

# **PART II**



# PART II

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

1. Accounts and Finance	1
2. Bank Supervision	75
3. Centre for Banking Studies	78
4. Communications	78
5. Currency	80
6. Domestic Operations	82
7. Economic Research	86
8. Employees' Provident Fund	89
9. Facilities Management	93
10. Finance	94
11. Financial Consumer Relations	95
12. Financial Intelligence Unit	95
13. Foreign Exchange	97
14. Human Resources	100
15. Information Technology	104
16. Internal Audit	106
17. International Operations	106
18. Legal and Compliance	108
19. Macprudential Surveillance	109
20. Payments and Settlements	111
21. Policy Review and Monitoring	113
22. Public Debt	114
23. Regional Development	117
24. Resolution and Enforcement	121
25. Risk Management	122
26. Secretariat	123
27. Security Services	124
28. Staff Services Management	125
29. Statistics	125
30. Supervision of Non-Bank Financial Institutions	128



## 1. ACCOUNTS AND FINANCE

### Activity Report of the Monetary Board Advisory Audit Committee during and relating to the Financial Year 2020

#### 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 matters assigned by the Monetary Board. AAC reports its recommendations to the Monetary Board.

#### 2. Composition of AAC

AAC is chaired by an appointed member of the Monetary Board and comprised of two other audit professionals from the industry.

Composition of AAC during the year 2020 was as follows:

- |      |                      |   |
|------|----------------------|---|
| i.   | Mr. A N Fonseka      | – Chairman (till 31.05.2020)                |
| ii.  | Dr. Ranee Jayamaha   | – Chairperson (with effect from 01.07.2020) |
| iii. | Mr. H M A Jayasinghe | – Member                                    |
| iv.  | Mrs. A I Mohotti     | – Member                                    |

Secretary to the Monetary Board is the Secretary to AAC, and the Director of Internal Audit Department is the Assistant Secretary to AAC. Internal Audit Department (IAD) provides secretarial facilitation to AAC. Assistant Governor in-charge of Finance Department, Audit Superintendent from the National Audit Office in-charge of the external audit of the Central Bank, Chief Accountant, Compliance Officer, and Chief Risk Officer of the Central Bank attend AAC meetings as Observers. Heads of Department of the Central Bank are invited by the Chairperson of 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 Central Bank are discussed.

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

#### 3. Activities carried out during and relating to the Financial Year 2020

AAC held ten (10) meetings in 2020 and the major activities performed by AAC during and in relation to the financial year 2020 are indicated below.

##### a) Financial Reporting and External Audit:

The AAC reviewed,

- i. Interim Issues Memorandum, the final Management Letter submitted by KPMG relating to the audit of the Financial Statements of the Central Bank for the year ended 31<sup>st</sup> December 2019 and the management comments for the same.
- ii. Report of the Auditor General on the Financial Statements of the Central Bank for the year 2019 and the management comments for the same.
- iii. Audit Plan of KPMG with regard to the audit of the Financial Statements of the Central Bank for the year 2020.
- iv. Financial Statements of EPF for the year ended 31<sup>st</sup> December 2019 audited by the Auditor General.

## b) Internal Controls;

AAC,

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

## c) Internal Audit;

AAC reviewed,

- i. Internal Audit Observations and Recommendations.
- ii. Implementation status of Audit Recommendations by process owners.
- iii. Strategic Audit Plan of IAD for 2021 - 2023 and the Annual Internal Audit Plan for 2021 .
- iv. Staff requirements of IAD.

## Activity Report of the Board Risk Oversight Committee during the Financial Year 2020

### 1. Introduction

Board Risk Oversight Committee (BROC) is a subcommittee appointed by the Monetary Board, overseeing the overall Risk Management and Compliance Functions of the Central Bank through a formal delegation from the Monetary Board. BROC is responsible for setting the broad strategy and policies for the risk management and compliance functions of the Central Bank, ensuring a dedicated focus on risk management and compliance.

