserves are as follows:													
	Medium and Long Term Credit Reserve	Market Revaluation Reserve	Other Reserves	Special Credit Guarantee Scheme Reserve	RTGS Sinking Fund	IRR	Revaluation Reserve	Net Fair Value Gain/ (Loss) on FVOCI Securities	Pension Fund Reserve	Technical Advance-ment Reserve	Pro-vincial Devel-opment Credit Scheme Fund	Reserve for Funding purposes of Post Employment Benefit Plans	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Balance as at 1 January 2019	1,925,000	18,940,161	15,966,402	2,000,000	2,118,801	155,427,777	9,022,907	(2,978,222)	2,000,000	3,000,000	2,900,000	4,333,497	214,656,323
Transfer to RTGS Sinking Fund	-	-	-	-	333,334	-	-	-	-	-	-	-	333,334
Transfer of Net Foreign Exchange Revaluation Loss	-	-	-	-	-	(14,557,283)	-	-	-	-	-	-	(14,557,283)
Net Fair Value Gain on Securities at Fair Value through Other Comprehensive Income	-	-	-	-	-	-	-	10,628,206	-	-	-	-	10,628,206
Transfer of Funds to Market Revaluation Reserve	-	1,166,517	-	-	-	-	-	-	-	-	-	-	1,166,517
Market Valuation Reserve - Government Securities Classified at Fair Value through Other Comprehensive Income	-	-	-	-	-	-	-	113,231	-	-	-	-	113,231
Market Valuation Reserve - Equity Investments Classified at Fair Value through Other Comprehensive Income	-	-	-	-	-	-	-	115,859	-	-	-	-	115,859
Transfer of Provincial Development Credit Scheme Fund	2,900,000	-	-	-	-	-	-	-	-	-	(2,900,000)	-	-
Expected Credit Losses on FVOCI Investments	-	-	-	-	-	-	-	37,245	-	-	-	-	37,245
Balance as at 31 December 2019	4,825,000	20,106,678	15,966,402	2,000,000	2,452,135	140,870,494	9,022,907	7,916,319	2,000,000	3,000,000	-	4,333,497	212,493,432

35. PROFIT DISTRIBUTION		Item	2019 Rs. 000
In terms of the Monetary Law Act and Monetary Board approved Profit Distribution Policy of CBSL (effective from 2018), the following adjustments are made to the net profit for the year in order to arrive at the distributable profit.		Profit for the year	55,604,839
a) Remove the exchange gains. Remove the exchange losses until the accumulated exchange gains are sufficient to absorb the losses. Charge any additional exchange losses (as per the Profit Distribution policy of CBSL).		Less: Transfer of exchange losses to IRR in accordance with the MLA	(14,557,283)
		Transfer of "marked to market" gain on foreign assets to Market Revaluation Reserve (MRR)	43,356,467
		Other accounting adjustments	541,921
		Transfer to Other Comprehensive Income (As per IAS 19 : Employee Benefits)	873,926
b) Remove gains from Unrealized Price Revaluations (unrealized "marked to market" gains) but charge losses from Unrealized Price Revaluations (unrealized "marked to market" losses) (As per the Profit Distribution Policy of CBSL).		Distributable Profit as per MLA, Profit Distribution Policy of the Bank and other adjustments - Realised Profit	25,389,808
c) Any other transfers to reserves as per Sec.38 of MLA and any other adjustments arising from Sec. 39 of MLA as decided by the Monetary Board.		Less : Transfer to Reserves (Sec. 38 of MLA)	
		- Transfer to Reserve for funding purpose of Post Employment Benefit Plans	742,476
		- Transfer to General Reserve	638,355
		- Recovery of outstanding GOSL obligations (Sec. 39 of MLA)	8,977
Further, any other adjustment as required by accounting standards and management decisions are adjusted in arriving at the distributable profit.		Amount Credited to the Consolidated Fund (Sec. 39 of MLA)	24,000,000
Based on the above adjustments, the distributable profit for the year ended 31 December 2019 is as follows:			

36. INTEREST INCOME FROM FINANCIAL ASSETS					
	2019 Rs. 000	2018 Rs. 000			
Interest Income from Foreign Currency Financial Assets					
Cash and Short Term Deposits	3,107,387	3,889,162			
Financial Assets	14,245,223	13,588,824			
Derivatives	15,597,950	8,078,946			
Total Interest Income from Foreign Currency Financial Assets	32,950,560	25,556,932			
Interest Income from Local Currency Financial Assets					
Sri Lanka Government Securities	16,658,658	7,941,274			
Other Loans and Advances	1,228,145	1,015,048			
Total Interest Income from Local Currency Financial Assets	17,886,803	8,956,322			
Total Interest Income from Financial Assets	50,837,363	34,513,254			
37. GAIN/(LOSS) FROM UNREALIZED PRICE REVALUATIONS					
	2019 Rs. 000	2018 Rs. 000			
Foreign Securities	295,181	214,157			
Gold	27,613,441	(4,103,042)			
Forex & Currency SWAPS	14,672,223	(14,882,288)			
Currency Options	320,052	511,217			
Total Gain/(Loss) from Unrealized Price Revaluations	42,900,897	(18,259,956)			
38. INTEREST EXPENSE ON FINANCIAL LIABILITIES					
	2019 Rs. 000	2018 Rs. 000			
Interest Expense on Foreign Currency Financial Liabilities					
Asian Clearing Union	1,638,792	991,982			
IMF Related Liabilities	4,937,068	3,862,093			
Derivatives	1,722,776	486,325			
Other Foreign Payable	39,383	9,755			
Total Interest Expense on Foreign Currency Financial Liabilities	8,338,019	5,350,155			
Interest Expense on Local Currency Financial Liabilities					
Securities Sold Under Repurchase Agreements	795,441	925,379			
Standing Deposit Facility	2,301,163	1,409,287			
Bond Borrowing	-	15,882			
Abandoned Property	666,335	529,672			
Miscellaneous Interest Expenses	363	-			
Total Interest Expense on Local Currency Financial Liabilities	3,763,302	2,880,220			
Total Interest Expense on Financial Liabilities	12,101,321	8,230,375			
			The Bank has a net sterilization gain of Rs. 17,080.98 Mn (2018 - Rs. 10,041.78 Mn) in its activities to inject the liquidity to the market due to the deficit liquidity position. The sterilization cost 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:		
			2019 Rs. 000	2018 Rs. 000	
Interest expenses incurred on securities sold under agreement to repurchase			795,441	925,379	
Interest expense on Bond Borrowing			-	15,882	
Interest expense on Standing Deposit Facility			2,301,163	1,409,287	
Less:					
Interest income earned on the securities purchased under agreement to resale			4,579,630	4,313,387	
USD/LKR Derivative Gain			15,597,950	8,078,946	
			17,080,976	10,041,785	
39. EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS					
	2019 Rs. 000	2018 Rs. 000			
Foreign Currency Financial Assets					
Financial Assets at Amortized Cost					
Cash & Cash Equivalents (Note 9.1)	(150,394)	(21,059)			
IMF Related Assets (Note 12.4)	-	(1)			
Securities at Fair Value through Other Comprehensive Income (Note 10.2)	(37,245)	1,939			
Total Expected Credit Loss Charge on Foreign Currency Financial Assets	(187,639)	(19,121)			
Local Currency Financial Assets					
Financial Assets at Amortised Cost					
Loans to Banks (Note 17.3)	119	488			
Other Assets (Note 17.1)	(27,764)	(11,462)			
Credit Guarantee Provision	404	8			
Total Expected Credit Loss Charge on Local Currency Financial Assets	(27,241)	(10,966)			
Total Expected Credit Loss Charge on Financial Assets	(214,880)	(30,087)			

40. OTHER INCOME		
	2019 Rs. 000	2018 Rs. 000
Dividend Income - Related Party	149,686	126,111
Gain on Disposal of Property, Plant & Equipment	33,915	79,373
Amortization of Deferred Grant	6	34
Licensing Fees of Financial Institutions	624,100	580,950
Rent Income	346,790	402,429
Charges collected from RTGS Participants	121,576	123,361
Miscellaneous Income	426,462	380,736
Total Other Income	1,702,535	1,692,994
41. PERSONNEL EXPENSES		
	2019 Rs. 000	2018 Rs. 000
Wages and Salaries	5,544,943	5,409,137
Defined Contribution Plan Costs	1,103,233	1,536,049
Post Employee Defined Benefit Plan Costs	1,120,381	205,147
Total Personnel Expenses	7,768,557	7,150,333
42. ADMINISTRATION AND OTHER EXPENSES		
	2019 Rs. 000	2018 Rs. 000
Repairs and Maintenance	910,949	831,201
Operating Expenses for Reuters, Bloomberg, SWIFT etc.	188,605	162,735
Travelling	138,243	131,033
Rental Expenses	69,664	3,004
Printing	35,015	36,412
Audit Fees	247,435	11,199
Remuneration to Members of the Monetary Board/Sub Committees	6,420	4,510
Interest Subsidy on CBSL Provident Fund	-	85,383
Advertising Cost	82,686	104,930
Consultancy, Communication, Advisory and Professional Fees	124,220	102,718
Interest Expense on Lease Liability	5,292	-
Miscellaneous Expenses	359,952	376,958
Total Administration and Other Expenses	2,168,481	1,850,083
43. TAX		
The Bank is not liable for the income tax as per section 9 (1) of Inland Revenue Act No. 24 of 2017.		
The Withholding Tax paid by the Bank till 31 March 2018 and Economic Service Charge paid by the bank is treated as the final tax paid to the Inland Revenue Department (IRD) as the requirement to pay withholding tax on government securities was removed with effect from 1 April 2018 by the Inland Revenue Act No. 24 of 2017.		
44. RECONCILIATION OF OPERATING PROFIT WITH CASH FLOWS FROM OPERATING ACTIVITIES		
	2019 Rs. 000	2018 Rs. 000
Reported Profit from Operating Activities	55,604,839	137,927,718
Add/(Less) : Non-Cash Items		
Depreciation & Amortization	439,918	498,189
Interest Received – Local Currency – Investment Portfolio	(16,658,660)	(7,941,273)
Net Provision for Defined Employee Benefit Plans	467,211	390,483
Gross Unrealised Foreign Exchange (Gain)/Loss	(3,012,872)	(149,861,582)
(Profit)/Loss on Sale of Property, Plant and Equipment	(33,915)	(79,381)
Provisions and Accruals	(805,841)	2,288,287
Expected Credit Loss Provision on Financial Assets	214,880	30,087
Deferred Grants	(6)	(34)
Amortization of PRGF Deposit	8,368	(7,747)
Write off of Construction in Progress	-	22,402
Amortization Expense of Fixed Income Securities	5,674	109,525
Add/(Less) : Movements in Other Working Capital Items		
(Increase)/Decrease in Inventories	(729,457)	306,597
(Increase)/Decrease in Interest Receivable	(354,822)	2,558,796
Increase/(Decrease) in Miscellaneous Liabilities	323,129	(21,325)
Increase in Interest Payable	627,537	1,075,371
Increase in Other Receivable	(237,576)	(3,234,520)
Add/(Less) : Investing and Financing Activities		
Net Unrealised Market Value Changes	(42,694,401)	12,201,892
Net Cash Flows from Operating Activities	(6,835,994)	(3,736,515)
45. NET ISSUES/(WITHDRAWALS) OF CIRCULATION CURRENCY ON GOVERNMENT TRANSACTIONS		
	2019 Rs. 000	2018 Rs. 000
(Sale)/Purchase of Sri Lanka Government Securities	(147,771,168)	241,803,062
Interest Received – Local Currency – Sri Lanka Government Securities	(16,619,525)	(7,393,636)
Increase/(Decrease) in Advances to GOSL	37,976,400	(1,168,300)
Increase in Balances with Government and Government Entities	(150,920)	(24,202)
	(126,565,213)	233,216,924
46. NET ISSUES/(WITHDRAWALS) OF CIRCULATION CURRENCY ON BANK AND FINANCIAL INSTITUTIONS TRANSACTIONS		
	2019 Rs. 000	2018 Rs. 000
Decrease in Deposits by Banks and Financial Institutions	65,524,563	23,010,511
	65,524,563	23,010,511

47. CONCENTRATIONS OF FUNDING

The Bank's significant end of year concentrations of funding were as follows:

47.1 Balance as at 31 December 2019	Sri Lanka Government	Sri Lanka Public	Sri Lanka Commercial Banks	Supranational Financial Institutions	Other	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Foreign Currency Financial Liabilities						
Banks and Financial Institutions	-	-	-	830,677	127,571	958,248
Derivative Financial Instruments	-	-	197,014	-	792,944	989,958
Asian Clearing Union	-	-	-	82,995,147	-	82,995,147
IMF	-	-	-	471,975,073	-	471,975,073
Other	57,036,040	-	-	50,408	5,090	57,091,538
Total Foreign Currency Financial Liabilities	57,036,040	-	197,014	555,851,305	925,605	614,009,964
Local Currency Financial Liabilities						
Deposits of Banks and Financial Institutions	-	-	243,979,091	-	10,602,529	254,581,620
Deposits of Government and Government Entities	499,447	192	-	-	-	499,639
Securities Sold Under Repurchase Agreements	-	-	40,663,818	-	2,634,507	43,298,325
Currency in Circulation	-	677,967,150	-	-	-	677,967,150
Other Payables	83,678	-	1,924,674	-	10,694,536	12,702,888
Total Local Currency Financial Liabilities	583,125	677,967,342	286,567,583	-	23,931,572	989,049,622
Total Financial Liabilities	57,619,165	677,967,342	286,764,597	555,851,305	24,857,177	1,603,059,586
Other Liabilities						
Deferred Grants	-	-	-	-	5	5
Pension and Other Post Employment Benefit Plans	-	-	-	-	11,990,647	11,990,647
Miscellaneous Liabilities and Accruals	-	-	-	-	181,809	181,809
Total Other Liabilities	-	-	-	-	12,172,461	12,172,461
Total Liabilities	57,619,165	677,967,342	286,764,597	555,851,305	37,029,638	1,615,232,047
47.2 Balance as at 31 December 2018						
	Sri Lanka Government	Sri Lanka Public	Sri Lanka Commercial Banks	Supranational Financial Institutions	Other	Total
Foreign Currency Financial Liabilities						
Banks and Financial Institutions	-	-	-	811,552	18,489,608	19,301,160
Derivative Financial Instruments	-	-	12,156,003	-	1,900,457	14,056,460
Asian Clearing Union	-	-	-	79,158,977	-	79,158,977
IMF	-	-	-	416,988,246	-	416,988,246
Other	134,657,025	-	-	68,817	5,091	134,730,933
Total Foreign Currency Financial Liabilities	134,657,025	-	12,156,003	497,027,592	20,395,156	664,235,776
Local Currency Financial Liabilities						
Deposits of Banks and Financial Institutions	-	-	319,922,749	-	183,434	320,106,183
Deposits of Government and Government Entities	348,681	37	-	-	-	348,718
Securities Sold Under Repurchase Agreements	-	-	16,741,679	-	11,569,542	28,311,221
Currency in Circulation	-	640,942,510	-	-	-	640,942,510
Other Payable	103,736	-	2,082,061	-	10,438,967	12,624,764
Total Local Currency Financial Liabilities	452,417	640,942,547	338,746,489	-	22,191,943	1,002,333,396
Total Financial Liabilities	135,109,442	640,942,547	350,902,492	497,027,592	42,587,099	1,666,569,172
Other Liabilities						
Deferred Grants	-	-	-	-	11	11
Pension and Other Post Employment Benefit Plans	-	-	-	-	12,016,804	12,016,804
Miscellaneous Liabilities and Accruals	2,562	-	-	-	83,383	85,945
Total Other Liabilities	2,562	-	-	-	12,100,198	12,102,760
Total Liabilities	135,112,004	640,942,547	350,902,492	497,027,592	54,687,297	1,678,671,932

48. RISK MANAGEMENT

In pursuing Central Bank of Sri Lanka's (CBSL) policy objectives, it faces various risks, both financial and non-financial in nature. Since the materialization of any of these risks could have a severe impact on the financial position and the reputation of CBSL, a properly designed risk management framework is vital for CBSL. The recognition of the strategic importance of an integrated approach to risk management, led to the creation of a separate Risk Management Department (RMD) at CBSL in 2015 to overcome the conventional management of viewing risk in silos. Accordingly, risk management was

recognized as a key strategic priority of the CBSL for 2018-2020 and the Bank is in the process of implementing an Enterprise-wide Risk Management (ERM) Framework for CBSL. This framework is intended to promote a culture of informed risk-taking at all levels of the Bank.

The Risk Governance Framework which was approved by the Monetary Board in January 2018 comprises both a Risk Governance Structure and a Risk Management Structure covering financial and non-financial risks confronted by the Bank. The Risk Governance Structure consists of the Monetary Board (MB), and two Board sub-committees, the Board Risk Oversight Committee (BROC)

and the Monetary Board Advisory Audit Committee (MBAAC). The MB holds the ultimate responsibility for the overall risk management function of the Bank and sets the "Tone at the Top". Further, MB is responsible for setting the Risk Appetite and Risk Tolerance level for CBSL and approving the risk management/compliance framework.

The BROC was set up in August 2018 and is chaired by Mr. Chrishantha Perera, independent member of the Monetary Board and comprises two independent external experts (Mr. Priyan Fernando, Chairman Brandix Lanka Ltd. and Senior Advisor, Boston Consulting Group was appointed from 5 October 2018 onwards and Mr. Naomal Goonewardena, Partner, Nithya Partners was appointed from 1 March 2019 onwards). The BROC oversees CBSL's overall Risk Management and Compliance Functions via a formal delegation from the MB, and is responsible for laying the broad strategy and policies for the Bank's risk management and compliance functions. The BROC also assists the MB to ensure a dedicated focus on risk management and compliance at the Bank.

The Risk Management Structure that has been put in place follows the Three Lines of Defense model. In the first line of defense, operational departments are expected to identify, assess, control, and mitigate risks and implement internal policies and procedures to ensure that activities carried out are consistent with the Bank's goals and objectives. The Risk Management Department assists in monitoring the implementation of effective risk management practices by operational management and independently reports risks related issues to the Risk Governance Structure creating a link between the Risk Management and Risk Governance Structures. The third line of defense, Internal Audit provides assurance on the effectiveness of governance, risk management, and internal controls, including the manner in which the first and second lines of defense achieve risk management and control objectives. Each of these three 'lines' plays a distinct role within the Bank's risk governance framework.

In addition to facilitating non-financial risk management of all the departments under the three lines of defense model, RMD is also responsible for the financial risk management of the fund management activities of the International Reserves (IR), and the Internal Investment Funds (IIF) of CBSL, as well as the Employees' Provident Fund (EPF) which is carried out as an agency function for the Government. RMD revised the Investment Policy Statements (IPS) and Strategic Asset Allocation (SAA) for all three fund management activities during the year. RMD also independently monitored market and credit risks pertaining to these fund management activities and reported risks emanating from them to the respective Investment Oversight Committees (IOCs) on monthly basis and to the BROC on quarterly basis.

In line with the new framework, RMD has developed a Risk Management Policy Statement (RMPS) for the CBSL, setting out the policies for the implementation of risk management across CBSL. In this process, CBSL follows accepted standards and guidelines for managing risks, while assigning risk ownership and management among different stakeholders with clear accountability.

An annual survey was conducted among the corporate management of CBSL to determine the current top bank-wide operational risks impacting the CBSL. The survey results will be used to revise the Operational Risk Taxonomy for CBSL, which would help prioritize key operational risk categories that could impact the institution and requiring the attention of the Management.

To promote a risk culture within the bank, RMD conducted numerous risk awareness sessions for CBSL staff throughout the year at various fora, with the involvement of RMD staff and external resource personnel.

With a view to strengthen the operational risk management function, RMD worked closely with the World Bank's Operational Risk Team where the existing risk governance structure and the framework for managing operational risks were reviewed, risk taxonomy was finalized and rating scales and specific steps related to identification, assessment, monitoring and reporting of non-financial risks were established. The World Bank team conducted an operational risk assessment over two selected pilot areas of the CBSL and delivered training on operational risk management to all key staff.

RMD worked with departments to facilitate the development of Risk Registers and to refine these Risk Registers in a phased-out manner using an excel based risk register format. Once this process is completed the Management will be able to make more informed, risk conscious decisions on a prioritized basis on departmental activities.

RMD with the assistance of ITD deployed an automated Incident Reporting System on 1 October 2019, which is accessible to staff at all levels of the CBSL. This system is expected to encourage reporting of incidents and facilitate the development of a central repository of incidents while tracking progress on the implementation of corrective actions, identifying possible trends and areas of vulnerabilities and improving risk reduction measures.

With respect to financial risk management, RMD will further strengthen the risk management framework through the annual process of reviewing the investment policies and guidelines for each of the funds managed by CBSL. RMD is in the process of improving the credit risk management framework of the fund management activities of CBSL, covering CBSL's counterparties, issuers and custodians. In the meantime, RMD would continue to monitor credit and market risks pertaining to investments on an ongoing basis to ensure they are within the stipulated limits specified by the Monetary Board approved Strategic Asset Allocation (SAA), IPS and IG and highlight risks to the management at all times.

48.1 Credit Risk

(a) Concentrations of credit Exposure by geographical area

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

	2019 Rs. 000	2018 Rs. 000
Sri Lanka	384,424,472	489,380,034
USA	527,800,817	665,241,791
Japan	249,868,714	95,625,902
Britain	21,960,920	9,869,079
Europe	131,542,095	118,939,171
Supranational	274,053,375	266,277,984
Other	131,112,411	96,953,618
Total Financial Assets	1,720,762,804	1,742,287,579

	Credit Rating	2019 Rs.000	%	2018 Rs.000	%
Local Currency Financial Assets					
Sri Lanka Government Securities	B	76,511,883	4.45%	45,031,157	2.58%
Securities Purchased under Agreements to Re-sell	B	50,354,879	2.93%	229,454,409	13.17%
Provisional Advances to Government	B	236,608,971	13.75%	198,632,571	11.40%
Equity Investments in Financial and Other Institutions	NR	1,500,487	0.09%	1,381,879	0.08%
Other Assets	AAA	-	0.00%	198,899	0.01%
	AA+	1,126,217	0.08%	1,035,550	0.06%
	AA-	2,058	0.00%	1,233	0.00%
	AA	58,092	0.00%	55,313	0.00%
	A+	186,384	0.01%	6,904	0.00%
	A	6,617	0.00%	6,620	0.00%
	A-	345,045	0.02%	2,816	0.00%
	BBB+	14,288	0.00%	-	0.00%
	BBB-	-	0.00%	523	0.00%
	BB+	194	0.00%	17,704	0.00%
	B	8,301,507	0.48%	6,458,108	0.37%
	NR	7,561,345	0.44%	7,095,598	0.41%
Total Local Currency Financial Assets		382,577,967	22.23%	489,379,284	28.09%
Total Financial Assets		1,720,762,804	100.00%	1,742,287,579	100.00%
(d) Summary by Major Credit Category					
	Credit Rating	2019 Rs.000	%	2018 Rs.000	%
Foreign Currency Financial Assets					
Federal Reserve Bank - USA/Reserve Bank of Australia/Bank for International Settlements/ Bank of Japan/ Deutsche Bundesbank/Bank of England/ Sveriges Riks Bank/Bank of Canada/Reserve Bank of New Zealand		354,721,018	20.61%	327,240,508	18.78%
IMF Related Assets		147,159,174	8.55%	147,427,452	8.46%
	AAA	204,765,613	11.90%	164,449,886	9.44%
	AA+/-	568,543,470	33.04%	563,066,009	32.32%
	A+/-	53,992,315	3.14%	42,044,028	2.41%
	BBB+/-	1,126	0.00%	807,665	0.05%
	NR	7,155,617	0.42%	7,871,997	0.45%
Locally Rated	AA	772,254	0.05%	-	0.00%
	AA-	67,564	0.00%	750	0.00%
	A+/-	543,109	0.03%	-	0.00%
	NR	463,577	0.03%	-	0.00%
Total Foreign Currency Financial Assets		1,338,184,837	77.77%	1,252,908,295	71.91%
Local Currency Financial Assets					
	AAA	-	0.00%	198,899	0.01%
	AA+	1,126,217	0.07%	1,035,550	0.06%
	AA	58,092	0.00%	55,313	0.00%
	AA-	2,058	0.00%	1,233	0.00%
	A+	186,384	0.01%	6,904	0.00%
	A	6,617	0.00%	6,620	0.00%
	A-	345,045	0.02%	2,816	0.00%
	BBB+	14,288	0.00%	-	0.00%
	BBB-	-	0.00%	523	0.00%
	BB+	194	0.00%	17,704	0.00%
	B	371,777,240	21.60%	479,576,245	27.53%
	NR	9,061,832	0.53%	8,477,477	0.49%
Total Local Currency Financial Assets		382,577,967	22.23%	489,379,284	28.09%
Total Financial Assets		1,720,762,804	100.00%	1,742,287,579	100.00%

48.2 Interest Rate Risk

(a) Foreign Currency Interest Rate Sensitivity

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

The interest rate sensitivity of the Fixed Income Securities portfolio, except the investment in Reserve Advisory Management Program (RAMP), is measured by the potential gain or loss that could incur due to a change in interest rate by 10 basis points. The interest rate sensitivity of the fixed income securities portfolio held under RAMP is measured by the potential gain or loss that could incur due to a change in interest by 1 basis point. Sensitivity of the risk exposure of the segmented Fixed Income Securities Portfolio is given below:

Portfolio Segment	Potential Loss (USD Mn)	
	2019	2018
Fair Value through Other Comprehensive Income	8.14	7.86
RAMP	0.03	0.03

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

- i) While the interest rate sensitivity measures the effect of a change in 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 1% change in the interest rates (yield). A higher MD indicates a higher risk. Hence, the Bank sets 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	
	2019	2018
Capital Market (Fixed Income Securities)	2.03	2.08
RAMP	1.38	1.41

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

Convexity of the segmented Fixed Income Securities portfolio

Portfolio Segment	Potential Loss (USD Mn)	
	2019	2018
Fair Value through Other Comprehensive Income	0.07	0.07
RAMP	0.04	0.04

iii) Value at Risk (VaR)

VaR summarizes in a single number the downside risk of the portfolio, under normal market conditions, from financial market movements. Therefore, VaR is the maximum loss over a target horizon such that there is a low, pre-specified probability that the actual loss will be larger. VaR gives a number, in terms of money, which can be aggregated across risks and positions. The Bank uses Monte Carlo method to calculate VaR number for 10 days period at 99% confidence interval for its fixed income securities portfolio except for the investment in RAMP. The VaR of the fixed income securities portfolio held under RAMP is measured using the Monte Carlo method for one month period at 99 % confidence interval.

Portfolio Segment	Value at Risk (VaR) (USD Mn)	
	2019	2018
Fair Value through Other Comprehensive Income	25.30	19.94
RAMP	1.17	0.78

iv) Trading & Open Position Limits

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

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

(b) Local Currency Interest Rate Sensitivity

The Government Securities portfolio is recorded in the Statement of Financial Position of the Bank at Fair Value through Other Comprehensive Income as per the Business Model assessment under IFRS 9. This portfolio is not an investment portfolio, as the Bank does not purchase Government Securities with the intention of earning an interest income. The Bank purchases or sells Government Securities 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 Government Securities 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 Government Securities portfolio, which arise from changes in the volume of the Bank's Government Securities 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.

(c) Assets and liabilities that will mature or re-price within the following periods							
Foreign Currency Interest Rate Sensitivity Gap:	Weighted Avg. Int. Rate %	2019 Total Rs. 000	6 Months or Less Rs. 000	6 to 12 Months Rs. 000	1 to 2 Years Rs. 000	2 to 5 Years Rs. 000	Over 5 Years Rs. 000
Interest Sensitive Foreign Currency Financial Assets							
Cash & Cash equivalents	0.5951	420,709,469	420,709,469	-	-	-	-
Securities at Fair Value through Profit or Loss and Fair Value through Other Comprehensive Income	1.6638	768,294,277	121,361,607	107,692,880	200,227,307	336,808,900	2,203,583
IMF Related Assets	0.7382	13,321,144	13,321,144	-	-	-	-
Total Interest Sensitive Foreign Currency Financial Assets		1,202,324,890	555,392,220	107,692,880	200,227,307	336,808,900	2,203,583
Non Interest Sensitive Foreign Currency Financial Assets							
IMF Related Assets		133,838,030	8,712	-	-	189,322	133,639,996
Derivative Financial Instruments		2,021,917	2,021,917	-	-	-	-
Total non Interest Sensitive Foreign Currency Financial Assets		135,859,947	2,030,629	-	-	189,322	133,639,996
Total Foreign Currency Financial Assets		1,338,184,837	557,422,849	107,692,880	200,227,307	336,998,222	135,843,579
Interest Sensitive Foreign Currency Financial Liabilities							
IMF	1.7430	238,808,553	-	2,505,672	-	148,177,305	88,125,576
Asian Clearing Union	1.5974	82,995,147	82,995,147	-	-	-	-
Total Interest Sensitive Foreign Currency Financial Liabilities		321,803,700	82,995,147	2,505,672	-	148,177,305	88,125,576
Non Interest Sensitive Foreign Currency Financial Liabilities							
Banks and Financial Institutions		958,248	958,248	-	-	-	-
Derivative Financial Instruments		989,958	792,944	130,095	66,919	-	-
IMF		233,166,520	-	-	-	-	233,166,520
Other Foreign Liabilities		57,091,538	57,091,538	-	-	-	-
Total non Interest Sensitive Foreign Currency Financial Liabilities		292,206,264	58,842,730	130,095	66,919	-	233,166,520
Total Foreign Currency Financial Liabilities		614,009,964	141,837,877	2,635,767	66,919	148,177,305	321,292,096
Foreign Currency Interest Rate Sensitivity Gap		880,521,190	472,397,073	105,187,208	200,227,307	188,631,595	(85,921,994)

Local Currency Interest Rate Sensitivity Gap :	Weighted Avg. Int. Rate %	2019 Total Rs. 000	6 Months or Less Rs. 000	6 to 12 Months Rs. 000	1 to 2 Years Rs. 000	2 to 5 Years Rs. 000	Over 5 Years Rs. 000
Interest Sensitive Local Currency Financial Assets							
Sri Lanka Government Securities	8.6555	76,511,883	5,919,706	19,206,084	47,364,717	3,700,911	320,465
Securities Purchased under Resale Agreements	8.0000	50,354,879	50,354,879	-	-	-	-
Other Assets - Staff Loans	3.7969	7,504,730	207,586	210,149	434,744	1,396,201	5,256,050
- Loans to Banks	4.1046	39,289	26,562	1,743	3,336	7,648	-
- Others	9.8528	9,989,349	1,406,078	798,551	427,503	2,062,387	5,294,830
Total Interest Sensitive Local Currency Financial Assets		144,400,130	57,914,811	20,216,527	48,230,300	7,167,147	10,871,345
Non Interest Sensitive Local Currency Financial Assets							
Provisional Advances to Government		236,608,971	236,608,971	-	-	-	-
Other Assets - Others		68,379	68,379	-	-	-	-
Investment in Equity Securities - Fair Value through Other Comprehensive Income		1,500,487	-	-	-	-	1,500,487
Total Non Interest Sensitive Local Currency Financial Assets		238,177,837	236,677,350	-	-	-	1,500,487
Total Local Currency Financial Assets		382,577,967	294,592,161	20,216,527	48,230,300	7,167,147	12,371,832
Interest Sensitive Local Currency Financial Liabilities							
Standing Deposit Facility	7.0000	43,298,325	43,298,325	-	-	-	-
Total Interest Sensitive Local Currency Financial Liabilities		43,298,325	43,298,325	-	-	-	-
Non Interest Sensitive Local Currency Financial Liabilities							
Deposits of Banks and Financial Institutions		254,581,620	254,581,620	-	-	-	-
Deposits of Government and Government Entities		499,639	499,639	-	-	-	-
Currency in Circulation		677,967,150	677,967,150	-	-	-	-
Other Payables		12,702,888	12,702,888	-	-	-	-
Total Non Interest Sensitive Local Currency Financial Liabilities		945,751,297	945,751,297	-	-	-	-
Total Local Currency Financial Liabilities		989,049,622	989,049,622	-	-	-	-
Local Currency Interest Rate Sensitivity Gap		101,101,805	14,616,486	20,216,527	48,230,300	7,167,147	10,871,345

Comparative figures as at 31 December 2018 were as follows:

Foreign Currency Interest Rate Sensitivity Gap:	Weighted Avg. Int. Rate %	2018 Total Rs. 000	6 Months or Less Rs. 000	6 to 12 Months Rs. 000	1 to 2 Years Rs. 000	2 to 5 Years Rs. 000	Over 5 Years Rs. 000
Interest Sensitive Foreign Currency Financial Assets							
Cash & Cash equivalents	1.9645	372,175,176	372,175,176	-	-	-	-
Securities at Fair Value through Profit or Loss and Fair Value through Other Comprehensive Income	2.4936	732,343,633	121,625,585	51,601,808	223,725,010	329,351,259	6,039,971
IMF Related Assets	1.0991	12,348,975	12,348,975	-	-	-	-
Total Interest Sensitive Foreign Currency Financial Assets		1,116,867,784	506,149,736	51,601,808	223,725,010	329,351,259	6,039,971
Non Interest Sensitive Foreign Currency Financial Assets							
IMF Related Assets		135,078,477	9,667	-	-	199,961	134,868,849
Derivative Financial Instruments		750	750	-	-	-	-
Other Receivables		961,284	961,284	-	-	-	-
Total Non Interest Sensitive Foreign Currency Financial Assets		136,040,511	971,701	-	-	199,961	134,868,849
Total Foreign Currency Financial Assets		1,252,908,295	507,121,437	51,601,808	223,725,010	329,551,220	140,908,820
Interest Sensitive Foreign Currency Financial Liabilities							
IMF	2.1080	181,318,765	-	-	-	99,568,098	81,750,667
Asian Clearing Union	2.2345	79,158,977	79,158,977	-	-	-	-
Total Interest Sensitive Foreign Currency Financial Liabilities		260,477,742	79,158,977	-	-	99,568,098	81,750,667
Non Interest Sensitive Foreign Currency Financial Liabilities							
Banks and Financial Institutions		19,301,160	19,301,160	-	-	-	-
Derivative Financial Instruments		14,056,460	11,736,595	1,853,550	-	466,315	-
IMF		235,669,481	-	-	-	-	235,669,481
Other Foreign Liabilities		134,730,933	134,730,933	-	-	-	-
Total Non Interest Sensitive Foreign Currency Financial Liabilities		403,758,034	165,768,688	1,853,550	-	466,315	235,669,481
Total Foreign Currency Financial Liabilities		664,235,776	244,927,665	1,853,550	-	100,034,413	317,420,148
Foreign Currency Interest Rate Sensitivity Gap		856,390,042	426,990,759	51,601,808	223,725,010	229,783,161	(75,710,696)

Local Currency Interest Rate Sensitivity Gap :	Weighted Avg. Int. Rate %	2018 Total Rs. 000	6 Months or Less Rs. 000	6 to 12 Months Rs. 000	1 to 2 Years Rs. 000	2 to 5 Years Rs. 000	Over 5 Years Rs. 000
Interest Sensitive Local Currency Financial Assets							
Sri Lanka Government Securities	12.8451	45,031,157	43,443,802	407,078	-	886,336	293,941
Securities Purchased under Agreements to Resale	8.9950	229,454,409	229,454,409	-	-	-	-
Other Assets - Staff Loans	4.2160	6,846,041	269,780	275,058	563,545	1,810,962	3,926,696
- Loans to Banks	7.7395	95,963	65,057	16,347	3,571	9,499	1,489
- Others	9.7553	7,792,394	470,308	1,012,421	1,417,860	1,105,413	3,786,392
Total Interest Sensitive Local Currency Financial Assets		289,219,964	273,703,356	1,710,904	1,984,976	3,812,210	8,008,518
Non Interest Sensitive Local Currency Financial Assets							
Provisional Advances to Government		198,632,571	198,632,571	-	-	-	-
Other Assets - Others		144,870	144,870	-	-	-	-
Investment in Equity Securities - Fair Value through Other Comprehensive Income		1,381,879	-	-	-	-	1,381,879
Total Non Interest Sensitive Local Currency Financial Assets		200,159,320	198,777,441	-	-	-	1,381,879
Total Local Currency Financial Assets		489,379,284	472,480,797	1,710,904	1,984,976	3,812,210	9,390,397
Interest Sensitive Local Currency Financial Liabilities							
Standing Deposit Facility	8.0000	28,311,221	28,311,221	-	-	-	-
Total Interest Sensitive Local Currency Financial Liabilities		28,311,221	28,311,221	-	-	-	-
Non Interest Sensitive Local Currency Financial Liabilities							
Deposits of Banks and Financial Institutions		320,106,183	320,106,183	-	-	-	-
Deposits of Government and Government Entities		348,718	348,718	-	-	-	-
Currency in Circulation		640,942,510	640,942,510	-	-	-	-
Other Payables		12,624,764	12,624,764	-	-	-	-
Total Non Interest Sensitive Local Currency Financial Liabilities		974,022,175	974,022,175	-	-	-	-
Total Local Currency Financial Liabilities		1,002,333,396	1,002,333,396	-	-	-	-
Local Currency Interest Rate Sensitivity Gap		260,908,743	245,392,135	1,710,904	1,984,976	3,812,210	8,008,518

48.3 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 International Reserves Investment and Oversight Committee (IRIOC) 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.