### 2. Composition of BROC

BROC is chaired by an Appointed Member of the Monetary Board 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 BROC during the year 2020 was as follows:

- i. Mr. Chrisantha Perera, Appointed Member of the Monetary Board (Chairman from 01/01/2020 to 20/01/2020), Mr. A N Fonseka, Appointed Member of the Monetary Board (Acting Chairman from 29/01/2020 to 05/05/2020), and Mr. Sanjeeva Jayawardena, President's Counsel - Appointed Member of the Monetary Board (Chairman from 06/05/2020 to date)
- ii. Mr. Naomal Goonewardena (Independent External Member)
- iii. Mr. Priyan Fernando (Independent External Member from 01/01/2020 to 13/07/2020) and Mr. Susantha Ratnayake (Independent External Member from 06/10/2020 to date)

Secretary to the Monetary Board is the Secretary to BROC, and the Director - Risk Management Department (Chief Risk Officer of the Central Bank) is the Assistant Secretary to BROC. Risk Management Department (RMD) provides secretarial facilitation to BROC.

The Senior Deputy Governor and all Deputy Governors, the Chairman of the Business Continuity Planning Committee, Director - Legal and Compliance Department (Chief Compliance Officer of the Central Bank), and the Director - Internal Audit Department of the Central Bank attend BROC meetings in the capacity of Observers.

BROC is required to meet at least once every quarter or more frequently as may be decided by the Chairman or as directed by the Monetary Board. Meetings of 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 the Financial Year 2020

BROC held 03 meetings in 2020 and the major activities carried out are as follows:

- i. Reviewed the Risk Management Policy Statement (RMPS) of the Central Bank providing relevant inputs and guidance for improvements.
- ii. Facilitated implementation of the recommendations provided by World Bank Technical Assistance Mission on operational risk management, with a view to improving departmental risk management functions while nurturing a risk culture within the Central Bank.
- iii. Reviewed the Operational Risk Management Guidelines of the Central Bank, and made recommendations to the Monetary Board for its approval.
- iv. Reviewed the Departmental Risk Registers and made recommendations to the Monetary Board in order to expedite the mitigation of operational risks highlighted.
- v. Made recommendations to mitigate pandemic related risks including business continuity risks and, health and safety risks confronted by the Central Bank to ensure its operations are carried out in an uninterrupted manner.
- vi. Reviewed and assessed the risk management and compliance updates pertaining to the funds managed by the Central Bank (the International Reserves, the Internal Investment Funds, and the Employees' Provident Fund), to ensure that such funds are managed within the stipulated parameters.
- vii. Reviewed and recommended improvements to the Investment Guidelines for International Reserves and Internal Investment Funds from a risk management perspective.

## **Central Bank of Sri Lanka**

### **Management Statement**

#### **For the period ended 31 December 2020**

### **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.





# ජාතික විගණන කාර්යාලය

## தேசிய கணக்காய்வு அலுவலகம்

### NATIONAL AUDIT OFFICE



මගේ අංකය  
எனது இல.  
My No.

BAF/H/CBSL/1/20/1

ඔබේ අංකය  
உமது இல.  
Your No.

දිනය  
திகதி  
Date

05 April 2021

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 2020 in terms of Section 12 of the National Audit Act, No. 19 of 2018

#### 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 2020, 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 give a true and fair view of the financial position of the Bank as at 31 December 2020, 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.



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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 for the preparation of the annual and periodic financial statements 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

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

2.1.1 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.

2.1.2 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.

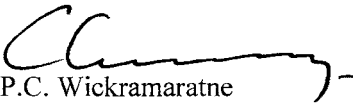
2.1.3 The financial statements presented includes all material recommendations made by me in the previous year as per the requirement of the section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

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

2.2.1 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;



- 2.2.2 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;
- 2.2.3 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;
- 2.2.4 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****Foreign Currency Financial Assets**

	Note	2020 Rs. 000	2019 Rs. 000
Cash & Cash Equivalents	8	403,307,304	420,709,469
Securities at Fair Value through Profit or Loss	9	40,564,323	38,493,268
Securities at Fair Value through Other Comprehensive Income	9	703,435,463	729,801,009
Derivative Financial Instruments	10	3,370,353	2,021,917
IMF Related Assets	11	158,958,185	147,159,174
Other Receivables		1,702,247	-

**Total Foreign Currency Financial Assets**

1,311,337,875 1,338,184,837

**Local Currency Financial Assets**

Sri Lanka Government Securities	12	714,531,527	76,511,883
Securities Purchased under Resale Agreements	13	2,728,412	50,354,879
Provisional Advances to Government	14	153,061,900	236,608,971
Equity Investments in Financial and Other Institutions	15	1,615,356	1,500,487
Loans to Banks	16	111,487,526	39,289
Other Assets	17	23,097,189	17,562,458