Net Exposure to Foreign Currencies										
As at 31 December 2019, the net exposure of the Central Bank of Sri Lanka to major currencies were as follows:										
As at 31 December 2019	Currency									Total All Currencies Rs. 000
	United States Dollars Rs. 000	Euro Rs. 000	Japanese Yen Rs. 000	Sterling Pound Rs. 000	SDR Rs. 000	Australian Dollars Rs. 000	Canadian Dollars Rs. 000	New Zealand Dollars Rs. 000	Other Currencies Rs. 000	
Foreign Currency Financial Assets										
Cash & Cash Equivalents	298,441,454	29,837,438	25,036,846	494,431	-	384,072	40,968	574,817	66,121,401	420,931,427
Securities at Fair Value through Profit or Loss and Fair Value through Other Comprehensive Income	692,861,144	-	5,058,431	6,666,792	-	33,173,454	-	18,046,158	12,488,298	768,294,277
Derivative Financial Instruments	175,413	-	-	-	-	-	-	-	1,846,504	2,021,917
IMF Related Assets	-	-	-	-	147,159,178	-	-	-	-	147,159,178
Total Foreign Currency Financial Assets	991,478,011	29,837,438	30,095,277	7,161,223	147,159,178	33,557,526	40,968	18,620,975	80,456,203	1,338,406,799
Proportion	74.08%	2.23%	2.25%	0.54%	10.99%	2.51%	0.00%	1.39%	6.01%	100%
Foreign Currency Financial Liabilities										
Banks and Financial Institutions	957,119	17	-	1,050	-	62	-	-	-	958,248
Derivative Financial Instruments	792,943	-	-	-	-	-	-	-	197,015	989,958
Asian Clearing Union	82,995,147	-	-	-	-	-	-	-	-	82,995,147
IMF	-	-	-	-	471,975,073	-	-	-	-	471,975,073
Other	57,036,040	-	-	-	-	-	-	-	55,498	57,091,538
Total Foreign Currency Financial Liabilities	141,781,249	17	-	1,050	471,975,073	62	-	-	252,513	614,009,964
Proportion	23.09%	0.00%	0.00%	0.00%	76.87%	0.00%	0.00%	0.00%	0.04%	100%
Net Foreign Currency Exposure	849,696,762	29,837,421	30,095,277	7,160,173	(324,815,895)	33,557,464	40,968	18,620,975	80,203,690	724,396,835

Cash and Cash Equivalents include the foreign transactions entered into for buying and selling of various currencies of 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 2019	Sri Lanka Rupees Rs. 000	United States Dollars Rs. 000	Japanese Yen Rs. 000
Purchases	67,267,470	219,385,125	-
Sales	-	(64,843,338)	(219,914,105)
Forward Contra Account	(1,895,152)	-	-

As at 31 December 2018, the net exposure of the Central Bank of Sri Lanka to major currencies were as follows:

As at 31 December 2018	Currency									
	United States Dollars Rs. 000	Euro Rs. 000	Japanese Yen Rs. 000	Sterling Pound Rs. 000	SDR Rs. 000	Australian Dollars Rs. 000	Canadian Dollars Rs. 000	New Zealand Dollars Rs. 000	Other Currencies Rs. 000	Total All Currencies Rs. 000
Foreign Currency Financial Assets										
Cash & Cash Equivalents	192,721,396	23,570,165	17,512,023	1,004,533	-	1,470,823	56,163	962,564	134,949,073	372,246,740
Securities at Fair Value through Profit or Loss and Fair Value through Other Comprehensive Income	658,211,280	-	5,303,481	6,251,413	-	32,289,309	-	17,069,668	13,218,482	732,343,633
Derivative Financial Instruments	-	-	-	-	-	-	-	-	750	750
IMF Related Assets	-	-	-	-	147,427,456	-	-	-	-	147,427,456
Other Receivables	961,284	-	-	-	-	-	-	-	-	961,284
Total Foreign Currency Financial Assets	851,893,960	23,570,165	22,815,504	7,255,946	147,427,456	33,760,132	56,163	18,032,232	148,168,305	1,252,979,863
Proportion	67.99%	1.88%	1.82%	0.58%	11.77%	2.69%	0.00%	1.44%	11.83%	100%
Foreign Currency Financial Liabilities										
Banks and Financial Institutions	19,299,921	444	1	57	-	737	-	-	-	19,301,160
Derivative Financial Instruments	-	-	1,900,457	-	-	-	-	-	12,156,003	14,056,460
Asian Clearing Union	79,158,977	-	-	-	-	-	-	-	-	79,158,977
IMF	811,552	-	-	-	416,176,694	-	-	-	-	416,988,246
Other	43,282,075	-	-	-	-	-	-	-	91,448,858	134,730,933
Total Foreign Currency Financial Liabilities	142,552,525	444	1,900,458	57	416,176,694	737	-	-	103,604,861	664,235,776
Proportion	21.46%	0.00%	0.29%	0.00%	62.65%	0.00%	0.00%	0.00%	15.60%	100%
Net Foreign Currency Exposure	709,341,435	23,569,721	20,915,046	7,255,889	(268,749,238)	33,759,395	56,163	18,032,232	44,563,444	588,744,087

Cash and Cash Equivalents include the foreign transactions entered into for buying and selling of various currencies of 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 2018	Sri Lanka Rupees Rs. 000	United States Dollars Rs. 000	Japanese Yen Rs. 000
Purchases	123,164,315	71,072,884	-
Sales	-	(132,733,080)	(72,973,340)
Forward Contra Account	11,469,221	-	-

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

As at 31 December 2019, Contractual maturities of un-discounted cash flows of Financial Assets and Liabilities are as follows,

As at 31 December 2019	Less than 6 months	6 Months -1 Year	1-2 Years	2-5 Years	Over 5 Years	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Foreign Currency Financial Assets						
Cash & Cash Equivalents	420,709,469	-	-	-	-	420,709,469
Securities at Fair Value through Profit or Loss	8,659,736	3,439,276	22,442,101	12,641,807	-	47,182,920
Securities at Fair Value through Other Comprehensive Income	86,547,759	116,095,513	207,638,126	342,541,454	2,148,610	754,971,462
IMF Related Assets	13,329,855	-	-	189,322	133,639,997	147,159,174
Total un-discounted Foreign Financial Assets	529,246,819	119,534,789	230,080,227	355,372,583	135,788,607	1,370,023,025
Local Currency Financial Assets						
Sri Lanka Government Securities	19,124,134	11,819,359	49,530,248	3,938,496	350,990	84,763,227
Securities Purchased under Resale Agreements	50,401,892	-	-	-	-	50,401,892
Provisional Advances to Government	236,608,972	-	-	-	-	236,608,972
Equity Investments in Financial and Other Institutions	-	-	-	-	1,500,487	1,500,487
Other Assets	2,531,816	1,656,834	1,997,187	6,312,460	14,360,202	26,858,499
Total un-discounted Local Financial Assets	308,666,814	13,476,193	51,527,435	10,250,956	16,211,679	400,133,077
Total un-discounted Financial Assets	837,913,633	133,010,982	281,607,663	365,623,539	152,000,286	1,770,156,102
Foreign Financial Liabilities						
Banks and Financial Institutions	958,248	-	-	-	-	958,248
Asian Clearing Union	82,995,147	-	-	-	-	82,995,147
IMF	2,449,181	4,962,312	14,832,012	110,510,673	373,148,819	505,902,997
Other	57,091,538	-	-	-	-	57,091,538
Total un-discounted Foreign Financial Liabilities	143,494,114	4,962,312	14,832,012	110,510,673	373,148,819	646,947,930
Local Currency Financial Liabilities						
Deposits of Banks and Financial Institutions	254,581,620	-	-	-	-	254,581,620
Deposits of Government and Governmental Entities	499,639	-	-	-	-	499,639
Securities Sold Under Repurchase Agreements	43,298,325	-	-	-	-	43,298,325
Currency in Circulation	677,967,150	-	-	-	-	677,967,150
Other Payables	12,702,888	-	-	-	-	12,702,888
Total un-discounted Local Financial Liabilities	989,049,622	-	-	-	-	989,049,622
Total un-discounted Financial Liabilities	1,132,543,736	4,962,312	14,832,012	110,510,673	373,148,819	1,635,997,552
Net un-discounted Financial Assets/ (Liabilities)	(294,630,103)	128,048,670	266,775,651	255,112,865	(221,148,533)	134,158,550

As at 31 December 2019	Less than 6 months	6 Months -1 Year
	Rs. 000	Rs. 000
Derivative Financial Assets	221,766,015	7,671,870
Derivative Financial Liabilities	219,914,106	7,628,628

Foreign Currency Conversions

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

As at 31 December 2018, Contractual maturities of un-discounted cash flows of Financial Assets and Liabilities are as follows,

As at 31 December 2018	Less than 6 months Rs. 000	6 Months -1 Year Rs. 000	1-2 Years Rs. 000	2-5 Years Rs. 000	Over 5 Years Rs. 000	Total Rs. 000
Foreign Currency Financial Assets						
Cash & Cash Equivalents	372,175,176	-	-	-	-	372,175,176
Securities at Fair Value through Profit or Loss	5,841,047	4,480,121	17,820,925	10,335,966	-	38,478,059
Securities at Fair Value through Other Comprehensive Income	86,972,038	58,347,392	236,273,635	341,808,636	9,636,712	733,038,413
IMF Related Assets	12,358,642	-	-	199,961	134,868,849	147,427,452
Other Receivables	961,284	-	-	-	-	961,284
Total un-discounted Foreign Financial Assets	478,308,187	62,827,513	254,094,560	352,344,563	144,505,561	1,292,080,384
Local Currency Financial Assets						
Sri Lanka Government Securities	42,861,171	1,928,480	128,960	1,150,405	384,130	46,453,146
Securities Purchased under Resale Agreements	229,504,446	-	-	-	-	229,504,446
Provisional Advances to Government	198,632,571	-	-	-	-	198,632,571
Equity Investments in Financial and Other Institutions	-	-	-	-	1,381,879	1,381,879
Other Assets	14,783,147	1,746,023	2,781,355	4,497,531	11,526,581	35,334,637
Total un-discounted Local Financial Assets	485,781,335	3,674,503	2,910,315	5,647,936	13,292,590	511,306,679
Total un-discounted Financial Assets	964,089,522	66,502,016	257,004,875	357,992,499	157,798,151	1,803,387,063
Foreign Financial Liabilities						
Banks and Financial Institutions	19,301,160	-	-	-	-	19,301,160
Asian Clearing Union	79,158,977	-	-	-	-	79,158,977
IMF	2,429,189	2,481,530	7,459,381	80,131,608	363,326,740	455,828,448
Other	134,730,933	-	-	-	-	134,730,933
Total un-discounted Foreign Financial Liabilities	235,620,259	2,481,530	7,459,381	80,131,608	363,326,740	689,019,518
Local Currency Financial Liabilities						
Deposits of Banks and Financial Institutions	320,106,183	-	-	-	-	320,106,183
Deposits of Government and Government Entities	348,718	-	-	-	-	348,718
Securities Sold Under Repurchase Agreements	28,311,221	-	-	-	-	28,311,221
Currency in Circulation	640,942,510	-	-	-	-	640,942,510
Other Payables	12,624,764	-	-	-	-	12,624,764
Total un-discounted Local Financial Liabilities	1,002,333,396	-	-	-	-	1,002,333,396
Total un-discounted Financial Liabilities	1,237,953,655	2,481,530	7,459,381	80,131,608	363,326,740	1,691,352,914
Net un-discounted Financial Assets/ (Liabilities)	(273,864,133)	64,020,486	249,545,494	277,860,891	(205,528,589)	112,034,149
As at 31 December 2018						
Derivative Financial Assets	103,671,375	18,943,940				
Derivative Financial Liabilities	114,165,546	19,919,739				

48.5 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 and 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 and USD/LKR Swaps.

49. MATURITY ANALYSIS OF ASSETS & LIABILITIES

As at 31 December 2019

	Less than 12 months	Over 12 months	Total
	Rs. 000	Rs. 000	Rs. 000
Assets			
Cash & Cash Equivalents	420,709,469	-	420,709,469
Securities at Fair Value through Profit or Loss	11,679,449	26,813,819	38,493,268
Securities at Fair Value through Other Comprehensive Income	79,359,748	650,441,261	729,801,009
Derivative Financial Instruments	2,021,917	-	2,021,917
IMF Related Assets	13,329,855	133,829,319	147,159,174
Sri Lanka Government Securities	26,334,798	50,177,085	76,511,883
Securities Purchased under Resale Agreements	50,354,879	-	50,354,879
Provisional Advances to Government	236,608,971	-	236,608,971
Equity Investments in Financial and Other Institutions	-	1,500,487	1,500,487
Other Assets	3,191,431	14,410,316	17,601,747
Gold	-	173,438,430	173,438,430
Inventories	-	7,298,392	7,298,392
Other Receivables and Prepayments	953,887	115,189	1,069,076
Property, Plant and Equipment	-	16,810,691	16,810,691
Intangible Assets	-	38,046	38,046
Total Assets	844,544,404	1,074,873,035	1,919,417,439
Liabilities			
Banks and Financial Institutions	958,248	-	958,248
Derivative Financial Instruments	989,958	-	989,958
Asian Clearing Union	82,995,147	-	82,995,147
IMF	-	471,975,073	471,975,073
Other	51,409,578	5,681,960	57,091,538
Deposits by Banks and Financial Institutions	254,581,620	-	254,581,620
Balances with Government and Government Entities	499,639	-	499,639
Securities Sold under Repurchase Agreements	43,298,325	-	43,298,325
Currency in Circulation	677,967,150	-	677,967,150
Other Payables	12,702,888	-	12,702,888
Deferred Grants	1	4	5
Pension and Other Post Employment Benefit Plans	-	11,990,647	11,990,647
Miscellaneous Liabilities and Accruals	145,842	35,967	181,809
Total Liabilities	1,125,548,396	489,683,651	1,615,232,047
Net	(281,003,992)	585,189,384	304,185,392

As at 31 December 2018	Less than 12 months	Over 12 months	Total
	Rs. 000	Rs. 000	Rs. 000
Assets			
Cash & Cash Equivalents	372,175,176	-	372,175,176
Securities at Fair Value through Profit or Loss	9,975,116	27,492,123	37,467,239
Securities at Fair Value through Other Comprehensive Income	80,991,450	613,884,944	694,876,394
Derivative Financial Instruments	750	-	750
IMF Related Assets	12,358,642	135,068,810	147,427,452
Other Foreign Receivables	961,284	-	961,284
Sri Lanka Government Securities	43,874,997	1,156,160	45,031,157
Securities Purchased under Resale Agreements	229,454,409	-	229,454,409
Provisional Advances to Government	198,632,571	-	198,632,571
Equity Investments in Financial and Other Institutions	-	1,381,879	1,381,879
Other Assets	2,595,128	12,284,140	14,879,268
Gold	-	149,683,439	149,683,439
Inventories	-	6,568,935	6,568,935
Other Receivables and Prepayments	1,789,376	124,712	1,914,088
Property, Plant and Equipment	-	16,955,853	16,955,853
Intangible Assets	-	30,437	30,437
Total Assets	<u>952,808,899</u>	<u>964,631,432</u>	<u>1,917,440,331</u>
Liabilities			
Banks and Financial Institutions	19,301,160	-	19,301,160
Derivative Financial Instruments	14,056,460	-	14,056,460
Asian Clearing Union	79,158,977	-	79,158,977
IMF	-	416,988,246	416,988,246
Other	134,730,933	-	134,730,933
Deposits by Banks and Financial Institutions	320,106,183	-	320,106,183
Balances with Government and Government Entities	348,718	-	348,718
Securities Sold under Repurchase Agreements	28,311,221	-	28,311,221
Currency in Circulation	640,942,510	-	640,942,510
Other Payables	12,624,764	-	12,624,764
Deferred Grants	6	5	11
Pension and Other Post Employment Benefit Plans	-	12,016,804	12,016,804
Miscellaneous Liabilities and Accruals	49,224	36,721	85,945
Total Liabilities	<u>1,249,630,156</u>	<u>429,041,776</u>	<u>1,678,671,932</u>
Net	<u>(296,821,257)</u>	<u>535,589,656</u>	<u>238,768,399</u>

50. FINANCIAL ASSETS AND FINANCIAL LIABILITIES					
50.1 Classification of Financial Assets and Financial Liabilities					
The following table provides a reconciliation between line items in the Statement of Financial Position and categories of Financial Instruments					
As at 31 December 2019	FVTPL	FVOCI - Debt Instruments	FVOCI - Equity Instruments	Amortized Cost	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Foreign Currency Financial Assets					
Cash & Cash Equivalents	-	-	-	420,709,469	420,709,469
Securities at Fair Value through Profit or Loss	38,493,268	-	-	-	38,493,268
Securities at Fair Value through Other Comprehensive Income	-	729,801,009	-	-	729,801,009
Derivative Financial Instruments	2,021,917	-	-	-	2,021,917
IMF Related Assets	146,484,804	-	-	674,370	147,159,174
Total Foreign Currency Financial Assets	186,999,989	729,801,009	-	421,383,839	1,338,184,837
Local Currency Financial Assets					
Sri Lanka Government Securities	-	76,511,883	-	-	76,511,883
Securities Purchased under Resale Agreements	-	-	-	50,354,879	50,354,879
Provisional Advances to Government	-	-	-	236,608,971	236,608,971
Equity Investments in Financial and Other Institutions	-	-	1,500,487	-	1,500,487
Other Assets	-	-	-	17,601,747	17,601,747
Total Local Currency Financial Assets	-	76,511,883	1,500,487	304,565,597	382,577,967
Foreign Currency Financial Liabilities					
Banks and Financial Institutions	-	-	-	958,248	958,248
Derivative Financial Instruments	989,958	-	-	-	989,958
Asian Clearing Union	-	-	-	82,995,147	82,995,147
IMF	-	-	-	471,975,073	471,975,073
Other	-	-	-	57,091,538	57,091,538
Total Foreign Currency Financial Liabilities	989,958	-	-	613,020,006	614,009,964
Local Currency Financial Liabilities					
Deposits of Banks and Financial Institutions	-	-	-	254,581,620	254,581,620
Deposits of Government and Government Entities	-	-	-	499,639	499,639
Securities Sold under Repurchase Agreements	-	-	-	43,298,325	43,298,325
Currency in Circulation	-	-	-	677,967,150	677,967,150
Other Payables	-	-	-	12,702,888	12,702,888
Total Local Currency Financial Liabilities	-	-	-	989,049,622	989,049,622

As at 31 December 2018	FVTPL	FVOCI - Debt Instruments	FVOCI - Equity Instruments	Amortized Cost	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Foreign Currency Financial Assets					
Cash & Cash Equivalents	-	-	-	372,175,176	372,175,176
Securities at Fair Value through Profit or Loss	37,467,239	-	-	-	37,467,239
Securities at Fair Value through Other Comprehensive Income	-	694,876,394	-	-	694,876,394
Derivative Financial Instruments	750	-	-	-	750
IMF Related Assets	146,959,035	-	-	468,418	147,427,452
Other Receivables	-	-	-	961,284	961,284
Total Foreign Currency Financial Assets	184,427,024	694,876,394	-	373,604,878	1,252,908,295
Local Currency Financial Assets					
Sri Lanka Government Securities	-	45,031,157	-	-	45,031,157
Securities Purchased under Resale Agreements	-	-	-	229,454,409	229,454,409
Provisional Advances to Government	-	-	-	198,632,571	198,632,571
Equity Investments in Financial and Other Institutions	-	-	1,381,879	-	1,381,879
Other Assets	-	-	-	14,879,268	14,879,268
Total Local Currency Financial Assets	-	45,031,157	1,381,879	442,966,248	489,379,284
Foreign Currency Financial Liabilities					
Banks and Financial Institutions	-	-	-	19,301,160	19,301,160
Derivative Financial Instruments	14,056,460	-	-	-	14,056,460
Asian Clearing Union	-	-	-	79,158,977	79,158,977
IMF	-	-	-	416,988,246	416,988,246
Others	-	-	-	134,730,933	134,730,933
Total Foreign Currency Financial Liabilities	14,056,460	-	-	650,179,316	664,235,776
Local Currency Financial Liabilities					
Deposits of Banks and Financial Institutions	-	-	-	320,106,183	320,106,183
Deposits of Government and Government Entities	-	-	-	348,718	348,718
Securities Sold under Repurchase Agreements	-	-	-	28,311,221	28,311,221
Currency in Circulation	-	-	-	640,942,510	640,942,510
Other Payables	-	-	-	12,624,764	12,624,764
Total Local Currency Financial Liabilities	-	-	-	1,002,333,396	1,002,333,396

51. FAIR VALUE DISCLOSURES

51.1 Fair Value of Assets and Liabilities

'Fair Value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy Note 5.2. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees

of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. The fair value hierarchy of financial instruments is given below:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

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

31 December 2019	Level 1 Rs. 000	Level 2 Rs. 000	Level 3 Rs. 000	Total Rs. 000
Financial Assets				
Securities at Fair Value through Profit or Loss	38,493,268	-	-	38,493,268
Securities at Fair Value through Other Comprehensive Income	729,801,009	-	-	729,801,009
Derivatives	-	2,021,917	-	2,021,917
	<u>768,294,277</u>	<u>2,021,917</u>	-	<u>770,316,194</u>
Foreign Currency Non-Financial Assets				
Gold	173,438,430	-	-	173,438,430
	<u>173,438,430</u>	-	-	<u>173,438,430</u>
Local Currency Financial Assets				
Sri Lanka Government Securities	76,511,883	-	-	76,511,883
Equity Investments in Financial and Other Institutions	-	-	1,500,487	1,500,487
	<u>76,511,883</u>	-	<u>1,500,487</u>	<u>78,012,370</u>
Other Non-Financial Assets				
Land	-	-	8,930,375	8,930,375
Building	-	-	6,611,561	6,611,561
	-	-	<u>15,541,936</u>	<u>15,541,936</u>
Financial Liabilities				
Embedded Derivatives - Currency Options	-	-	66,919	66,919
Derivatives	-	923,039	-	923,039
	-	<u>923,039</u>	<u>66,919</u>	<u>989,958</u>
31 December 2018	Level 1 Rs. 000	Level 2 Rs. 000	Level 3 Rs. 000	Total Rs. 000
Financial Assets				
Securities at Fair Value through Profit or Loss	37,467,239	-	-	37,467,239
Securities at Fair Value through Other Comprehensive Income	694,876,394	-	-	694,876,394
Derivatives	-	750	-	750
	<u>732,343,633</u>	<u>750</u>	-	<u>732,344,383</u>
Foreign Currency Non-Financial Assets				
Gold	149,683,439	-	-	149,683,439
	<u>149,683,439</u>	-	-	<u>149,683,439</u>
Local Currency Financial Assets				
Sri Lanka Government Securities	45,031,157	-	-	45,031,157
Equity Investments in Financial and Other Institutions	-	-	1,381,879	1,381,879
	<u>45,031,157</u>	-	<u>1,381,879</u>	<u>46,413,036</u>
Other Non-Financial Assets				
Land	-	-	8,930,375	8,930,375
Building	-	-	6,702,567	6,702,567
	-	-	<u>15,632,942</u>	<u>15,632,942</u>
Financial Liabilities				
Embedded Derivatives - Currency Options	-	-	466,315	466,315
Derivatives	-	13,590,145	-	13,590,145
	-	<u>13,590,145</u>	<u>466,315</u>	<u>14,056,460</u>
Equity Investments in Financial and Other Institutions				
Fair value of the equity investments were calculated using the Net Assets per Share valuation technique.				
Significant unobservable input used				
Net Asset Value per Share (NAVPS)				
Sensitivity Analysis				
A 10% increase in the NAVPS would increase the fair value by 10%.				
			2019	2018
			Rs. 000	Rs. 000
Balance as at 1 January			1,381,879	41,095
Additions during the Year			2,749	-
Fair Value Gain Recognised in the Other Comprehensive Income			115,859	1,360,573
Disposals during the Year			-	(19,789)
Balance as at 31 December			<u>1,500,487</u>	<u>1,381,879</u>

Land & Buildings**Valuation Method**

Land is valued using market approach with direct comparison method, whereby assets are compared to recent sales with no added or nominal added improvement value, making adjustments for points of difference to derive the fair value.

Depreciated Current Replacement Cost (DRC) method is used in valuing all the buildings except Central Point, White Aways and Lloyds Building, considering that the assets controlled by the public sector entities that provide service to the community are not traded on an open liquid market.

Income approach is used to value the other buildings which values the property based on estimated future income, profits or cash flow that are converted (discounted) to a single current amount.

Under the Market Approach, estimated fair value would get increased/(decreased) if;

- Price per perch would get higher/(lower)
- Price per square foot would get higher/(lower)
- Depreciation rate for building would get lower/(higher)

Under Income Approach, estimated fair value would get increased/(decreased) if;

- Gross annual rentals would get higher/(lower)
- Years purchase would get higher/(lower)

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 of which the movement is as follows;

	2019 Rs.000	2018 Rs.000
Balance as at 1 January	466,316	1,244,582
Fair Value Loss recognised in the Statement of Income	(399,397)	(778,266)
Balance as at 31 December	<u>66,919</u>	<u>466,316</u>

Significant unobservable inputs used

Discount Rate	10%
Volatility	4%

Sensitivity Analysis	Discount Rate		Volatility	
	9% Rs.000	11% Rs.000	3% Rs.000	5% Rs.000
Embedded Derivatives - Currency Options	68,085	65,882	66,833	67,679

Deferred Asset on Embedded Derivatives	2019 Rs.000	2018 Rs. 000
Balance as at 1 January	102,406	369,455
Premium Amortised during the year	(79,344)	(267,049)
Balance as at 31 December	<u>23,062</u>	<u>102,406</u>

51.2 Repurchase and Resale Agreements

The reported value of repurchase and resale agreements is considered to approximate their fair value due to short term nature of the agreements. The carrying value of the provided Standing Deposit Facility as at 31 December 2019 was Rs. 43,298.32 Mn (2018 - Rs. 28,311.22 Mn) and the carrying value of Sri Lanka Government Securities purchased under resale agreements as at 31 December 2019 was Rs. 50,354.88 Mn (2018 – Rs. 229,454.41 Mn). There was no outstanding Sri Lanka Government Securities sold under repurchase agreements as at 31 December 2019 (2018 – Nil).

51.3 Currency in Circulation

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

51.4 Deposits

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

51.5 Financial Instruments not measured at Fair Value

The following table sets out the financial instruments which are not measured at fair value.

	Carrying Amount		Fair Value		
	2019 Rs. 000	2018 Rs. 000	2019 Rs. 000	2018 Rs. 000	
Foreign Currency Financial Assets					
Cash and Cash Equivalents	420,709,469	372,175,176	420,709,469	372,175,176	
IMF Related Assets	674,369	468,418	677,113	457,745	
Other Receivables	-	961,284	-	961,284	
Local Currency Financial Assets					
Securities Purchased under Resale Agreements	50,354,879	229,454,409	50,354,879	229,454,409	
Provisional Advances to Government	236,608,971	198,632,571	236,608,971	198,632,571	
Other Assets	17,601,747	14,879,268	14,841,261	13,040,368	
Foreign Currency Financial Liabilities					
Banks and Financial Institutions	958,248	19,301,160	958,248	19,301,160	
Asian Clearing Union	82,995,147	79,158,977	82,995,147	79,158,977	
IMF	471,975,073	416,988,246	471,975,073	416,988,246	
Others	57,091,538	134,730,933	57,091,538	134,730,933	
Local Currency Financial Liabilities					
Deposits of Banks and Financial Institutions	254,581,620	320,106,183	254,581,620	320,106,183	
Deposits of Government and Government Entities	499,639	348,719	499,639	348,719	
Securities Sold under Repurchase Agreements	43,298,325	28,311,221	43,298,325	28,311,221	
Currency in Circulation	677,967,150	640,942,510	677,967,150	640,942,510	
Other Payables	12,702,888	12,624,764	12,702,888	12,624,764	

The fair values of the balances associated with the IMF deposits, loans granted to banks and internal fund investments differ from their carrying amounts.

The fair values of Cash and Cash Equivalents and Other Receivables presented under Foreign Currency Financial Assets, Securities Purchased under Resale Agreements and Provisional Advances to Government presented under Local Currency Financial Assets, Banks and Financial Institutions, Asian Clearing Union, IMF and Others presented under Foreign Currency Financial Liabilities and Deposits of Banks and Financial Institutions, Deposit of Government and Government Entities, Securities Sold

under Repurchase Agreements, Currency in Circulation and Other Payables presented under Local Currency Financial Liabilities does not differ from their carrying values.

52. COMPARATIVE INFORMATION

As reported previously:	2018 Rs. 000
Local Currency Financial Assets	
Loans to Banks	95,963
Other Assets	14,783,305
Local Currency Financial Liabilities	
Balances of Employee Benefit Plans	18,333
Other Payables	12,606,431

Current Presentation:	Note	2019 Rs. 000	2018 Rs. 000
Foreign Currency Financial Assets			
Other Assets	52.1	17,601,747	14,879,268
Local Currency Financial Liabilities			
Other Payables	52.2	12,702,888	12,624,764

52.1 Loans to Banks amounting to 95.96 Mn disclosed separately in the Statement of Financial Position in 2018 have now been disclosed under Other Assets for better presentation.

52.2 Balances of Employee Benefit Plans amounting to 18.33 Mn disclosed separately in the Statement of Financial Position in 2018 have now been disclosed under Other Payables for better presentation.

53. RELATED PARTIES

53.1 Transactions with State and State Controlled Entities

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

Nature of the Transaction	2019 Rs. 000	2018 Rs. 000
Transactions:		
Outright purchases of Government Securities	42,559,699	20,458,308
Outright sales of Government Securities	-	58,674,669
CBSL and Government Securities Purchased/Sold under Agreement to Repurchase/Sales	5,895,258,629	4,800,410,194
Interest income/expenses on CBSL and Government Securities Purchased/Sold under Agreement to Repurchase/Sales	2,832,113	2,426,510
Funds received on behalf of Government (Note 25.1 - 25.5)	1,040,676,718	1,188,003,197
Funds disbursed on behalf of Government (Note 25.1 - 25.5)	1,118,006,037	1,144,407,670
Cost of Printing currency notes, for the year ended 31 December (Note 53.1.3)	1,459,560	1,605,463
Payments for Goods, Services and Taxes, during the year ended 31 December (Note 53.1.4)	2,050,704	2,234,657
Gross Foreign Exchange Transactions during the period (Note 53.1.6)		
Sales	7,242,180	89,011,978
Purchases	41,331,290	25,078,570
USD/LKR Derivatives	193,142,524	221,347,285
Funds Received in respect of Abandoned Property, during the year	361,297	118,989
Rent Income	346,790	395,682
Dividend Income	149,686	126,111
Other Transactions (Note 53.1.9)	938,056	1,266,674
Balances:		
Sri Lanka Government Securities held by CBSL (Note 53.1.7)	76,511,883	45,031,157
Provisional Advances to Government (Note 15)	236,608,971	198,632,571
Government Securities held for specific purposes	9,710,804	7,524,488
RTGS Balances with Banks and Financial Institutions (Note 26)	148,823,686	192,367,084
Nostro Balance with BOC London	216,077	209,155
Payable to Treasury and other Ministries (Note 25)	57,036,040	134,657,025
Current Account Balances with Government and Government Entities as at 31 December	(119,522)	(141,802)
Abandoned Property Balances	3,125,129	2,571,814
Other Balances (Note 53.1.9)	155,651	212,877

53.1.1 Empowered by the sections 28-33 of the MLA the Bank Supervision Department of the Bank carries out regulatory and supervisory functions of the banks licensed by the Monetary Board of CBSL. As at 31 December 2019, 06 Licensed Commercial Banks and 01 Licensed Specialised Bank which had been funded by the Government or has a significant influence which are classified as related parties of the Central Bank of Sri Lanka.

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.

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

53.1.3 The Bank has the sole right and authority to issue currency in Sri Lanka as per section 49 of the MLA. 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.

53.1.4 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.

53.1.5 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 56.

53.1.6 In accordance with the provisions of the MLA, 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 Lankan Rupee. The amounts of purchases and sales of foreign exchange represents results of such monitoring activities.

53.1.7 The Domestic Operations Department of the Bank performs its direct functions of implementing the Bank's monetary policy mainly through open market operations as per sections 90-92 of the MLA No. 58 of 1949 (amended) and enforcing Statutory Reserve Requirement as per sections 93-98 of MLA and functions as the banker to both commercial banks where Government has shareholdings and certain other financial institutions and Government entities. The aggregate balances arising from this function as at 31 December 2019 is given in Note 13. Interest earned on the Government securities is given in Note 36.

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

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

53.2 Transactions with Key Management Personnel

Key Management Personnel of the Bank are the members of the Monetary Board that includes Governor, Deputy Governors and Assistant Governors. Particulars of transactions with Key Management Personnel were as follows:

53.3 Compensations to the Key Management Personnel

	2019 Rs. 000	2018 Rs. 000
Short Term Employee Benefits	188,111	161,833

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

53.4 Other Transactions with Key Management Personnel

	2019 Rs. 000	2018 Rs. 000
Outstanding Loans to Key Management Personnel	92,549	71,459
Loans granted during the year	10,299	18,000
Loans re-paid during the year	7,137	18,052

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

53.5 Transactions with Post-Employment Benefit Plans

	2019 Rs. 000	2018 Rs. 000
Contributions paid and payable	87,413	82,798

The Bank contributed various amounts to Pension and Other Post Retirement Plans as disclosed in Note 32 and paid Rs. 715.06 Mn (2018 - Rs. 718.71 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 30.2.

54. CONTINGENT LIABILITIES AND COMMITMENTS

54.1 Financial Guarantee Contracts

The Bank acting as an agent of the government or its agencies and institutions, provides guarantees to various parties on the strength of counter guarantees issued to Bank by the General Treasury. There were no such outstanding guarantees as at 31 December 2019.

54.2 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:

	Outstanding Guarantee Amount	
	2019 Rs. 000	2018 Rs. 000
Related Parties	796	784
Total Credit Guarantees	796	784

The Bank has recorded an expected credit loss of Rs. 9.32 as at the year ended 31 December 2019 (2018 - Rs. 0.40 Mn) in respect of the credit guarantees on local commercial banks.

54.3 Fiduciary Activities

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

54.4 Legal Claims

There were number of legal proceedings outstanding against the Bank as at 31 December 2019 and no provision has been made as the Bank is of the opinion that it is unlikely that any significant loss will arise.

54.5 Commitments

- a) As at 31 December 2019, the Bank has capital commitments amounting to Rs. 1,008.73 Mn, in respect of the acquisition of Property, Plant and Equipment.
- b) As at 31 December 2019, outstanding forward exchange transactions are as follows:

Forward exchange contracts	2019 '000	2018 '000
Forward Exchange Sales		
USD	357,000	726,310
JPY	131,500,000	-
Forward Exchange Purchases		
USD	-	388,908

55. TRANSFERS OF FINANCIAL ASSETS

In the ordinary course of business, the Bank enters into transactions that result in the transfer of financial assets, primarily both foreign and local currency denominated debt securities. In accordance with the accounting policy set out in Note 5.3.3, the transferred financial assets continue to be recognised in their entirety or to the extent of the Bank's continuing involvement or are derecognised in their entirety.

The Bank transfers financial assets that are not derecognised in their entirety or for which the Bank has continuing involvement primarily through the following transactions:

- Securities Sold under Agreements to Repurchase
- Securities Lending
- Securities Pledged

55.1 Transferred Financial Assets that are not Derecognized in their Entirety

a. Securities Sold under Agreements to Repurchase

Securities sold under agreements to repurchase transactions are performed as part of the Monetary Policy operations of the Bank and continues to be recognized in their entirety under "Sri Lanka Government Securities" in the Statement of Financial Position because it retains substantially all of the risks and rewards of ownership. The cash consideration to be

paid and the interest accrued there on are recognized under Securities sold under repurchase agreements in the local financial liabilities of the Statement of Financial Position.

b. Securities Lending

Securities lending describes the established market practice by which, for a fee, securities are transferred temporarily from one party (the lender, i.e. CBSL), to another (the borrower); the borrower is obliged to return them either on demand or at the end of any agreed term. Currently a selected Clearing House (CH) functions as the custodian for the supranational bonds and bonds issued by different issuers. CBSL has signed an agreement which enable CH to lend at their wish depending on the demand for those bonds. Since the lending does not involve CBSL and CH lends them directly to the borrowers, the process is called auto bond lending. At the end of each month, custodian will send fee income for auto bond lending, if any for the bonds which they lent under auto bond lending programme. The Bank continues to recognize the securities in their entirety in the Statement of Financial Position because it retains substantially all of the risks and rewards of ownership. These securities are presented in the Statement of Financial Position as "Securities at Fair Value through Other Comprehensive Income".

c. Securities Pledged

In order to facilitate the securities settlement process, securities amounting to AUD 35.0 Mn were pledged by the Bank to Euroclear and obtained a credit facility of USD 30.0 Mn. The pledged securities are held in a separate account at Euroclear.

Following a review of the activity in Bank accounts and with reference to the General Conditions Governing Extensions of Credit to participants in the Euroclear System, Bank's credit facility was decreased to USD 20.0 Mn with effect from 31 January 2017.

As Provided for in the General Conditions Governing Extensions of Credits to Participants in the Euroclear System, Euroclear informed CBSL that Bank's credit facility has been suspended with effect from 05 November 2018.

	Financial Assets at FVOCI 2019	Financial Assets at AFS 2018
	Rs. 000	Rs. 000
Assets		
Securities Lending	1,059,885	3,714
Securities Pledged	4,794,109	4,841,397
Carrying Amount of Assets	5,853,994	4,845,111

56. TRUST AND CUSTODIAL ACTIVITIES

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

- 56.1** 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.
- 56.2** The bank is the custodian of the Employees Provident Fund (EPF). In terms of the statute, the functions of the Monetary Board consist of receiving contributions, surcharges, income from investments, maintaining proper accounts of registered members of EPF, investing surplus funds and payment of benefits to the members.
- 56.3** The bank administered the Deposit Insurance Scheme, which was a voluntary deposit insurance scheme opened to banking institutions licensed by the CBSL and cooperative societies registered under the Cooperative Societies Law No. 5 of 1972, which carry on banking business and with effect from 1 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.
- 56.4** As per the Gazette No. 1673/11 dated 28 September 2010 (as amended), the Bank has established a Mandatory Deposit Insurance Scheme named Sri Lanka Deposit Insurance Scheme with effect from 1 October 2010 as an act of national interest to protect the funds of depositors.

All Licensed Commercial Banks (LCBs), Licensed Specialized Banks (LSBs) and Licensed Finance Companies (LFCs) shall be the members of this Scheme. Accordingly, 73 institutions are members of this Scheme as at 31 December 2019. The deposits to be insured include the demand, time, savings deposit liabilities of the member institutions and value of the shares of shareholders who were initially deposit holders, whose deposits were converted into equity under the directions of the Monetary Board in 2010 and 2011 as part of the Business restructuring plans implemented prior to 1 January 2012 and exclude all borrowing instruments and specific exclusions as per section 5.2 of the said gazette notification.

The deposit insurance fund has been created with the transfer of Rs. 350.20 Mn of the investments

of Voluntary Deposit Insurance Scheme and Rs. 1,168.31 Mn of investments made out of collections of abandoned property of LCBs. As at 31 December 2019, the fund size is Rs. 65.1 Bn (provisional). Currently, the amount of compensation payable per-depositor per-institution is limited to Rs. 600,000 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.

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

The Deposit Insurance Unit (DIU) is currently established in the Resolution and Enforcement Department, and is responsible for operation & management of the scheme under the instructions and supervision of the Director of Resolution and Enforcement in terms of Directions/Regulations and policies as approved by the Monetary Board from time to time. DIU shall maintain books and accounts distinctly separate from the Financial Statements of the Central Bank of Sri Lanka. The Auditor General shall be the Auditor of this Scheme.

- 56.5** 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.
- 56.6** As per the Circular issued by Director Bank Supervision, the banks who do not maintain the minimum advance limit of 10 % to agriculture are required to contribute the shortfall to Refinance Fund operated by RDD of the Bank. RDD refinances such amounts collected through Bank of Ceylon, Peoples' Bank, Pradeshiya Sanwardena Bank and Lankaputhra Development Bank to agriculture under Viskam Refinance Scheme. As of 31 December 2018, all such collected funds have been refunded to banks and no loans were outstanding under the refinance scheme and no interest received for such loans during 2019 (Rs. 0.17 Mn during 2018). Further, Rs. 102.65 Mn (2018 - Rs. 28.12 Mn) of income was earned from the investments.

56.7 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.

I. CBSL Funded Projects

(i) Concluded Projects

Name of the Project/ Loan Scheme	Total Allocation of the Fund (Mn.)		Objective/s	Refinance Granted to PFIs (Rs. Mn.)
Susahana	LKR	352.69	Resumption of Tsunami affected Businesses/ Enterprises.	351.06
Susahana	LKR	3,000.00	Provide credit facilities to resume Micro Small and Medium Enterprises (MSMEs) affected by the Tsunami.	2,750.00
Susahana - Phase II	LKR	500.00	Provide further credit facilities to resume MSMEs affected by Tsunami.	105.54
Awakening North	LKR	2,000.00	Extend credit facilities to Agriculture, Livestock, Micro and Small Enterprises in the Northern Province.	2,000.00
Resumption of Economic Activities in the Eastern Province	LKR	1,000.00	Enhance the activities up granting loans to SME sectors in the Eastern Province.	1,000.00
Post Tsunami Coastal Rehabilitation Resource Management Project	SDR	2.09	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
Resumption of Economic Activities in the Eastern Province - Phase II	LKR	1,078.27	Assists Agriculture, Livestock, Micro and Small Enterprises in the Eastern Province.	1,000.00
Resumption of Economic Activities in the Eastern Province - Phase III	LKR	1,000.00	Further assist Agriculture, Livestock, Micro and Small Enterprises in the Eastern Province based on high demand and requirement of the area to rehabilitate the business environment.	1,428.47
Repair of Damaged Houses in the North and East Province	LKR	600.00	"Provide credit facilities for repairing the damaged houses affected by the civil conflict in the Northern and Eastern Provinces."	600.00
Post-Disaster Economic Activity Recovery Loan Scheme (PEARL)	LKR	134.58	Support borrowers (individual group of individuals) in the post disaster recovery efforts of the Businesses /Small Enterprises affected by recent floods, drought to resume the Businesses or income generating activities.	134.58
Provincial Development Credit Scheme	LKR	2,900.00	Expand the activities of medium and long-term projects in the SME sector .	2,900.00

(ii) Ongoing Projects

Name of the Project/ Loan Scheme	Total Allocation of the Fund (Mn.)		Objective/s	Refinance Granted to PFIs (Rs. Mn.)
Saubagya Loan Scheme	LKR	30,301.79	Extend the Business activities of MSMEs and disaster affected MSMEs.	30,301.79

II. GOSL/Donor Funded Projects

(i) Concluded Projects

Name of the Project/ Loan Scheme	Total Allocation of the Fund (Mn.)		Objective/s	Refinance Granted to PFIs (Rs. Mn.)
Tea Development Project	USD	24.50	Increase income generating activities of Tea Small Holders and improve the contribution to the natural environment.	2,550.90
Second Perennial Crop Development Project	SDR	11.56	Commercialization of perennial crops sector , increase production, nursery development, post harvest handling, processing and marketing.	1,453.11
Plantation Sector Reform Project	USD	40.00	Support policy and institutional reforms in the plantation sub-sectors to increase the productivity and profitability while maintaining competitive advantage of the Plantation Industry.	5,200.00
Small Business Revival Programme	LKR	2,656.00	Resumption of Tsunami affected SMEs.	2,663.40
Small Business Revival Programme - Revolving Fund	LKR	150.00	Resumption of SMEs affected by Tsunami using recovery of Small Businesses.	122.72
Skill Development Project	LKR	94.31	Improve the quality and reliance of Skill Development obtained by the Training Programmes to high quality workforce and address skill mismatching.	94.59
Urban Environment Infrastructure Development Project	USD	4.00	Improve Environmental facilities,health and sanitary conditions of the people living in the urban and semi-urban areas.	369.15
Housing Guarantee Low Income Housing Shelter Project	USD	25.00	Assist Low Income community to build houses/ renovate/ expand the existing.	1,362.00
Urban Development Low Income Housing Project	SDR	15.10	Support Low Income community to improve life style through building up of houses.	1,915.76
North Western Province -Water Resource Development Project	USD	1.80	Improve Economic, Social and Nutritional well-being of the people in the North Western Province.	102.76
Matale 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	Increase the production capacity of Perennial Crops in the Mid Country area.	642.00

Agriculture Rehabilitation Project	SDR	17.05	Rehabilitate persons and property, affected by the civil disturbances in the Northern and Eastern Provinces including five bordering Districts.	843.00
Small Holder Tea Development Project	USD	12.60	Develop Small Holder Tea Sector and rehabilitate tea facilities.	645.93
Poverty Alleviation Micro-finance Project	YEN	1,368.00	Setting up of an effective credit delivery mechanism for channelling formal credit to income generating activities.	1,402.45
Small Farmers Landless Credit Project	USD	17.40	Establish cost effective and sustainable micro credit delivery system to generate employment while improving saving habits among the Low Income Community.	345.69
Kegalle Integrated Rural Development Project	SDR	1.50	Uplift the living standard of people by promoting income generating activities.	148.00
Southern Province Rural Development Project	SDR	27.90	Improve the quality of life and enhance the income generating activities of the people in the Southern Province.	564.00
EIB Contract B	EUR	10.00	Rehabilitate Small and Medium Size projects including Tourism and their service sectors directly affected by the Tsunami.	1,553.27
Awakening North - Phase II	LKR	2,154.25	Further extend credit facilities to Agriculture, Livestock, Micro and Small Enterprises in the Northern Province.	2,361.00
Second Perennial Crops Development Project - Revolving Fund	LKR	1,200.00	Develop the activities of Perennial Crops sector.	1,199.82
Matale Regional Economic Advancement Project - Revolving Fund	LKR	77.00	Expand the Income Level of Rural and Farm Families and provide funds for Medium scale Entrepreneurs to create Non-Farm Enterprises and expand existing projects in the Matale District.	77.00
Sabaragamuwa Province Integrated Rural Development Project - Revolving Fund	LKR	100.00	Enhance and create existing/ new income generating activities in the Sabaragamuwa Province.	100.00
Construction Sector Development Project	EUR	9.00	Strengthening the Financial and Technical capacities of private local Businesses to effectively participate in construction and Public works relating to post Tsunami reconstruction.	1,399.73
Sabaragamuwa Province Integrated Rural Development Project - Phase II	LKR	70.00	Further enhance and start new Income generating activities in the Sabaragamuwa Province.	70.00
Poverty Alleviation Micro-finance Project II (Probodini)	YEN	2381.00	Enhance the Living Standard of Households whose monthly income is less than Rs. 15,000.	3,213.20
Self Employment Promotion Initiative	LKR	250.00	Provide Financial Assistance to trained youth who have completed the recognized Vocational Training to establish self employment income generating activities.	232.39
Dry Zone Livelihood Support & Partnership Programme	LKR	252.95	Provide opportunity to earn more income through Agriculture related activities in Anuradhapura, Moneragala, Kurunegala and Badulla Districts.	252.95
National Agribusiness Development Programme	USD	32.90	Assist Smallholder producers and the Landless Community, especially considering the youth to increase the income level through the market/ value chain development and provide Finance and Training requirements for those people.	113.13
Small Plantation Entrepreneurship Development Project	SDR	2.60	Enhance the Living Standard of the Low Income Communities in Moneragala, Kandy, Kegalle and Nuwara-Eliya Districts.	487.66
National Agribusiness Development Programme (NADeP) - Microfinance	LKR	1,049.84	Improve Income Level and Social Conditions of Low Income Community	1,049.84
Value Chain Development Capital Agriculture Loan Scheme under the "Out Grower Farmers Loan Scheme" of the National Agribusiness Development Programme (NADeP)	LKR	135.69	Increase the Production, Productivity, Quality and Value addition of Agriculture Producers.	135.69
Value Chain Development Seasonal Agriculture Loan Scheme under the "Out Grower Farmers Loan Scheme" of the National Agribusiness Development Programme (NADeP)	LKR	302.04	Further enhance the Production, Productivity, Quality and Value addition of Agriculture Producers.	302.04
NADeP - "Tharuna Diriya" Youth Empowerment and Employment Programme	LKR	288.48	Reach Village Level Poor Youth to enhance the Skill Levels and Capacity building covering Small Business and other forms of Self-employment Projects.	288.48
Dry Zone Livelihood Support & Partnership Programme-Revolving Fund	LKR	252.90	Enhance Income generating activities in Anuradhapura, Moneragala, Kurunegala and Badulla Districts.	252.89
Small Farmers and Landless Credit Project -Revolving Fund	LKR	345.69	Promote the intensification of Agricultural Production by Small Farmers and establish of small scale Non-Farming Rural Enterprises.	1,564.75
Poverty Alleviation Micro-finance Project II (Probodini) - Revolving Fund	LKR	2,764.84	Improve Income Level of Low Income Community and enhance inclusive formal financial services and expand Income generating Activities of such People.	7,016.86
Smallholder Agribusiness Partnership Programme (SAPP) 4P Capital	USD	30.29	Contribute to Poverty Reduction of Smallholders & Increase Competitiveness & Increase the Income Level & Quality of diet of 57,500 Smallholders through commercially oriented Production & Marketing Systems, using a Process of forming & building capacity of Producer Groups, Organizations & strengthening the network under the partnerships with the Private Sector.	125.85
Smallholder Agribusiness Partnership Programme (SAPP) 4P Seasonal				854.05
Smallholder Agribusiness Partnership Programme (SAPP) Youth				14.45
Smallholder Agribusiness Partnership Programme (SAPP) Income Generation				106.42

(ii) Ongoing Projects

Name of the Project/ Loan Scheme	Total Allocation of the Fund (Mn.)		Objective/s	Refinance Granted to PFIs (Rs. Mn.)
Tea Development Project - Revolving Fund	LKR	1,100.00	Develop the Tea Sector in the Industries.	964.87
Swashakthi Loan Scheme	LKR	4,000.00	Support new & existing Entrepreneurs while expanding the Employment Opportunities.	2,576.89
"Athwela" - Resumption of Economic Activities affected by Disasters (READ)	LKR	2,000.00	Support to resume any eligible economic activity affected by any disaster as informed by the GOSL.	1,687.52
Poverty Alleviation Micro-finance Project RF (Probodini)	LKR	1,031.00	Assist to set up an effective Credit Delivery Mechanism for income generating activities conducted by the Low Income Group/ Community who are unable to access the formal financial sector facilities.	5,284.56
Smallholder Agribusiness Partnership Programme (SAPP) 4P Agribusiness	USD	30.29	Contribute to Sri Lanka's Smallholders' Poverty Reduction & Competitiveness & Increase the Income & Quality of diet of 57,500 Smallholders involved in commercially oriented Production & Marketing Systems, achieving through a Process of forming & building capacity of Producer Groups, Organizations & strengthening the Network under the Partnerships with the Private Sector.	-
Smallholder Agribusiness Partnership Programme (SAPP) 4P Youth				
Smallholder Agribusiness Partnership Programme (SAPP) RF Youth				
Smallholder Agribusiness Partnership Programme (SAPP) RF Agri Business				
Smallholder Agribusiness Partnership Programme (SAPP) RF Income Generation				
Self Employment Promotion Initiative Phase II (SEPI II)	LKR	950.00	Support starting of a New Business or expanding the existing Business of Youth who have completed Certificate or Diploma in National Vocational Qualification (NVQ)	409.54

III. Other**(i) Ongoing Projects**

Name of the Project/ Loan Scheme	Total Allocation of the Fund (Mn.)		Objective/s	Refinance Granted to PFIs (Rs. Mn.)
Viskam (Special Loan Scheme for Agriculture Sector Development)	LKR	1,325.60	Ensure the availability of Credit for Investment, Diversification and Improvement of commercial agribusinesses.	881.00

57. EVENTS OCCURRING AFTER THE 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 under Section 28 of the Monetary Law Act (MLA) for the purposes of continuous supervision and periodic examination of licensed banks in Sri Lanka. In addition, regulation and supervision of licensed banks are governed by the provisions of the Banking Act No. 30 of 1988, as amended.