**Total Local Currency Financial Assets**

1,006,521,910 382,577,967

**Total Financial Assets**

2,317,859,785 1,720,762,804

**Foreign Currency Non-Financial Assets**

Gold	18	76,220,055	173,438,430
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**Non-Financial Assets**

Inventories	19	6,301,819	7,298,392
Other Receivables and Prepayments		651,804	1,069,076
Property, Plant and Equipment	20	20,539,377	16,810,691
Intangible Assets	21	24,327	38,046

**Total Non-Financial Assets**

103,737,382 198,654,635

**Total Assets**

2,421,597,167 1,919,417,439

**Liabilities and Equity****Foreign Currency Financial Liabilities**

Banks and Financial Institutions	22	208,337,221	958,248
Derivative Financial Instruments	10	574,182	989,958
Asian Clearing Union	23	63,864,652	82,995,147
International Monetary Fund	24	509,925,278	471,975,073
Others	25	74,870,325	57,091,538

**Total Foreign Currency Financial Liabilities**

857,571,658 614,009,964

**Local Currency Financial Liabilities**

Deposits of Banks and Financial Institutions	26	129,601,521	254,581,620
Deposits of Government and Governmental Entities	27	1,460,512	499,639
Securities Sold Under Repurchase Agreements	28	209,507,898	43,298,325
Currency in Circulation	29	834,807,859	677,967,150
Other Payables	30	14,742,792	12,702,888

**Total Local Currency Financial Liabilities**

1,190,120,582 989,049,622

**Total Financial Liabilities**

2,047,692,240 1,603,059,586

**Other Liabilities**

Deferred Grants	31	789	5
Pension and Other Post - Employment Benefit Plans	32	25,385,193	11,990,647
Miscellaneous Liabilities and Accruals	33	1,353,373	181,809

**Total Other Liabilities**

26,739,355 12,172,461

**Total Liabilities**

2,074,431,595 1,615,232,047

**Equity**

Capital Funds		50,000,000	50,000,000
Other Reserves	34	282,012,023	212,493,432
Retained Earnings		15,153,549	41,691,960

**Total Equity**

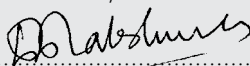
347,165,572 304,185,392

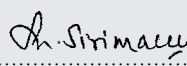
**Total Liabilities and Equity**

2,421,597,167 1,919,417,439

The accounting policies and notes on pages 13 through 74 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 31 March 2021 and signed on behalf of the Monetary Board.

  
Prof. W. D. Lakshman – Governor

  
D. S. L. Sirimanne - Chief Accountant

## Central Bank of Sri Lanka

### Statement of Income

For the year ended 31 December	Note	2020 Rs. 000	2019 Rs. 000
<b>Operating Income :</b>			
<b>Income from Foreign Currency Financial Assets</b>			
Interest Income	36	26,254,216	32,950,560
Gain from Unrealized Price Revaluations	37	23,524,861	42,900,897
Gain from Realized Price Changes		6,524,368	1,057,273
<b>Total Income from Foreign Currency Financial Assets</b>		<b>56,303,445</b>	<b>76,908,730</b>
<b>Expenses on Foreign Currency Financial Liabilities</b>			
Interest Expense	38	(5,293,852)	(8,338,019)
Expected Credit Losses on Foreign Currency Financial Assets	39	(2,046,205)	(187,639)
<b>Total Expenses on Foreign Currency Financial Liabilities</b>		<b>(7,340,057)</b>	<b>(8,525,658)</b>
Net Foreign Exchange Revaluation Gain/(Loss)		7,123,733	(14,557,283)
<b>Foreign Currency Investment Income</b>		<b>56,087,121</b>	<b>53,825,789</b>
<b>Net Income from Local Currency Financial Assets</b>			
Interest Income	36	25,342,029	18,074,750
Gain/(Loss) from Realised Price Changes		197,559	(117,565)
Interest Expense	38	(8,320,294)	(3,763,302)
Expected Credit Losses on Local Currency Financial Assets	39	(259,194)	(27,241)
<b>Net Income from Local Currency Financial Assets</b>		<b>16,960,100</b>	<b>14,166,642</b>
Other Income	40	1,589,329	1,514,588
<b>Total Net Operating Income</b>		<b>74,636,550</b>	<b>69,507,019</b>
<b>Operating Expenses:</b>			
Personnel Expenses:	41		
— Salaries and Wages		(5,298,938)	(5,544,943)
— Defined Contribution Plan Costs		(707,129)	(1,103,233)
— Post Employment Benefit Plan Costs		(851,435)	(1,120,381)
		<b>(6,857,502)</b>	<b>(7,768,557)</b>
Depreciation and Amortization		(452,353)	(439,918)
Cost of Inventory (Cost of New Currency Issue)		(2,396,894)	(3,234,336)
Administration and Other Expenses	42	(1,497,040)	(2,168,481)
<b>Total Operating Expenses</b>		<b>(11,203,789)</b>	<b>(13,611,292)</b>
<b>Profit Before Tax</b>		<b>63,432,761</b>	<b>55,895,727</b>
Tax	43	-	(290,888)
<b>Profit for the Year</b>		<b>63,432,761</b>	<b>55,604,839</b>