BSD carries out its functions to ensure the safety and soundness of the banking system in Sri Lanka and to safeguard the interests of the depositors and other creditors of licensed banks. The main functions of BSD include licensing of commercial banks and specialised banks in Sri Lanka (hereinafter referred to as licensed banks); formulating and issuing of prudential regulations; conducting continuous supervision and periodic statutory examinations of licensed banks; approving the fitness and propriety of Directors, Chief Executive Officers and Key Management Personnel (KMPs) of licensed banks; granting regulatory approvals; taking regulatory actions where necessary with the approval of the Monetary Board and engaging in awareness and capacity building of the banking sector.

As at the end of 2019, the banking sector comprised 26 licensed commercial banks (LCBs) and 6 licensed specialised banks (LSBs) operating under the regulatory and supervisory purview of BSD. In addition, 3 Representative Offices (ROs) of foreign banks were in operation in Sri Lanka. The list of licensed banks and ROs is provided in Annex II-I.

A summary of the main functions and activities performed by BSD during 2019 is given below:

2.1 Issuance of Prudential Regulations

Prudential regulations issued to licensed banks during the year are provided in Part III of this Report. A summary of the major prudential regulations is as follows.

(a) Framework for Employment of Expatriate Officers

A Circular was issued to licensed banks informing them of the framework for the employment of expatriate officers in licensed banks in Sri Lanka, revoking the previous Circular issued in this regard. Banks were required to give priority to local officers before considering to employ expatriate staff and to establish succession planning to identify local talent and train such staff to take up responsibilities held by expatriate officers within a reasonable period.

(b) Publication of Annual and Quarterly Financial Statements and Other Disclosures

A Circular on the "Publication of Annual and Quarterly Financial Statements and Other Disclosures by Licensed Banks" was issued specifying a new set of formats to publish financial statements in line with the new Sri Lanka Accounting Standard - SLFRS 9, replacing the existing formats.

(c) Non-Interest Based Incentive Schemes for Interest Bearing Savings and Time Deposits of Licensed Banks

Considering the undue competition created among licensed banks due to the non-interest based incentive schemes for mobilising interest-bearing deposits, and its potential impact on the monetary policy implemented by the Central Bank, licensed banks were required to refrain from conducting lottery schemes/raffle draws and gift schemes that result in a disadvantageous situation for the customers, where features of a financial product/service are distorted.

(d) Measures to Curtail Imports of Motor Vehicles and Non-essential Consumer Goods

Licensed banks were informed of the removal of restrictions on opening Letters of Credit (LCs) for importation of motor vehicles under permits on concessionary terms.

(e) Maximum Interest Rates on Sri Lankan Rupee Deposits of Licensed Banks

Considering the high real interest rates on deposits and lending products that prevailed in the economy and the need to strengthen and expedite monetary policy transmission through the financial system, a Monetary Law Act Order was issued to licensed banks imposing maximum interest rates applicable on rupee denominated deposits. This measure was adopted with a view to reducing the cost of funds of licensed banks and thereby reducing the interest rates on lending rates to enhance credit flows to the real economy. Accordingly, licensed banks were informed that savings and other deposits of a tenure of less than three months or maturity unspecified should be based on Standing Deposit Facility Rate and interest rates of term deposits of three months or more should be based on 364 day T-bill rates. This Order was subsequently revoked in September, with the issuance of the Monetary Law Act Order on enhancing efficiency of the transmission of recent policy decisions to rupee denominated market lending rates.

A Monetary Law Act Order was issued to licensed banks on enhancing efficiency of the transmission of recent policy decisions to rupee denominated market lending rates. Accordingly, licensed banks were required to reduce interest rates of rupee denominated loans and advances by a certain number of basis points by the given target dates with a view to enhancing credit flows to the economy in order to revive the subdued economic activity. In addition, interest rate caps were introduced for credit card advances, pre-arranged temporary overdrafts and penal interest rates.

(f) Supplement to the Circular on Adoption of Sri Lanka Accounting Standard – SLFRS 9: Financial Instruments in Licensed Banks

A Circular was issued to licensed banks informing several interim measures in respect of adopting SLFRS 9 during the transitional period of 01.01.2019 to 30.06.2019 in order to address high market interest rates and issues faced by Small and Medium Enterprises (SMEs).

(g) SMEs Referred under Basel III Regulatory Framework on Capital and Liquidity Standards

Banking Act Directions were issued to licensed banks informing regulatory requirements with respect to identification of SMEs for the purpose of capital and liquidity standards under the Basel III framework.

(h) Concessions Granted to Tourism Industry

Considering the adverse impact on the tourism industry due to the Easter Sunday terrorist attacks, a Circular was issued to licensed banks requesting to grant concessions to individuals and entities in the tourism industry who wish to avail of such concessions. Such concessions were aimed at providing an opportunity to individuals and entities in the tourism industry to revive their businesses and thereby to reduce the non-performing loans of the licensed banks. Accordingly, it was informed that licensed banks may grant a moratorium on a case-by-case basis to individuals and entities who are registered with the Sri Lanka Tourism Development Authority (SLTDA) or any other authority/agency under SLTDA to provide services in the tourism sector. Licensed banks were instructed to convert the capital and interest falling due during the moratorium period into a term loan with a concessionary interest rate, which shall be recovered from July 2020 onwards. Subsequently, a series of explanatory notes was issued in this connection interpreting the applicability of concessions and granting of moratorium, recognition of registered entities and individuals, and the accounting treatment.

(i) Loan to Value (LTV) Ratios for Credit Facilities Granted in Respect of Motor Vehicles

Banking Act Directions were issued to licensed banks informing the revised LTV ratios applicable for credit facilities granted in respect of motor vehicles, and unregistered non-electric motor cars purchased under the mini taxi concessionary loan scheme under the Enterprise Sri Lanka programme.

(j) Harmonising Banking Act Regulations on Capital Adequacy and Leverage Ratio in line with Sri Lanka Accounting Standard – SLFRS 9

Considering the implications of adopting SLFRS 9 and to ensure the consistency of capital and risk weighted assets computation under Basel III, BSD issued explanatory notes to licensed banks in order to align the computation of

Capital Adequacy Ratio (CAR) and Leverage Ratio under Basel III with SLFRS 9.

(k) Market Conduct and Treasury Operations of Licensed Banks in Sri Lanka

Banking Act Directions were issued to licensed banks on “Market Conduct and Treasury Operations of Licensed Banks” including market conduct and ethical practices, confidentiality requirements, procedure for the recording of deal conversations, risk management principles, professionalism and knowledge level and sanctions on non-compliance with Directions. The Directions were aimed at further improving the market conduct and practices for treasury operations to strengthen market risk management systems in licensed banks, thereby strengthening soundness and stability of the financial system. Previous Directions and Circulars issued in this regard were revoked.

(l) List of Qualified Auditors to Audit the Accounts of Licensed Banks

A Circular was issued announcing the new list of qualified auditors to audit accounts of licensed banks, from financial years commencing 01 January 2021. The existing eligibility criteria for the selection of such auditors were strengthened in line with the changes in the banking sector landscape, changes in accounting and auditing professions, introduction of Basel III requirements and SLFRS 9.

(m) Amendments to the Regulatory Framework on Valuation of Immovable Properties of Licensed Banks

Banking Act Directions were issued amending the eligibility criteria for valuers under the regulatory framework on valuation of immovable properties of licensed banks.

(n) Assessment of Fitness and Propriety of Chief Executive Officers and Officers Performing Executive Functions in Licensed Banks

Banking Act Determinations were issued designating certain positions as officers performing executive functions in licensed banks and requiring such officers and chief executive officers of licensed banks to furnish information in a format prescribed by the Central Bank to assess/re-assess their fitness and propriety prior to appointment/periodically for the purpose of obtaining approval of the Director Bank Supervision. Previous determinations and Circulars issued in this regard were revoked.

(o) Assessment of Fitness and Propriety of Directors of Licensed Banks

Banking Act Directions were issued on assessment of fitness and propriety of Directors of licensed banks, including the information to be submitted by the persons proposed to be appointed, elected or nominated as Directors of licensed

banks and for the annual reassessment of such Directors for the purpose of obtaining approval of the Director of Bank Supervision. Previous Circulars issued in this regard were revoked.

(p) Amendments to the Banking Act Directions on Corporate Governance

An amendment to the Banking Act Directions on Corporate Governance for Licensed Banks was issued by introducing a cooling off period of 6 months for appointment of a Director or a Chief Executive Officer of a licensed bank operating in Sri Lanka as a Director or a Chief Executive Officer of another licensed bank operating in Sri Lanka.

(q) Framework for Dealing with Domestic Systemically Important Banks (D-SIBs)

A framework was issued to identify banks whose failure has a greater impact on the financial system due to the size, interconnectedness, lack of substitutability and complexity as D-SIBs, amending the previous criteria where D-SIBs were defined as banks with assets of Rs. 500 billion or above. Such banks were required to maintain additional Higher Loss Absorbency (HLA) requirements as capital surcharge. In this regard, Banking Act Directions were issued determining four licensed banks as D-SIBs and specifying their respective HLA requirements. Further, Banking Act Directions on Capital Requirements under Basel III were amended to incorporate additional HLA requirements in the form of Common Equity Tier 1 for D-SIBs.

2.2 Drafting the New Banking Act

Considering the increasingly competitive, fast evolving and complex nature of the banking sector in Sri Lanka, which approximately accounts for 62 per cent of the financial sector, the importance of strengthening the existing regulatory framework of licensed banks has been highlighted in the recent past. Accordingly, BSD initiated drafting a new Banking Act and the key concepts proposed in the new Banking Act were presented to the Monetary Board in 2019.

Some of the key concepts proposed to be incorporated in the new Banking Act include the introduction of a single type of banking licence, adoption of proportionality in banking regulations, introduction of Financial Holding Company Structure for subsidiaries and associates of licensed banks, streamlining equity investments by banks, subsidiarisation of foreign bank branches in Sri Lanka, consumer protection, strengthening governance and suitably extending the provisions of the new Banking Act to banks to be established in the Colombo International Financial Centre (CIFC).

A Consultation Paper comprising the above concepts was issued to the banking sector and other industry stakeholders to provide comments and observations and the Central

Bank expects to complete enacting the new Act by early 2021.

2.3 Approvals Granted by the Monetary Board and the Director of Bank Supervision

(a) Mergers, Acquisitions and Closures of Licensed Banks

During the year, the Central Bank facilitated the consolidation process of small state-owned licensed banks. Accordingly, the Central Bank provided necessary guidance and granted the regulatory approvals in a timely manner to successfully complete the acquisition and absorption of the banking business of Lankaputhra Development Bank Ltd. (LDB) by Pradeshiya Sanwardhana Bank. Upon completing the consolidation process, the banking license issued to LDB was cancelled. Further, the acquisition of Sri Lanka Savings Bank Ltd. by National Savings Bank was also facilitated by the Central Bank. Further, the Monetary Board permitted Axis Bank Limited and ICICI Bank Limited to commence their closedown procedures as per requests from their respective Head Offices.

(b) Branches and Other Banking Outlets of Licensed Banks

During the year, 1,557 requests were processed and 1,519 approvals were granted, while 38 requests were deferred/declined on prudential grounds (Table II-1). Accordingly, by the end of 2019, there were 3,604 bank branches, 3,783 Student Savings Units and 5,571 Automated Teller Machines (ATMs) in operation.

Table II-1
Approvals relating to Branches and Other Banking Outlets

Types of Approvals	No. of Approvals	
	Processed	Granted
Opening and Installation	1,281	1,251
Branches	66	50
Automated Teller Machines (ATMs)	146	136
Student Saving Units (SSUs)	231	231
Cash Deposit Machines (CDMs)	63	61
Mobile Banking Units and Vehicles	560	560
Mobile ATMs and CDMs	8	8
Relocation	149	143
Branches	137	131
ATMs	12	12
Closures and cancellations of approvals granted for branches and other service outlets	25	23
Discontinuation and cancellation of approvals granted for ATMs and Others	102	102
Total	1,557	1,519

(c) Other Regulatory Approvals

During 2019, a total of 442 regulatory approvals were granted with regard to assessing fitness and propriety for the appointment of new/continuing Directors and Officers Performing Executive Functions in licensed banks, outsourcing arrangements, disposal of property below market value, inclusion of debentures in Tier 2 capital, exceeding maximum amount of accommodation, abandoned property reimbursements, acquiring material interest in the share ownership of banks and others (Table II-2).

Table II-2
Other Regulatory Approvals

Type of Approval	No. of Approvals
Assessing fitness and propriety for appointment of new/continuing directors, CEOs and key management personnel	220
Outsourcing arrangements	51
Disposal of property below market value	21
Inclusion of debentures in Tier 2 capital	9
Exceeding maximum amount of accommodation	7
Abandoned property reimbursements	7
Acquiring material interest in shareholding	1
Other Approvals	126

2.4 Regulatory Actions

During 2019, licensed banks were required to initiate corrective measures with regard to non-compliances with the Banking Act and Directions issued thereunder on 24 instances.

2.5 Conduct of Continuous Supervision

- (a) Continuous supervision is an on-going monitoring mechanism on the affairs of individual banks, which serves as an early warning system to ascertain the operational efficiency and long-term sustainability of the entire banking sector, and it enables the implementation of corrective measures, where necessary, to ensure safety of depositors' funds.
- (b) Continuous supervision was conducted based on periodic financial information submitted by banks through the web based FinNet System. Approximately 70 statutory returns are submitted weekly/monthly/quarterly/annually by each bank through the FinNet system covering financial and prudential information, while 18 returns are submitted manually. The initiative to revamp the database maintained in BSD, in consultation with the Information Technology Department (ITD), continued in 2019 in order to facilitate better report generation. Further, 8 new FinNet returns were developed while 2 existing returns were amended.

- (c) In the process of continuous monitoring and supervision of banks, special reports were submitted on the movement of interest rates with respect to deposit and lending rate caps imposed on banks and exposures of the banking industry to the condominium and construction sector. In addition, banking industry aggregate data were shared with other departments of the Central Bank and external government institutions to facilitate in making policy decisions and preparation of reports. Further, 15 presentations on the performance of the banking industry were also prepared for various forums, and the Monetary Board was apprised of the banking sector performance on quarterly basis.
- (d) During 2019, approximately 661 customer complaints/requests, including requests under the Right to Information Act, were handled. These complaints were primarily related to lending interest rates, rescheduled loans, credit cards, pawning operations, unauthorised withdrawal of funds and seeking reduction in charges and fees on Automated Teller Machines.
- (e) BSD facilitated collection and submission of information on reimbursement of interest cost in relation to the special interest scheme for senior citizens, to the Ministry of Finance, on a quarterly basis.
- (f) BSD continued to monitor the progress of addressing supervisory concerns identified during statutory examinations of banks within specified time targets on a quarterly basis. In addition, 17 meetings were held with licensed banks to discuss regulatory concerns identified during continuous supervision.

2.6 Conduct of Periodic Examinations

- (a) During 2019, BSD conducted 27 statutory examinations including one thematic review on credit management of selected 14 banks and completed 05 examinations, which continued from the previous year. Statutory examinations of 26 licensed banks were commenced and completed in 2019 through formal discussions with the management of the respective banks. Submission of reports to the Monetary Board was completed for 13 statutory examinations, while 13 examinations were in the process of completion. Major concerns raised at certain examinations included deteriorated asset quality in terms of increased impaired loans, lapses identified in computation of impairment charges resulting in inaccurate percentages of impaired loans, low capitalisation and efficiency, lapses in corporate governance and management, deficiencies in the management of technology risk and liquidity risk, and concerns over treasury operations. In addition, several examinations with limited scope were conducted on areas such as rescheduled credit facilities, adherence to the directions on corporate governance, customer complaints, liquidity risk, branch fraud, human resource management and customer account transaction verification.

- (b) Further, BSD developed a supervisory rating model for licensed banks viz, the Bank Sustainability Rating Indicator (BSRI), which was approved by the Monetary Board, to facilitate the risk based supervision framework of licensed banks and to enable early intervention and prompt corrective action through identification of potential risks arising from emerging developments and strategic changes of licensed banks. During 2019, the proposed BSRI model was further improved by reviewing all parameters and developing a comprehensive supervisory guidance framework to uphold the consistent application of the BSRI framework across banks.

2.7 Awareness and Capacity Building of the Banking Sector

(a) Capacity Building

BSD conducted knowledge sharing sessions for Key Management Personnel of banks including, Compliance Officers, Chief Information Officers and Chief Risk Officers on relevant topics. Further, BSD officers served as resource persons for training programmes and panel discussions at various forums. BSD officers also continued to serve as committee members in various committees including Working Group on Regulatory and Risk of Colombo Financial City, Working Committee on Prudential Directions and Regulations of the Government Securities Market and Operations of Primary Dealers, Working Committee on Blockchain Technology, Steering Committee of the Financial Sector Computer Security Incident Response Team (FINCSIRT), Taskforce to Study Virtual Currency Schemes in Sri Lanka, Committee to Promote Digitalisation of Payments to Enhance Financial Inclusion, Steering Committee on Sustainable Finance and National Payments Council Roadmap Committee.

Capacity building of the staff of BSD was continued in 2019 and officers of BSD participated in local and foreign training programmes, including supervisory colleges, in the areas of risk based supervision, advanced stress testing, data analysis, corporate governance and ethics, consolidated supervision and risk integration, financial reporting standards and sustainable finance.

(b) Meetings with Banks and other Stakeholders

BSD continued to function as the secretariat for the monthly meetings of bank CEOs chaired by the Governor, aimed at maintaining a continuous dialogue between the Central Bank and the banking sector on matters relating to the developments in the Sri Lankan economy, the banking sector, and the regulatory and supervisory framework. Additionally, a meeting of bank chairpersons was held to apprise them of the banking sector performance, developments in the economy and local and global regulatory frameworks.

Regular meetings were conducted with the senior management and Board appointed committees of

concerned licensed banks to discuss bank specific matters, to ensure proper oversight and timely implementation of corrective action, and to ensure the sustainability of the banking sector. Further, BSD facilitated banks in the adoption of new Sri Lanka Financial Reporting Standards by organising meetings with the Institute of Chartered Accountants of Sri Lanka.

BSD organised quarterly meetings of the Financial Sector Oversight Council (FSOC), which comprises heads of core financial sector regulators, to facilitate cooperation among member institutions to ensure efficiency, soundness and safety of the financial system.

Annex II - 1

List of Licensed Banks

Licensed Commercial Banks

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

Licensed Specialised Banks

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

Representative Offices of Foreign Banks

1. Doha Bank QPSC
2. JP Morgan Chase Bank NA
3. MUFG Bank Ltd.

* The Central Bank has permitted Axis Bank Ltd. and ICICI Bank Ltd. to close down their business operations in Sri Lanka, subject to certain conditions, at the request of their parent banks. Accordingly, these two banks are currently not permitted to carry on banking business, including accepting deposits from the general public. The licenses issued to these banks will be cancelled once the winding-up operations are completed.

3. CENTRE FOR BANKING STUDIES

Centre for Banking Studies (CBS), the training arm of the Central Bank, has been a strategic partner in providing life-long learning opportunities for financial sector professionals in Sri Lanka and other central bankers in the region. CBS has helped financial sector institutions and corporates to develop their human capital to create competitive advantage through the people.

CBS demonstrates its commitment through organising and conducting numerous training programmes, workshops and seminars to equip financial sector professionals with required knowledge, skills and exposure. Accordingly, CBS focuses on designing, co-ordinating and conducting training programmes, seminars and workshops to cater to the evolving needs of the financial sector professionals, while ensuring high quality training with advanced training facilities. Further, special emphasis was given to provide training to the staff of the Central Bank keeping in line with the strategic objective of the “capacity building and support” cluster.

CBS offered training programmes in 2019, covering the areas of banking and finance, risk management and compliance, treasury operations, accounting and financial management, law and regulations, research and data analysis, economics, human resources and general management, rural sector development and microfinance, and information technology. In conducting training programmes on these various areas, CBS obtained the services of high caliber resource persons from the Central Bank and external experts including foreign experts in the financial sector, policy and regulatory areas with required academic excellence and international exposure.

CBS successfully conducted 144 programmes during the year which consisted of 50 calendar programmes, 62 special programmes, 20 educational programmes and 12 public lectures in 2019. Further, 26 capacity building programmes were conducted to enhance the competencies of the Central Bank staff for which 1,052 staff members participated. Capacity building programmes included the programmes conducted in collaboration with the SEACEN Research and Training Centre, Reserve Bank Staff College of Reserve Bank of India (RBI) and Deutsche Bundesbank, Germany. Further, CBS conducted 17 tailor-made training programmes during the year at the request of local commercial banks, specialised banks, foreign central banks and commercial banks. In view of promoting economic education and financial inclusion, CBS organised 8 public seminars on various topics at CBS and 4 public seminars at regional level. A total of 8,378 local participants and 131 foreign participants from Bangladesh, Maldives, Nepal, Malaysia, Oman and Sudan attended CBS programmes in 2019.

In addition, CBS continued to co-ordinate the educational television series, “Thakshilawa” and “Ariwootroo”, telecast in Sinhala and Tamil medium mainly targeting the Advanced Level students, who study the subject of Economics.

CBS also conducted in-depth post evaluation processes in order to improve programme modules, the delivery quality of lectures and other services offered in line with rapid innovations in financial technology. The Programme Calendar for 2020 was prepared with careful assessment of the present and future training needs of the Central Bank and other financial institutions, and new programmes on emerging technologies in digital banking and payments have also been introduced while striving to maintain high standards in all aspects of CBS programmes.

4. COMMUNICATIONS

During 2019, Communications Department (CMD) continued its role of supporting the accomplishment of the mandated objectives of the Central Bank, i.e., maintaining economic and price stability and financial system stability through timely communication of information pertaining to the monetary policy, financial system stability, agency functions and corporate services of the Central Bank. In addition to direct communication via speeches, lectures, meetings and seminars, CMD used several media to communicate with its stakeholders, i.e., the Bank’s corporate website (www.cbsl.gov.lk), social media, publications, newspapers, electronic media, and video clips.

4.1 External Communication

CMD continued providing information through the corporate website to the public in Sinhala, Tamil and English languages, with the aim of providing better dissemination of information for web users such as professionals, the public, media, and students to ensure efficient and speedy accessibility to information with user friendly interfaces including mobile browser compatibility.

In 2019, CMD issued 1,202 press releases, including those on the monetary policy review and decisions of the Monetary Board in relation to financial institutions and financial markets. Eight press conferences on monetary policy review were held in 2019 and CMD started live streaming the press conferences on the official Central Bank social media platforms from November 2019. Meanwhile, 107 press notices including advertisements and 05 Gazette notifications were issued to the media in 2019. CMD also sent out 494 SMS alerts pertaining to Telegraphic Transfer (exchange) rates, SLIBOR rates and policy rates.

To further facilitate communication with stakeholders, CMD administers and monitors its corporate social media accounts, namely, Twitter, Facebook and YouTube. Table II-3 below gives a comparison of the performance with respect to the Bank’s social media accounts in 2018 and 2019.

Table II-3
Communication by the Central Bank through Social Media

Type of media	2018	2019
YouTube (video uploads)	37	54
YouTube Views (within the year)	64,996	83,786
Facebook Likes (within the year)	5,221	7,266

With a view to promoting knowledge of economics and central banking among school children, CMD conducted the “Econ Icon Season IV” TV quiz programme, with the televised rounds of 16 each for Sinhala and Tamil medium schools selected from an island-wide examination held in January 2019. The Grand Finale of the TV quiz programme was held in January 2020.

CMD also contributed to many other flagship events in the Bank, including the Bank’s 69th Anniversary Oration on the topic “The link between political economy and economic policy in our times” delivered by Dr. Razeen Sally, Visiting Associate Professor of the Lee Kuan Yew School of Public Policy at the National University of Singapore, the “Regional Workshop on External Vulnerabilities in South Asia”, the “SEACEN-BIS High-Level Seminar and 18th SEACEN Executive Committee Meeting”, “BIMSTEC SG-AML/CFT Workshop”, Road Map 2019 and the 12th Annual International Research Conference.

CMD participated in the “Colombo International Book Fair” held at the Bandaranaike Memorial International Conference Hall, Colombo, from the 20th to 29th of September 2019, where the Central Bank publications were sold/distributed at this event.

Further, CMD handled public grievances directed to the Central Bank through the “Tell the President” grievance handling system, and responded to 234 grievances in 2019, in collaboration with the respective Departments of the Bank.

4.2 Internal Communication

Enabling the Senior Management of the Bank to be well informed of the current affairs in the economy, the financial sector and other matters relevant to the Bank, 3,983 news clips, articles and public opinions extracted from fifteen national newspapers published in all three languages were submitted to the Senior Management within the year. Press releases issued of common interest were also circulated among the Central Bank staff.

The official internal newsletter, “Kavuluwa” (meaning “window”), which is published only in digital format, was uploaded on the intranet, “Mansala”.

4.3 Public Awareness

Awareness programmes on topics such as ‘Objectives and Functions of the Central Bank’ and ‘Sri Lanka’s Economy’ were coordinated by CMD for 8,306 participants as given in Table II-4.

Table II-4
Details of Public Awareness Programmes Conducted in 2019

Institution	No. of Programmes	No. of Participants
Schools	87	7558
Universities	6	491
Sri Lanka Armed Forces and Defense University	6	216
Foreign Delegates	1	41
Mobile Programmes (held outside the Central Bank Head Office)	3	N/A

Further, CMD assisted 3 mobile programmes initiated by Regional Offices by providing resource persons and copies of publications. CMD also successfully conducted an awareness programme for journalists during the 2nd quarter of 2019.

CMD’s sales of Central Bank Publications amounted to Rs. 6.9 million during the year. These sales were made through its sales counters at the Economic History Museum, the Centre for Banking Studies Publications Store at Rajagiriya, and sales counters at Regional Offices and at the Colombo International Book Fair. The CMD also distributed 11,613 copies of different publications free of charge among school children and public libraries throughout the country.

4.4 Tamil Translation Services

CMD continued to provide Tamil translation services enabling the Central Bank communication in the Tamil language. This included some key publications as well. Accordingly, CMD accomplished its mission of providing information in all three languages, in compliance with the National Language Policy.

4.5 Photography and Videography Coverage

Over 669 events of the Bank were captured on camera in 2019, while maintaining high professional standards by delivering all related services including editing, printing of photographs, preparing albums/CDs, and uploading recordings on the website of the Bank, YouTube and Mansala (the intranet), in a timely manner.

4.6 Printing Press

CMD provided the services of designing, typesetting and printing to meet the printing requirements of the Central Bank with high quality standards. In this respect, the Central Bank’s Printing Press completed a total of 114 printing assignments in 2019. These included the periodicals Satahana (06 issues), News Survey (06 issues), Vaippaham (07 issues), and the publication titled “Objectives, Functions and Organization of the Central Bank of Sri Lanka” was printed in all three languages. “Economic and Social Statistics of Sri Lanka – 2019”, and the “Socio-Economic Data Folder 2019” were also published in all three languages. Further, printing of colour posters, handbills, leaflets, letterheads, certificates, visiting cards, various survey forms and greeting cards were undertaken by CMD.

4.7 Library and Information Centre

Library and Information Centre (LIC) operates with the objective of helping officers of the Central Bank prepare for their professional roles by acquiring knowledge, building awareness, being up-to date with economic developments and developing balanced personalities.

LIC has a collection of 38,194 books, 19,600 reports, 2,080 CDs and over 49,000 journal issues. These include new additions of 760 books during the year. LIC subscribes to online databases, such as 'ScienceDirect', 'EconLit' and Wiley Online Journals, which provide access to a vast collection of publications on topics related to economics, management and finance. In addition, in 2019, LIC subscribed to several other online resources on subjects relevant to central banking, e.g. www.centralbanking.com, www.risk.net and www.ft.com, and continued to provide staff access to these resources. LIC continued the subscription to OpenAthens, which provides the staff members of the Central Bank remote access to journal articles. LIC subscribes to 84 foreign journals and 18 local journals in printed form.

LIC continued to compile electronic publications such as the 'Recent Additions' (i.e. new books), 'Current Contents', 'International News Alert', 'Local Press' and notes on economics, banking and finance related reports and disseminated them via the intranet. A selective dissemination of information services was also done.

Further, LIC continued its services to the banking and economics libraries in Sri Lanka by providing useful information through e-mail and by way of inter-library loans. Further, LIC was an active member of the Global Central Bank Financial Institutions Library and '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. LIC was officially recognised as a member of Sri Lanka Scientific and Technical Information Network (SLSTINET) during the year 2019.

5. CURRENCY

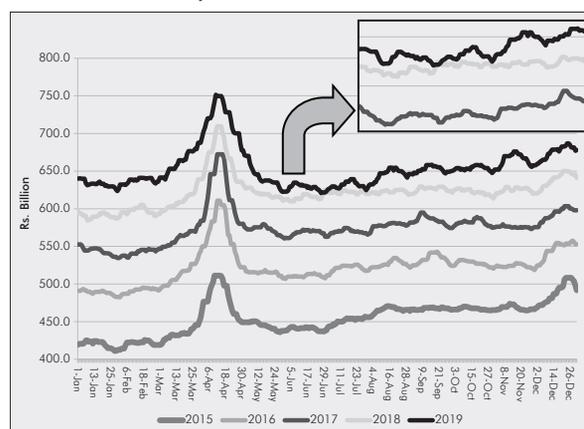
The Central Bank has the sole right and authority to issue currency in Sri Lanka under the powers vested by Section 49 of the Monetary Law Act No. 58 of 1949 (MLA). Accordingly, Currency Department (CRD) of the Central Bank handles functions related to the statutory responsibility of the Monetary Board on currency operations. During 2019, CRD continued to perform several tasks related to designing and printing of currency notes, minting of coins, issuing of currency notes and coins to meet public demand, accepting currency deposits from LCBS, withdrawing unfit currency notes and coins from circulation, assisting law

enforcement authorities to deal with instances of violation of provisions of MLA with respect to the legal tender and conducting public awareness programmes to enhance public knowledge on identification of counterfeit notes and good handling practices of currency preserving its quality. A summary of the activities of CRD and currency operations during 2019 is given below.

5.1 Currency in Circulation

Demand for currency notes and coins continued to increase in 2019 except for the moderation during May – July 2019 mainly due to contraction of economic activities following the Easter Sunday attacks as shown in the Chart II-1.

Chart II-1
Currency in Circulation 2015-2019



Accordingly, during the year, the value of total currency in circulation (CIC) increased by 5.8 per cent to Rs. 677.4 billion as at 31 December 2019, as shown in Table II-5 below.

Table II-5
Currency in Circulation (as at 31st December 2019)

Item	Value (Rs. bn)					Change (%)				
	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
Notes	482.0	541.5	585.3	627.1	663.1	17.9	12.3	8.1	7.1	5.7
Coins(a)	9.1	10.7	12.1	13.2	14.2	21.3	17.3	13.1	9.0	7.6
Total	491.1	552.2	597.4	640.3	677.4	18.0	12.4	8.2	7.2	5.8

(a) The commemorative coins are excluded

The value of currency notes in circulation increased by 5.7 per cent into Rs. 663.1 billion in 2019. Among the currency notes, denominations of Rs. 5000 and Rs. 1000 accounted for approximately 87 per cent of the total value of currency notes in circulation (Chart II-2), while Rs. 20 accounted for 31 per cent of total currency notes volume in circulation (Chart II-3).

Chart II-2
Value of Bank Notes in Circulation (Rs.) as at end 2019

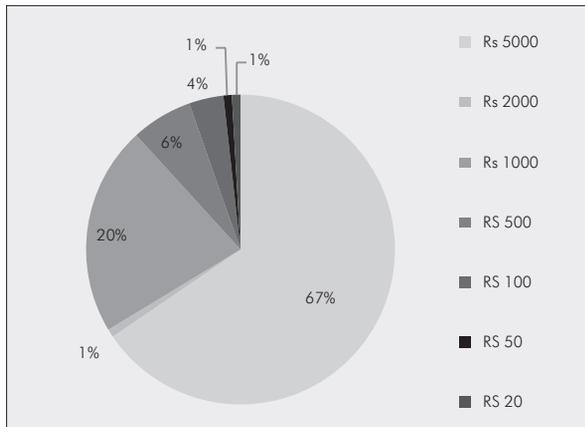
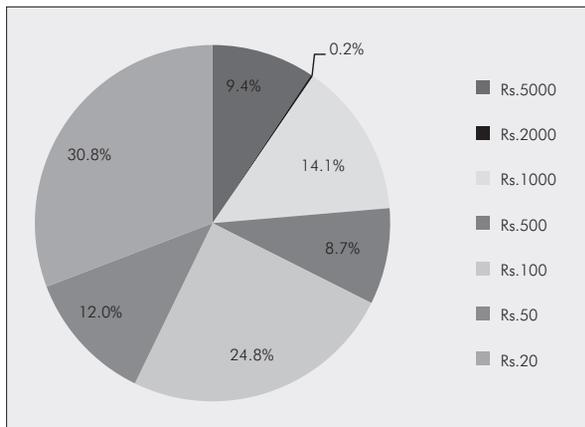
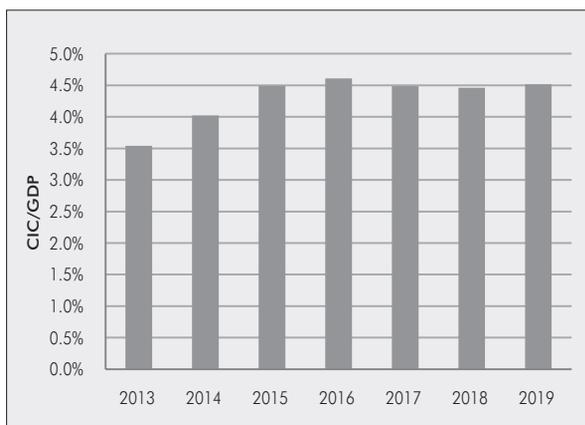


Chart II-3
Volume of Bank Notes in Circulation (Pieces) as at end 2019



The ratio of CIC to GDP was at a constant rate of 4.5 per cent in 2019 demonstrating the significance of currency as a mode of payment in the country (Chart II-4).

Chart II-4
Currency in Circulation/GDP



5.2 Currency Management

Functions of Currency Management mainly comprise issuance of good quality currency notes and coins into

circulation and withdrawal of unfit (unserviceable) currency notes and coins from circulation facilitating payment mechanisms in the country. In order to ensure effective currency management, CRD continued the following activities during the year 2019.

(a) Currency Printing and Minting

CRD placed orders for 175 million pieces of new currency notes for the year 2019 in order to meet the demand and maintain sufficient stocks. CRD received 639.4 million pieces of new coins as a part of the 970 million pieces of coin order placed in 2017.

(b) Issuance of Currency

During the year, CRD focused on reissuing fit (serviceable) currency notes back into circulation to minimise the cost incurred on printing new currency notes. Accordingly, in 2019, CRD issued currency notes for the value of Rs. 775.2 billion into circulation, which comprised Rs. 526.5 billion of fit currency notes and Rs. 248.7 billion of new currency notes. Further, coins for the value of Rs. 1 billion were issued to LCBs and public counters established at Pettah Branch of Bank of Ceylon and currency counters at the Central Bank (Table II-6). The decrease in currency note issues in 2019 in comparison to the previous year was mainly due to the large volume of new notes issued during 2018 consequent to the strict implementation of the policy on willfully mutilated and defaced currency notes. Issuance of coins has slightly decreased in 2019 reflecting a low demand for coins among the public.

Table II-6
Issuance of Currency Notes and Coins

Item	Value (Rs. bn)				
	2015	2016	2017	2018	2019
Notes	503.4	594.0	627.9	795.4	775.2
Coins (a)	1.6	1.6	1.4	1.1	1.0
Total	505.0	595.6	629.3	796.5	776.2

(a) Commemorative coins are excluded

(c) Acceptance of Currency Deposits

CRD accepts currency deposits from LCBs, primarily to maintain the statutory reserve requirement imposed by the Central Bank. CRD also accepts unfit currency notes including damaged currency notes from LCBs to remove those from circulation to maintain good quality notes in circulation. Value of currency notes deposited by LCBs during 2015 to 2019 is given in Table II-7.

Deposits of unfit notes have decreased in 2019 compared to unprecedented amount of unfit deposits recorded in 2018 due to the deadline imposed on all LCBs to deposit willfully mutilated and defaced currency notes by 30 September 2018.