Figures in brackets indicate deductions

The accounting policies and notes on pages 13 through 74 form an integral part of these Financial Statements.

## Central Bank of Sri Lanka

### Statement of Other Comprehensive Income

As at 31 December

	Note	2020 Rs. 000	2019 Rs. 000
Profit for the Year		63,432,761	55,604,839
<b>Other Comprehensive Income (OCI)</b>			
<b>Items that are or may be re-classified subsequently to Profit/(Loss)</b>			
Net Fair Value Gain on Securities at Fair Value through Other Comprehensive Income	34	9,910,943	10,665,451
Net Fair Value Gain on Government Securities at Fair Value through Other Comprehensive Income	34	3,547,766	113,231
		<b>13,458,709</b>	<b>10,778,682</b>
<b>Items that will not be re-classified subsequently to Profit/(Loss)</b>			
Gain on Revaluation of Property, Plant & Equipment		3,671,689	-
Post-Employment Benefit Plan Cost Recognized in Other Comprehensive Income	32	(13,394,058)	(873,926)
Net Fair Value Gain on Equity Investments at Fair Value through Other Comprehensive Income	34	108,379	115,859
		<b>(9,613,990)</b>	<b>(758,067)</b>
Other Comprehensive Income		<b>3,844,719</b>	<b>10,020,615</b>
<b>Total Comprehensive Income</b>		<b>67,277,480</b>	<b>65,625,454</b>

Figures in brackets indicate deductions

The accounting policies and notes on pages 13 through 74 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 Rs.000	Retained Earnings Rs.000	Total Rs.000
<b>Balance as at 1 January 2019</b>	50,000,000	214,656,323	(25,887,924)	238,768,399
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	-	10,665,451	-	10,665,451
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
<b>Balance as at 31 December 2019</b>	<u>50,000,000</u>	<u>212,493,432</u>	<u>41,691,960</u>	<u>304,185,392</u>
<b>Balance as at 1 January 2020</b>	50,000,000	212,493,432	41,691,960	304,185,392
Net Profit for the year	-	-	63,432,761	63,432,761
Transfer to RTGS Sinking Fund	-	418,783	(422,163)	(3,380)
Post Employment Benefit Plans cost recognized in Other Comprehensive Income	-	-	(13,394,058)	(13,394,058)
Transfer of Net Foreign Exchange Revaluation Loss (IRR)	-	7,123,733	(7,123,733)	-
Transfer to CBSL Internal Funds	-	-	(284,802)	(284,802)
Net Fair Value Gain on Securities at Fair Value through Other Comprehensive Income	-	9,910,943	-	9,910,943
Transfer of Funds from Retained Earnings to Market Revaluation Reserve	-	43,356,467	(43,356,467)	-
Transfer of Funds to General Reserve	-	638,355	(638,355)	-
Profit appropriation for the year 2019 - Recovery of outstanding GOSL obligations from 2019 profit	-	-	(24,008,977)	(24,008,977)
Transfer of Funds to CBSL Employees and Pensioners Distress Relief Fund	-	-	(141)	(141)
Transfer to Reserve for funding purposes of Post-Employment Benefits	-	742,476	(742,476)	-
Gain on Market Valuation of Equity Investments Classified at Fair Value through Other Comprehensive Income	-	108,379	-	108,379
Gain on Market Valuation of Government Securities Classified at Fair Value through Other Comprehensive Income	-	3,547,766	-	3,547,766
Gain on Revaluation of Property, Plant and Equipment	-	3,671,689	-	3,671,689
<b>Balance as at 31 December 2020</b>	<u>50,000,000</u>	<u>282,012,023</u>	<u>15,153,549</u>	<u>347,165,572</u>