Table II-7
Deposit of Currency Notes

Item	Value (Rs. bn)				
	2015	2016	2017	2018	2019
Fit Notes	331.9	433.8	464.2	524.1	606.9
Unfit Notes	98.3	100.7	119.9	229.6	132.1
Total	430.2	534.5	584.1	753.7	739.0

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

(d) Destruction of Unfit Currency Notes

During 2019, CRD destructed 235 million pieces of unfit currency notes amounting to Rs. 139.8 billion (Table II-8), exercising the statutory power granted to the Central Bank to destruct unfit currency notes.

Table II-8
Destruction of Unfit Currency Notes

Notes	2015	2016	2017	2018	2019
Pieces (mn)	182.7	179.2	177.1	343.8	235.0
Value (Rs. bn)	88.8	57.4	94.2	252.2	139.8

5.3 Other Activities

(a) Operating Currency Counters

CRD reopened a counter on 27 March 2019 at the Central Bank Head Office to provide currency exchange facility to the general public. This facility was suspended in the aftermath of the bomb blast in 1996. Further, the facility to exchange damaged currency notes continued during 2019, through which currency notes amounting to Rs. 116 million were exchanged.

(b) Operating Economic History Museum

The Economic History Museum (EHM) provides information to the general public, including foreigners who are interested in Sri Lankan currency notes and coins. Sale of commemorative notes, coins and collector items and conducting demonstrations to visitors were some of the key functions carried out by EHM. The EHM was visited by 9,060 individuals in 2019 including 2,301 locals, 511 foreigners and 6,248 students from 100 schools.

(c) Preserving Public Confidence in Currency

CRD continued to work in cooperation with the Counterfeit Currency Bureau of the Criminal Investigation Department (CID) to minimise the incidence of counterfeit notes and to preserve public confidence in currency.

Accordingly, CRD facilitated the certification of 2,266 counterfeit notes, which were detected and referred to the Central Bank. The rate of counterfeit notes detected is around 2 notes per million notes in circulation indicating a substantially low level of incidence of

counterfeiting compared to many other countries. 127 certificates were issued as conclusive evidence for the imitation of currency note to facilitate court proceedings in terms of the Section 59 of the MLA, and CRD attended 7 court cases relating to counterfeiting during the year.

(d) Promoting Clean Note Policy

The strict implementation of the policy against willfully mutilation and defacement of currency notes appeared to be largely successful. Key stakeholders and general public have acknowledged that willfully mutilated and defaced currency notes are now barely seen in circulation. CRD continued educating the public on good handling practices of currency and monitored LCBs on orderly conduct of clean note policy as good handling of currency notes increases the life span of currency notes.

(e) Promoting Public Awareness

CRD conducted 16 awareness programmes on security features of currency notes and identification of counterfeit notes, good handling practices and clean note policy, regulations on currency management targeting various sectors of the society through public lectures, seminars, training programmes and print media. Furthermore, CRD carried out an awareness campaign through national newspapers on the identification of counterfeits. CRD participated in 3 exhibitions demonstrating the mobile currency museum which helped enhance public awareness on currency notes and coins.

(f) 10th Asia Cash Cycle Seminar

The Central Bank co-hosted the 10th Asia Cash Cycle Seminar – 2019 (formally known as International Commercial Cash Operations Seminar (ICCOS)) in Colombo with the participation of 180 delegates from over 34 countries. The event was a platform to share views and ideas on cost saving technologies, strategies and best practices to enhance efficiency and optimisation of the currency management and to showcase rapidly changing developments in the alternative modes of payment methodologies in the world.

(g) Coin Distribution

With a view to ensuring availability of adequate coins in circulation, CRD carried out coin distribution programmes through the Central Bank regional offices and established an exchange counter at the "Enterprise Sri Lanka National Exhibition", which was held in Jaffna on 07-10 September 2019.

(h) Approvals for Reproduction of Currency Notes

In terms of the Monetary Board approved policy on reproduction of currency notes, CRD granted approval for 7 requests during 2019.

5.4 Developments and New Projects

(a) Survey on Currency Notes

In 2019, a survey was conducted by CRD to obtain the views of the public to identify necessary modifications and improvements to the existing currency note series and assess the need for a new currency note series. Based on the outcomes of the survey, the Monetary Board decided to continue with same currency note series while upgrading it with advanced new security features for higher value denominated currency notes. To initiate the process, it has been decided to introduce a Rs. 2000 note under the current 11th series, modifying the existing design with advanced security features.

(b) Policy Changes on Currency Management

During 2019, CRD came up with the following policy changes to ensure an effective and efficient currency management process:

- (i) Increase service charges on serviceable currency note deposits with the Central Bank to encourage LCBs to exchange excess cash among themselves for more efficient cash management.
- (ii) Increase emergency cash withdrawal limit for LCBs, enabling them to cater to the increasing public demand for currency more effectively.

(c) Revamping Currency Operations

CRD initiated a project to revamp currency operations at the Central Bank Head Office during 2019 in order to increase the efficiency of currency note processing through an automated system and to increase currency note processing capacity. CRD carried out discussions with relevant authorities and obtained approval from the Cabinet of Ministers for the procurement of necessary machinery and equipment for the revamping project.

6. DOMESTIC OPERATIONS

6.1 Functions of DOD

As per the Monetary Law Act (MLA), the Domestic Operations Department (DOD) carries out several main functions in supporting the achievement of core objectives of the Central Bank. These include implementing monetary policy with active Open Market Operations (OMOs), regulating statutory reserves of Licensed Commercial Banks (LCBs), acting as the banker to the commercial banks, acting as the banker and the official depository of the government, government agencies and other institutions, providing temporary advances to the government, maintaining settlement accounts for participants of the Real Time Gross Settlement System (RTGS), providing intraday liquidity to the RTGS participants and regulating Authorised Money Brokers.

6.2 Implementation of Monetary Policy

With the objective of maintaining short-term interest rates at a level commensurate with the prevailing monetary policy stance of the Central Bank, DOD continued to implement monetary policy. DOD relied mainly on OMOs, in signalling and steering the Average Weighted Call Money Rate (AWCMR), which serves as the operating target of the current enhanced monetary policy framework, towards desired level with low volatility environment. Meanwhile, the standing facilities were provided continuously to the market participants to address liquidity needs on an overnight basis. Accordingly, monetary policy operating procedure in 2019 continued to evolve with certain changes in the nature and frequency of use of OMOs, policy rates, the effective policy signalling, enhanced transparency, etc.

As excessive reliance on OMO facilities by Standalone Primary Dealers (SPDs) affected the efficiency of the signalling effect of OMOs, the access to the OMO auctions by SPDs was restricted by the Central Bank from 25 September 2018. However, in view of providing overnight liquidity assistance for SPDs and eliminating undue pressure on the AWCMR during the period of liquidity shortage, a Liquidity Support Facility (LSF) was introduced by the Central Bank in September 2019 to ensure smooth functioning of the domestic money market. LSF also helped to improve the signalling of OMOs.

Considering the anticipated movements in the liquidity condition in the domestic money market and the low demand for outright purchase of Treasury bill auctions, the Central Bank expanded the coverage for eligible instruments by introducing outright purchase of Treasury bonds auctions to inject durable liquidity to the domestic money market since mid-September 2019.

6.2.1 Open Market Operations

(a) Liquidity forecast

DOD estimates different aspects of domestic money market liquidity on a daily basis to address liquidity needs through appropriate market operations in consistent with the monetary policy stance. In this regard, impact of monetary operations initiated by the Central Bank as well as autonomous factors that have high uncertainty in estimation comprising currency in circulation, foreign exchange transactions of the Central Bank, commercial bank reserve positions and transactions of the government with the Central Bank are taken into consideration.

(b) Market Operations Committee

The Market Operations Committee (MOC) is entrusted with the task of translating overall monetary policy considerations adopted by the Monetary Board into daily monetary operations. Upon reviewing daily market developments in the domestic money and foreign exchange markets, MOC decides on the action in relation

to liquidity management, taking into consideration the estimated liquidity condition, desired level of the operating target, liquidity distribution among market participants, the need for appropriate market signals, etc.

(c) Auctions

DOD engaged in liquidity management operations to steer the amount of bank reserves to maintain the operating target at the desired level by conducting liquidity absorption and liquidity injecting auctions appropriately.

(i) Repo Auctions

In 2019, DOD conducted overnight, short-term and long term repo auctions as necessary to absorb excess liquidity from the domestic money market. Accordingly, overnight repo auctions were conducted to absorb liquidity on an overnight basis when the money market liquidity was in surplus. Short-term repo auctions were conducted as a strategy to absorb liquidity up to a period of one week on the same day settlement basis. Long-term repo auctions were conducted with settlement on the next business day with the view to absorb excess market liquidity which appeared persistent for a considerable period.

Table II-9
Repo Auctions Conducted during 2019

Type of Repo Auction	No of Auctions	(Rs. Bn)	
		Total Amount offered	Total Amount Accepted
Overnight	47	903.4	661.1
Short-term	35	515.0	327.4
Long-term	14	282.0	103.2

(ii) Reverse Repo Auctions

Reverse repo auctions were conducted to inject liquidity in to the domestic money market on overnight, short-term and long-term basis. In addition, Liquidity Support Facility (LSF) was introduced for SPDs in September 2019 to fulfill their overnight funding needs.

Table II-10
Reverse Repo Auctions Conducted during 2019

Type of Reverse Repo Auction	No of Auctions	(Rs. Bn)	
		Total Amount offered	Total Amount Accepted
Overnight	132	2,343.0	2,042.8
Short-term	70	805.0	566.4
Long-term	39	616.6	396.8
Liquidity Support Facility (LSF)	13	33.5	22.6

(iii) Outright Auctions

During 2019, outright purchase auctions were conducted with Participating Institutions (PIs) to inject durable liquidity into the money market by

transferring the ownership of securities. Auctions to purchase both Treasury bills and bonds were conducted in 2019. However, it was observed that in a liquidity shortage environment, market participants were reluctant to sell their liquid securities such as Treasury bills on a permanent basis. In view of providing permanent liquidity to the market amidst the lower demand for Treasury bills at the outright auctions, DOD introduced outright purchase of Treasury bonds with effect from 06 September 2019 by expanding its instruments for OMO.

Table II-11
Outright Auctions Conducted during 2019

Type of Outright Auctions	No. of Auctions	(Rs. Bn)	
		Total Amount Offered	Total Amount Accepted
Outright sale of Treasury bills (to absorb liquidity)	-	-	-
Outright Purchase of Treasury bills (to inject liquidity)	182	647.0	41.8
Outright sale of Treasury bonds (to absorb liquidity)	-	-	-
Outright Purchase of Treasury bonds (to inject liquidity)	23	96.0	47.7

6.2.2. Standing Facility

Standing facilities were provided throughout the year at the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) to PIs, while bounding overnight money market rates within the policy rate corridor. SDF facility was used to accept excess liquidity of PIs, while SLF facility was available to provide liquidity to PIs, when they were unable to fulfil their overnight liquidity requirements fully through the inter-bank money market and OMO auctions.

Table II-12
Standing Facility under Open Market Operations in 2019

Facility	(Rs. Bn)	
	Total Volume	Daily Average
Standing Deposit Facility	7,488.6	30.8
Standing Lending Facility	4,796.6	19.7

6.2.3 Statutory Reserve Ratio (SRR)

The SRR determines the minimum amount of reserves that each commercial bank should hold in terms of the provisions of the Monetary Law Act (MLA), in the settlement account with the Central Bank, in proportion to the total rupee deposit liabilities of the respective bank. DOD is responsible for both administering the maintenance of statutory reserves as per the SRR and monitoring compliance of commercial banks in this regard. The SRR applicable to rupee deposit liabilities of commercial banks was reduced by 100 basis points to 5.00 per cent from 6.00 per cent with effect from 01 March 2019.

6.2.4 Bank Rate

The Bank Rate is the rate of interest at which the Central Bank provides short term advances to LCBs under Section 87 of the MLA. The Bank Rate remained unchanged at 15 per cent in 2019. However, the Central Bank did not lend funds to any LCB at this rate during 2019.

6.3 Banker to Commercial Banks and the Government

6.3.1 Accounts of Financial Institutions

LCBs and SPDs are connected to the monetary system through the settlement accounts with the Central Bank. These accounts are maintained at the DOD to facilitate clearance of payments and settlement and also for settlement of payments for scripless securities transactions among Real Time Gross Settlement (RTGS) participants. Further, LCBs use the same accounts for maintenance of their bank reserves. DOD is responsible for updating RTGS by accounting Multilateral Net Settlement Balances (MLNSB) of LCBs generated by the Lanka Clear Pvt. Ltd. (LCPL) during its 18 sessions on a daily basis. The Multilateral Net Settlements (MLNS) of LCBs include the net settlements of Cheque Images and Truncation System (CITS), Sri Lanka Interbank Payment System (SLIPS), Common ATM Switch (CAS), Common Electronic Fund Transfer Switch (CEFTS) and Common POS Switch (CPS). At the end of 2019, the DOD maintained RTGS accounts for 26 LCBs and 8 SPDs.

Table II-13
Daily Sessions of Multilateral Net Settlement Balances (MLNSB) Clearing

MLNSB Batch Files	No. of Sessions per Business Day
1. Main Clearing (CITS)	03
2. SLIPS Clearing	03
3. CAS Clearing	04
4. CEFTS Clearing	04
5. CPS Clearing	04
Total Sessions	18

6.3.2 Government Accounts

In performing the functions relating to Central Bank's role as the banker to the Government, DOD continued to provide banking facilities to government departments, agencies and institutions, and certain foreign entities on behalf of the Government. As at end 2019, DOD maintained 46 such accounts and handled 15,307 transactions amounting to Rs. 17,617.3 billion, during the year, on behalf of the Government. More than 85 per cent of the transactions were in relation to the Deputy Secretary to the Treasury (DST) Account, the Public Debt Department's Current Account, the Inland Revenue Commissioner's VAT Refund Account and the President's Fund Account.

In terms of Section 89 of the MLA, the Central Bank provides provisional advances to the Government, free of charge, with a ceiling of 10 per cent of the estimated government revenue approved by the Parliament for a given fiscal year. At

the beginning of 2019, based on the government's revenue estimated for the year 2019 and approved by the Parliament, provisional advance to the government was increased by Rs. 13.06 billion to Rs. 238.06 billion, from provisional advance of Rs. 225.0 billion in 2018.

Table II-14
Details of Accounts Maintained by DOD in 2019

Types of Accounts	No. of Accounts
LCBs	26
SPDs	08
Government Departments	32
Government Agencies and Institutions	14
Accounts of Internal Departments of the Central Bank	38
Foreign Agencies (Operated by DOD)	09
Total	127

6.4 Provision of Intra-day Liquidity Facility

DOD continued its role to ensure smooth and efficient operation of the RTGS system by making available intra-day funding through the Intra-day Liquidity Facility (ILF) to RTGS participants. This facility is provided free of charge against the collateral of Treasury bills and Treasury bonds, which are valued at their current market prices with a sufficient haircut to absorb any variations in market prices during the day.

The total value and the average daily value of ILF drawn during the year amounted to Rs. 15,241 billion and Rs. 62.72 billion, respectively. This indicated an increase in ILF utilisation over that of the previous year, which amounted to a total of Rs. 13,275 billion with a daily average of Rs. 55.31 billion.

6.5 Supervision of Authorised Money Brokers

With the intention of promoting efficient price discovery in the domestic money market, the Money Broking Regulations No. 1 of 2013 was issued under Section 10 (c) of the MLA, which came into effect from 15 February 2013, empowering the DOD to oversee and supervise the operations of money brokers in Sri Lanka. Subsequently, the Money Broking Regulations No. 1 of 2018 was issued with effect from 05 March 2018, repealing the Money Broking Regulations No. 1 of 2013 as amended by Money Broking Regulations No. 01 of 2016. Further, with effect from 14 February 2019, Money Broking Regulations No. 1 of 2019 was issued incorporating several new additions namely, improving fit and proper requirements, restriction of control over money broking businesses, strengthening internal controls, further improvement of reporting requirements and examinations of books. Leading to a reduction in the administrative cost arising from e-documents and reduced manual intervention on data entering/calculations, a new system to upload monthly performance report for Authorised Money Brokers (AMBs) was introduced through Central Integrated Market Monitor (CIMM) and reports are generated through Tableau software.

As at end March 2019, a total of nine companies have been issued the “Certificate of Authorisation” under these regulations, which are designated as “Authorised Money Brokers”. During the year 2019, DOD conducted 9 on-site examinations for AMBs and adapted regulatory action against a particular AMB for violating Money Broking Regulations.

List of Authorised Money Brokers as at 31.12.2019

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. Central Forex & Money Brokers Ltd
6. Piggot Chapman & Company (Pvt) Ltd
7. SMB Money Brokers (Pvt) Ltd
8. Taprobane Investments (Pvt) Ltd
9. Vishwin Money & Exchange Brokers Ltd

7. ECONOMIC RESEARCH

Under Section 25 of the Monetary Law Act (MLA) No. 58 of 1949, the Economic Research Department (ERD) is statutorily entrusted with the task of compiling data and conducting economic research for the guidance of the Monetary Board and the Governor in formulating, implementing, and executing policies and measures and for the information of the public. Accordingly, ERD continued to provide policy advice through research to preserve economic and price stability during the year. ERD engaged in improving the monetary policy formulation and analysis framework and provided research based policy recommendations and advice, which facilitated policy formulation in 2019. Further, ERD spearheaded measures to enhance monetary policy communication, while improving public awareness on topical macroeconomic issues and facilitating close cooperation with international agencies.

ERD is also vested with the responsibility of carrying out functions as the lead department in implementing two of the Central Bank’s bankwide strategic priorities during 2018-2020, namely introducing an effective flexible inflation targeting framework and implementing an International Transactions Reporting System (ITRS). With regard to the former, ERD played a lead role in the drafting process of the new Central Bank of Sri Lanka Bill, which was gazetted later in the year, by actively engaging in policy level discussions. On the implementation of the ITRS, which aims at monitoring both cross border transactions and domestic foreign currency transactions through the banking sector, ERD rolled out the preparatory process during the year.

7.1 Maintaining Economic and Price Stability

In facilitating proactive and timely monetary policy decisions to maintain economic and price stability, ERD continued to closely monitor the trends and developments in the real, external, fiscal, and monetary sectors of the domestic economy as well as the global economy. Accordingly,

fulfilling its duties as the secretariat of the Monetary Policy Committee (MPC), ERD produced comprehensive reports to the MPC on economic and monetary conditions including forward looking analyses supported by model based macroeconomic projections. This enabled the MPC to make informed judgements and provide proactive policy recommendations to the Monetary Board on the appropriate monetary policy stance of the Central Bank. With the view to strengthening the monetary policy decision making process by incorporating inputs from the experts in academia and the private sector, ERD continued to facilitate the meetings of the Monetary Policy Consultative Committee (MPCC). Moreover, ERD coordinated the preparation of the annual policy statement *Road Map 2020 - Monetary and Financial Sector Policies for 2020 and Beyond*, in which the Central Bank announced its policies for monetary and financial sectors in the medium term, thereby providing information to all stakeholders in the economy and the financial market on the policy direction of the Central Bank in the period ahead. ERD continued to assess risks arising from macroeconomic developments and the possible impact of such risks on inflation and economic growth. Further, ERD enlightened the senior management on various economic issues and appropriate policy measures required to maintain macroeconomic stability. The impact of announced fiscal measures on various sectors of the economy was also analysed and informed to the senior management to support the decision making process. Moreover, ERD continued to improve its inhouse modelling and forecasting capacity and infrastructure with technical assistance from the International Monetary Fund (IMF), aimed at enhancing the monetary policy decision making and communication process further. ERD took several measures to improve external communication and enhance awareness among the general public and other stakeholders aimed at anchoring inflation expectations in line with the envisaged inflation path over the medium term. ERD continued the publication of press releases on Monetary Policy Review informing the general public of the stance of the Monetary Board. Further, ERD performed a lead role in monetary policy press conferences chaired by the Governor and attended by senior officials of the Central Bank, which provided a platform for stakeholders to receive first hand information and obtain clarifications on the monetary policy stance, and the commencement of livestreaming of the press conference proceedings in 2019 enabled a wider reach of monetary policy communication on a real time basis.

7.2 Maintaining External Sector Stability

With the view of maintaining external sector stability, ERD continued to conduct comprehensive surveillance of global and domestic economic developments and provided appropriate policy advice and recommendations to the MPC and the Monetary Board by collecting, compiling and analysing statistics related to international trade and

external finance. Accordingly, ERD continued to assess relative movements of the Sri Lankan rupee against other currencies to identify emerging pressures on the rupee and propose corrective measures to lessen any excessive volatility in the exchange rate. Apart from analysing and providing observations on various external sector related matters, ERD continued to evaluate monetary implications of a number of foreign loans obtained by the government, as per the provisions of the MLA. Further, ERD monitored the progress in relation to the quantitative performance criteria, indicative targets and structural benchmarks agreed upon under the Extended Fund Facility (EFF) of the IMF. While taking measures to improve the compilation and dissemination of external sector statistics to comply with internationally accepted data reporting standards, ERD continued the publication of Balance of Payments (BOP) statistics and International Investment Position (IIP) statistics in the BPM6 format on a quarterly basis and International Reserve Data Template (RDT) on a monthly basis, while making timely submissions related to Quarterly External Debt Statistics (QEDS) to the World Bank and direct investment data for the Coordinated Direct Investment Survey (CDIS) on an annual basis. In order to improve accuracy and ensure timeliness of external sector data, ERD conducted several surveys during the year, which included an Annual International Investment Survey (AIIS), to collect data on foreign assets and liabilities of the private sector and surveys related to trade in services covering resident and non-resident airlines, shipping lines, telecommunications, construction and insurance sectors and a monthly survey on inward workers' remittances. Further, as the lead department in implementing the ITRS, ERD commenced preliminary work such as identifying system requirements, inter departmental data needs, the legal framework and required IT infrastructure.

7.3 Providing Proactive Policy Advice

ERD continued to provide proactive policy advice to the Monetary Board, the government and other stakeholders mainly on monetary policy, exchange rate policy, international trade and fiscal sector related issues. In view of the postponement of the presentation of the National Budget for 2019, a report summarising the developments and risks of the economy was submitted to the Hon. Minister of Finance prior to the announcement of the Budget in March 2019. In compliance with Section 116 (1) of the MLA, *the September 15th Report*, the confidential report articulating the developments and risks in the economy was submitted to the Hon. Minister of Finance by the statutory deadline on 15 September 2019. ERD provided technical inputs to the National Economic Council (NEC) and provided independent observations on various macroeconomic issues to the government. ERD coordinated eight MPC meetings during the year 2019. Apart from serving as a member of the MPC, the Director of Economic Research (DER) continued to serve as a member of a number of internal committees,

including the Market Operations Committee (MOC), the Financial System Stability Committee (FSSC), the Domestic Debt Management Committee (DDMC), Tender Boards for the issuance of government securities, Training Committee, Library Advisory Committee, Steering Committee and Tender Board for International Sovereign Bond Issuance by the Government of Sri Lanka in 2019 and the Steering Committee for the Organisation of 70th Anniversary Celebrations of the Central Bank. Further, during the year, the DER served as an observer in the Internal Investment Oversight Committee (IIOC) and the International Reserve Investment Oversight Committee (IRIOC). The DER and senior members of ERD made presentations at the regular meetings including the Monetary Board and meetings of Chairpersons and Chief Executive Officers of financial institutions, covering macroeconomic developments and subjects of topical interest. The senior staff of ERD also served in the MPC and several other internal committees.

The DER and senior staff of ERD represented the Central Bank in numerous committees and boards of external institutions, including the Hector Kobbekaduwa Agrarian Research and Training Institute (HARTI), National Science Foundation, and several committees appointed by the Ministry of Finance, Ministry of National Policies and Economic Affairs and the Ministry of Power and Energy. The Technical Evaluation Committee on the project of constructing a power plant at Kerawalapitiya, Project Committees on the Rehabilitation on the Northern Part of Elephant Pass Saltern, Restructuring of the Paranthan Chemicals Company Ltd., Restructuring of Lanka Mineral Sands Ltd., Committee to Conduct an Analysis on the Vehicle Assembly Industry, and other national level committees such as Technical Core Committee for National Export Strategy, National Trade Facilitation Committee (NTFC), Government Finance Statistics (GFS) Coordinating Committee, Technical Committee for the Designing of Carbon Pricing Instruments for the Energy and Transport Sectors of Sri Lanka, Sectoral Oversight Committee on Education and Human Resources Development on Adopting STEM Policy in the Education System in Sri Lanka, Advisory Committee on Trade Promotion and Information of Export Development Board and the Joint Committee on Formulating the Medium term Debt Management Strategy (MTDS) were among the other external committees in which ERD staff served in 2019. Staff of ERD also contributed to the Task Forces on Labour Immigration, and on improving National Accounts and Compilation System, and committees for feasibility studies such as the proposed Bangladesh-Sri Lanka Free Trade Agreement and the Implementation of Integrated Tourism Digital Platform.

7.4 Statutory Publications and Dissemination of Data and Information

Meeting the statutory requirements under the MLA, ERD prepared the Annual Report of the Central Bank for 2018, in all three languages, with the assistance of other

departments of the Central Bank, and presented it to the Hon. Minister of Finance and disseminated it to the public by end April 2019. The half-yearly report of *Recent Economic Developments - Highlights of 2019 and Prospects for 2020* and Monthly Bulletins were also published in 2019. Further, *Road Map 2020 - Monetary and Financial Sector Policies for 2020 and Beyond*, the policy statement of the Central Bank, was prepared for the thirteenth year with the purpose of enhancing the predictability and transparency of the Central Bank's policies, which would help stakeholders to design and better calibrate their own plans and strategies for the period ahead, and was announced by the Governor on 06 January 2020. In addition, ERD continued to disseminate economic and financial information through daily, weekly and monthly indicators and bulletins published in the media and the online data library available on the Central Bank website. Moreover, to enhance the awareness of the general public, media statements were released on regular monetary policy review and external sector developments, which included latest monetary statistics, interest rate statistics, balance of payments and other external sector statistics. Statistics covering all sectors of the economy were disseminated by ERD, adhering to the requirements of the Special Data Dissemination Standard (SDDS).

7.5 Engaging in Policy Research and Knowledge Sharing

ERD continued to promote the research culture within the Department and the Central Bank through various research and knowledge sharing activities. The Research Advisory Panel (RAP), an internal committee of ERD that is responsible for key research related tasks, continued its activities during the year. RAP continued to successfully coordinate, assisted by the Centre for Banking Studies (CBS), the training course on *Research in Economics*, to develop research orientation and acquaint participants both within the Central Bank and external institutions, with relevant methodological foundations and techniques of academic research, primarily in economics, while spearheading the training of postgraduate aspirants of the Central Bank in the fields of macroeconomics, microeconomics and mathematics for economics.

ERD organised the Central Bank's annual flagship research event, the International Research Conference (IRC) in December 2019 for the twelfth consecutive year. The conference was aimed at stimulating theoretical and empirical research on various contemporary macroeconomic policy issues and provided researchers from diverse backgrounds a platform to discuss their views, findings and experiences from varied perspectives. The IRC-2019 was graced by two eminent international economists; Professor Sayuri Shirai of Keio University, who is also a visiting scholar at the Asian Development Bank Institute and a former Member of the Policy Board of the Bank of Japan who delivered a speech titled *Recent Monetary Policy Issues and Challenges*, and Mr. Marc-Olivier Strauss-Kahn, Honorary

Director General and former Chief Economist of Banque de France who spoke on *Central Banking: from Research to Economic and Financial Literacy*. Seven research papers on contemporary topics such as monetary policy, public investment, productivity and taxation selected through a rigorous double-blind review process, were presented by researchers participating from the USA, Australia, India and Sri Lanka, including researchers from the Central Bank of Sri Lanka. *Dr. D S Wijesinghe Memorial Award* for the best research paper presented at the IRC was awarded to an officer of ERD.

In addition, ERD co-organised a regional conference on *External Vulnerabilities in South Asia* with the World Bank-South Asia Office, Institute of Policy Studies and the University of Colombo during 28 February – 01 March 2019. At this conference, several scholars and practitioners from six South Asian countries discussed macroeconomic issues and external risks faced by their countries, to understand the sources and solutions in a challenging global environment. The conference featured sixteen research papers, focussing on both academic and policy aspects. During the conference, two papers were presented by officers from the Central Bank including officers from ERD.

The Central Bank's official research publication, *Staff Studies*, consisting of research outcomes of officers attached to ERD and other departments of the Central Bank was published in 2019 under the guidance of the RAP. Further, the staff of ERD continued publishing their research in local and international publications. In addition to the presentations made at IRC and the regional conference on *External Vulnerabilities in South Asia*, officers of ERD presented papers at the Third South Asian Network on Economic Modelling (SANEM) - World Bank North America Discussion Forum held in Washington D.C., the USA, the 13th Bulletin of Monetary Economics and Banking International Research Conference organised by the Bank Indonesia and the Asia-Pacific Applied Economics Association in Bali, Indonesia, as well as the Delhi Macroeconomics Workshop held in New Delhi, India.

Meanwhile, ERD actively engaged in the dissemination of knowledge in collaboration with CMD, CBS and Regional Offices of the Central Bank, for the benefit of school and university students, school teachers, officers of other government and private institutions, and foreign delegations that visited the Central Bank. Public lectures held in all three languages on the *State of the Economy as Reflected in the Annual Report 2018* were conducted by senior officers of ERD at CBS as well as in Regional Offices of the Central Bank. A large number of educational events were conducted by officers of ERD throughout the country in the areas of objectives and functions of the Central Bank, monetary policy, fiscal policy, external sector policies and recent economic developments. Senior ERD officers continued to evaluate research proposals and research papers of

postgraduate aspirants of the Central Bank and also evaluated research proposals received for IRC 2019 while reviewing research papers submitted for the publication of external journals. Several senior officers of ERD continued to serve as resource persons for the televised educational lecture series, *Thakshilawa* and *Arivootru*, conducted in Sinhala and Tamil languages, respectively, for the benefit of GCE Advanced Level students. ERD staff also supported CMD in organising the inter-school quiz competition, *Econ-Icon Season IV* held in both Sinhala and Tamil languages. The Inter-Bank Quiz Competition of the Institute of Bankers of Sri Lanka (IBSL) and the Inter-Bank Quiz Competition of the Association of Compliance Officers of Banks (ACOB) also benefitted from a senior officer of ERD serving as Quiz Master in 2019.

7.6 Maintaining International Relations

While assisting the coordination between the government and key multilateral development banks and agencies such as the World Bank and Asian Development Bank (ADB) in 2019, ERD continued to function as the focal point of contact for multilateral financial organisations, including the IMF, SAARCFINANCE, SEACEN and South East Asia, New Zealand, Australia Central Banks (SEANZA) on behalf of the government and the Central Bank. At the same time, ERD continued to provide macroeconomic statistics and updates to international organisations, in particular the IMF, World Bank and international sovereign rating agencies. In addition, ERD coordinated the IMF staff missions to Sri Lanka in February and September 2019, and worked closely with the IMF on the reviews of the EFF Programme. Moreover, in October 2019, ERD coordinated a Customised Training (CT) programme conducted by the IMF, focused on improving the Quarterly Projection Model (QPM) as part of the Forecasting and Policy Analysis System (FPAS) of the Central Bank. Further, ERD facilitated the hosting of the SEACEN-BIS High-Level Seminar and the 18th SEACEN Executive Committee Meeting in Colombo during 26 – 28 September 2019, organised by the Central Bank of Sri Lanka as the chair of the Board of Governors and the Executive Committee of the SEACEN Centre.

8. EMPLOYEES' PROVIDENT FUND

Employees' Provident Fund (EPF) was established under the Employees' Provident Fund Act No.15 of 1958 (EPF Act). According to the provisions of the EPF Act, the general administration of the Act is vested with the Commissioner of Labour, while all the powers, duties and responsibilities of the fund management are vested with the Monetary Board of the Central Bank as the custodian of the Fund. As per Section 5 of the EPF Act, the Monetary Board has appointed EPF Department of the Central Bank (EPF Department) to act as the operational arm for performing its duties, exercising its powers and discharging its functions.

8.1 Functions of the Department

EPF Department is responsible for the collection of member contributions and surcharges, maintenance of general accounts and member accounts (individual 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 the Commissioner of Labour in performing of their duties and functions. EPF Department continued to engage in the above activities as per the provisions of the EPF Act, while maintaining close collaboration with the Commissioner of Labour. A summary of activities carried out by EPF Department during the year 2019 is given below.

(a) Receiving contributions and payment of benefits to those entitled

In 2019, total member contribution increased by 8.4 per cent to Rs. 157.2 billion from Rs. 145.0 billion recorded in the previous year, while the total refunds made to the members and their legal heirs amounted to Rs. 126.3 billion (Table II-15). Total refunds indicated an increase of 17.0 per cent over 2018. Accordingly, the net contribution for 2019 decreased to Rs. 30.9 billion compared to Rs. 37.0 billion recorded in 2018.

(b) Maintaining the general account of the Fund and the member accounts

The total value of the Fund increased by 11.0 per cent to Rs. 2,540.4 billion as at end 2019 compared to Rs. 2,289.4 billion as at end 2018, due to the income generated from investments and net contributions (after deducting refunds from contributions). Total liability to the members (member balances) stood at Rs. 2,497.6 billion as at end 2019 recording a 10.8 per cent increase from Rs. 2,254.2 billion as at end 2018 (Table II-15).

Table II-15
Selected Key Information of the Fund

Item	2018	2019(a)	Change (%)
Total value of the Fund (Rs.bn)	2,289.4	2,540.4	11.0
Total liability to members (Rs.bn)	2,254.2	2,497.6	10.8
Total number of member accounts (mn)	18.7	19.0	1.5
Contributing member accounts (mn)	2.8	2.5	(11.6)
Non-contributing member accounts (mn)	15.8	16.5	3.9
Total contributions (Rs.bn)	145.0	157.2	8.4
Total refunds (Rs. bn)	108.0	126.3	17.0
Net contribution (Rs.bn)	37.0	30.9	(16.4)
Number of refunds	241,190	241,581	0.2

(a) Provisional

Source: EPF Department, Central Bank of Sri Lanka

(c) Investment Activities of the Fund

(i) Investment Portfolio

In 2019, EPF Department continued to invest its funds in long term Treasury Bonds and Corporate

instruments. The total investment portfolio (book value) of the Fund grew by 10.9 per cent to Rs. 2,548.7 billion as at end 2019 from Rs. 2,298.8 billion recorded as end 2018 (Table II-16). The investment policy of the Fund continued its 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.

Accordingly, as at end 2019, the investment portfolio consisted of 93.8 per cent in government securities, 3.0 per cent in equity, 1.7 per cent in corporate debentures and trust certificates, 0.9 per cent in fixed deposits and the remaining 0.6 per cent in reverse repurchase agreements. The maturity profile of the government securities portfolio together with yield rates as at end 2019 is given in Table II-17.

Table II-16
Investment Portfolio

Type of Investment	End 2018		End 2019	
	Amount (Rs.bn)	Share (%)	Amount (Rs.bn)	Share (%)
Treasury Bonds & Bills	2,119.2	92.2	2,390.4	93.8
Equity	74.9	3.3	75.4	3.0
Corporate Debts	44.8	1.9	42.2	1.7
Fixed Deposits	33.6	1.5	25.0	0.9
Reverse Repos	26.4	1.1	15.6	0.6
Total	2,298.8	100.0	2,548.7	100.0

Source: EPF Department, Central Bank of Sri Lanka

Table II-17
Maturity Profile of Government Securities Portfolio
(As at end of 2019)

Maturity	Maturity Value (Rs.mn)	Share (%)	Weighted Average Yield (%) ^(a)
Less than 1 year	117,804.5	4.9	7.96
1-2 years	174,652.7	7.3	8.74
3-4 years	293,388.2	12.3	9.52
More than 5 years	1,804,331.7	75.5	10.09
Total	2,390,177.1	100.0	9.82

(a) The weighted average yield for each maturity bracket is the current yield of individual securities within the maturity bracket weighted by the total market value of securities within a maturity bracket.

Source: EPF Department, Central Bank of Sri Lanka

(ii) Investment Income

During 2019, the total investment income of the Fund amounted to Rs. 259.0 billion, recording an increase of 16.5 per cent over the previous year (Table II-18). Interest income was the major source of income to the Fund and it grew by 11.0 per cent to Rs. 254.7 billion in 2019 from Rs. 229.4 billion in 2018. The dividend income realised from equity portfolio increased by 60.7 per cent to Rs. 6,247.5 million in 2019, compared to Rs. 3,887.6 million earned in 2018. Overall, return on investments of

the Fund recorded 10.7 per cent in 2019 compared to 10.4 per cent recorded in 2018.

Table II-18
Income on Investments

Source of Income	2018		2019	
	Amount (Rs.mn)	Share (%)	Amount (Rs.mn)	Share (%)
Interest with amortisation gains	229,446.0	103.1	254,681.0	98.3
Marked to market gain/loss from Equity	(10,901.3)	(4.9)	(1,890.0)	(0.7)
Capital gains from Equity	7.2	-	-	-
Capital gains from Government Securities	-	-	0.1	-
Dividends	3,887.6	1.7	6,247.5	2.4
Impairment of financial assets	0.6	-	0.3	-
Total	222,440.1	100.0	259,038.8	100.0

Source: EPF Department, Central Bank of Sri Lanka

(iii) Expenditure

The total operational expenditure of the Fund increased by 5.1 per cent to Rs. 1,581.8 million in 2019 compared to Rs. 1,505.3 million in 2018, and as a ratio of total gross income, it decreased to 0.61 per cent in 2019, from 0.68 per cent in 2018 (Table II-19). Over the years, the Fund has maintained its operational expenditure below 1 per cent of the total gross income.

Table II-19
Operational Expenditure

Item	Amount (Rs.mn)		Change (%)
	2018	2019	
Personnel expenses	967.3	1,062.6	9.8
Administrative expenses	470.0	450.7	(4.1)
Other expenses	68.0	68.5	0.8
Total	1,505.3	1,581.8	5.1
Total Expenses as a % of Gross Revenue	0.68	0.61	

Source: EPF Department, Central Bank of Sri Lanka

(d) Payment of Interest on Member Balances

Over the years, EPF was able to pay a consistently high rate of interest to its members (Table II-20). The details are given in Chapter 8.

Table II-20
Rate of Interest paid on Member Balances

Year	Interest Rate Paid (%)	Effective Interest Rate (%) ¹
2009	13.75	13.92
2010	12.50	12.65
2011	11.50	11.58
2012	11.50	11.62
2013	11.00	11.14
2014	10.50	10.60
2015	10.50	10.57
2016	10.50	10.51
2017	10.50	10.51
2018	9.50	9.54
2019(a)	9.25	9.27

(a) Provisional Source: EPF Department, Central Bank of Sri Lanka

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

(e) Engaging in Member Services**(i) Issuing of Member Account Statements**

During 2019, member account statements for the 1st half and 2nd half of 2018 were issued to the active members of the EPF, through their employers as given in Table II-21.

Table II-21
Issue of Member Account Statements

Period	No. of Employers	No. of Statements (Active Members)
2018 1st half	70,180	2,201,077
2018 2nd half	78,651	2,730,561

Source : EPF Department, Central Bank of Sri Lanka

(ii) Issuing of Certificates of Guarantees to members to facilitate obtaining Housing Loans

The Housing Loan Scheme, introduced in 1988 with the objective of facilitating the members to obtain housing loans from the participating lending institutions, viz., Housing Development and Finance Corporation Bank, State Mortgage and Investment Bank, Bank of Ceylon, People's Bank and Co-operative Rural Banks, continued in 2019. Under this scheme, during 2019, the EPF Department issued 10,022 certificates of guarantees to members against their EPF balances to the participating lending institutions for the approval of housing loans amounting to Rs. 5,097 million (Table II-22). Further, during 2019, nearly Rs. 3,164 million was deducted from relevant member accounts and remitted to the participating lending institutions in 2019 to settle the overdue loans during the year 2018.

Table II-22
Housing Loan Guarantee Facility

Year	Issued Certificates (No.)	Credit Approved (Rs. mn)	Amount Remitted to Lending Institutions (Rs. mn)
2009	10,383	2,680	1,552
2010	13,848	4,512	2,093
2011	20,041	6,355	1,896
2012	11,234	3,973	2,019
2013	16,268	6,914	2,178
2014	17,786	8,021	2,394
2015	13,132	5,489	2,522
2016	12,780	5,414	2,541
2017	10,998	4,946	2,485
2018	10,036	4,974	2,759
2019(a)	10,022	5,097	3,164

(a) Provisional

Source: EPF Department, Central Bank of Sri Lanka

(iii) Pre-Retirement Refund Scheme

In terms of the provisions in the Employees Provident Fund (Amendment) Act No. 02 of 2012, and the subsequent procedures passed by the Parliament, the

payment of 30 per cent EPF pre-retirement refund scheme, has been in operation since 01 July 2015. The scheme is in high demand by beneficiaries and since its inception, a sum of Rs. 88.3 billion has been refunded to over 155,000 beneficiaries by end 2019. During 2019, Rs.15.2 billion was released to 29,646 beneficiaries under this scheme.

(iv) EPF Mobile Service Programme

With a view of enhancing delivery of member services at their convenience and the enhancement of public awareness on EPF operations, EPF continued the conducting of mobile services in 2019. Accordingly, during the year, EPF Department conducted 16 mobile services and 02 major awareness programmes. Some of these mobile services were conducted in collaboration with the Department of Labour (DL), Department of Registration of Persons, Registrar General's Department, Police Department and the respective District/Divisional Secretariats. EPF Department also participated in mobile services organised by other government and non-government organisations/ministries upon the invitation of them to provide EPF related services and awareness to the participants. The mobile services offered almost all services a member could obtain by visiting EPF Department located in Colombo, in their own area or at their workplace. The services included issuing of EPF balance statements, amendment of EPF member details, clearing of dummy numbers, EPF account amendments, awareness for employers on E-media and direct debit system, re-registration of member details, promoting SMS & internet member services and 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 EPF Department using a mix of communication media such as e-mail, posters, leaflets, video clips and presentations. In this regard, prior to each mobile service programme, a special awareness programme was conducted for relevant employers, managers and other administrative staff members of respective employers with a view of enhancing the effectiveness of the mobile services.