Figures in brackets indicate deductions

The accounting policies and notes on pages 13 through 74 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 Generated from/ (used in) Operating Activities

#### Cash Flows from Investing Activities

##### Receipts:

Net Increase in Other Local Currency Financial Assets  
Principal Recoveries from Loans and Advances to Other Institutions  
Proceeds on disposal of Property, Plant and Equipment  
Net Increase in Securities Purchased under Resale Agreements

##### Disbursements:

Net Increase/ (Decrease) 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  
Purchase of Leasehold Assets  
Net Decrease in Gold Inventory  
Investments in Financial and Other Institutions  
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	2020 Rs. 000	2019 Rs. 000
	29,058,738	32,610,501
	1,448,144	1,219,056
	6,721,927	939,708
	(10,303,437)	(17,363,660)
	1,445,544	1,676,979
	28,370,916	19,082,584
	5,574,007	8,452,517
	6,863,137	3,094,863
	6,476,946	7,312,048
	2,631,670	6,768,262
	-	290,888
	21,545,760	25,918,578
44	6,825,156	(6,835,994)
	(3,068,543)	(2,093,732)
	5,767	56,793
	134	36,821
	166,209,573	14,987,104
	163,146,931	12,986,986
	(57,023,608)	27,507,003
	(901,434)	1,308,261
	(202,532,008)	90,905,310
	(1,590)	10,735
	348,150	215,654
	126	22,227
	4,838	-
	(121,876,566)	(2,663,074)
	6,489	2,750
	111,353,276	-
	(270,622,327)	117,308,866
	433,769,258	(104,321,880)
	697,310,625	777,061,814
	(540,469,916)	(740,037,174)
	156,840,709	37,024,640
45	479,681,618	(126,565,213)
46	124,980,099	65,524,563
	604,661,717	(61,040,650)
	(447,821,008)	98,065,290
	2,658,806	(58,497,399)
	141	16
	329,689	1,344,579
	24,000,000	-
	26,988,636	(57,152,804)
	(474,809,644)	155,218,094
	(34,215,230)	44,060,220
	16,861,445	4,624,467
	420,931,427	372,246,740
8	403,577,642	420,931,427

Figures in brackets indicate deductions

The accounting policies and notes on pages 13 through 74 form an integral part of these Financial Statements.



## Central Bank of Sri Lanka

### Notes to the Financial Statements

For the year ended 31 December 2020

#### 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 31 March 2021.

##### 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 2020 have been prepared in accordance with International Financial Reporting Standards (IFRS).

##### 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. The implications of COVID-19 on the use of estimates and judgements in the computation of Bank's expected credit losses are explained in Note 3.4.

### 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. The implications of COVID-19 on the use of estimates and judgements in fair valuing the new loan schemes granted during the year 2020 are explained in Note 3.4.

### 3.4 General Implications of COVID-19

The Bank considered the impact of COVID-19 in preparing the financial statements. While the specific areas of judgement have not changed, the impact of COVID-19 resulted in application of additional judgement and estimates mainly in relation to loans to bank balance and the expected credit loss assessment in the financial statements.

CBSL implemented a range of relief and policy measures to revive the economy which was affected by the COVID-19 outbreak. Among those, the most significant relief measure which had financial implication on the Bank's financial statements were the new loan schemes implemented. Accordingly, the Bank launched new refinance and credit schemes through LCBs and LSBs under the names Saubagya COVID-19 Renaissance Phase I, II, III and Liquidity Facility to the Construction Sector at concessionary interest rates with maturity terms ranging from 6 months to 2 years with the condition of lending by LCBs and LSBs to businesses affected by the pandemic. The fair value is determined by using valuation techniques that involve use of unobservable inputs and judgment, particularly with respect to ensuring that the valuation techniques and inputs are relevant and appropriate. As such, critical assumptions and judgments were used in the determination of the repayment terms and the market interest rate used in arriving at the initial recognition fair value of the said loan schemes.