(v) EPF Contribution through Electronic Media

The e-Return system, which facilitates the collection of EPF contributions and respective member details in electronic means, was introduced by EPF Department with the objective of improving its operational efficiency in a paperless operating environment. This system was operated on a voluntary basis until the respective enactment, i.e. EPF (Amendment) Act No. 02 of 2012, came into force. Accordingly,

submission of EPF contribution details through electronic media became mandatory for employers with more than 50 employees in their employment. In 2011, Licensed Commercial Banks (LCBs) joined this system as facilitators to collect EPF contributions via their own online portals, which made a remarkable improvement in employer participation and the speed of the member accounts updating process, while strengthening its administrative and monitoring functionalities. The e-Return system achieved its highest technological breakthrough in 2016 with the introduction of the online member information validating mechanism which brought 100 per cent process automation and real time updating of member accounts. Accordingly, eight LCBs facilitate EPF online payments while four of them provide online member information validation and real time member accounts updating facility for their customers.

In addition, actions were taken to make employers further aware regarding the e-Return submission procedure and its benefits for EPF stakeholders. Accordingly, participation of employers in the e-Return submission system increased from 8,540 to 9,267, covering approximately 79 per cent of the active member accounts and nearly 88 per cent of the total monthly EPF contribution by end 2019.

Further, with a view to introducing new methodologies for paying EPF, initiatives were taken to develop the EPF official website, enabling employers to submit their e>Returns through the website and to implement the Lanka Clear's Common Electronic Fund Transfer System, which enables employers to pay monthly contributions from any participating bank.

(vi) Re-registration of EPF Members

EPF Department, in collaboration with the DL, continued the special project to re-register its members to provide an efficient service to both members and employers, which was launched in 2010. Accordingly, actions were taken for the collection of member information as per the National Identity Card (NIC) data and re-registration of such members aligning to NIC data. The re-registration of members facilitates the identification of members with a Unique Identification (UID) Number and enables both EPF Department and the DL to establish a common Member Centric Database (MCD). Finally, this activity helps both EPF Department and the DL to provide services to its stakeholders productively through the improved quality of member information.

NIC details of around 1.98 million active EPF members (contributing members) had been

collected. Accordingly, 1.62 million UIDs have been assigned for 81 per cent of active member accounts, while the verification of remaining member details is in progress. A system has also been established to monitor the error-free update of NIC details of all new members whose member contributions are received for the first-time, on a monthly basis. Further, actions are in progress to sign a Memorandum of Understanding (MoU) with the Department for Registration of Persons (DRP) to strengthen the process of re-registration by obtaining the access to DRP database.

(vii) Other Services

The EPF Department strives for an efficient and effective delivery of services to its members. In today's fast paced environment members demand excellent service delivery. Thus, the Public Relations and Inquiries Counter of EPF Department met with a challenging task in 2019. In 2019, the number of member/employer visits to the Department is recorded as 156,898, while EPF Department had received 77,310 member inquiries through telephone calls and 8,713 member inquiries through e-mails. EPF Department also received 84,550 letters in 2019 from members, employers and other stakeholders.

The Department also receives a large number of member requests through letters and through the members visiting EPF Department, for amendment/correction of details in their member accounts. In 2019, EPF Department performed approximately 72,313 amendments in EPF Member Accounts. The Amendments performed in EPF member accounts can be mainly categorised into two components: error correction in Name/NIC details of an EPF member account and corrections of contributions credited to a member account. During the year 2019, EPF Department performed 67,083 Name/NIC amendments and 5,230 Account Amendments. Further, with the implementation of the Image Scanning Project, the facility for the performance of EPF member account amendments was extended to the Regional Offices of the Central Bank. Accordingly, during year, EPF Department attended to 12,944 EPF member account amendments referred from Regional Offices of the Bank.

(f) Other Functions

Furthermore, the EPF Department is in the process of reviewing and restructuring its investment strategy and framework under the Financial Sector Modernisation Project of the World Bank (WB) and the Government of Sri Lanka (GOSL). Furthermore, the WB is providing financial assistance for the implementation of a

comprehensive ICT solution for the EPF. In view of this, a Business Process Review (BPR) has been conducted with the technical assistance of the Asian Development Bank (ADB) under the Capital Market Development Programme GOSL and ADB.

9. FACILITIES MANAGEMENT

Facilities Management Department (FMD) continued the preliminary assessment works and preparation of tender documents with the assistance of the project consultant in 2019 for implementing the Head Office Building Retrofit Project where a major refurbishment of the building interior, plant and equipment is envisaged. Assessment of structural soundness of the building was completed during the period and the procurement process was initiated for refurbishment of sanitary facilities and retrofit of the electro mechanical equipment related to the water supply and fire-fighting systems. As a part of this project, the installation work was initiated for replacement of the standby generator control system, IP based CCTV system and refurbishment of the emergency staircase at the Head Office building. As a measure of strengthening the security of the Head Office building, fixed barriers and a security gate were installed at the main entry points.

During 2019, FMD took initiatives to upgrade the building facilities at Regional Offices (ROs) and Centre for Banking Studies (CBS) in Rajagiriya. FMD initiated a project to replace the existing passenger elevators at CBS and the RO, Anuradhapura. New projects were implemented for replacement of sewage pumping system at CBS, replacement of air conditioning equipment at the auditorium of CBS and upgrading the power supply system at the RO, Matale. Refurbishment of part of the hostel block at CBS was completed during 2019 in line with the initiative by CBS to provide in-house accommodation facilities for course participants. A project for carrying out structural repairs at Lloyd's Building, where EPF Department is located, was also initiated.

With the aim of catering to the requirements of the staff of the Central Bank who travel outstation on duty and for holidays, FMD initiated measures to upgrade the available holiday home facilities. Architectural designs of the proposed new holiday home facility in Anuradhapura were finalised in 2019. A structural audit was carried out with the assistance of a consultant to assess the soundness of the old holiday home buildings in Kataragama. Further, at the Bank House premises, improvements to the landscaping and building rectification work were carried out, while the procurement process was completed for installation of new standby generators to cater the emergency power requirements.

FMD undertook several administrative measures to streamline its facilities management activities in 2019. The online reservation system for holiday homes introduced for the benefit of the employees and pensioners was linked with

the payroll system to improve accuracy of the transactions and convenience of the users. FMD also initiated measures to introduce an online cab voucher system for the users of hired cabs for official transport. In order to meet the current vehicle parking requirement of the staff, FMD was able to provide additional parking facilities with the assistance of the Urban Development Authority (UDA). While attending to new projects for upgrading and expansions, FMD continued to maintain the critical services of the buildings, and provided necessary support services in transport and telecommunication aspects as part of its key responsibilities.

10. FINANCE

Finance Department (FD) undertakes the financial reporting function of the Central Bank in terms of International Accounting Standards /International Financial Reporting Standards and relevant provisions of the Monetary Law Act (MLA). Since 2002, International Financial Reporting Framework has been adopted in the preparation of financial statements of the Central Bank. Functions of FD include preparation of the financial statements of the Central Bank, preparation and monitoring of the annual budget of the Central Bank, effecting payments for internal and external parties of the Central Bank, disbursement of donor funds and repayment of foreign loans of the government, maintaining systems for internal reporting of financial transactions, managing the investment portfolios of 17 internal funds, maintaining the Fixed Assets Register for the Central Bank and maintaining the database of staff loans.

10.1 Preparation of the financial statements

- (a) **Monthly Balance Sheet:** As per the requirement of the MLA, No. 58 of 1949, the monthly Balance Sheets for December 2018 and January through November 2019 were prepared and published in the Government Gazette.
- (b) **Quarterly Reports:** The financial performance and financial position were reported to the Monetary Board quarterly.
- (c) **Annual Financial Statements:** Accounting systems and procedures for the preparation of accounts were updated to comply with relevant accounting standards and requirements on a continuous basis during 2019. Audited Financial Statements of the Central Bank for the year ending 31 December 2019 are presented at the beginning of Part II of the Annual Report.

10.2 Preparation of the Annual Budget

The annual income and expenditure budget and capital budget of the Central Bank for the year 2020 were prepared in line with action plans under the strategic plan of each department of the Central Bank using the "On-line Budget System". The approval of the Monetary Board for the budget 2020 of the Central Bank was obtained in December 2019 and the budget was made available to the departments on

the first working day of 2020. Meanwhile, quarterly budgetary performance statements for the year 2019 were submitted to the Monetary Board in the interest of effective monitoring of budgetary control.

10.3 Effecting Payments for Internal and External Parties

- (a) All internal payments for employee remunerations, staff loans, operational expenses, etc., were executed in 2019 within the time targets.
- (b) 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 2019, a total of 6,198 payments were effected, of which 5,929 were to local suppliers and 269 to foreign suppliers.
- (c) Nearly 3,027 disbursements amounting to Rs 1,231.9 billion to the General Treasury and relevant projects, and 821 installments amounting to Rs 1,411.7 billion on repayment of foreign loans were made during the year 2019. In addition, 4 banking arrangement agreements were signed with two foreign banks for various projects.

10.4 Management of internal funds

- (a) A separate unit, which was established under FD and commenced operations in March 2016 to centrally manage the investments of the Central Bank's internal funds (excluding EPF) as per the decision taken by the Monetary Board, managed 17 internal funds consisting of 8 superannuation funds of the Central Bank staff and pensioners and 4 other funds administered by FD, Deposit Insurance and Liquidity Support Fund administered by Resolution and Enforcement Department, 3 funds administered by Staff Services Management Department and 13 project funds administered by Regional Development Department. All funds are invested under a common Investment Policy by FD and the owner departments function as the administrators of the respective funds. The fund management process is governed by the Monetary Board approved Investment Policy Statement/ Guidelines (IPS/IPG) and Strategic Asset Allocation Guidelines. Further, this also includes an independently operating front office and a back office and decisions taken at the Internal Investment Oversight Committee (IIOC) chaired by the Deputy Governor overseeing Financial Sector Regulation and Supervision cluster, which met 12 times during 2019 to advise and monitor the investments of funds. Performance of these Investments were reported monthly to the Monetary Board for information purposes.
- (b) The funds are invested mainly in government securities, fixed deposits, high rated corporate debentures and short term reverse repos. The audited financial Statements of the six superannuation funds for 2018 were submitted to the Monetary Board as per the rules of those funds. At the end of 2019, the total fund base had increased to Rs. 130.17 billion.

Table II-23
Performance of Fund Management – 2019 (Rs. bn.)

Department	Portfolio value as at 31 Dec 2019 (invested values)	Portfolio value as at 31 Dec 2018 (invested values)
Finance	59.96	55.16
Resolution and Enforcement	64.06	53.96
Regional Development	6.07	3.64
Staff Services Management	0.08	0.08
Total	130.17	112.84

10.5 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, change of locations, revaluations, depreciation and disposals were recorded in this register during 2019. The register was updated with 1,559 items procured and 338 disposals in 2019.

10.6 Maintaining the database of staff loans

FD continuously updated the loan data base of the Central Bank staff with the assistance of Information Technology Department to facilitate the loan recovery record process and to supply information to employees and to the management. A total of 2,055 loans amounting to Rs 2.17 billion were granted to the employees during 2019.

10.7 Other Operations - Procurement Process

According to the Rules of the Central Bank, The representation of FD is required in all technical evaluation committees and tender boards for procurement of goods and services and the Boards of Survey of the Central Bank for disposal of fixed assets. During 2019, officers of FD represented 192 tender boards and 61 technical evaluation committees related to procurements, one Board of Survey and one Vehicle Disposal Committee related to disposal of fixed assets.

11. FINANCIAL INTELLIGENCE UNIT

Financial Intelligence Unit (FIU) has been continuously demonstrating its pursuit to achieve the objective of establishing an effective Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) framework in Sri Lanka, in close cooperation with national and international authorities since its inception. The FIU, which was established in 2006 under the Financial Transactions Reporting Act, No. 6 of 2006 (FTRA), functions as an independent statutory authority and acts as the lead AML/CFT regulator of the country. In addition, FIU has provided a comprehensive coverage for the country's financial and non-financial establishments to comply with the AML/CFT regulations issued by Financial Action Task Force (FATF) and supervised by FATF jointly with Asia Pacific Group on Money Laundering (APG). The key functions of FIU include collection and receipt of information on financial transactions for the purpose of detecting possible links to Money Laundering

(ML), Terrorist Financing (TF), Proliferation Financing (PF) and other related unlawful activities defined in the FTRA, analysis of suspicious financial transactions relating to the above unlawful activities and dissemination of information of such analyses to relevant law enforcement authorities for investigation. The country's AML/CFT regime also consists of two other major pieces of legislation, i.e., the Prevention of Money Laundering Act, No. 5 of 2006 (PMLA) and Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005 (CSTFA), where FIU is involved in implementing their provisions effectively.

11.1 Receipt, Analysis and Dissemination of Information

In terms of the mandatory requirements, Reporting Institutions (RIs) continued to submit information on financial transactions, including suspicious transactions, from RIs through a web-based system, "LankaFin", especially designed to assist in reporting on ML and TF. Licensed Commercial Banks (LCBs), Licensed Specialised Banks (LSBs), Licensed Finance Companies (LFCs), Insurance Companies, Stock Brokers (SBs) and Money or Value Transfer Service (MVTS) providers continued to report to FIU on Cash Transactions (CTRs) and Electronic Funds Transfers (EFTs) (both local and foreign) of Rs. 1.0 million and above each, or its equivalent in foreign currencies. Accordingly, during 2019, RIs have reported 4.9 million (provisional) CTRs and 6.6 million (provisional) EFTs. In addition, Suspicious Transactions Reports (STRs) were reported to FIU by the RIs in terms of Section 7 of the FTRA. After operational and strategic analyses, STRs were referred to the Law Enforcement Authorities (LEAs) and regulatory authorities, for further investigation. 2,806 STRs were reported to FIU during 2019 and FIU disseminated a total of 1,478 STRs to the LEAs and regulatory authorities for further investigations.

11.2 Regulation of Reporting Institutions

With a view to strengthening the AML/CFT supervision process and institutional compliance, FIU issues Regulations, rules and guidelines to Financial Institutions (FIs) as well as Designated Non Finance Businesses and Professions (DNFBPs). Accordingly, FIU issued several rules and guidelines during the year 2019 on suspicious transactions reporting, conducting ongoing customer due diligence on a risk-based approach, enhanced due diligence, identification of beneficial ownership and identification of Politically Exposed Persons (PEPs). FIU continuously took measures to enhance compliance of RIs by effective monitoring and enforcement, onsite and offsite surveillance, raising awareness through seminars and conducting compliance review meetings on AML/CFT to RIs. In line with that, FIU conducted 32 and 36 risk-based onsite examinations to FIs and DNFBPs, respectively, to assess such institutions' compliance with the FTRA, Customer Due Diligence (CDD) Rules, and other regulations and rules issued. Further, FIU took regulatory actions, such as imposing sanctions, issuing warning letters, and initiated follow up discussions with FIs and DNFBPs which failed to comply with the AML/CFT requirements.

11.3 Domestic and International Cooperation

(a) Memoranda of Understanding

In 2019, FIU entered into two Memoranda of Understanding (MoUs) with Financial Intelligence Unit of Maldives and Financial Analysis and Supervision Unit of Papua New Guinea, increasing the total number of MoUs with foreign counterparties to 39. Further, with a view to exchanging more information, three MoUs were signed with domestic agencies, i.e., the National Gem and Jewellery Authority, the Condominium Management Authority, and INTERPOL National Central Bureau for Sri Lanka during the year, increasing the total number of MoUs signed with domestic agencies up to 11.

(b) Egmont Group

FIU obtained assistance from members of the Egmont Group, the Association of FIUs consisting of 164 member FIUs globally, in order to carry out investigations and collaborate with member countries to gather intelligence on their investigations. FIU – Sri Lanka responded to 40 requests from counterpart FIUs and it also made 58 requests from counterpart FIUs to share information relating to on-going investigations during 2019. Further, FIU officers participated in the Egmont Group of Financial Intelligence Units' meetings held in Jakarta, Indonesia in January 2019 and the Egmont Plenary meeting held in Hague, Netherlands where Mr. D M Rupasinghe, Director, FIU - Sri Lanka was appointed as the Asia & Pacific Regional representative of the Egmont Group. The Asia & Pacific Regional Group of the Egmont Group comprises 28 FIUs in the region. Every two years, two senior officers from FIUs in the region are appointed to represent the Asia & Pacific region in the Egmont Group.

(c) Asia Pacific Group on Money Laundering (APG)

A team of officials from Sri Lanka representing key institutions participated for the 22nd APG Annual Meeting and Technical Assistance forum held during 18-23 August, 2019 in Canberra, Australia. During the meeting, the 4th follow up report of Sri Lanka was discussed. After constructive debate, the membership granted approval to upgrade the compliance rating of 4 recommendations previously rated non-compliant or partially compliant. Accordingly, out of 40 FATF recommendations, Sri Lanka's rating stood as, 7 compliant, 24 largely compliant, 7 partially compliant and 2 non-compliant by end 2019.

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

FIU successfully conducted the BIMSTEC SG-CFT Workshop on the theme of "Experience in Countering Terrorism and Terrorist Financing through Case Studies" in Colombo from 27 to 29 November, 2019 with the participation of 40 delegates from BIMSTEC member countries. The workshop provided an opportunity to

share Sri Lanka's experience in Countering Terrorism and Terrorist Financing with other members of the BIMSTEC. Further, FIU officials participated in the 11th meeting of the BIMSTEC Sub-Group on Anti-Money Laundering and Combating the Financing of Terrorism held in Thailand in September 2019.

(e) Knowledge Sharing with Other FIUs

FIU hosted a team of officials from Financial Intelligence Unit of Maldives for a four day study visit during 2-5 December, 2019. The study visit mainly focused on sharing experiences on AML/CFT risk based supervision, analysis of suspicious transactions, and sharing Sri Lankan experiences on Mutual Evaluation and National Risk Assessment on ML/TF. FIU Sri Lanka intends to continue this initiative with other FIUs in the region in order to further strengthen the cooperation among FIUs.

11.4 Institutional Capacity Building and Awareness Programmes

Continuing the efforts to enhance the awareness on detecting, analysing and reporting of ML and TF related transactions, 55 awareness/training programmes were conducted during the year, accommodating 3,688 participants. The 6th and 7th Technical Assistance Missions of the IMF were conducted by experts from the IMF in March and October 2019, respectively. The Missions continued to provide technical assistance to enhance AML/CFT regime in Sri Lanka, in the areas of risk-based supervision, FIU capacity developments and legislative amendments. Further, the Resident Advisor from the US Department of Treasury also continued to provide technical assistance in the areas of FIU Operational Effectiveness, Financial Sector Supervision and AML/CFT Case Development and Asset Management. With the generous sponsorship provided by the Asian Development Bank (ADB), FIU was able to get technical assistance from an expert from Finland FIU, on a two week consultation mission on configuration of goAML application.

11.5 Review by International Cooperation Review Group

The 2nd Mutual Evaluation (ME) on Sri Lanka was conducted during 2014/15 by the APG with the intention of assessing Sri Lanka's AML/CFT compliance on the international AML/CFT standards. The Mutual Evaluation Report (MER) adopted in September 2015 recommended a series of actions to be implemented by Sri Lanka under APG's 'expedite enhanced follow up' process. In October 2016, the FATF informed that Sri Lanka would be subject to a review of the International Cooperation Review Group (ICRG) of the FATF to assess the progress of AML/CFT effectiveness. After several discussions and progress reports, the FATF informed that Sri Lanka had not made sufficient progress in 4 areas, namely International Cooperation, Supervision, Legal Persons and Arrangements and Targeted Financial Sanctions on Proliferations (North Korea & Iran). As a result, the FATF at its Plenary held at

Buenos Aires, Argentina in October 2017, listed Sri Lanka as a jurisdiction with strategic AML/CFT deficiencies in the FATF's Compliance Document which is more commonly identified as the "Grey List". Upon listing, a time bound action plan to address the strategic deficiencies identified was provided to Sri Lanka.

Since the listing in November, 2017, Sri Lankan authorities have taken effective and tangible steps to implement the FATF Action Plan, including passing the Trusts (Amendment) Act, No. 6 of 2018, the Mutual Assistance in Criminal Matters (Amendment) Act, No. 24 of 2018, issuing regulations/directives/guidelines on implementing United Nation's Security Council Resolutions on Democratic People's Republic of Korea and Iran, extending the AML/CFT coverage to DNFBPs by issuing CDD Rules, implementing risk based supervision, enforcing supervisory actions and conducting awareness programmes for financial institutions and DNFBPs.

The FATF assessed Sri Lanka's progress in implementing the Action Plan through the Asia Pacific Joint Group (AP/JG). In February 2019, FATF made the initial determination that Sri Lanka has completed its action plan substantially. Subsequently, an on-site assessment was conducted by the AP/JG to verify implementation of the FATF Action Plan, from 16 to 17 September, 2019. The AP/JG representatives had face-to-face meetings with all relevant stakeholders, including the private sector and the Minister of Finance to ascertain Sri Lanka's political and institutional commitment towards the implementation of AML/CFT framework in a suitable manner. The recommendations made by the review team on Sri Lanka's progress were discussed at the FATF Plenary held in October 2019 and all members endorsed the decision to delist Sri Lanka from the Grey List. Accordingly, on 18 October 2019, the FATF announced that Sri Lanka is no longer subject to the FATF monitoring process. The delisting by the FATF is expected to have a positive economic and financial impact on Sri Lanka.

12. FOREIGN EXCHANGE

Department of Foreign Exchange (DFE) was established effective from 20 November 2017 under Section 2 of the Foreign Exchange Act No. 12 of 2017 (FEA), for the purpose of implementing the provisions of the FEA to carry out the responsibility for promoting and regulating foreign exchange transactions vested in the Central Bank as the agent of the Government of Sri Lanka (GOSL).

The main duties of DFE include appointing Authorised Dealers (ADs), Restricted Dealers (RDs) and other persons to deal in foreign exchange as prescribed by the Hon. Minister of Finance in terms of the FEA, implementing provisions of the FEA by formulating Regulations and Orders and issuing of Directions for carrying out foreign exchange activities and transactions, granting permissions for specific purposes not covered by the general permissions given under the FEA, conducting policy oriented research to determine the effectiveness of existing

policies and to identify requirements for new policies in line with the developments in the foreign exchange market, monitoring compliance with the Regulations, Orders and Directions issued under the FEA by respective authorised persons, conducting investigations on non-compliances with the provisions of the FEA, providing clarifications for inquiries on foreign exchange transactions and preparing relevant sections pertaining to foreign exchange regulations and policies for the reports and publications of the Central Bank.

Accordingly, the Department is functioning under three divisions namely, Policy and Research Division, Capital Transactions Division, and Statistics, and Monitoring and Investigation Division. A summary of the main functions and activities performed by DFE during 2019 is given below.

12.1 Reviewing the FEA and the Regulations, Directions and Orders Issued Thereunder in 2017, Facilitating the Issuance of New Regulations, Orders and Directions.

(a) Facilitating issuance of Regulations

During the year, DFE facilitated the issuance of three regulations by Hon. Minister of Finance under the FEA. These three Gazette Notifications are given in Part III of this Report and a summary is given below.

- **Gazette (Extraordinary) Notification No. 2112/17 dated 27.02.2019:** Permitted the GOSL to issue International Sovereign Bonds in 2019 and to make any payment in relation to such issuance in respect of non-resident investors.
- **Gazette (Extraordinary) Notification No. 2112/25 dated 28.02.2019:** Permitted the GOSL and State Owned Enterprises (SOEs) of the GOSL (with over 50 per cent share capital owned by the government) to borrow from outside Sri Lanka in designated foreign currency, subject to the approval of the relevant line Ministry and any other relevant authority, without the loan proceeds being routed through the Inward Investment Account of the lender.
- **Gazette (Extraordinary) Notification No. 2145/49 dated 17.10.2019:** Extended the time period for exporters of goods to repatriate export proceeds to Sri Lanka, from 120 to 180 days from the date of such exportation, mainly considering the exporter concerns and enabling them to be more competitive with other regional trading partners.

(b) Issuance of Directions to ADs

At the beginning of year, DFE issued Directions No. 01 of 2019 to ADs informing them of the withdrawal of the Directions No. 01 of 2018, dated 10 October 2018 on restricting the release of foreign exchange to importers of goods which involves conversion of Sri Lanka Rupees for making payments for import of non-essential consumer goods under the advance payment (cash-in-advance) terms. This Direction is given in Part III of this Report.

12.2 Granting of Permission for Foreign Exchange Transactions

(a) Special Permissions were granted under the FEA as illustrated in Table II-24 below.

Table II-24
Special Permissions granted under the FEA

Purpose	No. of approvals	Value in USD mn
GOSL to issue Sovereign guarantees	1	175.00
Resident Companies to invest abroad	3	7.87
Resident Companies to issue bank/corporate guarantees in favour of residents outside Sri Lanka	6	13.05
ADs to open and maintain Special Foreign Currency Accounts	20	Not applicable
ADs to process certain miscellaneous foreign exchange transactions that are not covered from the general permissions granted under FEA	305	Not applicable

(b) Issuance of permits for RDs to engage in money changing business and cessation/ discontinuation of such operations

- 10 new money changing permits were issued during 2019 to limited liability companies (i.e., money changers) of which 08 permits were issued only for buying and exchanging foreign currency and 02 permits were issued for buying, selling and exchanging foreign currency.
- In addition, approval was granted to 03 existing money changers to open 03 new branches.
- Permits of 03 money changers were not renewed during 2019 due to their failure to achieve the approved criteria for the renewal of permits. Further, 02 tourist hotels totally ceased their operations during 2019.
- The details of permits that have been issued to each RD to engage in money changing business are illustrated in Table II-25 below.

Table II-25
RDs who are permitted to engage in money changing business as at 31.12.2019

Category of Institution	Permitted business	No. of permits issued
Limited Liability Companies who are solely engaged in the money changing business (money changers)	Buying and exchanging foreign currency	65*
	Buying, selling and exchanging foreign currency	
Licensed Finance Companies (LFCs)	Buying, selling and exchanging foreign currency	09
Tourist Hotels	Buying foreign currency	03
Total		77

* Permits were issued to 65 companies which include 76 money changing outlets/branches. Out of those 76 outlets, 64 were permitted to buy and exchange foreign currency while remaining 12 were permitted to buy, sell and exchange foreign currency.

Accordingly, as at 31 December 2019, 26 ADs and 79 RDs (including MMBL Money Transfer (Pvt) Ltd. and Sri Lanka Export Credit Insurance Corporation) were in operation, and the list of ADs (i.e. Licensed Commercial Banks (LCBs) who are authorised to deal in foreign exchange for permitted transactions and Licensed Specialised Banks (LSBs) who are permitted to deal in foreign exchange for the purposes specified in the respective authorisation) and RDs is in Annex II-2 and Annex II-3, respectively.

In addition to the above, 65 money changers and 03 tourist hotels were granted money changing permits for the year 2020 in December 2019. Validity of the existing permits issued to LFCs will be expire on 31 January 2020.

(c) Transfer of Migrants' funds

ADs were permitted to open 1,353 CTAs during the year for the purpose of releasing migration allowances to Sri Lankan emigrants and to facilitate outward remittances of inherited funds to non-nationals.

12.3 Issuing Clearance Letters to Resident Investors

DFE has issued 355 clearance letters during the year to resident investors (compared to 429 letters in 2018) confirming that there are no pending investigations under the FEA against such investors enabling them to make outward investments as required by the Regulations issued by the Hon. Minister of Finance.

12.4 Monitoring and Investigations of Foreign Exchange Transactions

(a) On-site Inspections

22 on-site investigations were carried out in order to ascertain the status of compliance of RDs in accordance with the terms and conditions stipulated in the respective permits issued to them.

(b) Investigations

(i) 34 investigations were initiated in respect of ADs, RDs (in addition to aforesaid on-site investigations) and other persons with regard to non-compliances under the Regulations, Directions and Orders issued under the FEA.

(ii) Of these, 28 investigations were concluded during the year taking appropriate actions upon following the investigation procedure stipulated in the FEA.

(c) Additionally, law enforcement authorities were assisted in litigation and juridical proceedings by providing expert evidences/ testimonies by the DFE in respect of matters pertaining to the provisions of the FEA.

12.5 Initiating a Foreign Exchange Transactions Monitoring System

Further, initiatives were taken during 2019 in collaboration with Economic Research Department of the Central Bank to implement a comprehensive cross border and foreign currency transactions monitoring system (i.e., International Transactions Reporting System), in order to collect data from ADs. This proposed mechanism is expected to capture all data on foreign exchange sales and purchases and inflows to and outflows from the domestic foreign exchange market thereby enabling continuous monitoring of the foreign exchange operations.

12.6 Enhancing Awareness on Foreign Exchange Regulations

(a) Eight awareness programmes on prevailing foreign exchange regulations were conducted for ADs in collaboration with Centre for Banking Studies of the Central Bank and the Institute of Bankers of Sri Lanka. Main purpose of such awareness programmes was to enhance the knowledge and build capacities of the staff of LCBs and LSBs on existing regulations enabling them to be competent to effectively facilitate foreign exchange operations and transactions.

(b) Five seminars were conducted outside the Western Province, in collaboration with Regional Office Management Department of the Central Bank to bankers, money changers and other interested parties with a view to enhancing the knowledge on the provisions of the FEA and existing foreign exchange regulations.

(c) Two common policy forums were conducted with the participation of key officials from stakeholder institutions (i.e., Trade and Investment Policy Department- Ministry of Finance, Sri Lanka Customs, Department of Immigration and Emigration, Import and Export Control Department, Inland Revenue Department, Department of Commerce, Board of Investment of Sri Lanka, Colombo Stock Exchange and Securities Exchange Commission), with a view to supporting consistent and coherent decision making on inter-connected policy areas while identifying any gaps in relation to foreign exchange transactions of the country in accordance with the enactment of the FEA.

(d) The official website of DFE (www.dfe.lk) was duly updated to enhance public awareness on the FEA regulations, and DFE continued to provide clarifications for inquiries on foreign exchange transactions through e-mails, telephone calls and visits to the Department.

Annex II-2

List of Authorised Dealers (ADs) as at 31.12.2019

Licensed Commercial Banks	
1	Amana Bank PLC
2	Axis Bank Ltd*
3	Bank of Ceylon
4	Bank of China Ltd

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

* Axis Bank Ltd. and ICICI Bank Ltd. are currently not permitted to carry on banking business in Sri Lanka, including accepting deposits from the general public as licenses issued to them are to be cancelled once the winding-up operations are completed in terms of the provisions of the Banking Act.

Annex II-3

List of Restricted Dealers (RDs) as at 31.12.2019

RDs permitted to buy and exchange foreign currency	
Money Changers	
1	A.O.Lakshmi Jewels (Pvt) Ltd
2	Abdeen Money Changers (Pvt) Ltd
3	Abilash Money Exchange (Pvt) Ltd
4	Ariyawansa Enterprises (Pvt) Ltd
5	Aruna Forexc (Pvt) Ltd
6	Asian Money Exchange (Pvt) Ltd
7	Brescia Grameen (Pvt) Ltd
8	Bullion Money Exchange (Pvt) Ltd
9	Capital Exchange (Pvt) Ltd
10	Carlo International (Pvt) Ltd
11	Central Money Exchange (Pvt) Ltd
12	Colombo Money Exchange (Pvt) Ltd - Colombo 01
13	Colombo Money Exchange (Pvt) Ltd – Colombo 06
14	Dadigama Group (Pvt) Ltd

15	Data Exchange International (Pvt) Ltd
16	Daya Authorized Money Changer (Pvt) Ltd
17	Delta Sarath Holdings (Pvt) Ltd
18	Galle Money Exchange (Pvt) Ltd - Galle
19	Galle Money Exchange (Pvt) Ltd – Galle Fort
20	George Michael Holdings (Pvt) Ltd
21	Gexon Exchange (Pvt) Ltd
22	Global Trust Money Exchange (Pvt) Ltd
23	Global Village Exchange (Pvt) Ltd
24	Golden Money Changers (Pvt) Ltd
25	Haifa Travels and Tours (Pvt) Ltd
26	International Exchange (Pvt) Ltd
27	Jayes Investments Ltd
28	Jewel Lanka Money Exchange (Pvt) Ltd
29	Jeya Forex Exchange (Pvt) Ltd
30	Kamal Enterprises (Pvt) Ltd
31	Keyser Exchange (Pvt) Ltd
32	Kudamadu Money Exchange (Pvt) Ltd
33	M.P. Money Changer (Pvt) Ltd
34	Maruthi Money Exchange (Pvt) Ltd – Jaffna
35	Mayurie Money Changers (Pvt) Ltd
36	Midna Mini Market (Pvt) Ltd
37	Milano Money Exchange (Pvt) Ltd
38	Narmatha Gold Centre (Pvt) Ltd - Jaffna
39	Narmatha Gold Centre (Pvt) Ltd - Kilinochchi
40	New Natasha (Pvt) Ltd
41	New Regal's Money Changer (Pvt) Ltd
42	Pearl Exci (Pvt) Ltd
43	Rafeek's Gems (Pvt) Ltd
44	Rimha Jewellery (Pvt) Ltd
45	Rivindu Enterprises (Pvt) Ltd
46	Royal Money Exchange (Pvt) Ltd – Colombo 01
47	Royal Money Exchange (Pvt) Ltd – Colombo 06
48	Royal Money Mart (Pvt) Ltd - Aluthgama
49	Royal Money Mart (Pvt) Ltd – Colombo 01
50	Salaka Trust Investment (Pvt) Ltd
51	Sharanga Money Exchange (Pvt) Ltd
52	Shifaz Money Exchange (Pvt) Ltd
53	Sornam Forex (Pvt) Ltd
54	S S D D Money Exchanging (Pvt) Ltd
55	Swiss Money Exchange (Pvt) Ltd – Colombo 01
56	Swiss Money Exchange (Pvt) Ltd – Colombo 06
57	Thamasha Forex (Pvt) Ltd
58	Thomas Cook Lanka (Pvt) Ltd – Colombo 02
59	Thomas Cook Lanka (Pvt) Ltd – Colombo 03
60	Thomas Cook Lanka (Pvt) Ltd – Kandy
61	Unic Forex (Pvt) Ltd
62	Vasanthas Intl. Money Exchange (Pvt) Ltd
63	Western Money Exchange (Pvt) Ltd
64	Windsor Money Exchange (Pvt) Ltd

RDs permitted to buy, sell and exchange foreign currency	
Money Changers	
65	Arrujina Jewellery (Pvt) Ltd
66	Crown Money Exchange (Pvt) Ltd
67	City Exchange (Pvt) Ltd
68	Devi Forex (Pvt) Ltd
69	Maruthi Money Exchange (Pvt Ltd – Colombo 06
70	Mercantile Merchant Bank Ltd
71	Metro Forex (Pvt) Ltd
72	Prasanna Money Exchange (Pvt) Ltd – Colombo 01
73	Prasanna Money Exchange (Pvt) Ltd – Colombo 06
74	Pushpa Money Changer (Pvt) Ltd
75	Ravi Forexae (Pvt) Ltd
76	Thomas Cook Lanka (Pvt) Ltd – Bandaranaike International Airport
Licensed Finance Companies	
77	Asia Asset Finance PLC
78	Bimpuh Finance PLC
79	Citizens Development Business Finance PLC
80	Lanka Credit and Business Finance Ltd
81	LOLC Finance PLC
82	L B Finance PLC
83	Senkadagala Finance PLC
84	Sinhaputhra Finance PLC
85	Singer Finance (Lanka) PLC
RDs permitted to buy foreign currency	
Tourist Hotels	
86	Pearl City Hotel
87	Shangri-La Hotel Colombo
88	Shangri-La's Hambantota Resort & Spa
Other Entities	
89	MMBL Money Transfer (Pvt) Ltd.
90	Sri Lanka Export Credit Insurance Corporation

13. HUMAN RESOURCES

The main objective of Human Resources Department (HRD) is to develop human resources management policies and adopt the best practices to enable the Central Bank to attract and retain the best talents by ensuring the realisation of the potential of the individuals and adding value to the delivery of services. In line with the above, HRD carried out various activities during the year 2019 to achieve its strategic objective of ensuring the availability of a highly productive, motivated and contented team of employees in the Central Bank, who contribute towards the achievement of overall objectives of the Central Bank amidst emerging challenges. In achieving its strategic objective, HRD continued to carry out performance evaluation, job rotation, succession planning, granting promotions, conducting a psychometric test for new recruits, conducting mentoring

and coaching sessions for existing staff and new recruits, conducting employee engagement survey and maintaining industrial harmony to create a conducive environment to maintain better employer-employee relations in line with the human resources needs identified in the Strategic Plan of the Central Bank.

13.1 Human Resources Structure

At end 2019, the total number of staff of the Central Bank was 1,366 consisting of 650 Staff Class (SC) officers, 561 Management Assistant Class (MAC) officers and 155 Office Assistant Class (OAC) employees which represented 48 per cent, 41 per cent and 11 per cent of the total number of staff of the Central Bank, respectively. The total staff of the Central Bank consisted of 754 male and 612 female officers accounting for 55 per cent and 45 per cent, respectively. The average age of an employee of the Central Bank was 39 years at end 2019.

The age and gender distribution of the staff as at end 2019 are shown in Chart II-5.

13.2 Educational and Professional Qualifications of the Employees

As indicated in the Table II-26, the Central Bank owns a diverse and talented pool of human resources with a high level of academic and professional qualifications.

13.3 Human Resources Management

(a) Recruitments

HRD carried out the General Recruitment process to recruit staff to various employee categories of the Central Bank while Lateral Recruitment was carried out to fulfill the specific skill requirements of the Central Bank. In 2019, Maintenance and Project Engineers in the fields of Civil and Electrical, Technical Officers in the fields of Civil/ Electrical and Mechanical, Technicians (Telephone cum Audiovisual), a Curator and a Chief Librarian were recruited under the Lateral Recruitment process. Further, Assistant Security Officers (Trainee) were recruited and actions were taken to call applications for the posts of Junior Personal Assistants and Management Trainees under the General Recruitment process.

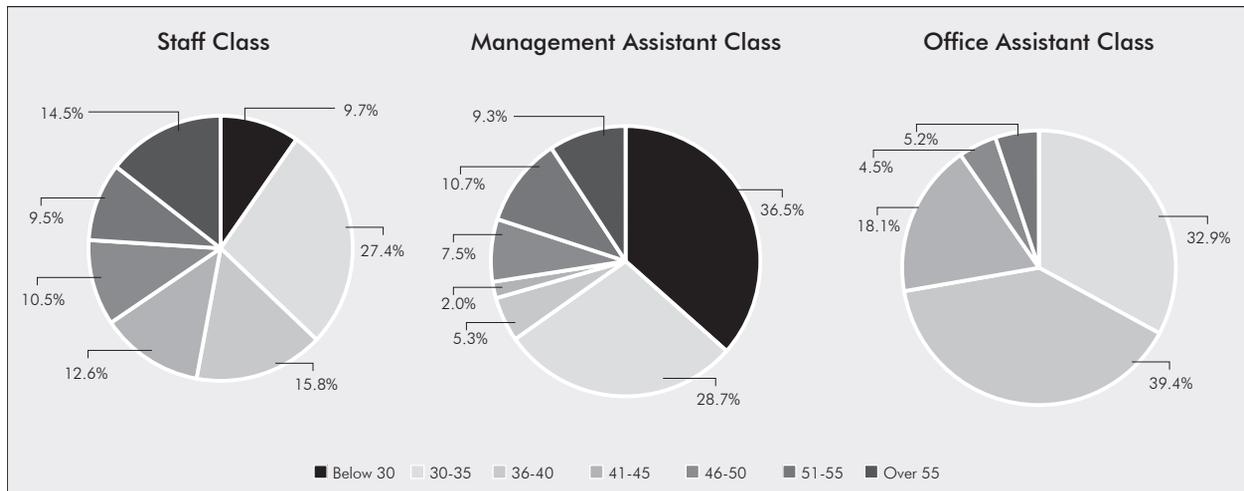
(b) Performance Management

Performance Management system of the Central Bank includes preparation and review of job descriptions of employees, setting goals for individual employees, monitoring of employee performance and evaluation of the same.

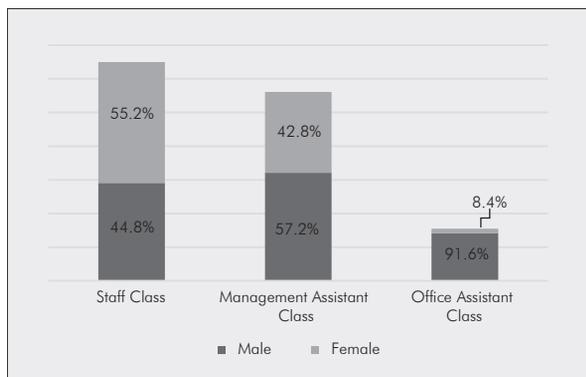
Under the performance evaluation process, the level of performance of each employee is evaluated by assigning ratings for the performance achieved based

Chart II-5
Composition of the Staff as at 31.12.2019

(a) Class-wise Age Distribution



(b) Class-wise Gender Distribution



on the generic and technical competencies as specified in the evaluation criteria. The final performance marks of employees are used as one of the requirements in the promotion criteria.

HRD carried out the employee performance evaluation process as planned during the year. Accordingly,

the performance evaluation marks for the year 2018 were completed and communicated to all the Heads of Departments and the relevant officers. Further, HRD reviewed the mid-year performance review process of the departments. It provided an opportunity for all the relevant parties to understand the level of performance of the staff members during the first half of the year.

(c) Promotions

In line with the applicable promotion criteria, HRD granted promotions for the employees ensuring their career progression. Accordingly, a total of 103 staff members were granted their class and grade promotions in 2019. On this basis, two Heads of Departments were promoted as Assistant Governors and four Heads of Departments were promoted as Senior Heads of Departments. Further, seven Deputy Heads of Departments were promoted as Additional Heads of Departments and 82 officers were granted their grade promotions while eight officers were promoted to SC from MAC.

Table II-26
Educational Qualifications/Professional Memberships of Employees of the Central Bank as at 31.12.2019

Employee Class	Educational Qualifications/Professional Membership Holders								Total
	PhD Holders	Master's Degree, First Degree & Professional Memberships	Master's Degree & First Degree	First Degree & Professional Memberships	Master's Degree & Professional Memberships	Master's Degree only	First Degree only	Professional Memberships only	
SC	20	125	158	69	29	2	143	15	561
MAC	-	12	27	16	17	23	66	37	198
OAC	-	-	-	-	-	-	7	-	7
Total	20	137	185	85	46	25	216	52	766

(d) Job Rotation

With a view of providing opportunities for employees to groom themselves in several areas of experiences of the operations of the Central Bank, HRD took actions to transfer 15 SC officers, 54 MAC officers and 19 OAC employees with effect from 14 January 2019 under the Annual Job Rotation Policy of the Central Bank.

(e) Industrial Harmony

HRD continued to perform its role as the facilitator for maintaining a closer dialogue between the Management and Trade Unions. Accordingly, eight meetings were arranged in 2019, giving the opportunity to the Management and Trade Unions to discuss and resolve some of the issues relating to remuneration, promotions, training, welfare, recruitment and general administration of the Bank.

13.4 Meetings attended by the Governor abroad during the year 2019

- (a) Meetings with Senior Management of the IMF and US Government Officials in Washington, D.C. during 14 to 15 January 2019.
- (b) IMF/World Bank Spring Meetings 2019 in Washington, D.C. and Investor Meetings in New York, Boston and Los Angeles during 09 to 19 April 2019.
- (c) The Official Opening of Listing of the Government of Sri Lanka International Sovereign Bonds in London during 09 to 10 May 2019.
- (d) "Invest Sri Lanka Investor Forum" held in Singapore on 21 May 2019.
- (e) Investor Meetings held in Tokyo, Japan during 21 to 25 July 2019.
- (f) IMF/World Bank Annual Meetings held in Washington, D.C. during 17 to 21 October 2019.
- (g) The 55th SEACEN Governors' Conference/High Level Seminar and the 39th Meeting of the SEACEN Board of Governors (BOG) in Singapore during 13 to 14 November 2019.
- (h) The event of "Sri Lanka Corporate Access Days" in Singapore during 24 to 25 November 2019.

13.5 Promotions/Appointments

- (a) Promotions and appointments to Staff Class Special Grade were made as follows.
 - (i) Mr. A A M Thassim and Mr. C N Wijayasekera were appointed as Assistant Governors with effect from 19 December 2019.
 - (ii) Mrs. K Dassanayake, Mr. A M N Gunawardana, Mr. D M Rupasinghe and Mr. A R K Wijesekera were appointed as Senior Heads of Department with effect from 19 December 2019.
- (b) Mr. R M Jayawardena, Additional Director of Facilities Management Department, was appointed as Acting Director of Facilities Management Department with effect from 04 January 2019.
- (c) Mr. A G U Thilakarathna, Additional Superintendent of Currency Department, was appointed as Acting Superintendent of Currency Department with effect from 11 January 2019 and subsequently he was appointed as the Acting Superintendent of Employees' Provident Fund Department with effect from 01 March 2019.
- (d) Mr. K M Abeykoon, Director of Human Resources Department, was appointed as the Director of Centre for Banking Studies with effect from 01 March 2019.
- (e) Mrs. K N N M Bandara, Superintendent of Employees' Provident Fund Department, was appointed as the Director of Human Resources Department with effect from 01 March 2019.
- (f) Mrs. H P T Wijesuriya, Director of Centre for Banking Studies, was appointed as the Superintendent of Currency Department with effect from 01 March 2019.
- (g) Mrs. R D T Gunasekara, Additional Superintendent of Public Debt Department, was appointed as the Additional Director of Department of Supervision of Non-Bank of Financial Institutions with effect from 01 March 2019, and subsequently she was appointed as the Additional Director of Communications Department with effect from 11 March 2019. Thereafter, she was appointed as the Acting Director of Communications Department with effect from 22 July 2019.
- (h) Miss. S C Gunadheera, Acting Additional Superintendent of Employees' Provident Fund Department, was appointed as the Acting Additional Secretary of Secretariat Department with effect from 01 March 2019 and subsequently she was appointed as Acting Additional Superintendent of Employees' Provident Fund Department with effect from 11 March 2019.
- (i) Mr. W R M K Fernando, Acting Additional Director of Resolution and Enforcement Department, was appointed as the Acting Director of Risk Management Department with effect from 01 July 2019.
- (j) Mrs. W A Dilrukshini, Additional Director of Macro-prudential Surveillance Department, was appointed as the Acting Director of Macro-prudential Surveillance Department with effect from 01 July 2019.
- (k) Mr. D M D B Dissanayake, Additional Director of Centre for Banking Studies, was appointed as Additional Director of Resolution and Enforcement Department with effect from 01 July 2019 and subsequently he was appointed as the Acting Director of Resolution and Enforcement Department with effect from 29 July 2019.

- (l) Mr. M S K Dharmawardane, Additional Director of Regional Development Department, was appointed as the Acting Director of Regional Development Department with effect from 09 July 2019.
- (m) Mr. B L J S Balasooriya, Director of Resolution and Enforcement Department, was appointed as the Director of Training and Development Department with effect from 29 July 2019.
- (n) Dr. C Amarasekara, Additional Director of Economic Research Department, was appointed as the Acting Director of Economic Research Department with effect from 31 October 2019.
- (o) Mr. C P S Bandara, Additional Director of Payments and Settlements Department, was appointed as the Acting Director of Policy Review and Monitoring Department with effect from 10 November 2019.
- (p) Mr. J P Gamalath, Additional Director of Bank Supervision Department, was appointed as Additional Director of Department of Supervision of Non-Bank Financial Institutions with effect from 20 November 2019, and subsequently, he was appointed as the Acting Director of Department of Supervision of Non-Bank Financial Institutions with effect from 20 December 2019.
- (q) Mrs. D S W Samarathunga, Additional Director of International Operations Department, was appointed as the Acting Director of International Operations Department with effect from 19 December 2019.
- (r) Mrs. V A A N De Silva, Additional Director of Department of Supervision of Non-Bank Financial Institutions, was appointed as the Acting Director of Bank Supervision Department with effect from 20 December 2019.

13.6 Officers on Release

- (a) Mr. S R Attygalle, Deputy Governor, to the Ministry of Finance, Economy and Policy Development as the Secretary to the Ministry of Finance, Economy and Policy Development.
- (b) Dr (Mrs). Y M Indraratna, Staff Class Grade IV officer, to the International Monetary Fund as an Alternate Executive Director.
- (c) Mrs. S Ratnayake, Staff Class Grade II officer, to the International Monetary Fund as Administrative Assistant.
- (d) Ms. S Amitha, Staff Class Grade II officer, to the International Monetary Fund Resident Representative Office in Sri Lanka as Economist.

13.7 Retirements/Resignations

In 2019, a total of 63 officers retired from the Bank Service, including one Deputy Governor, one Senior Head of

Department and nine Heads of Departments while a total of nine officers resigned from the Central Bank Service.

Table II – 27
Summary of the Retirements and Resignations of the Central Bank Staff in 2019

Employee Class	Retirements	Resignations	Total
SC	48	5	53
MAC	15	3	18
OAC	-	1	1
Total	63	9	72

14. INFORMATION TECHNOLOGY

Information Technology Department (ITD) successfully contributed towards fulfilling the core objectives of the Central Bank, while carrying out its dynamic role of providing enterprise level integrated applications to the organisation.

During the year ITD provided its services under five major areas, namely, (a) Delivering cost-effective business solutions; (b) Continuous enhancements of the IT infrastructure of the Bank; (c) Contribution to modernise national payment system infrastructure; (d) IT security and resilience; and (e) Upgrade Information and Communications Technology (ICT) competencies among the staff under strategic and operational activities of the Bank.

(a) Delivering cost-effective business solutions

The Management Trainee (MT) Recruitment System was revamped to cater to the new recruitment process which resulted in a significant reduction of manual work and saving of more than 1000 man hours of the Human Resources Department (HRD). The system facilitated online application submission and real-time validations which in turn reduced human errors, saved space and cost, thereby contributing to increased efficiencies of HRD in a short time.

The LankaSecure System, which settles government securities and operates as the Central Securities Depository, was improved with SMS and E-Mail notifications to inform ownership changes in real-time to investors. This development paved the way to attract more investors to the market via uplifted investor confidence. Similarly, the Treasury Bond Auction System for government securities, PDOOffice, was improved with SMS and E-Mail notifications to inform the initiation of Phase 2, the voluntary phase of bidding, thereby providing better transparency for the auction participants.

ITD developed a compensation payment system for Resolution Enforcement Department (RED) with the iGLAS accounting functionality integrated to streamline and fast-track the process of providing compensation to depositors under the Sri Lanka Deposit Insurance and Liquidity Support Scheme (SLDILSS).

The system used for Country Wide Data Collection (CWDCS) was modified with a web interface for data editing and was enhanced with facilities for user driven reporting. It was further uplifted by ITD to support real-time data upload with zero transmission delays.

The Data Library managed by Statistics Department was enhanced with the incorporation of secondary market quotes of Public Debt Department, thereby granting the general public access to a wider variety of national data.

The Central Database System (FinNet) used by several departments to monitor information reported by the financial institutions regulated by the Bank was enhanced with the introduction of a data analytical tool to enable users to perform report generation by themselves. Users were guided and further trained for using the data analytical tool with department specific datasets.

The following up process of Monetary Board Decisions was streamlined by the implementation of the Task Tracker System for the Board Secretariat.

The ForexNet System used by Department of Foreign Exchange was further enhanced with the revamping of the Foreign Currency Sales and Purchases Monitoring Module to accommodate the reporting functionality. Moreover, ITD modified the Electronic Fund Transfer Cards (EFTC) Monitoring System to add foreign currency utilised and the number of new cards issued for additional types of credit cards and debit cards. In addition, modification of reports was carried out to be in line with the said changes.

The Open Market Operations (OMO) Securities Allocation System was enhanced to accommodate bond purchases allowing Domestic Operations Department to address structural liquidity in the domestic money market.

The core functionality of the Regional Development Loan Management System was developed to cater to the 4P (Public-Private-Producer Partnerships) Loan Scheme of Regional Development Department.

The Electronic Data Interchange interface of the Currency Management System (CMS), which is used to cater emergency currency withdrawal requirements of Licensed Commercial Banks (LCBs), was improved to incorporate new regulations imposed by Currency Department.

A Risk Reporting System was developed for Risk Management Department with risk registers and matrices in accordance with international best practices to automate and streamline the bank's risk mitigation process.

ITD managed to successfully incorporate the new PAYE tax scheme to its internal systems at the end of the financial year and assisted Finance Department to submit employee tax reports to the Inland Revenue Department in a timely manner.

With the introduction of the new document management system, over 300,000 documents were scanned and made easily accessible, eliminating challenges in dealing with physical documents.

(b) Continuous enhancements of the ICT infrastructure

ICT infrastructure of the Bank was continuously upgraded during 2019 to ensure its information systems are resilient and on par with the latest technology advancements.

The Virtual Private Network (VPN) of the Bank, CBSLNet, which connects Participant Institutions to the Central Bank's Primary site and Disaster Recovery (DR) site to access business critical systems, was enhanced by implementing dual connectivity through two Telecommunication Service Providers to establish failover and high availability in the VPN. Further, to enhance the security of the network, end to end encryption was enforced over the VPN.

During the year, ITD initiated revamping of the existing Head Office Data Center to modern TIA 942 Rating 3 complied level. According to the said standards, a Data Center can be classified into four different ratings in relation to various levels of resiliency of the datacenter facility infrastructure. This classification is given under four segments of its infrastructure, namely, Telecommunications (T), Electrical (E), Architectural (A) and Mechanical (M). The new datacenter will have 99.982% availability in all of the above areas. Further measures were taken to implement a Security Incident and Event Management (SIEM) Analyser and to study further requirements for establishing a Security Operation Centre (SOC).

(c) Contribution to Modernise National Payment System Infrastructure

ITD extended its services as an advisor and provided technical expertise for projects of national interest. ITD Officials contributed their expertise to several national projects during the year.

In order to strengthen the secondary market of government securities, measures were initiated to establish an Electronic Trading Platform (ETP) and a Central Counter Party (CCP) solution for the same. ITD officers contributed to the technical evaluation process to select a suitable consultant for project implementation.

ITD officers also provided technical assistance through the Procurement Committees (PCs) and Technical Evaluation Committees (TECs) to select a suitable consultant and completed the selection of the consultant to modernise the RTGS system of the country. Further, ICT arrangements of NSB were evaluated by ITD officers to assess their technical readiness to be considered as a participant of the RTGS system.

ITD also provided technical assistance to procure and implement the goAML system for Financial Intelligence Unit (FIU), which is a global initiative by the United Nations (UN) to prevent Terrorism Financing and Money Laundering.

In addition, ITD provided technical expertise for the two committees appointed by the National Payments Council (NPC) viz., the Committee on Fintech Developments and the Working Committee on Blockchain Technology.

(d) Strengthening IT Security and Resilience

ITD took several measures to enhance IT Security and protect the Bank's IT assets from any Cyber Security threats. As a proactive measure, continuous vulnerability assessments were carried out on business-critical IT systems to identify vulnerabilities and necessary remedial actions were taken to mitigate them and reduce exposure to Cyber-attacks.

Moreover, new and improved firewalls were introduced to further protect the Bank's network from any imminent threats.

(e) Upgrade ICT Competencies Among the Staff

With the aim of enhancing the IT knowledge of all employees in the Bank, ITD continued to publish awareness banners on the intranet and circulate security advisory alerts through email.

In addition, the staff of ITD attended short term training both locally and abroad in order to enhance their knowledge and skills in their relevant fields.

15. INTERNAL AUDIT

The internal audit function has been in operation in the Central Bank since 1951. The mission, scope of work, authority, responsibility, accountability, and the independence of the Director and the staff of Internal Audit Department (IAD) have been included in the Internal Audit Charter approved by the Monetary Board. In conducting audits, global standards are followed. A summary of the activities carried out by the Department during 2019 is given below.

15.1 Internal Audit Plan

Strategic Audit Plan for 2020 – 2022 and the Internal Audit Plan prepared for the year 2020 were reviewed by the Monetary Board Advisory Audit Committee (AAC) and approved by the Monetary Board.

15.2 Conduct of Audit Assignments

(a) Process and Systems Audits

In 2019, audits were conducted covering processes and information systems of the Bank. Each audit

engagement was carried out in four sequential steps, i.e. planning, performing, communicating audit results and taking resolution actions. Three step process; conduct of closing conference with Auditee department to get audit observations validated, issuing of draft audit report and issuing of final report, was followed for the communication of audit results. Implementation of audit recommendations by process owners was also followed-up during the year on a quarterly basis.

(b) Special Assignments

Implementing the Monetary Board decision with regard to securing files/documents related to Employees' Provident Fund, Public Debt, Bank Supervision and Supervision of Non-Bank Financial Institutions Departments was carried out by IAD during the year.

(c) Reporting the Progress of the Conduct of Audits

Progress of the conduct of audit assignments was reported to the AAC and the Monetary Board, quarterly. Activity reports were submitted to the Auditor General on audits conducted and reports issued.

15.3 Awareness Programmes and Provisioning of Training

IAD conducted a presentation for the Audit Coordinating Officers on the 'Internal Audit Facilitation Guidelines'. Further, as per the request of the Human Resources Department, IAD continued to provide training on internal audit and related disciplines to undergraduates during the year.

15.4 Facilitation to the Monetary Board Advisory Audit Committee

AAC is a sub-committee of the Monetary Board which advises the Monetary Board on financial reporting, internal controls, internal audit, external audit and any other matter assigned by the Monetary Board. Secretary to the Monetary Board is the Secretary to the AAC. Director of the IAD functions as the Assistant Secretary to the AAC. Accordingly, IAD provided secretarial facilitation to the AAC for the conduct of ten (10) meetings during the year.

16. INTERNATIONAL OPERATIONS

As per the provisions of the Monetary Law Act (MLA), the Central Bank is responsible for managing the official foreign exchange reserves of the country. International Operations Department (IOD) has been entrusted with the function of managing foreign exchange reserves and monitoring domestic foreign exchange market activities to ensure smooth operations.

The MLA provides the necessary legal framework for international reserves management, on areas such as the maintenance and composition of international reserves, actions to preserve the international stability of the Rupee,

the scope of foreign exchange operations of the Central Bank and the powers and responsibilities of the Monetary Board pertaining to international reserves management activities. In this aspect, Section 67 of the 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.

16.1 International Reserves Management

Investments of international reserves are undertaken in accordance with the Investment Policy Statement and the Foreign Reserves Management Guidelines as amended and approved by the Monetary Board, under the supervision of the International Reserves Investment Oversight Committee (IRIOC), 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 Investments 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 IRIOC as per the parameters stipulated in the Counterparty Credit Risk Management System (CCRMS) subject to the necessary limit allocations by the Risk Management Department, paying due consideration to the strength and creditworthiness of each counterparty.

(a) Structural Reserve Management

Since 2016, the Central Bank has been involved with the Reserve Advisory and Management Programme (RAMP) of the World Bank which provides advisory services and training to official sector investment managers enabling efficient management of foreign currency reserves and other investment portfolios. Accordingly, a model based Strategic Asset Allocation (SAA) is adopted by the Central Bank based on the liability structure of the Central Bank, which mainly considers the objectives of capital preservation, liquidity requirements, income generation and the risk tolerance of the Central Bank. Accordingly, the Central Bank foreign reserves are objectively divided into three main tranches, which comprise different portfolios and are assigned with an investment horizon, currency composition and an asset composition. Each portfolio defined under those tranches are assigned with international benchmarks. Accordingly, the performance of portfolios is reviewed against respective benchmarks in order to be in line with globally accepted best practices of performance reviewing.

(b) External Manager for Central Bank Reserves

Since 2016, under the RAMP, the World Bank Treasury had been the external manager for Central Bank

reserve management with a pre-defined mandate and a portfolio of US dollars 200 million. The investment horizon of this portfolio is three years.

(c) Technical Assistance from the World Bank

During 2019, two technical assistance missions on foreign reserves management related aspects were facilitated as in-house trainings in the Central Bank with the assistance of World Bank technical experts. These missions mainly focused on the procurement process for a reserve management system by providing awareness about current sophisticated reserve management systems in the world and giving guidance on selecting a suitable service provider to cater to the requirements of the Central Bank.

16.2 Performance Analysis and Facilitation Activities

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

(a) Performance Measurement of Reserve management

IOD assesses performance of its reserve management activities on total return approach daily and presents to the IRIOC monthly, and quarterly to the Monetary Board, together with an analysis of reserve position. The returns of FIS and Money Market investments are measured against respective benchmarks according to the SAA approved by the Monetary Board. Comparison against benchmarks helps to determine the effectiveness of the active reserves management strategy by measuring the excess returns generated over the benchmarks. This approach is useful in identifying whether the return objective of management of reserves is achieved to a reasonable extent by investing within the approved guidelines. Risk adjusted portfolio performance measures such as Information ratio and Tracking error were also used to measure the effectiveness of portfolio diversification. The performance attribution methodology was continued in 2019 to further elaborate total returns generated through foreign reserves management. This process helps to evaluate the performance of the portfolios by measuring returns generated by various sources of risk factors, and the resulting findings are used as value adding inputs in the Central Bank's foreign reserve management strategy.

(b) Calculation of International Reserves and Maintaining the Database on Foreign Currency Reserves

IOD is responsible for calculation of the Central Bank Reserve and Official International Reserves figures daily and provision of relevant information on reserve figures to Economic Research Department (ERD) of the Central Bank. Further, IOD reconciles the month end reserves

position with the reserves value in the Central Bank Balance Sheet in coordination with ERD and Finance Department.

(c) Administration of Treasury Management System (TMS)

IOD, the main user of the TMS, is responsible for the general administration function of the system and ensures proper coordination among other user Departments, the software provider and its local partner. Accordingly, IOD ensures that the TMS is updated with relevant modifications/ patches and is fully connected with internal systems such as Society for Worldwide Interbank Financial Telecommunications (SWIFT), Real Time Gross Settlement (RTGS) and General Ledger (GL) as well as external interfaces such as Bloomberg and Reuters to ensure efficient functioning of TMS related procedures and processes. In 2019, IOD commenced the procurement process for acquiring a new Reserve Management System as the license for the existing TMS will expire in late 2021.

(d) Annual Review of Existing Counterparties for their Adherence/Compliance to/with Anti Money Laundering (AML) and Combating Financing of Terrorism (CFT)

During 2019, IOD carried out its "Know Your Customer (KYC)/ Customer Due Diligence (CDD) rules for the foreign counterparties of the Central Bank " to ensure compliance with rules and regulations and international best practices in relation to AML and CFT with regard to management of foreign reserves. As a measure of adopting the international standards for KYC review, the Central Bank is in the process of registering with the SWIFT KYC Registry which is an internationally accepted KYC Data Repository.

16.3 Domestic Foreign Exchange Market Developments

During the year, IOD made continuous efforts to ensure smooth operations in the domestic foreign exchange market, allowing more flexibility while curbing excess volatility in the exchange rate.

(a) Intervention in the Domestic Foreign Exchange (FX) Market

The Central Bank continued to intervene in the domestic FX market as and when required in order to curb any undue volatility in the exchange rate in 2019. Intervention was carried out through Request for Quote (RFQ) mechanism, which was introduced in 2018, helped improve the market transparency as well as the non-borrowed portion of the Forex Reserves.

(b) Dissemination of Information

IOD continued to publish USD/LKR indicative exchange rate along with indicative exchange rates for fifty six

world currencies and average Telegraphic Transfer buying and selling exchange rates of LCBs against LKR for nine major currencies, on the Central Bank web site on a daily basis. In addition, IOD discharged its duties on dissemination of information by providing exchange rate data to government organisations and various other parties including the general public at their request.

(c) Revision to Net Open Position (NOP)

Since unexpected significant flows to the domestic foreign exchange market could exert undue pressure on the exchange rate, resulting in excessive volatility, the NOP limits applicable to foreign exchange operations of some licensed banks were revised to facilitate such flows, on a case by case basis, during 2019.

(d) Affiliation with Market Participants

IOD conducted Treasurers' meetings with licensed commercial banks on a bi-annual basis, in order to discuss their concerns pertaining to the market developments and initiated several measures to overcome such issues with a view to streamlining the FX market operations. In this regard, obtaining and publishing TT rates on a daily basis were automated by linking the Central Integrated Market Monitoring (CIMM) system and International Operations Management System (IOMS).

(e) Observation on Market Sentiments

As a crucial department responsible for monitoring the domestic FX market activities, IOD continued to provide views, observations and recommendations on various proposals, regulations, amendments and policy matters submitted by other departments of the Central Bank and external organisations, especially with regard to the possible implications of such proposals on exchange rate movements.

17. LEGAL AND COMPLIANCE

Legal and Compliance Department (LCD) is charged with the duty to facilitate enhancing the governance standards of the Central Bank in all legal and procedural aspects. With a view to achieving core statutory objectives of the Central Bank, LCD is charged with developing new laws, bringing suitable amendments to the existing laws administered by the Central Bank and further strengthening the regulatory and supervisory framework thereof. In this connection, LCD performed a wide range of activities of the Central Bank in 2019 ensuring the compatibility of the legal and regulatory framework with the international standards and best practices. Key activities carried out by LCD are as follows:

Since 2018, LCD has heavily engaged in the introduction of the new Central Bank of Sri Lanka Act by repealing the Monetary Law Act No. 58 of 1949. With the assistance of various stakeholders such as the Ministry of Finance, Attorney

General's Department and the Legal Draftsman's Department, LCD led the process upto the publication of the Gazette relating to the draft Bill of the Central Bank of Sri Lanka with more regulatory and supervisory powers and enhanced governance standards.

With the objective of further strengthening the legal and regulatory framework of the Central Bank, the new Banking Act is currently under formulation based on the finalised concept paper, which will provide for a stronger legal foundation for the banking sector. LCD contributed to introduce necessary amendments to the Foreign Exchange Act No. 12 of 2017, with a view to expanding the supervisory powers of the Central Bank over foreign exchange transactions. Further, LCD proposed amendments to the Registered Stock and Securities Ordinance No. 7 of 1937, the Debt Recovery (Special Provisions) Act No. 2 of 1990 and the Electronic Transactions Act No. 19 of 2006 to develop the financial market infrastructure.

As the compliance function of the Central Bank, LCD played a significant role in strengthening governance standards of the Central Bank and largely involved in compliance requirements of foreign counterparties engaged with the Bank in its foreign exchange operations. In addition to that, since 2019, LCD deals with requests for information received by the Information Officer of the Central Bank under the provisions of the Right to Information Act No. 12 of 2016 and defends the interests of the Central Bank in inquiries/litigations initiated by third parties, pursuant to such requests. Furthermore, LCD initiated introducing amendments to many governance driven policies namely, Whistle blowing policy, Codes of Conduct applicable for Central Bank staff and the members of the Monetary Board, whilst actively involved in the Audit Committee and the Board Risk Oversight Committee etc.

LCD successfully handled all litigation filed for and against the Central Bank during 2019 securing the interests of the Monetary Board, the Central Bank or its employees. LCD initiated legal actions against certain errant financial institutions regulated by the Central Bank and their directors. LCD continued with litigation relating to unauthorised finance companies, prohibited schemes and other issues in the financial sector, with the assistance of the Attorney General's Department and other law enforcement agencies under the provisions of the Finance Business Act No. 42 of 2011 and the Banking Act No. 30 of 1988, with a view to safeguard the interests of the depositors and creditors of such companies.

With a view to enhancing the existing regulatory authority of the Central Bank, LCD cooperated with the other departments of the Central Bank in developing and amending regulations, directions, guidelines, operating instructions, agreements, circulars etc. relating to their operations. LCD provided observations to the provisions of new laws drafted by external parties such as International Financial Centre Bill, Data Protection Bill, Cyber Security Bill etc, and engaged in vetting of agreements, revised subsidiary legislations issued by the

Central Bank under various laws in order to ensure the legality of such instruments. LCD has provided its opinions to the other departments of the Central Bank to avoid such departments face undue legal, operational and compliance risks in their operational activities.

In view of above, the performance of LCD as one of the key assurance functions, has paved the way towards achieving the core objectives, strategic priorities and managing the legal, operational and compliance risks of the Central Bank in a successful manner during 2019.

18. MACROPRUDENTIAL SURVEILLANCE

Maintaining financial system stability is one of the two statutory objectives of the Central Bank. To achieve this objective, the Central Bank conducts both microprudential supervision and macroprudential surveillance on a continuous basis. Macroprudential Surveillance Department (MSD) conducts a wide range of analysis, some of which complement microprudential supervision, to assess buildup of systemic risk within the financial system of the country. In addition, MSD assesses macro-financial linkages to identify the impact of macroeconomic developments on the domestic financial system and its stability. Macroprudential surveillance is carried out using data reported by regulated financial institutions and data collected by MSD from other sources. The findings of such assessments facilitate the policy formulation process of the Central Bank and also support the introduction of macroprudential policy measures to mitigate systemic risks. A summary of the main activities undertaken by MSD during 2019 is given below:

(a) Macroprudential Surveillance

Macroprudential surveillance was conducted to identify buildup of systemic risks to the financial sector and to assess the resilience of the financial system to such risks. The Surveillance framework covers risks emanating from global and domestic macroeconomic developments, financial market activities and the financial institutions sector. Risk exposures of the financial system were studied both with regard to data collected through the Central Bank regulated financial institutions and from external sources. MSD broadened the macroprudential surveillance framework considerably during 2019 to assess risks posed to the financial sector from developments in both the corporate and household sectors. Data from external sources allowed assessment of exposure of the formal financial sector to the household and non-household sectors. The assessment provides leading indicators of household and non-household sector debt dynamics. With a view to addressing the need for a comprehensive risk assessment on the risks emanating from the corporate sector to financial system stability, MSD initiated the assessment of corporate sector risk profiles. While macroeconomic and financial developments affect corporate sector performance and

balance sheets, cohesive behavior of corporates or the behavior of systemically important corporates could influence the macro economy and the financial system. In addition, MSD also engaged in an interconnectedness study which identified the contagion risks of the banking sector. In view of the need for monitoring credit quality of the financial system and its evolution over time, MSD employed probability density functions for Non-Performing Loans (NPLs), which indicate the possibility of rising tail risk of deterioration in asset quality to the financial system. MSD constructed a Financial Stress Index during the year to identify periods when strains on the financial system impair its intermediation function. This index combines indicators from the equities market, bond market, foreign exchange market and banking sector into a composite index to assess the degree of stress in the financial system. MSD also continued to compile a number of composite financial system stability indicators based on the stability and soundness of different sub sectors of the domestic financial system while also taking steps to improve the reliability of these indices. In addition to continuation of the banking sector top-down macro stress testing to assess the impact of credit risk, interest rate risk, and foreign exchange risk on the level of capital of the banking system and also individual banks, MSD expanded the scope of stress testing to cover the Licensed Finance Companies sector. MSD submitted a number of papers to the Monetary Board containing risk assessments which allow identification of possible threats to the stability of the financial system, and other contemporary concerns over financial system stability during 2019.

(b) Surveys and Data Collection

Systemic Risk Survey (SRS): MSD continued to conduct the bi-annual Systemic Risk Survey, which was initiated in 2017 with the purpose of identifying market perceptions on the potential risks to financial system stability. Materialisation of these risks could potentially disrupt the financial intermediation process including the orderly functioning of the financial institutions, financial markets and payments system while also affecting public confidence on the financial system stability. The survey results provide early warning signals to foresee systemic risks to the financial system and facilitates prioritisation of actions to be taken to mitigate the emerging risks and formulation of appropriate policy measures. Further, SRS helps to validate the internal assessments of MSD on vulnerabilities of the financial system.

Household Sector Creditworthiness Survey (HHCS): With the purpose of enhancing household sector surveillance, the HHCS was initiated. To expand the coverage of the HHCS and identify risks and vulnerabilities emanating from the household sector and its implications on financial system stability, MSD initiated the tender procedure to outsource the data collection of the survey

to a third party. It is expected that the survey will be completed in 2020.

Data Collection: MSD continued to gather granular level data from several external parties to enrich its database. The department continued to collect data regularly from external institutions such as the Colombo Stock Exchange, Department of Co-operative Development, Department of Labour, Department of Pensions, Employees' Trust Fund Board, Insurance Regulatory Commission of Sri Lanka, SANASA Federation, Securities and Exchange Commission of Sri Lanka, Credit Information Bureau, Sri Lanka Customs and the Unit Trust Association of Sri Lanka.

(c) Publishing the Financial System Stability Review and Contributing to Statutory Reports and Other Publications of the Central Bank

The Financial System Stability Review (FSSR) 2019: FSSR was published in December 2019 with the purpose of presenting an independent evaluation of risks and vulnerabilities faced by the Sri Lankan financial sector and to present risk mitigation measures adopted. The FSSR 2019 contained five chapters, namely, "Macrofinancial Conditions"; "Financial Markets"; "Financial Institutions"; "Household Sector & Corporate Sector" and "Financial System Infrastructure". In addition, the report contained a policy box which set out the key policy changes and regulatory actions implemented for the financial sector in 2019, and two informative box articles on the Systemic Risk Survey 2019 and the impact of climate change on financial system stability.

Other Publications: MSD coordinated and compiled the Chapter on "Financial Sector Developments and Stability" of the Central Bank Annual Report 2018 and the "Recent Economic Developments 2019", published by the Central Bank. Further, the Department contributed to the Chapter on Financial Sector Developments in the September 15th Report which is submitted to the Minister in charge of Finance. These reports provide comprehensive analyses on financial institutions, financial markets and financial infrastructure of the country with particular emphasis on performance, risks and risk management, resource availability and regulatory developments pertaining to each area, together with an assessment of potential implications on the overall financial system stability of the country. The Department also contributed to other publications of the Central Bank by way of compiling financial sector data and providing analysis on subsectors of the financial system.

(d) Coordination of the Committees on Financial System Stability

Financial System Stability Committee (FSSC): MSD serves as the secretariat for the FSSC. FSSC, which is

an interdepartmental forum, was established 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. Five FSSC meetings were held during 2019. MSD presented its Risk Assessment reports to the FSSC to obtain the views of the participants before submitting them to the Monetary Board.

Financial System Stability Consultative Committee (FSSCC): The FSSCC provides views and advice to the Central Bank on financial sector issues. It consists of key personnel from external sector institutes in the Sri Lankan financial system. These personnel are appointed by the Governor and the current FSSCC comprises of seventeen members. Five FSSCC meetings were held during the year. MSD provides the secretarial services to the FSSCC.

(e) Capacity Development via Technical Assistance from the IMF

The Technical Assistance (TA) project financed by the Financial Sector Stability Fund (FSSF): This project aims to support the Central Bank to strengthen its capacity in bolstering financial institutions' resilience to financial risks and shocks. The Road Map for the TA mission, which was finalised during 2019, identifies the following objectives: broaden the macroprudential framework, strengthen capacity development for the stress testing functionality and improvement in studies relating to financial market infrastructure. It is expected that the TA mission would commence during 2020. MSD is the key contact point of the IMF with regard to this TA mission and is involved in coordinating with other relevant departments of the Central Bank.

19. PAYMENTS AND SETTLEMENTS

Payments and Settlements Department (PSD) discharged the responsibilities entrusted to the Central Bank under Section 62A of the MLA, which provides authority for the Central Bank to establish and operate systems for the transfer of funds, settle payment obligations and issue system rules to participating institutions. In addition, the statutory mandate entrusted to the Central Bank under the Payment and Settlement Systems Act, No. 28 of 2005, to regulate and oversee the payment and settlement systems and to implement the national payment system policy with the objective of ensuring safety, efficiency, competitiveness and stability of the payment and settlement systems in Sri Lanka, has also been carried out through PSD.

Main functions carried out by PSD are operations of the Real Time Gross Settlement System, providing back-office service for financial transactions, management of the SWIFT Communication System, facilitating transactions under the Asian Clearing Union (ACU), facilitating the development of payment infrastructure and regulation and oversight of

Payment and Settlement Systems (PSS). A summary of the functions performed during 2019 is given below:

19.1 Operations of the Real Time Gross Settlement System

- (a) PSD continued to operate the Real Time Gross Settlement (RTGS) System, which settles time critical large value inter-participant payments as well as customer payments on a real time gross basis. In order to ensure the smooth functioning of the RTGS System, PSD facilitated and monitored the provisioning of the Intraday Liquidity Facility (ILF) to the Participating Institutions (PIs), which requested extra funds. PIs of the RTGS System are the Central Bank, Licensed Commercial Banks (LCBs), standalone Primary Dealers (PDs), Employees' Provident Fund and the Central Depository System of the Colombo Stock Exchange.
- (b) As at end 2019, the number of PIs of the RTGS System was 37. During the year, the RTGS System settled 428,161 transactions with a total value of Rs. 117,151 billion. The average volume and value of RTGS transactions settled per day were 1,762 and Rs. 482 billion, respectively. With regard to ILF operations, on average, Rs. 63 billion per day was released to PIs. Adhering to international best practices, the LankaSettle System availability was maintained at a high level of 99.8 per cent during the year.

19.2 Providing Back-office service for financial transactions of the Central Bank

(a) Back-office service for Foreign Exchange Transactions

During 2019, back-office services provided to facilitate international reserve management of the Central Bank covered the following:

- (i) Settled 11,982 transactions relating to foreign exchange trading and funding, money market, fixed income securities, gold trading, ACU and Repo/Reverse Repo amounting to US Dollars 226.1 billion during 2019.
- (ii) Subscribed and successfully on-boarded to the new Euroclear EasyWay system on 13 December 2019. Euroclear EUCLIDPC system was decommissioned on 12 January 2020.
- (iii) PSD has been involved in the implementation of the new Treasury Management System.

(b) Back-office service for Open Market Operations

The settlement of open market operations related transactions with LCBs and PDs was carried out to facilitate the management of market liquidity. Accordingly, during 2019, PSD effected and facilitated 467 Repo transactions amounting to Rs. 1,092 billion, 3,854 Standing Deposit Facility transactions amounting

to Rs. 7,489 billion, 7,472 Reverse Repo and Standing Lending Facility transactions amounting to Rs. 7,818 billion and 214 Outright Purchase transactions amounting Rs. 89 billion.

19.3 Management of the SWIFT Communication Network

PSD uses SWIFT services for its communication of financial operations, and manages the SWIFT system on behalf of all users of the Central Bank. PSD maintains the system in accordance with the standards set by the SWIFT Headquarters on software, hardware, processes, procedures and risk management controls. To maintain a robust connectivity (both globally and locally) and provide an efficient and secure financial messaging service, the Central Bank maintains the connectivity to SWIFT-Net, via Lanka Financial Services Bureau Ltd.

The SWIFT System was upgraded to a new version (version 7.4.20) in 2019 and continued with quarterly security updates. The new mandatory update was carried out to provide a highly secure and more efficient service for SWIFT users and quarterly security updates were carried out to strengthen the SWIFT interface, tools and software in light of evolving cyber threats. Accordingly, the Central Bank successfully installed all upgraded versions in line with the international standards for the facilities provided by the SWIFT service. The Central Bank maintained a high level of security at the SWIFT division throughout the year.

19.4 Facilitating Transactions under the Asian Clearing Union

PSD continued to facilitate the settlement of eligible trade and trade-related transactions among member central banks of the ACU on a multilateral net basis during the year 2019. The total number of transactions effected through the ACU mechanism was 6,523 and the value of total transactions was Rs. 559.7 billion. The value of net settlements made under the ACU mechanism was Rs. 460.6 billion.

The preparatory Standing Technical Committee (STC) meeting was held in Nepal in June 2019 and the Secretary General of ACU and delegates of seven member central banks and monetary authorities participated at the meeting. The 48th meeting of the Board of Directors and the STC meeting were held in Paro, Bhutan in July 2019. Senior Deputy Governor of the Central Bank and Director of PSD participated at the above meetings.

19.5 Regulation and Oversight of Payment and Settlement Systems (PSS)

PSD facilitated the introduction of new payment technologies and continued its regulatory and oversight activities to ensure safety and efficiency of the electronic payment systems. Accordingly, the following major activities were carried out by PSD during 2019:

- (a) Common Point-of-Sales Switch (CPS), which provides switching and clearing facilities for payment card transactions carried out at POS terminals started live operations in June 2019. CPS is providing switching and clearing facilities mainly for payment cards issued under the National Card Scheme.
- (b) The Working Committee for Blockchain Technology, appointed as per a recommendation made by the committee to study the Blockchain Technology, recommended to facilitate a shared Know-Your-Customer (KYC) solution based on Blockchain technology. Accordingly, PSD initiated actions to develop a Proof of Concept for a shared KYC solution.
- (c) The National Quick Response (QR) Code specification branded as "LankaQR" was issued with the objective of providing access to low cost, convenient and secure digital payment options to customers and merchants. In 2019, revenue distribution was streamlined to encourage adoption of "LankaQR" and several financial institutions launched "LankaQR" based payment products for customers.
- (d) Initiated the process to establish a FinTech Regulatory Sandbox in order to provide a safe space in a controlled environment for innovators to test their products and services without infringing regulatory requirements. Accordingly, the FinTech Regulatory Sandbox Framework was finalised in 2019.
- (e) Evaluated applications submitted by financial institutions and issued licences to three financial institutions to issue debit cards as service providers of payment cards, in terms of the provisions of the Payment Cards and Mobile Payment Systems Regulations No. 1 of 2013. In addition, one LCB, which was functioning as an issuer of payment cards as a licensed service provider of payment cards, was granted a licence to function as a financial acquirer of payment cards.
- (f) Granted approval for several proposals submitted by financial institutions for new payment mechanisms, which would enhance customer convenience and efficient settlements for merchants.
- (g) Conducted on-site supervision of Licensed Operators of Mobile Phone based e-money systems to ensure implementation of the recommendations made in order to ensure the reliability and smooth functioning of the said systems. In addition, a Circular was issued to specify the number of e-money accounts, individual stored value limits, day limits and transaction limits applicable for customer e-money accounts.
- (h) Issued a Circular instructing Financial Institutions to provide real time notifications for transactions effected through electronic payment instruments/mechanisms.

- (i) Evaluated the Business Continuity Plans of the LankaSettle participants and LankaClear (Pvt) Ltd, in order to ensure their ability to continue business operations in a contingency situation.

19.6 National Payment Council

The National Payments Council (NPC), which is the industry consultative and monitoring committee on payment systems, finalised its Road Map for 2020-2022 with the objective of reducing the usage of cash through development of payment infrastructure and innovative payment products, and promoting e-payments. The Road Map covered the areas of expanding the potential of the interbank payment infrastructure, innovations for payment systems, financial services promoting e-payments and payment systems security. Further, measures to increase public awareness of payment systems and best practices to be followed to secure funds, information and systems were also included in the Road Map. NPC appointed a committee on FinTech developments to focus on new technologies and concepts such as digital payment platform, open application programming interface, open banking, virtual banking and promoting digitalisation of payments to enhance financial inclusion.

As per a decision taken by the NPC, the Central Bank announced the designation of the year 2020 as the year of digital transactions with the objective of popularising digital payment schemes, educating general public on digital payments, building a society that uses less cash and uplifting the economy. Accordingly, PSD made arrangements to conduct programmes, to increase awareness and to promote the use of digital payment modes to complete transactions, throughout the year 2020.

19.7 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. In addition, PSD conducted awareness programmes on a need basis to educate the general public and the banking community on payment systems and other related issues. In addition, a newspaper advertisement was published in order to create awareness of the benefits of obtaining real-time notifications for transactions carried out through electronic payment mechanisms and to encourage customers to obtain the said facility. Further, a press release was issued to educate customers on ensuring the safety of payment card transactions, adopting safe and secure electronic payment practices and cautioning the public of online scams and the importance of protecting bank passwords and Personal Identification Numbers (PINs).

20. POLICY REVIEW AND MONITORING

Policy Review and Monitoring Department (PRMD) facilitates the strategic planning process of the Central Bank, aligning departmental functions towards achieving the core objectives

and operations of the Central Bank. Accordingly, the major activities of PRMD are conducting the annual Strategic Planning Retreat, reviewing the progress of implementation of strategic priorities and Departmental Action Plans on a quarterly basis, and reporting such progress to the Corporate Management Committee (CMC) and to the Monetary Board with recommendations, as required, to ensure efficient and effective conduct of operations and timely achievement of core objectives of the Central Bank.

20.1 Action Plan 2019 and Strategic Priorities 2018 - 2020

The Action Plan 2019 of the Central Bank was launched at the New Year Work Commencement Ceremony held on 01 January 2019 and awareness sessions on the Departmental Action Plans 2019 were conducted at departmental level.

Strategic Activities of the Departmental Action Plans are linked to the following seven strategic priorities introduced for 2018-2020 period:

- (i) Introduction of an effective Flexible Inflation Targeting Framework,
- (ii) Promoting a dynamic and resilient financial sector to support sustainable growth,
- (iii) Modernisation of infrastructure of Payments and Settlements Systems: paving the path towards a less cash society,
- (iv) Improving prudent debt management endeavouring debt sustainability,
- (v) Formulating and implementing a comprehensive HR Strategy,
- (vi) Implementing Enterprise-wide Risk Management (ERM) framework and strengthening compliance, and
- (vii) Implementation of an International Transactions Reporting System (ITRS).

20.2 Progress Review and Management Reporting

PRMD conducted Quarterly Progress Review Meetings (QPRMs) covering the assessment of progress made in implementation of strategic priorities and Departmental Action Plans. Progress of Strategic Activities and Operational Activities was assessed in terms of Key Performance Indicators (KPIs) in the Departmental Action Plans 2019. Accordingly, the overall progress along with the issues to be addressed with the PRMD recommendations, was reported to the Monetary Board subsequent to the review of the CMC. The level of achievement of Strategic Activities and Operational Activities at end 2019 stood at 93.91 per cent and 94.82 per cent respectively, resulting in an overall achievement of 94.64 per cent.

Further, Task Force meetings were conducted in order to discuss the progress of achieving the strategic priorities initiated in 2018 along with the activity-wise inter departmental linkages and to ensure successful completion of the strategic priorities by 2020.

20.3 Strategic Planning Retreat 2019

The Strategic Planning Retreat (SPR) organised by PRMD is an annual forum of the Senior Management of the Central Bank to discuss the Departmental Action Plans for the forthcoming year. The fourteenth SPR was conducted from 02 to 03 November 2019 at the Atrium of the Central Bank with the participation of the members of the Monetary Board and the Senior Management of the Central Bank, where extensive discussions took place on the required contemporary developments and related issues which are to be considered towards achieving the Central Bank's objectives.

At the SPR, PRMD presented the overall progress of implementation of strategic priorities during January 2018 through September 2019 and Departmental Action Plans 2019, including observations of PRMD, while each department presented the progress of their Departmental Action Plan for 2019 and the plan for 2020. The key outcomes and expected impact of implementation of the strategic priorities and Departmental Action Plan 2019 were also discussed at the SPR. The Departmental Action Plans 2020 were finalised incorporating the improvements proposed at the SPR.

21. PUBLIC DEBT

Public Debt Department (PDD) is responsible for discharging statutory responsibilities of the Central Bank as the agent of the government for management of public debt in terms of Section 113 of the MLA. In order to meet these responsibilities, PDD was established on 28 August 1950, at the commencement of the Central Bank. The major functions of PDD include raising funds to meet the gross borrowing requirement of the government as per the Appropriation Act, meeting the government debt service payments on time, maintaining the LankaSecure system in order to facilitate smooth functioning of settlement of market transactions in government securities, maintaining the Title Registry of government securities in the Central Depository System (CDS) and analytical work on debt dynamics for risk management. In addition, PDD also engages in deepening and broadening the government securities market, contributing towards formulating and implementing the country's debt management strategy and liability management initiatives.

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

- (a) The issuance of Treasury bills (T-bills), Treasury bonds (T-bonds), Sri Lanka Development Bonds (SLDBs) and International Sovereign Bonds (ISBs) were the main debt instruments used for financing the government's gross borrowing requirement in 2019.
- (b) An abridged table of activities under each of the source of funds is given below.

Table II-28
Instruments and Auction Performance
2018 and 2019

Instrument	2018		2019	
	Issuances Rs. billion	No. of Auctions	Issuances Rs. billion	No. of Auctions
Treasury bills	1,653.3	51	1,719.3	52
Treasury bonds	763.0	11	798.0	12
	Issuances USD million	No. of Auctions	Issuances USD million	No. of Auctions
Sri Lanka Development Bonds (SLDBs)	1,492.1	6	345.2	2
International Sovereign Bonds (ISBs)	2,500.0	1	4,400.0	2

- (c) All the above fund-raising activities are in line with cost-risk tradeoff of the medium-term debt management strategy.

21.2 Servicing of Government Debt

Domestic debt service payments of Rs. 1,199.11 billion and foreign debt service payments of Rs. 823.40 billion, totaling to Rs. 2,022.51 billion were made during the year 2019 in a timely and effective manner.

21.3 Facilitation of the Settlement of Government Securities

The LankaSecure system is used for the settlement of primary and secondary market transactions in government securities. The system consists of 34 Dealer Direct Participants (26 licensed commercial banks and 8 primary dealer companies) maintaining accounts on their own behalf and on behalf of other investors who will be their customers and 3 direct participants (Colombo Stock Exchange, the Central Bank and Employees' Provident Fund) who hold accounts on their own behalf only. PDD plays a main role in facilitating settlement by ensuring uninterrupted real-time operation of LankaSecure. The total face value of holdings in scripless securities as at end December 2019 amounted to Rs. 5,584.2 billion. This consisted of Rs. 897.7 billion in T-bills and Rs. 4,686.5 billion in T-bonds.

21.4 Maintenance of the Registry in Government Securities

Facility for real-time updates in the Title Registry of government securities in the CDS, which is maintained at the PDD, has ensured safekeeping of government securities. Periodic statements to CDS account holders on their holdings, transactions and payments were sent continuously throughout

the year. PDD sent 1,551 statements in electronic form and 14,113 semi-annual statements of holdings, 38,467 monthly statements of transactions and 16,184 payment statements by post to CDS account holders during 2019. As at end-December 2019, there were 93,911 registered CDS account holders. In addition, CDS account holders are provided with the facility to view account details online, among other facilities introduced to enhance the safety features of government securities investments.

21.5 System Reforms

In order to enhance the efficiency, effectiveness and transparency with the purpose of developing the government securities market, the following system reforms were undertaken during the year 2019:

(a) Implementation of the Active Liability Management Framework

The Parliament has approved the Active Liability Management Act (ALMA) in March 2018. Accordingly, a resolution was passed by the Parliament in July 2019 to raise up to Rs. 480 billion for liability management purposes under the ALMA. The liability management initiatives enable the government to proactively address part of the future refinancing requirements ahead of time by reducing rollover peaks and extending the maturity duration and/or smoothening repayments structure of ISBs and other debt maturities. In general, liability management will help the government to diversify the investor base, provide opportunities to streamline the cost of borrowing based on market conditions, extend the duration of the liability portfolio, reduce refinancing risk in the near term and create a favourable price tension for any new issuances. In this regard, PDD initiated raising funds and building required buffers in the domestic market by executing its first liability management based T-bonds issuance amounting to Rs. 15 billion in October 2019 and another Rs. 15 billion in December 2019. The buffers built in 2019 are expected to be utilised for settlement of debt service obligations during the early part of 2020. The government also initiated preliminary work with respect to accessing alternative Sovereign bond markets in the latter part of 2019.

(b) Formulation and Implementation of Medium Term Debt Management Strategy (MTDS) for 2019-2023

The Central Bank and the Ministry of Finance and Planning (MoFP) jointly developed a Medium-Term Debt Management Strategy (MTDS) for the country and published the same on the Central Bank website in April 2019. This strategy would facilitate to raise funds required to meet the cash flow needs of the Government in an appropriate composition, to ensure that the Government's financing needs are met at the

lowest possible cost with a prudent level of risk. The MTDS, which initially covers the period 2019 – 2023, is mainly focused on containing the foreign currency debt exposure in line with the end-2018 level, improving the Average Time to Maturity (ATM) of the foreign currency debt portfolio and minimising the debt maturing within one year. The Central Bank and the Government made improvements in all debt dynamics referred in MTDS in 2019, particularly that of foreign currency ATM and debt maturing within 1 year period.

(c) Real-time SMS or/and e-mail Notification to the Customers Registered in the Central Depository System of LankaSecure

The delivery of real-time notifications for each and every debit and credit record of scripless securities in the LankaSecure System, carried out for each Securities Account by way of an SMS or/and e-mail alert to the Customers of the LankaSecure System, was implemented on 25th March 2019.

(d) Enhancing the Predictability and Transparency of the Primary Auction Process

The scope of the quarterly rolling auction calendar was further extended to cover a period of six months during 2019 where an advanced T-bond and T-bill auction calendar covering the period from July to December 2019 was published concurrent to the Ministry of Finance in view of further enhancing the predictability and transparency of the primary auction process of government securities.

21.6 Way forward

- (a) Explore the possibility of extending the new primary issuance system for T- bills and an electronic bidding arrangement for primary issuances of SLDBs to further improve transparency and efficiency of government borrowings from the domestic market. Further enhance the market based arrangements of the new primary issuance system for T-bonds and applicability in market participants in T-bond subscriptions.
- (b) Regulations and Directions under the Registered Stocks and Securities Ordinance (RSSO) and Local Treasury Bills Ordinance (LTBO) are being currently reviewed with a view to implement prudential legislations in government securities market for which necessary amendments have been proposed.
- (c) To enhance the transparency in conducting government securities transactions in the secondary market, a circular has been issued to all participants of the LankaSettle system on 01 October 2019 to input key attributes such as settlement value, price and interest rate of each and every transaction with effect from 01 January 2020.
- (d) To broaden and deepen the government securities transactions in the secondary market, the preliminary

measures have been taken and progress has been made during 2019 to setup a distinct Electronic Trading Platform (ETP), a Central Counterparty (CCP) arrangement for government securities and an upgraded Central Securities Depository (CSD) along with required legal reforms.

21.7 Coordinating Sovereign Rating Review Missions and International Sovereign Bond Issuances

In 2019, the PDD facilitated international rating agencies (Fitch Ratings Ltd., Moody's Investor Services, Standard & Poor's) for their annual rating reviews in order to ensure the availability of international sovereign ratings for Sri Lanka.

During the year, two ISBs were successfully issued. In March 2019, US Dollar 1 billion of 5-year maturity at 6.85 per cent and US Dollar 1.4 billion of 10-year maturity at 7.85 per cent were issued while in June 2019, US Dollar 0.5 billion of 5-year maturity at 6.35 per cent and US Dollar 1.5 billion of long 10-year maturity at 7.55 per cent were issued in line with the financing initiatives.

22. REGIONAL DEVELOPMENT

In 2019, Regional Development Department (RDD) focused on developing and implementing new policy strategies related to development finance initiatives while further expanding its functions of carrying out conventional concessionary credit operations. These new policy strategies and actions strengthened the capacity of RDD and the Central Bank as a whole to promote financial inclusiveness in the country in support of achieving inclusive and stable financial system and balanced equitable economic growth.

During 2019, RDD continued to coordinate, facilitate and implement various refinance, interest subsidy and credit guarantee schemes funded by the government, the Central Bank, Donor Agencies and Participating Financial Institutions (PFIs). These schemes mainly targeted the Micro, Small and Medium Enterprises (MSMEs) and individuals scattered across the country, who are in need of affordable financial facilities to enhance their business ventures. The beneficiaries of these schemes represented all sectors of the economy i.e., Agriculture and Animal Husbandry, Industry and Services. Further, RDD provided a range of credit supplementary services, which helped increase the financial inclusion and promote the entrepreneurship skills among the vulnerable groups in the economy. These efforts included conducting island-wide financial literacy and skill development programmes throughout the year. In addition, RDD utilised print and electronic media were effectively utilised by RDD in the efforts of conducting comprehensive, island-wide awareness building programmes to increase the level of financial literacy and entrepreneurship development.

From the policy perspective, the year 2019 was a challenging, yet successful for RDD as major policy changes, which were required to improve the financial inclusion in the country, were finalised and prepared to be implemented from 2020

onwards. Further, several actions were initiated to introduce new schemes to address the changing needs of the target groups.

22.1 Providing Concessionary Financial Facilities

RDD continued its credit operations by implementing 10 refinance, interest subsidy and credit guarantee schemes, increasing the financial outreach in 2019 under three main funding sources i.e government, the Central Bank and Donor Agencies. Summary of the schemes implemented by RDD during 2019 are given in Table II – 29.

As at end 2019, RDD has disbursed loans, through the PFIs, amounting to Rs. 15,320 million among 104,238 beneficiaries under 8 refinance and 2 interest subsidy schemes enabling those beneficiaries to meet the challenges ahead with solid financial foundation and high self-reliance. Interest subsidy schemes played a major role by disbursing around 68 per cent of the loans while the remainder was disbursed through refinance schemes. The amount of loans disbursed by the government, the Central Bank and donor funded schemes implemented by RDD during 2019, accounted for 72.0 per cent, 23.6 per cent and 4.4 per cent of the total value of loans disbursed, respectively.

Status of the loan schemes implemented by RDD in 2019 and the new developments with regard to these loan schemes, are given below.

22.1.1 Implementation of Government Funded Schemes

The government continued to fund five schemes consisting of four refinance schemes and one interest subsidy scheme by contributing Rs. 11,034 million, i.e. 72.0 per cent of the total loan disbursements, during 2019 serving 96,220 beneficiaries.

- (a) Continuing its significant performance, "Sarusara"-New Comprehensive Rural Credit Scheme (NCRCS) provided interest subsidy for 86,301 small-scale farmers under 33 short-term crop varieties. NCRCS which serves as an interest subsidy scheme and a credit guarantee scheme, accounted for 67.7 per cent of the total disbursements and 94.0 per cent of the disbursements of the government funded schemes during 2019. It is pertinent to note that while the government provided Rs. 224 million worth of interest subsidy under the NCRCS, total loans worth of Rs. 10,370 million were provided by the Participating Financial Institutions (PFIs) out of their own funds demarcating a significant commitment towards the agricultural sector development of the country.
- (b) Anuradhapura District, which lagged behind the loan disbursement performance of Ampara District in 2018 despite its previously leading record, once again aced the loan distribution under the NCRCS in 2019. Loans disbursed to the beneficiaries of Anuradhapura District amounted to 13.1 per cent (Rs. 1,360 million), while the

Table II-29
Lending Programmes Implemented by the Regional Development Department in 2019

Information on the Lending Programme/Concessionary Credit Scheme						
						Amounts in Rs. mn
Source of Funds	Name	Objective	Refinance/Interest Subsidy	Funds Disbursed in 2019	Interest Rate to the End Borrower - Year End (p.a)	Remarks
GOSL Funded	Poverty Alleviation Microfinance Project – Revolving Fund (PAMP-RF)	Poverty alleviation through promotion of income generating activities and organising low income groups to link them with formal banking system.	Refinance	Rs. 463 million	12%	
	“Swashakthi” Loan Scheme	Generate employment opportunities, for both new entrants and existing entrepreneurs engaged in income generating activities MSME Sectors.	Refinance	Rs. 55 million	5.5%	
	“Athwela” Loan Scheme for the Resumption of Economic Activities affected by Disasters (READ)	Providing concessionary financial facilities to resume any economic activity affected by any disaster as informed by the GOSL.	Refinance	Rs. 88 million	2%	
	Self-Employment Promotion Initiative Loan Scheme (SEPI) Ph II	To provide financial assistance to youth trained by recognised vocational training institutions for establishment of their own self-employment projects.	Refinance	Rs. 57 million	7%	
	“Sarusara”- New Comprehensive Rural Credit Scheme (NCRCS)	Uplifting the socioeconomic conditions of micro and small-scale farmers who engage in cultivation of paddy and short-term crops.	Interest Subsidy & Credit Guarantee	Rs. 10,370 million	7%	PFI's own funds and Interest Subsidy by GOSL
Central Bank Funded	The prosperity Loan Scheme (“Saubagya”)	To start up or expand any micro, small and medium scale enterprise (MSME) or any MSME affected by disasters	Refinance	Rs. 3,576 million	8%	
	Commercial Scale Dairy Development Loan Scheme (CSDDL)	Support to achieve self – sufficiency in milk and milk products through promoting commercial scale dairy farms.	Interest Subsidy	Rs. 38 million	6.1%	PFI's own funds and Interest Subsidy by Central Bank
Donor Funded	SAPP – 4P Capital Loan Scheme	Contribute to Sri Lanka's smallholders' poverty reduction & competitiveness & increase the income & quality of diet of 57,500 smallholders involved in commercially oriented production & marketing systems..	Refinance	Rs. 58 million	6.5%	Funded by the International Fund for Agriculture Development (IFAD)
	SAPP – 4P Seasonal Loan Scheme		Refinance	Rs. 600 million	6.5%	
	SAPP – 4P Youth Loan Scheme		Refinance	Rs.15 million	6.5%	

beneficiaries of the Ampara District received 12.3 per cent (Rs. 1,277 million) of the NCRCS as the second highest performing district. This performance was followed by Polonnaruwa District i.e. 10.8 per cent (Rs. 1,124 million) of the scheme.

- (c) Further, RDD implemented 4 other refinance loan schemes, namely, Poverty Alleviation Microfinance Project – Revolving Fund (PAMP-RF), Self-Employment Promotion Initiative Loan Scheme - Phase II (SEPI – Phase II), Swashakthi Loan Scheme and Athwela Loan Scheme. These schemes were designed and implemented to achieve the broader objectives of poverty alleviation, entrepreneurship development, employment generation and revival of disaster affected economic activities, respectively.
- (d) In order to support the smallholder farmers who are engaged in tea replanting and rubber new planting activities, the Smallholder Tea and Rubber Revitalisation (STaRR) Interest Subsidy Scheme was designed during 2019, in collaboration with the Ministry of Plantation Industries and Export Agriculture (MPIEA) and the Project

Management Unit (PMU) of the STaRR project. The STaRR Interest subsidy scheme is expected to provide concessionary loans to tea and rubber smallholder farmers to establish self-employment or short-term income generating activities, until such time the production is generated from their new plantations.

- (e) While the STaRR Project is funded by the International Fund for Agriculture Development (IFAD), the STaRR Interest Subsidy Scheme implemented by the Central Bank is funded by the government. In this regard, RDD made arrangements to sign the Administrative Agreement between the government and the Central Bank. The Operating Instructions to PFI's of the STaRR Interest Subsidy Scheme were issued accordingly. The operations of the interest subsidy scheme is expected to commence in the first quarter of 2020 in collaboration with the MPIEA and the PMU of STaRR project.
- (f) Further, the Administrative Agreement was signed with the government to implement a new Credit Guarantee Scheme to provide government guarantees through the Central Bank, to the PFI's for the loans granted under

“Ran Aswenna”, “Govi Navoda”, “Jaya Isura”, “Diri Saviya”, “Working Capital” and “Green Loan” loan schemes under the Enterprise Sri Lanka programme implemented by the government.

- (g) In addition, blue prints have been developed to introduce a new government funded refinance loan scheme for development financing and small and medium scale enterprises during 2019 to cater the fund requirements of long term development projects, small and medium scale enterprises and working capital requirements of export oriented enterprises in Sri Lanka.
- (h) In order to provide adequate financial support for the emerging young entrepreneurs to meet initial capital requirements, the total allocated amount of Rs. 390 million was increased to Rs. 950 million under SEPI – Phase II scheme whilst increasing the maximum loan amount from Rs. 500,000 to Rs. 1,000,000 per borrower.
- (i) A new Credit Guarantee Scheme was designed for the Working Capital Loans to be granted to the Small and Medium Scale Entrepreneurs whose previous loans are currently in the Non- Performing Loan category under the scheme on credit support to accelerate economic growth.

22.1.2 Implementation of Central Bank Funded Schemes

With a view to broadening the financial outreach of the MSMEs in Sri Lanka, the Central Bank continued to fund two main schemes, namely, the “Saubagya – (The Prosperity)” Loan Scheme (SLS) and the Commercial Scale Dairy Development Loan Scheme (CSDDL) where SLS is a refinance scheme and CSDDL is an interest subsidy scheme.

- (a) SLS continued to be the most demanded and popular refinance scheme amongst the schemes implemented by the Central Bank. As at end 2019, loans worth of Rs. 3,576 million among the beneficiaries were disbursed under the SLS.
- (b) Following the adverse impact on the tourism industry due to the Easter Sunday attacks in 2019 incident, RDD made arrangements to grant moratorium for the loans granted for the tourism sector under the SLS in terms of the Circular No. 07 of 2019 issued by Bank Supervision Department (BSD) of the Central Bank dated 08 May 2019, which requested the licensed banks to grant moratorium for performing loans given to individuals and entities in Tourism Industry on a case-by-case basis.
- (c) Interest subsidy under the CSDDL was provided to PFLs by the Central Bank for the loans granted to the dairy

farmers covering all activities related to dairy supporting the national objective of achieving self-sufficiency in terms of milk.

22.1.3 Implementation of Donor Funded Schemes

- (a) The donor funded component of the Smallholder Agribusiness Partnerships Programme (SAPP) continued its operations during 2019. This component funded by the IFAD, included Public-Private-Producer-Partnership (4P) Capital, 4P Seasonal and Youth Loan Schemes. These schemes disbursed Rs. 672 million among 3,251 beneficiaries during 2019. The donor funded schemes accounted for 4.4 per cent of total disbursements made through the schemes implemented by the Central Bank.
- (b) In order to cater to the changing requirements of the beneficiaries of the agricultural and other related sectors, a major restructuring was carried out with regard to the credit component of the SAPP in collaboration with the Project Management Unit of the SAPP. The purpose of this restructuring was to simplify the credit operations of both the government funded and donor funded components of SAPP and to enhance the operational efficiency by introducing simpler credit component and to deliver better service to the beneficiaries. With the restructuring, which entailed extensive policy amendments, arrangements have been made to cease the operations of existing SAPP loan schemes and to introduce new loan schemes with more market friendly and flexible features. The new credit component of SAPP includes two 4P loan schemes (i.e., 4P Agribusiness and 4P Youth Loan Schemes)

Chart II - 6
Previous Structure of the SAPP Credit Component

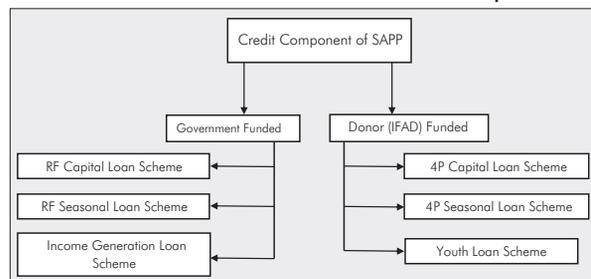
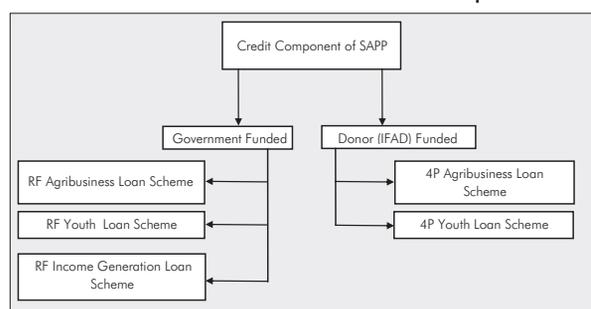


Chart II - 7
New Structure of the SAPP Credit Component



and three Revolving Fund (RF) Loan schemes (i.e., RF Agribusiness, RF Youth and RF Income Generation Loan Schemes) instead of previous six loan schemes operated under SAPP.

The structures of the credit component of SAPP before and after the restructuring process are given above.

In the policy front, actions were taken to sign the second addendum to the Administrative Agreement of SAPP with the government and issue the new Operating Instructions enabling the operations of new SAPP Loan schemes.

22.2. Strategic Initiatives of RDD

In the policy perspective, the RDD took a number of new policy directions to strengthen efforts in achieving balanced and inclusive economic growth during 2019.

22.2.1 Development of the First National Financial Inclusion Strategy in Sri Lanka

In the recent past, financial inclusion efforts of the Central Bank have taken significant strategic turnaround with RDD playing a leading role with its financial inclusion efforts. Financial Inclusion has been identified as a main focus area in the “Sustainable Development Road Map” launched by the Central Bank in 2019, while the first National Financial Inclusion Strategy (NFIS) of Sri Lanka is expected to launch in early 2020. Implementation of the NFIS primarily involves, inter alia, establishing a National-level Coordination and Implementing Mechanism for the NFIS accompanying a NFIS Secretariat, capacity building of the Financial institutions to design and develop sustainable products for MSMEs.

The NFIS was developed primarily by RDD with the support of the other stakeholders including several other departments of the Central Bank with the technical and financial assistance from the International Finance Corporation (IFC), a member of the World Bank Group (WBG). The Vision of the NFIS is “Better Quality Inclusion for Better Lives” which focuses on upgrading the lives of Sri Lankans through increasing financial inclusion.

The 3rd consultative mission with regard to the development of the NFIS was successfully conducted in August 2019 and by fulfilling the major objective of the mission, stakeholders were able to finalise the NFIS. During the extensive consultative process of the NFIS, the policy pillars for the strategy have been identified as (I) Digital Finance and Payments, (II) MSME Finance, (III) Consumer Protection and (IV) Financial Literacy and Capacity Building. Further, (I) Data, (II) Infrastructure and (III) Policy, Regulation and Supervision has been identified as key enablers of the NFIS.

It is pertinent to note that, financial education has been highlighted as a key catalyst in the whole process of financial inclusion and hence, it has been given priority to implement actions relating to this area more intensively under the NFIS while introducing a new component as “Improving Consumer

Empowerment via Financial Education”. In this regard, the Central Bank recommended to the Ministry of Education to include the subject of financial literacy to the National Education Curriculum with modern teaching materials, tools and techniques in a more dynamic manner.

The Central Bank also conducted an island-wide Financial Inclusion Survey (FIS) with the assistance of the IFC. This survey was expected to fulfill the data and information lacuna which hinders the efforts to provide a general landscape for financial inclusion levels. The outcome of FIS was used as the baseline information in developing the NFIS for Sri Lanka and setting up targets in a forward-looking strategy framework. The outcome of the survey will be published in early 2020 in line with the launching of the NFIS.

Moving forward with its financial inclusion efforts, RDD expects to conduct the first ever Financial Literacy Survey for Sri Lanka in 2020 with the technical assistance of the IFC. This will enable RDD to introduce a financial education mapping initiative for Sri Lanka to identify any gaps, lessons learnt, duplication of efforts and potential for synergies of financial education in the Sri Lankan context. Further, it is expected to establish a strong coordination mechanism to coordinate financial literacy programmes while developing a common set of definitions for financial literacy and develop key competencies frameworks with the participation of key stakeholders.

22.2.2 Continuing the Membership with the Alliance of Financial Inclusion (AFI)

RDD has taken actions to continue the membership of the Central Bank with the Alliance of Financial Inclusion (AFI) during 2019. The annual membership of AFI provided varieties of opportunities for its member institutions including the Central Bank, to upgrade their knowledge and skills which have positive impact on financial inclusion efforts, either directly or indirectly, undertaken by the Central Bank.

Apart from carrying out an administrative role with regard to the relationship maintenance and acting as the focal point of communication of the AFI, RDD, among other departments of the Central Bank who work in collaboration with AFI, has consistently been an active player and contributor to AFI, through its continuous participation in various activities of the AFI network. During 2019, RDD actively participated in the Working Group meetings and sharing its technical knowledge with the AFI member countries while sharing experiences with AFI member institutions through providing expertise as panel members and resource persons. Further, RDD officers who engaged in financial inclusion activities participated in the Global Policy Forum 2019 held in Kigali, Rwanda, which annually gathers AFI members and external stakeholders from the standard setting bodies, the private sector, and the academia, to discuss collaborative ways to increase access to financial services and to advance the financial inclusion agenda globally. Further, opportunities exist to enhance the global voice of the member countries through AFI's unique global voice platform through the Maya Commitment

Declaration (MCD). This also serves as a platform to increase the visibility of financial inclusion efforts and expertise of the member to the global network.

22.2.3 Hosting 32nd Annual Conference of the Asian Credit Supplementation Institution Confederation (ACSIC)

In October 2019, the Central Bank hosted the 32nd Annual Conference of the Asian Credit Supplementation Institution Confederation (ACSIC) in Colombo under the theme of "Credit Supplementation: Towards Sustainable Development". ACSIC is the largest Asian Corporative body for the Small and Medium Enterprises (SMEs) established in 1987 with the objective of promoting and developing sound credit supplementation systems. The ACSIC consists 16 member institutions from 11 countries. Where the current member countries are India, Indonesia, Japan, Korea, Malaysia, Mongolia, Nepal, Philippines, Sri Lanka, Taiwan and Thailand.

The Conference was comprised of technical sessions attending 90 participants including foreign delegates, for two days. It served as an opportunity for knowledge sharing on credit supplementation and paved the way to deepen relationships among members, while creating a positive image of Sri Lanka among member nations.

22.2.4 Automating the Operations of the Loan Schemes Implemented by RDD

RDD initiated actions to automate the operations of loan schemes implemented by the Central Bank commencing with the SAPP loan schemes. The project is funded by the government under the Institutional Strengthening Component of the SAPP, Financing Agreement between the government and IFAD. The project is expected to provide separate user interfaces for the SAPP stakeholders including the Central Bank, the PMU of SAPP, PFIs and private companies involved in 4P arrangements. During 2019, a suitable vendor to develop the software for the automation project was selected. The project is expected to complete during the first half of 2020.

Further, with the intention of increasing the efficiency and effectiveness of the loan operations by decreasing redundant work involved in the implementation of concessionary refinance schemes and also to move towards a paperless and green approach, actions are expected to be initiated in 2020 to develop a new IT application for Interest subsidy loan schemes and Credit Guarantee schemes implemented by RDD.

22.3 Skills Development and Capacity Building

Identifying the importance of financial literacy and awareness as dynamic parts of the journey towards the comprehensive financial inclusion, RDD conducted 122 awareness programmes covering all areas of the country. These programmes mainly focused on the financial literacy, entrepreneurship development and skills development etc.

to educate community leaders and other stakeholders, who are involved in social mobilising activities and financially excluded groups at the grass root level of the society.

Table II-30
Awareness Programmes Conducted by RDD during 2019

Type of Programme	No. of Programmes
Financial Literacy	87
Capacity Building	30
Media Campaign	5
Total	122

23. REGIONAL OFFICE MANAGEMENT

In terms of Section 7 of the MLA, "the Central Bank shall have its principal place of business in Colombo and may have such branches, agencies and correspondents in other places in Sri Lanka or abroad as may be necessary for the proper conduct of business of the Bank." Accordingly, starting from 1981, the Central Bank took steps to establish seven Regional Offices (ROO) in the districts of Matara, Anuradhapura, Matale, Jaffna, Trincomalee, Kilinochchi and Nuwara Eliya with the view of carrying out the Central Bank functions and promoting the development activities of respective regions. RO Jaffna was amalgamated with RO Kilinochchi in June 2017 in order to provide effective services to people in the region with the use of resources and facilities available at RO Kilinochchi. Currently, functions of ROMD and ROO cover all 25 administrative districts in the country.

ROO and ROMD contribute to achieve sustainable and balanced regional development by promoting development activities while conducting various awareness and training programmes and arranging trade fairs, technology transfer workshops and exposure visits for the benefit of entrepreneurs. Moreover, ROMD and ROO also play a major role in extending Central Bank services at the regional level.

23.1 Development Activities

During the year, 139 awareness programmes on formal and affordable financial services were conducted by ROMD and ROO targeting 15,267 beneficiaries island-wide including entrepreneurs, government officials, students and the general public. Further, ROO promoted the credit delivery mechanism of the respective regions while establishing 1,467 credit links and provided credit counseling services to borrowers who faced difficulties in repayments of their loan installments due to various reasons. Additionally, 15 knowledge sharing programmes on indebtedness were also conducted targeting 1,724 beneficiaries.

ROMD and ROO conducted training programmes covering the areas of entrepreneurship development, setting-up SMEs, skills development, technology transfers and application of best practices in businesses. Accordingly, 83 training programmes on areas such as preparation of business

plans, accounting, taxation and marketing were conducted for the benefit of 7,773 persons. Further, 107 capacity building programmes focusing on the use of best practices in businesses were conducted for 4,564 entrepreneurs. The beneficiaries of those programmes were engaged in various activities including dairy farming, floriculture production, mushroom cultivation, food processing, footwear manufacturing, batik printing, garment manufacturing, handicraft making and tourism related services. ROO also facilitated marketing of products by arranging market linkages, buyer-seller dialogues, trade fairs and exhibitions. Accordingly, 05 trade fairs were organised and a total of 276 entrepreneurs benefited through them. Moreover, 07 exposure visits were also arranged with the participation of 214 entrepreneurs.

Meanwhile, several initiatives were taken to develop the Micro, Small and Medium Enterprises (MSME) sector during the year 2019. Attention was paid to identify and develop a potential specific economic sector in each region by providing training and arranging credit facilities for relevant entrepreneurs. Accordingly, 38 programmes were conducted targeting 2,145 individuals involved in footwear manufacturing, beauty culture, floriculture production, handicraft making, dairy farming and gem and jewelry industry.

Further, ROMD and ROO conducted 32 training programmes to promote the MSME sector in the country through development officers attached to certain divisional secretariats throughout the country. Accordingly, 2,974 development officers were trained with the intention of making use of their services as change agents to promote SMEs in the respective regions.

ROO conducted 06 business clinics during the year and provided business counselling for 515 MSMEs with the intention of inculcating latest business knowledge and converting those enterprises into more organised entities. In addition, another 22 special programmes on quality management, consumer protection and safety procedures, import and export regulations were conducted and accordingly, 968 individuals benefited through those programmes. Region-wise entrepreneur societies were also established to support 222 entrepreneurs.

23.2. Representing the Central Bank at Regional Level

ROO and ROMD facilitated the conduct of various programmes related to other departments of the Central Bank in the regions. ROO attended to 101,366 EPF inquiries, maintained sales counters for commemorative coins and the Central Bank publications, supervised country wide data collection centers and currency museums set-up at RO Matara and RO Anuradhapura throughout the year. Further, several programmes were also conducted on subjects such as clean note policy, identification of forged notes, unauthorised financial institutions, prohibited

schemes, government securities market, anti-money laundering and countering terrorist financing, payment and settlement systems and foreign exchange regulations. In addition, educational programmes were arranged in order to upgrade the knowledge of students and teachers. Accordingly, 103 awareness programmes on different subjects were conducted with the participation of 22,001 persons. During January 2019, ROO facilitated the conduct of the preliminary written examination of the Econ Icon Season IV quiz programme of the Central Bank in their respective regions. Moreover, ROMD and ROO engaged in conducting surveys on topics such as credit demand, awareness on customer charter and financial inclusiveness during the year 2019. Regional Managers, other officers of ROO and ROMD attended meetings, discussions and special events arranged at regional levels.

24. RESOLUTION AND ENFORCEMENT

Pursuant to the decision taken at the Monetary Board at its meeting No. 21/2017 held on 16 June 2017, Resolution and Enforcement Department (RED) was established on 01 January 2018 by transforming the Enforcement Unit operated within the Legal and Compliance Department (LCD). The Deposit Insurance Unit, which operated within Bank Supervision Department, was also transferred to RED.

The main objectives of RED are resolving distressed financial institutions, conducting special investigations against officials of institutions who have acted in contravention of provisions of relevant regulations in laws of the Banking Act and Finance Business Act including prohibited schemes and unauthorised deposit taking entities etc. RED consists of five (05) divisions, namely, Resolution, Enforcement and Prosecution, Special Investigations, Deposit Insurance and Administration based on the following core functions assigned to the department:

24.1. Resolution of Distressed Financial Institutions

The Resolution and Enforcement Department is in the process of developing a comprehensive resolution framework to include resolution mechanisms for all entities supervised by the Central Bank with clear legal empowerments. It will be initially developed within the existing regulatory framework in which the resolution authority and its resolution powers are specified. At present almost all resolution powers are vested with the relevant regulators, i.e. Director of Bank Supervision (DBS) (in the case of licensed banks) and Director of Supervision of Non-Bank Financial Institutions (D/SNBFI) (in the case of non-bank financial institutions), as per the relevant legal enactments.

24.2. Enforcement Actions and Special Investigations on Prohibited Schemes and Unauthorised Deposit Taking Institutions

Enforcement functions of RED are being conducted under operating procedures approved by the Monetary Board

including internal arrangements in terms of the prevailing legal provisions. Accordingly, to conduct investigations on unauthorised finance businesses, D/SNBFI authorises officers of the RED under Section 42(1) of the Finance Business Act No.42 of 2011 and to conduct investigations on prohibited schemes, the Governor appoints officers of RED under Section 83C of the Banking Act No.30 of 1988.

The officers of RED initiated four (04) investigations on the conduct of alleged prohibited schemes. Reports of two (02) investigations along with the determination of the Monetary Board were submitted to the Attorney General Department for prosecution. Further, officers of RED assisted Criminal Investigation Division (CID) and Financial Criminal Investigation Division for another two investigations on prohibited schemes and the completed investigation reports were sent to the Attorney General's Department for further proceedings.

RED concluded an investigation on an unauthorised deposit taking institution and initiated legal action as the directors of the company failed to comply with the determination and directions of the Monetary Board. One director of the company was taken into police custody and the courts directed the CID to conduct further investigation.

As a preventive measure, the Enforcement and Prosecution Division conducts awareness programmes island-wide on a regular basis to enhance financial literacy among rural communities on prohibited schemes and unauthorised deposit taking institutions. RED conducted twenty six (26) awareness programmes for government officers, school students, and officers of security forces during the year 2019.

Table II-31
Awareness Programmes

Target Group	No of Programmes	No of Participants
Government Officers	19	2,508
School Students	05	401
Officers of Security Forces	02	150
Total	26	3,059

24.3. Administration of the Sri Lanka Deposit Insurance and Liquidity Support Scheme (SLDILSS)

As at 31 December 2019, the Scheme comprised of seventy four (74) member institutions with a total fund of approximately Rs. 62.03 billion (unaudited). Book value of the investments in government securities by the fund and the loan granted to a member institution during the year 2014 under the liquidity support facility for restructuring, as at 31 December 2019 were Rs. 65.4 billion and Rs. 1.9 billion, respectively. Financial highlights of SLDILSS are given in Table below.

Table II - 32
Financial Highlights of the Sri Lanka Deposit Insurance and Liquidity Support Scheme

Item	Amount (Rs. mn)	
	As at 31.12.2018	As at 31.12.2019*
Size of the fund	51,875	62,030
Total Income	14,024	15,830
Total Expenditure	(3,470)	(1,210)
Profit for the year (before tax)	10,554	14,620
Investment in Government Securities	49,844	65,452
Loans and Receivables (net of provisions)	1,672	1,346
Other Comprehensive Income Reserve	(1,528)	2,663

*Provisional

- (i) 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 from member institutions during the year of 2019 amounted to Rs. 9.2 billion.
- (ii) With effect from 01 January 2018, the deposit insurance coverage per depositor per institution is Rs. 600,000.

24.4. Compensation payments to the depositors of distressed finance companies

The Monetary Board granted approval to cancel the licenses issued to three (03) distressed member institutions namely Central Investments and Finance PLC (CIFL), The Standard Credit Finance Ltd (TSCFL) and TKS Finance Ltd (TKSFL) with effect from 05.03.2018, 25.07.2018 and 19.09.2019, respectively. Accordingly, compensation payments to the depositors of CIFL and TFCFL commenced from 27.08.2018 and 25.01.2019, respectively in accordance with the Sri Lanka Deposit Insurance Scheme Regulations. Further, the "RED Claims System" was developed during the year and is being used for compensation payments by the SLDILSS. SLDILSS was able to pay compensation to 3,024 depositors of CIFL and 2,309 depositors of TSCFL amounting to 1,271.40 million and 947.35 million, respectively. Compensation payments for the depositors of TKSFL were initiated at the end of January 2020.

25. RISK MANAGEMENT

The Central Bank faces various risks, both financial and non-financial in nature in pursuing its policy objectives. Since the materialisation of any of these risks could have a severe impact on the financial position and the reputation of the Central Bank, a properly designed risk management framework is vital for the Central Bank.

In line with the new risk management framework, Risk Management Department (RMD) developed a Risk Management Policy Statement (RMPS) for the Central Bank, setting out the policies for implementation of risk management across the Central Bank. In this process, the Central Bank follows accepted standards and guidelines for managing risks, while assigning risk ownership and management among different stakeholders with clear accountability.

25.1 Non-Financial Risk

RMD conducts an annual survey among the management of the Central Bank to determine the top bank-wide operational risks impacting the Central Bank. The survey results are used to revise the Operational Risk Taxonomy of the Central Bank, which helps prioritise key operational risk categories impacting the institution and requiring the attention of the Management.

To promote a risk culture within the bank, RMD conducts numerous risk awareness sessions for the Central Bank staff throughout the year at various fora, with the involvement of RMD staff and external resource personnel as required.

With a view to strengthening the operational risk management function, RMD worked closely with the World Bank's Operational Risk Team in 2019, and the existing risk governance structure and the framework for managing operational risks were reviewed. The World Bank assisted in finalising the operational risk taxonomy, risk rating scales and specific steps related to identification, assessment, monitoring and reporting of non-financial risks. Also, they conducted an operational risk assessment over two selected pilot areas of the Central Bank and delivered training on operational risk management for all key staff members.

RMD worked with other departments to facilitate the development of Risk Registers and to refine these Risk Registers in a phased-out manner using an Excel-based risk register format. Once this process is completed, the Management will be able to make more informed, risk conscious decisions on departmental activities.

RMD with the assistance of ITD deployed an automated Incident Reporting System on 01 October 2019, which is accessible to staff at all levels of the Central Bank. This system is expected to encourage reporting of incidents and to facilitate the development of a central repository of incidents while tracking progress on the implementation of corrective actions, identifying possible trends and areas of vulnerabilities and improving risk reduction measures.

25.2 Financial Risk

As the second line of defense, RMD independently monitors, analyses, evaluates, and reports financial risks and ensures compliance with the Monetary Board approved investment policies and guidelines relating to International Reserves (IR), Internal Investment Funds (IIF) of the Central Bank and Employees' Provident Fund (EPF), which is carried out as an agency function for the Government.

RMD reviewed Strategic Assets Allocations (SAAs) and Investment Policy Statements (IPs) for IR, IIF and EPF during 2019. Further, RMD began reviewing the Investment Guidelines (IG) for those funds by setting all the necessary risk parameters. RMD continuously monitors market risks and credit risks by frequent analysis of the risk indicators. In addition to the above, RMD regularly monitors adherence to limit frameworks given in SAAs, IPs, IGs and Counterparty Credit Risk Management Guidelines (CCRMG) for IR, IIF and EPF. All these risk assessments and non-compliances are presented to the monthly Investment Oversight Committees (IOCs), such as International Reserve Investment Oversight Committee (IRIOC), Internal Investment Oversight Committee (IIOC) and Employees' Provident Fund Investment Oversight Committee (EIOC). Further, BROC reviews the main risk factors and non-compliances which were highlighted at the IOCs, in addition to recommending the relevant policies and guidelines for the approval of the Monetary Board. The highlighted risks/changes to risk parameters and non-compliances are reported to the Monetary Board on a quarterly basis.

26. SECRETARIAT

Secretariat Department (SD) is one of the first departments established at the inception of the Central Bank. The main functions of SD involve overall corporate administration of the Central Bank, procurement management, administration of superannuation funds, facilitating overseas studies and training, conducting the Board of Survey for disposal management, and providing secretarial and protocol assistance to the Governor.

(a) Overall Corporate Administration

The overall corporate administration task was performed in line with governing regulations, accountability, risk management and other key attributes of good governance. Having conducted a survey on the Central Bank's properties and identifying the risk areas, SD obtained a comprehensive insurance cover for all the properties of the Central Bank. SD facilitated incoming and outgoing postal services of the Central Bank through its mail management service. The Department ensured that stationery store management is carried out efficiently and economically. Organising a variety of events for the Central Bank was also another important task of the Department. Further, the Secretary signed agreements with service providers on behalf of the Monetary Board during the year. In addition, SD handled correspondence relating to services provided to trade unions, clubs and associations of the Central Bank during the year. Apart from that, the Secretary granted approvals for public announcements, common email circulations, etc.

(b) Procurement Management

In line with the procurement procedures set out in the Central Bank Manual which are broadly consistent with

National Procurement Guidelines, SD procured goods and services through tender procedures as well as non-tender procedures mainly governed by the value of the items procured in 2019. The procurement process was carried out in line with the procurement plan, which was prepared based on the Monetary Board approved Annual Budget of the Central Bank. SD also involved in the procurement of goods and services under the Financial Sector Modernisation Project of the World Bank.

(c) Administration of Superannuation Funds

SD continued to administer payments and other correspondence relating to the Superannuation Funds of the Central Bank, which involved around 2,300 beneficiaries. Accordingly, SD engaged in paying gratuities, commuted pensions, releasing provident funds and making monthly pension, W&OP and WR&OP payments while collecting life certificates on a half yearly basis in line with Pension Rules specified in the Central Bank Manual.

(d) Facilitating overseas studies and Training

During 2019, SD facilitated postgraduate studies and short-term training for employees and duty travels abroad for members of the senior management. In this regard, SD involved in making related payments to universities, other training institutions and to employees who travelled abroad for the aforesaid purposes. In addition, SD assisted the staff who travelled abroad in obtaining visa through the issuance of visa letters and Provident Fund balance confirmation letters, air ticketing and travel insurance.

(e) Conducting Board of Survey

The Board of Survey is the method employed by the Central Bank to assess the condition of its fixed assets. Accordingly, it was conducted for the disposal of obsolete, damaged, unserviceable and irreparable motor vehicles, office equipment, furniture and other fixed assets. The disposal management process included survey of such assets in the Central Bank and the disposal of items as recommended by the Board of Survey.

(f) Provision of Secretarial and Protocol Assistance to the Governor

The Governor's Secretariat provided secretarial and protocol assistance to the Governor. The secretarial assistance provided included scheduling of appointments and meetings, preparation and compilation of presentations and speeches for the Governor. The protocol assistance included coordinating and arranging the Governor's local and foreign travels, official functions hosted by the Governor and protocol services provided to VIP visitors of the Governor and the Central Bank.

27. SECURITY SERVICES

Security Services Department (SSD) continued its operations to protect the employees of the Central Bank, visitors and properties of the Central Bank and currency consignments in transit during the year, while attending to system improvements and training of personnel, as summarised below.

27.1 System Improvements

Operational fitness of all fire-fighting equipment located at the Head Office and other premises belonging to the Central Bank were inspected, maintained and replaced on a regular basis during the year. In addition, a Fire and Safety Audit was conducted by Fire Services Department of the Colombo Municipal Council to ensure that the Fire Prevention System in the Central Bank was in order. Upgrading of CCTV system from analogue to digital was initiated with the assistance of FMD and installation commenced during the last quarter of the year. SSD participated and coordinated in all business continuity drills conducted by Payments and Settlements and Information Technology Departments.

27.2 Training

(a) Fire Prevention, Fire Fighting and First Aid Programmes

A two-day comprehensive training programme on fire prevention, firefighting, first-aid and disaster management was conducted for fire-wardens selected from all departments of the Central Bank in November 2019 with the assistance of Fire Service Department of the Colombo Municipal Council St. John Ambulance and Disaster Management Center. Further, a demonstration on fire fighting and fire-drills was conducted in March 2019 for all employees at the Head Office with the assistance of the Air Force and Colombo Fire Brigade.

(b) Skills and Competence Building

In order to improve the skills of the security officers, SSD arranged several educational programmes for its staff. These educational programmes covered the key areas of security, information technology and customer care.

(c) Weapon Handling and Live Firing

Weapon handling and live firing were conducted for all security officers with the assistance of the Sri Lanka Army during the last quarter of the year.

(d) New Recruits

Induction training for nine trainee security officers recruited in 2019 was completed during the year.

27.3 Surveillance activities

SSD screened and facilitated 99,400 visitors to the Head Office the Central Bank and 42,004 currency boxes in transit.

28. 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 provision of medical and restaurant facilities. The number of registered beneficiaries under MBS consisting of employees, pensioners, their registered dependants together with widows/widowers was approximately 10,700 as at end 2019.

During 2019, SSMD granted 1,748 loans which included Housing Loans (273), Provident Fund Loans (1014), Vehicle Loans (197), Computer Loans (03), Cat D Loans (73) and Cat B Loans (188) under the Staff Benefit Scheme. The loan monitoring system enabled effective supervision of loan disbursements to employees.

Having considered the escalation of market price of real estate and increase in the cost of construction, the quantum of loan granted for housing loans was increased up to Rs.7,500,000 with effect from 01.03.2019. Accordingly, amounts granted for repairs and extensions of existing houses were also increased.

In order to streamline the operations of the restaurant of the Central Bank while enhancing the productivity and improving the cost efficiency of the services to the staff, restaurant facilities were outsourced with effect from 01 September 2019.

SSMD continued to reimburse medical expenses incurred by all registered beneficiaries under the MBS. The total amount of reimbursement of medical expenditure increased by 12 per cent in 2019 compared to the previous year. With the approval of the Monetary Board, the reimbursement limits of medical expenditure under MBS were increased with effect from 01.03.2019. SSMD continued to provide facilities of the medical centre to the Bank employees during office hours throughout the year through outsourced service providers. Medical tests and laboratory services were also provided at the Medical Centre at a reasonable charge. During the year, SSMD conducted four awareness programmes, namely, "Reduce Prostate Gland Related Risks", "How to Lead a Healthy Life in the Modern World", "Myths and Beliefs of Food Nutrition" and "Work Life and Stress Balance" to enhance the knowledge of the Central Bank staff on such important health issues.

29. STATISTICS

Statistics Department (STD) effectively continued its operations, contributing towards the achievement of the Central Bank's objectives of 'maintaining economic and price stability' and 'maintaining financial system stability'.

Accordingly, the major activities that were performed by the Department during 2019 included: collection of data and information from primary and secondary sources; compilation of business sentiment, property price and wage rate indices; forecasting short term inflation and Gross Domestic Product (GDP); compilation of regional statistics namely, Sri Lanka Prosperity Index (SLPI) and Provincial Gross Domestic Product (PGDP); timely and regular dissemination of information through data library, publications, reports and press releases and engaging in knowledge sharing activities.

The year 2019 marked a step forward in the Department's efforts to explore the use of advanced technologies relating to big data, machine learning and data visualisation, to improve and complement the traditional approaches, in line with many other central banks around the globe. Internet data, which is one of the sources of big data, was used in compiling some of the useful indices during the year. Accordingly, prices available in property websites were used in compiling property price indices and the price data available on supermarket websites were used in compiling the supermarket imported price index to examine the exchange rate passthrough on imported items. In improving the inflation forecasts further, the Department experimented with employing machine learning techniques. In addition, the use of interactive dashboards, which enables gleaning insights easily, when communicating statistical analyses, was also initiated during the year.

29.1 Collecting Data through Surveys and Other Data Sources

(a) Business Surveys

The Business Outlook Survey (BOS), which provides a snapshot of business sentiments regarding the existing and expected developments related to key indicators of the economic activities, was continued on a quarterly basis during 2019 to monitor the short-term economic developments. The target population of this survey was large scale enterprises, which were involved in all major activities of the economy, namely, agriculture, industry and services.

The Purchasing Managers' Index (PMI) Surveys for Manufacturing, Services and Construction activities, which are considered high frequency and timely indicators of economic activities, were conducted on a monthly basis to be used as early indicators in GDP forecasting. The target population of PMI Surveys for Manufacturing and Services was large enterprises predominantly concentrated in the Western province. The survey for the Construction industry covered major construction firms selected from the companies registered with the Construction Industry Development Authority (CIDA). These indices could also be used by researchers, economic analysts, industry experts and business decision-makers to better understand the economic condition of the country.

Credit Conditions Surveys, which are designed to capture the demand and supply side developments in the credit market, were continued during the year 2019. With regard to the Credit Demand Survey, the target population was from the Small and Medium Enterprises (SMEs) of the economy in the Western province and the provinces where the Central Bank has its regional presence. The survey was conducted on a semi-annual basis and the results were reported to be used in policy decision making process. The Credit Supply Survey, which was designed to capture the recent developments and forward-looking information on the credit market, covered all licensed commercial banks and licensed specialised banks in the country. During 2019, the survey was restructured and conducted on a quarterly basis. The results facilitated technical analyses relating to the monetary policy and financial system stability policy formulation process of the Central Bank. Further, the survey findings were published on the Central Bank website for the benefit of external users.

To capture the developments in the retail sector, two separate surveys were conducted by the Department covering general sales outlets and the supermarket segment. The Retail Sales Volume Survey (RSVS) was initiated in 2019 targeting the retail sales outlets covered by the Country Wide Data Collection System (CWDCS), to develop an indicator to capture the volume information related to the general retail trade activities. The Super Market Retail Trade Survey, which was designed to capture the trends in the modern retail trade activities was continued on a quarterly basis during 2019, and the quarterly supermarket cost of sales index was computed using the data collected through this survey.

The Condominium Market Survey was continued on a quarterly basis during 2019 to obtain source data on condominium market in Sri Lanka with a view of monitoring the developments of the sector. The survey was conducted covering major condominium developers to gather information on actual sales prices, demand, reasons for price changes, number of existing and upcoming housing units, level of occupancy in projects and buyer portfolio details. In addition to these, forward-looking perceptions were also obtained. This survey provided information for the policy decision making process.

(b) Inflation Expectations Survey (IES)

The IES was conducted on a monthly basis to gather data and information about current and future expectations on inflation from selected categories of economic agents i.e. Corporate Sector and Household Sector. During 2019, the coverage of the Household Sector IES was expanded to the national level via the CWDCS network. The awareness sessions that were conducted while carrying out these surveys contributed towards bridging

awareness gaps on inflation and better anchoring agents' expectations on inflation.

(c) Country Wide Data Collection System (CWDCS)

Operations of the CWDCS, the electronic data collection platform introduced in 2018, were continued during 2019 with the engagement of 53 Teacher Investigators (TIs) to collect retail prices of an identical basket of goods to that of the National Consumer Price Index (NCPI); producer prices of agricultural commodities and building materials; daily wages of the informal sector workers; inflation expectations; and retail sales volumes of selected categories of goods, thereby enabling the Central Bank to provide timely inputs for in-house policy making process. With the view of improving the quality of data received through the CWDCS, STD conducted on-site and off-site supervisions with the help of Regional Offices of the Central Bank to identify the data outliers and inconsistencies and to take necessary corrective measures as and when required. STD conducted three regional seminars during 2019 to make the TIs aware of their common mistakes and to discuss solutions for the issues faced by TIs during the data collection process. Moreover, an e-communication platform was also introduced in 2019 to provide solutions to the issues faced by TIs during the process of data collection.

The data/information collected on weekly, monthly and quarterly bases during the year was used in forecasting price movements and inflation; evaluating the impact of policy changes on prices; analysing seasonal variations and regional differences in prices and wages; compiling PGDP and SLPI; and in forecasting GDP.

Moreover, the services of non-teacher data investigators were also obtained through the CWDCS to gather data/information on wholesale and retail prices from the Pettah market, Maradagahamula rice market, Dambulla and Narahenpita Special Economic Centres and Negombo and Peliyagoda Fish markets on daily and weekly bases. The Department collects this information from key markets to strengthen the management information system on the price movements of essential food items and for forecasting purposes. Further, having analysed, these price data were published on the Central Bank website, in summarised form, on a daily basis.

(d) Labour Force Information and Public Sector Employment Survey

STD conducted overall labour market data analyses with respect to employment, unemployment, foreign employment, labour relations, strikes and labour market reforms by obtaining data/information from the Department of Census and Statistics (DCS), the Department of Labour (DOL), Sri Lanka Bureau of Foreign Employment (SLBFI) and other data providers. The Public Sector Employment Survey was conducted

on an annual basis covering all public sector institutions to ascertain the developments in the public sector employment.

(e) On Demand Surveys

In addition to the regular surveys, the Department carries out various other surveys based on the requirements to capture the information pertaining to sudden incidents/developments that might have a significant impact on the economy and/or on the important areas for central banking activities. During 2019, several on demand surveys were conducted to gather information on the economic impact of the unexpected conditions prevailed within the country. In addition, the Central Bank collaborated with 20 other central banks to carry out a global survey on "Price Setting Strategies and Frequency" to test the validity of several sticky-price theories in explaining the sluggishness of the aggregate price changes around the globe.

29.2 Compiling Indices

(a) Business Sentiment Indices

Business Sentiment Indices, namely, Business Condition, Profitability, Skilled Labour Availability, Sales, Demand and Capacity Utilisation were compiled utilising the responses obtained through the BOS, which provided an indication of the movement of the economy in the immediate past quarter and a quarter ahead. This information was used in GDP forecasting. The results were also presented to the MPC for evidence-based policy making purposes. Further, the major indices in aggregate form with a summary were published quarterly on the Central Bank website.

PMI Manufacturing with the sub-indices of New Orders, Production, Employment, Suppliers' Delivery Time and Stock of Purchases, and PMI Services with the sub-indices of New Businesses, Business Activity, Employment, Backlogs of Work and Expectations for Activity were compiled to assess month-on-month change. The results provided high frequency data on short-term movement of the economy. This information was used in GDP forecasting and reported to the MPC for evidence-based policy decision making, while press notices were issued for the use of the general public. The PMI Construction survey was also conducted and the results were used in internal analyses.

(b) Property Price Indices

During 2019, the Land Price Index (base period: first half of 2017), covering 82 centres of all Divisional Secretariats of Colombo District, was compiled and published by the Department on a semi-annual basis. Three separate sub-indices representing Residential, Commercial and Industrial lands were compiled using per perch bare land prices obtained from the Government Valuation Department.

In addition, Residential Property Price Indices covering the condominium sector have been compiled since 2016 on monthly and quarterly bases for analytical purposes. The advertised price information obtained from the online property sales websites were used in compiling the monthly index, while actual sales transactions obtained through the Condominium Market Survey were used in compiling the quarterly index. These indices helped monitor the price developments in both the primary and secondary markets. In 2019, improvements to the compilation process were introduced with the assistance of the IMF and plans are underway to publish the indices in future.

(c) Wage Rate Indices

Wage rate indices covering public, formal and informal private sectors are compiled by STD to assess the movements of salaries and wages within the economy. During 2019, the Public sector wage rate index was rebased to 2016 (from 2012) in line with the initial salary codes of specific occupations as specified in the Public Administration Circular No. 03/2016 issued by the Ministry of Public Administration and Management on 25th February 2016. The data relating to the base period employment structure was obtained from the Census of Public and Semi Government Sector Employment conducted by the DCS in November 2016. Subsequently, the nominal and real wage rate indices for the public sector were compiled based on the public administration salary circulars that were issued from time to time. With regard to the formal private sector, real wage rate indices were compiled using the nominal wage rate indices for the employees in the Wages Boards Trades provided by the Department of Labour. The informal private sector wage rate index was compiled to assess the wage movements of the sector, based on the information collected through the CWDCS.

29.3 Forecasting Short Term Inflation and GDP

STD continuously contributed to the Forecasting and Policy Analysis System (FPAS) of the Central Bank by providing short-term forecasts of inflation and GDP with relevant analyses and other information. The Department prepared both model-based and indicator-based forecasts using relevant inputs from various sources. These forecasts were analysed and discussed at regular monetary policy cycles and submitted to the Monetary Board to facilitate policy decision making.

Both the Colombo Consumer Price Index (CCPI) and NCPI short term inflation forecasts were based on the recent price trends, expected price movements associated with market developments and econometric techniques. The Department continuously explored new variables, which reflect both the supply and demand side impact on inflation, to improve

inflation forecasting. Moreover, the inflation forecasts were updated frequently in line with the developments in input and output prices reflected through findings of surveys conducted by the Department. A new methodology was introduced in 2019 using daily prices, to minimise the inflation forecast error. Accordingly, the daily prices of main volatile food items were used to improve the CCPI inflation forecast as a part of continuous methodological improvements to the forecasting process.

With regard to the near-term GDP growth forecasts, both the indicator-based and the model-based techniques were used in forecasting. Leading economic indicators, survey findings and other primary and secondary information related to sub activities of the economy were combined with expert judgments in preparing indicator-based forecasts. Model based techniques were also used to forecast quarterly GDP.

29.4 Compiling Regional Statistics

(a) Sri Lanka Prosperity Index (SLPI)

In 2019, STD continued to compile and publish the SLPI to assess the overall prosperity of the country and its provinces. The index comprises three sub-indices, namely, Economic and Business Climate, Wellbeing of the People and Socio-Economic Infrastructure, which are compiled using 43 representative variables. Prosperity index values are compiled at the national level and provincial level separately. This is a useful measure for provincial authorities and other policy makers to identify the disparities in devising appropriate policy measures to address the concerns in different provinces. Further, the index and its sub-indices can be used to set up targets at provincial level and to evaluate the effectiveness of the implemented policies.

(b) Provincial Gross Domestic Product (PGDP)

STD continued to compile PGDP in nominal terms using a top-down methodology, where the national GDP statistics are disaggregated to the provinces using regional ratios derived through suitable provincial indicators related to provincial agricultural production, industry activities and value of services. Accordingly, upon the release of the annual GDP estimates by the DCS, the PGDP for 2018 was compiled and published in September 2019. These estimates measure and compare the economic activities across provinces, while providing an indication on the contribution of each province to the national GDP, so that they are employed as a base in allocating funds at regional levels for promoting focused development.

29.5 Disseminating Information

Timely and regular dissemination of official statistics, which is one of the vital functions of STD, was fulfilled during 2019 through both the printed and electronic modes. Accordingly, the two main annual statistical publications - "Economic

and Social Statistics of Sri Lanka 2019 – Volume XLI" and "Sri Lanka Socio Economic Data 2019 – Volume XLII" – were released in August and September 2019, respectively, in all three languages. The Department mainly contributed to two chapters of the Central Bank Annual Report and the Recent Economic Developments report and also continued to provide data for the Monthly Bulletin in 2019. The frequent releases of the Department, including the Daily Price Report of selected consumer items, and Weekly and Monthly Economic Indicators were published timely on the Central Bank website throughout the year. Moreover, various other information was disseminated by way of press releases to the public at large, while conducting knowledge sharing as and when required.

The tailored services of electronic data delivery were continued by the Department through the Data Library of the Central Bank, which is a system with a wide range of economic and financial data, produced by the Central Bank and other institutions, to foster economic research and education. The technical infrastructure and the visual layout of the system were improved during 2019 and the public were made aware of the changes via the newspapers.

30. SUPERVISION OF NON-BANK FINANCIAL INSTITUTIONS

The Department of Supervision of Non-Bank Financial Institutions (DSNBFI) is entrusted with the mandate to regulate and supervise Licensed Finance Companies (LFCs), Specialised Leasing Companies (SLCs) and Licensed Microfinance Companies (LMFCs) under the provisions of the Finance Business Act No.42 of 2011 (FBA), the Finance Leasing Act No.56 of 2000 (FLA) and the Microfinance Act No.06 of 2016, respectively. In addition, DSNBFI supervises the Primary Dealer Companies (PDCs) under the provisions of Registered Stock and Securities (Primary Dealers) Regulations No.01 of 2009 as amended and Local Treasury Bills (Primary Dealers) Regulations No.01 of 2009 as amended.

DSNBFI's supervisory function includes conducting statutory examinations (on-site supervision) and continuous surveillance (off-site supervision) of the licensed entities, while the regulatory function involves issuance of prudential regulations, granting regulatory approvals, and investigating into companies carrying on finance business without authority. Apart from the major functions, DSNBFI also engages in several other activities such as capacity building of the sector, facilitating court proceedings and attending to public complaints.

As at end 2019, there were 42 LFCs, 4 SLCs, 3 LMFCs and 8 PDCs under the purview of the Department. In addition, licenses were granted to 61 Registered Finance Leasing Establishments (RFLEs) under the FLA, including the 4 SLCs. Also, currently there are 7 Licensed Commercial Banks appointed as Primary Dealers (PDs). The names of these

LFCs, SLCs, RFLEs, LMFCs and PDs are provided at the end of this section. The main functions and activities performed by DSNBFI during 2019 are summarised below.

30.1. Issuance of Policy Measures

The prudential regulations issued during 2019 are provided in Part III of this report. A summary of the major prudential regulations is given below.

- (a) A Direction was issued on 'Deposits' restricting LMFCs accepting deposits other than as collateral deposits.
- (b) With the objective of protecting the customers being charged with exorbitant interest rates on microfinance loans granted by LFCs/ LMFCs, a Direction was issued on 'Maximum Rate of Interest on Microfinance Loans'.
- (c) Considering the high real interest rates on deposits and high rates on lending products observed in the economy and the need to strengthen and expedite monetary policy transmission through the financial system, and for LFCs to reduce its interest rates on lending and thereby enhancing credit flows to the real economy, a Direction was issued on 'Maximum Interest Rates on Deposits and Debt Instruments'.
- (d) In view of the adverse impact on the tourism industry due to the tragic Easter Sunday attacks, which took place on 21.04.2019, a Circular was issued on 'Concessions Granted to Tourism Industry' requiring LFCs and SLCs to grant concessions as per the circular to those individuals and entities in the tourism industry, who wish to avail such concessions.
- (e) Finance Business (Priority of Claims in the winding up of a finance company) Regulation, No. 01 of 2019 was issued, that will be applicable in the event of winding up of a finance company.
- (f) A consultation paper was issued on 'Introducing Ownership Limits to LFCs', with the objective of broad basing the share ownership of LFCs, to strengthen the corporate governance, proper delegation of duties, collective decision making process and internal control.
- (g) The Loan to Value (LTV) Direction was revised to incorporate the 2019 budget proposals by allowing higher LTV ratios for light trucks.
- (h) The proposed Microfinance and Credit Regulatory Authority Act was formulated in association with the Ministry of Finance (MOF) with a view of establishing a regulatory authority for regulation and supervision of Microfinance and Moneylending businesses in Sri Lanka and was submitted to the MOF for the initiation of the enactment process.
- (i) The existing Direction on Valuation of Immovable Properties issued to LFCs and SLCs was revised with changes in the eligibility criteria for valuers and frequency of valuation.

- (j) A Direction was issued on Repurchase and Reverse Repurchase transactions of Dealer Direct Participants in Scripless Treasury Bonds and Scripless Treasury Bills. The Direction shall be applicable to all repurchase and reverse repurchase transactions in Scripless Treasury Bonds and Scripless Treasury Bills entered into by a Dealer Direct Participant (DDP), except for Intra Day Liquidity Facility (ILF) transactions and repurchase and reverse repurchase transactions entered into with the Open Market Operations and Standing Facilities of the Central Bank.

30.2. Supervision of Licensed Entities

(a) Conduct of Statutory Examinations

- (i) DSNBFI conducted 20 statutory examinations of LFCs and SLCs during 2019. The main findings of the examinations included low efficiency, issues in corporate governance, lapses in the classification of loans and advances as non-performing, inadequate loan loss provisioning, weaknesses in the risk management framework, issues in the internal audit and compliance function, absence of adequate capital plans to meet regulatory requirements and sustainability issues originated from the business models.
- (ii) The Monetary Board approved time bound action plans and recommendations of 23 examinations, including 18 examinations of the previous periods, and they were communicated to the respective companies for the attention of the Board of Directors and Board sub-committees. The actions taken by these LFCs and SLCs in order to rectify the concerns raised and to implement the recommendations within the agreed timelines are monitored by the off-site surveillance division.
- (iii) Statutory examinations of 4 PDCs were completed during 2019 while continuous surveillance continued on an ongoing basis for all PDCs. The Monetary Board having observed the findings of the statutory examinations and investigations conducted on NatWealth Securities Limited (NWSL), the business operations and activities of the company were suspended for a period of six months with effect from 31.05.2019. Suspension of NWSL from carrying on the business and activities of a Primary Dealer was revoked, with effect from 30.11.2019.

Further, as supervisory measures, suspension of business activities of Perpetual Treasuries Limited (PTL) and Pan Asia Banking Corporation PLC – Primary Dealer Unit (PABC), were extended for a period of six months (PTL w.e.f. 05.01.2020 and PABC w.e.f. 15.08.2019).

(b) Conduct of Continuous Surveillance

- (i) All LFCs, SLCs and PDCs were continuously supervised based on the periodic financial information submitted through the web based FinNet system and review of other financial information including auditors' reports, management letters, external rating and press reports, etc. These reviews identify the potential risks of LFCs, SLCs and PDCs through early warning indicators and internal rating system on the areas of capital, liquidity, provisioning, corporate governance and risk management.
- (ii) On the basis of assessments and severity of the finding, DSNBFI takes prompt corrective actions to rectify the supervisory concerns within a clearly stipulated time frame. Further, sector performance was reported to the Monetary Board on a regular basis in view of keeping the senior management informed of the latest developments in the sector.
- (iii) DSNBFI imposes a maximum ceiling on deposits, lending and borrowings when LFCs do not comply with minimum core capital direction.
- (iv) All LMFCs were continuously supervised based on financial information submitted by the companies and review of other financial information including auditors' reports, management letters, external rating and press reports, etc.
- (v) DSNBFI granted regulatory approvals to LFCs and SLCs to issue debt instruments, increase share capital, capital infusions by new investors, amend the Articles of Association, form subsidiaries, outsource business operations, appoint new Directors and officers performing executive functions, relocation of business places, ownerships transfers and openings of new branches.
- (vi) DSNBFI mediated to resolve a large number of complaints received with regard to LFCs and SLCs from the general public, mainly with respect to unfair customer practices and seeking reliefs on the transactions entered into with LFCs and SLCs.

(c) Resolution Actions on Weak LFCs

The key focus of DSNBFI during 2019 was to resolve the insolvent companies, which have been confronted with prolonged liquidity crisis for the past several years. Accordingly, the following steps were taken in this regard:

- (i) The license issued to TKS Finance Limited under the FBA was cancelled and is in the process of liquidation.
- (ii) Several regulatory actions were initiated including imposing restrictions on deposits, lending and

borrowings. The Department appointed a management panel to manage the business affairs of a distressed company. The Department also facilitated another distressed finance company to repay part of its deposits through the disposal of assets. Further, part of the deposits of one distressed company was repaid using internally generated funds.

- (iii) In addition, regulatory actions were initiated against the wrongdoers of these companies to recover the loss caused to the company by their actions, including impounding passports and seizing personal bank accounts and properties.
- (iv) Regular meetings were held with the Board of Directors, Senior Management and External Auditors to monitor the progress and restructuring/revival plans of these companies in compliance with the Central Bank Directions.
- (v) All LFCs and SLCs will be required to disclose the regulatory actions in various publications such as websites, articles and financial statements published in newspapers, and advertisements soliciting deposits and debt from public, etc.
- (vi) The Central Bank has disclosed the names of five companies, which are subject to regulatory restrictions, on the Central Bank website and in the Central Bank Annual Report 2018.
- (vii) Notice of cancellation of the license was issued to Sinhaputhra Finance PLC. However, thereafter the Monetary Board decided to provide the company with an opportunity to implement the capital augmentation plan proposed by the company.
- (viii) Notice of cancellation of the license was issued to The Finance Co. PLC for carrying out finance business considering the critical financial conditions of the company. Credible Investors can still submit an acceptable Expression of Interest (EOI) along with proof of funds for capital infusion and a capital rescheduling plan.
- (ix) The license issued to Newest Capital Ltd., under the FLA was cancelled and the company was acquired by another LFC under the consolidation programme.

(d) Public Awareness and Capacity Building of the LFC/SLC Sector**(i) Capacity Building**

With a view to enhancing the skills/competences, the officers of the SNBFI Department participated in local

Annex II - 4	
Authorised Financial Institutions (As at end 2019)	
Licensed Finance Companies	
1. Abans Finance PLC	21. LOLC Finance PLC
2. Alliance Finance Co. PLC	22. Mercantile Investments and Finance PLC
3. AMW Capital Leasing and Finance PLC	23. Merchant Bank of Sri Lanka & Finance PLC
4. Arpico Finance Co. PLC	24. Multi Finance PLC
5. Asia Asset Finance PLC	25. Nation Lanka Finance PLC
6. Associated Motor Finance Co. PLC	26. Orient Finance PLC
7. Bimpuh Finance PLC	27. People's Leasing & Finance PLC
8. Central Finance Co. PLC	28. People's Merchant Finance PLC
9. Citizens Development Business Finance PLC	29. Prime Finance PLC
10. Commercial Credit and Finance PLC	30. Richard Peiris Finance Ltd.
11. Commercial Leasing & Finance PLC	31. Sarvodaya Development Finance Ltd.
12. Dialog Finance PLC (formerly Colombo Trust Finance PLC)	32. Senkadagala Finance PLC
13. ETI Finance Ltd. (a)	33. Serendib Finance Ltd.
14. Fintrex Finance Ltd. (formerly Melsta Regal Finance Ltd.)	34. Singer Finance (Lanka) PLC
15. HNB Finance Ltd. (formerly HNB Grameen Finance Ltd.)	35. Sinhaputhra Finance PLC (b)
16. Ideal Finance Ltd.	36. Siyapatha Finance PLC
17. Kanrich Finance Ltd.	37. Softlogic Finance PLC
18. Lanka Credit and Business Finance Ltd. (formerly City Finance Corporation Ltd.)	38. Swarnamahar Financial Services PLC (a)
19. L B Finance PLC	39. The Finance Co. PLC (c)
20. LOLC Development Finance PLC (formerly BRAC Lanka Finance PLC)	40. Trade Finance & Investments PLC
	41. U B Finance Co. Ltd.
	42. Vallibel Finance PLC
Registered Finance Leasing Establishments	
(A) Licensed Commercial Banks	(B) Licensed Specialised Banks
1. Amana Bank PLC	1. Housing Development Finance Corporation Bank of Sri Lanka
2. Bank of Ceylon	2. Pradeshiya Sanwardana Bank
3. Commercial Bank of Ceylon PLC	3. Sanasa Development Bank PLC
4. DFCC Bank PLC	
5. Hatton National Bank PLC	(C) Specialised Leasing Companies
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. SMB Leasing PLC
9. Pan Asia Banking Corporation PLC	4. Unisons Capital Leasing Ltd.
10. Sampath Bank PLC	
11. Seylan Bank PLC	(D) All Licensed Finance Companies listed above
12. Union Bank of Colombo PLC	
Licensed Microfinance Companies	
1. Berendina Micro Investments Company Limited	3. Dumbara Micro Credit Limited
2. Lak Jaya Micro Finance Limited	
Primary Dealers	
1. Acuity Securities Ltd.	9. Pan Asia Banking Corporation PLC (f)
2. Bank of Ceylon	10. People's Bank
3. Capital Alliance Ltd.	11. Perpetual Treasuries Ltd. (g)
4. Commercial Bank of Ceylon PLC	12. Sampath Bank PLC
5. Entrust Securities PLC (d)	13. Seylan Bank PLC
6. First Capital Treasuries PLC	14. Union Bank of Colombo PLC
7. Natwealth Securities Ltd. (e)	15. WealthTrust Securities Ltd.
8. NSB Fund Management Co. Ltd.	
<p>(a) These entities are subject to the restrictions imposed by the Central Bank of Sri Lanka under the Finance Business Act, No.42 of 2011 (FBA) including not to accept new deposits.</p> <p>(b) A notice of cancellation of the license issued to carry on finance business under the FBA has been issued by the Monetary Board of the Central Bank of Sri Lanka (MB). However, in terms of the provisions of the Act, Sinhaputhra Finance PLC (SFP) has submitted its objections for the notice of cancellation of license and submitted a capital augmentation plan. In view of the proposed capital augmentation plan submitted by SFP and in the interest of depositors, the MB decided to provide SFP with an opportunity to implement the proposed capital augmentation plan within the timeframe stipulated.</p> <p>(c) This entity is subject to the restrictions imposed by the Central Bank of Sri Lanka under the FBA including not to accept new deposits. Further, the Central Bank of Sri Lanka has issued a notice of cancellation of the license on carrying out finance business, considering the critical financial condition of the company. Any credible investor can still submit an acceptable Expression of Interest along with proof of funds for capital infusion and a business rescheduling plan.</p> <p>(d) Participation in government securities primary auction was refrained w.e.f. 24.07.2017</p> <p>(e) Suspended carrying on the business and activities of a primary dealer for a period of 6 months w.e.f. 31.05.2019 and it was revoked w.e.f.30.11.2019</p> <p>(f) Suspended carrying on the business and activities of a primary dealer for a period of 6 months w.e.f. 15.08.2019</p> <p>(g) Suspended carrying on the business and activities of a primary dealer for a period of 6 months w.e.f. 05.01.2020</p>	

and foreign training programmes in the areas of forensic investigations, Basel principles, stress testing, corporate governance, IFRS etc. The senior officers of the Department continued to serve as resource persons at the training sessions conducted at CBS and other external institutions.

(ii) Meeting with LFCs/SLCs and Other Stakeholders

DSNBFI conducted 4 meetings with the CEOs of LFCs/SLCs chaired by the Governor with the objective of sharing views of the Central Bank and LFC/SLC sectors on matters relating to the economy and regulatory developments. In addition, the Department held continuous meetings with LFCs/SLCs, external auditors and international agencies to discuss issues related to licensed entities/sector as a whole and to implement corrective actions.

(iii) Public Awareness Programmes

DSNBFI provided assistance to conduct such programmes upon requests of other Departments such as the Resolution and Enforcement Department, Regional Development Department and Regional Offices Monitoring Department, as and when required.

Press releases were issued with the intention of increasing public awareness on money lending activities, mobilisation of deposits through debt instruments and the associated fraudulent activities carried out by unregulated entities during the latter part of 2019. Further, DSNBFI participated in microfinance related awareness programmes upon requests of other organisations.

30.3. Facilitating Court Proceedings on Unauthorised Financial Institutions

(a) Golden Key Credit Card Company Ltd. (GKCC)

As per the modalities approved by the Supreme Court for repayment to the Security Deposit Holders of GKCC, DSNBFI coordinated the repayment of Security Deposits held by the customers of GKCC.

(b) Actions Relating to Unauthorised Financial Institutions

DSNBFI continued to facilitate the proceedings of the Court cases filed by the depositors of The Finance and Guarantee Property Developers Private Ltd. (FGPDL) and F&G Real Estate Company Ltd. (FGRECL) since 2015 till the termination of the case in 2019. Further, DSNBFI provided evidence for the cases filed with regard to unauthorised finance business as and when required by the Courts.

31. TRAINING AND DEVELOPMENT

Training and Development Department (TDD) identifies training needs, formulates strategies to fill up training gaps, prepares and implements annual training plan, facilitates the staff for their postgraduate studies, and provides opportunities for foreign/local short-term training for the staff, to facilitate emerging needs of the human capital development of the Central Bank. Further, TDD facilitates knowledge sharing among the staff of the Central Bank, as well.

31.1 Postgraduate Studies

During the year, TDD facilitated three staff class officers to embark on Doctor of Philosophy degree (PhD) programmes and another five officers to embark on Master's degree programmes in reputed universities in Australia and United Kingdom. Meanwhile, an officer was facilitated to commence a programme leading to a PhD and two officers were facilitated to commence Master's degree programmes in local universities on part-time basis.

Further, eight officers reported back to duty after completing their postgraduate studies successfully during 2019, of which one officer had completed his PhD degree programme and other seven officers had completed their Master's degree programmes. Number of officers who have commenced/completed postgraduate studies under the Central Bank Scholarship Programme during the period 2015-2019 are given in the Table II-33 below.

Table II-33
Postgraduate Studies under the Central Bank
Scholarship Programme

Studies	2015		2016		2017		2018		2019	
	Commenced	Completed								
PhD	3	5	5	2	3	3	8	1	4	1
Master's Degree	19	21	24	11	19	18	8	14	7	7

31.2 Short-term Training

With the aim of bridging the competency gaps identified during the annual competency mapping exercise carried out at end 2018, TDD facilitated 1,532 short-term foreign and local training opportunities to the staff of the Central Bank.

31.2.1 Short-term Foreign Training

TDD facilitated the participation of the Central Bank employees in relevant short-term foreign training including training programmes, workshops, seminars, conferences, study visits and meetings conducted by the reputed foreign training institutions and central banks during 2019. Accordingly, TDD facilitated 392 short-term

training opportunities to staff of the Central Bank and nine study visits held in the USA, Singapore, Thailand, Indonesia, India, Malaysia and South Korea. Further, TDD facilitated three Central Bank officers to contribute in foreign programmes as resource persons. In addition, TDD facilitated 18 Training Committee Meetings to make decisions relevant to training and development matters.

The foreign central banks where the Central Bank employees obtained their trainings in 2019 include Bank of England, Federal Reserve System of the USA, Swiss National Bank, Bank of Montreal, Deutsche Bundesbank, Banque de France, National Bank of Ukraine, Bank of Korea, Monetary Authority of Singapore, Bank Negara Malaysia, Bank of Thailand, Bangko Central ng Pilipinas, Bank of Indonesia, Maldives Monetary Authority, Reserve Bank of India, State Bank of Pakistan, Nepal Rastra Bank, Royal Monetary Authority of Bhutan and National Bank of Cambodia. In addition, the employees of the Bank also participated in short-term training programmes at international funding agencies, research organisations and training institutes such as International Monetary Fund (IMF), World Bank, Asian Development Bank, South East Asian Central Banks (SEACEN), Bank for International Settlements (BIS) etc.

While providing short-term foreign training opportunities to Central Bank officers, TDD also focused on ensuring that the staff members make use of the knowledge and skills acquired from such programmes to improve the operations of the Central Bank. For this purpose, TDD facilitates training sub-committee meetings on post-training monitoring for short term foreign training programmes. Ten such training sub-committee meetings were held in 2019 for the officers who attended short-term foreign training programmes, and accordingly, 262 assignments relating to submitting articles to be published in Central Bank publications, research papers, presentations, proposals for improving systems and processes, and concept papers have been assigned.

31.2.2 Short-term Local Training

During the year, TDD provided 958 short-term local training opportunities by way of training programmes, seminars, workshops, etc. to the Central Bank staff at the Centre for Banking Studies (CBS) and at other reputed local institutions. These were mainly in the areas of economics, statistics, accountancy, banking, IT, legal, auditing, fund management, risk management, secretarial practices, human resource development, supervision of banks & financial institutions, financial markets, foreign exchange, currency and regional development. There were 558 officers participated in 105 training programmes conducted by local institutions while 400 officers participated in 44 training programmes conducted by CBS during the year. In addition, TDD facilitated to conduct the local sessions of the Bank of Korea Knowledge Partnership Project in 2019.

31.3 Knowledge Sharing

TDD facilitated presentations by the Central Bank officers who reported back after completing their Master's studies. Further, TDD arranged Economic Forums with invited guest speakers as well as with the Central Bank officers. In order to further enhance the skills of the Central Bank staff, TDD continued sponsorship scheme for Chartered Financial Analyst (CFA) qualification, encouraging the Central Bank officers to acquire professional qualifications useful for operations of the Central Bank.

31.4 Implementation of Policies

During the year under review, TDD issued several Circulars facilitating Central Bank employees to enhance their skills including the Circular on criteria for selecting Central Bank officers for attending short term foreign training programmes, seminars, conferences, meetings, forums, workshops, familiarisation programmes, study visits etc. held abroad.