Though the fundamental credit loss model mechanics and methodology underpinning the Bank's calculation of expected credit losses have remained consistent with prior periods, the Bank has captured the impact of COVID-19 through the expected credit loss model inputs, assumptions and forward-looking macroeconomic variables used in the computation process. In addition,

the Bank used calibrations in the forward looking macro-economic data used in the expected credit loss model to avoid unprecedented statistical variations caused by the movements in the macro-economic data resulting from COVID-19.

However, for non-financial assets, the Bank's assessment is that COVID-19 related conditions had no impact on the carrying values and was appropriately assessed in the financial statements for the year ended 31 December 2020.

#### 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.

#### 5. SIGNIFICANT ACCOUNTING POLICIES

##### 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 Lankan Rupee exchange rates for major currencies were used:

Currency	2020 Rs.	2019 Rs.
1 Australian Dollar	143.4225	127.5343
1 Canadian Dollar	146.4840	139.8206
1 Euro	227.7256	203.6571
1 Japanese Yen	1.8055	1.6724
1 Special Drawing Rights (SDR)	272.6200	250.7887
1 Sterling Pound	254.8200	240.7922
1 United States Dollar	186.4082	181.634
1 Chinese Yuan (Offshore)	28.6661	26.0905

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 50.

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 (LGD):** 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 of 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 and 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 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 1 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.

### 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 and the expected real interest rate over the respective time horizons plus 1 per cent added for the risk premium as agreed by the Advisory 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. According to 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 Leasehold Land	Lower of 50 years or over the lease term
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 three 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

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.

### 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.

### 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.

At each reporting date, the Bank reviews the carrying amounts of its non-financial assets to determine whether

there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets.

The 'recoverable amount' of an asset is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount.

Impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### 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 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.

### 5.29 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.

### 5.30 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.

### 5.31 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 PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

### 5.32 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:

#### 5.32.1 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.

#### 5.32.2 Dividends

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

#### 5.32.3 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.

#### 5.32.4 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.

#### 5.32.5 Income Tax Expense

The income of the Bank is exempted from tax under section 118 of the Monetary Law Act 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 01.04.2017. 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.

ESC was abolished with effect from 1 January 2020.

### 5.33 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 STANDARD AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE AS AT REPORTING DATE

The following new accounting standard amendments and new interpretations are effective for annual period beginning after 1 January 2021 and earlier application is permitted. However, the Bank has not early adopted the amended standards in preparing these Financial Statements.

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

- Interest Rate Benchmark Reform—Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16).
- COVID-19-Related Rent Concessions (Amendments to IFRS 16)

## 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 of 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 Dollars. The financial instruments held within these foreign currency portfolios consist mainly of sovereign securities, securities held under reverse-repurchase transactions or balances held with other central banks, commercial banks and custodial institutions.

The 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:

- 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.

- 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. CASH AND CASH EQUIVALENTS

	2020 Rs. 000	2019 Rs. 000
Cash Balances with Banks	93,379,318	278,004,505
Time Deposits with Banks	270,722,623	79,519,728
Overnight Placements	39,462,616	63,353,939
Interest Receivable on Cash and Cash Equivalents	13,085	53,255
<b>Cash and Cash Equivalents for Cash Flow Purpose</b>	<b>403,577,642</b>	<b>420,931,427</b>
<b>Less: Expected Credit Losses on Cash and Cash Equivalents (Note 8.1)</b>	<b>(270,338)</b>	<b>(221,958)</b>
<b>Total</b>	<b>403,307,304</b>	<b>420,709,469</b>

### 8.1 Movement in Expected Credit Losses on Cash and Cash Equivalents

	2020			2019		
	Stage 1 Rs. 000	Stage 2 Rs. 000	Total Rs. 000	Stage 1 Rs. 000	Stage 2 Rs. 000	Total Rs. 000
Balance as at 1 January	219,331	2,627	221,958	71,564	-	71,564
Charge/(Reversal) during the year	(129,054)	177,434	48,380	147,767	2,627	150,394
<b>Balance as at 31 December</b>	<b>90,277</b>	<b>180,061</b>	<b>270,338</b>	<b>219,331</b>	<b>2,627</b>	<b>221,958</b>

## 9. INVESTMENTS IN FOREIGN SECURITIES

	2020 Rs. 000	2019 Rs. 000
<b>Securities at Fair Value through Profit or Loss</b>		
-Investment in Foreign Securities (Note 9.1)	40,564,323	38,493,268
	<b>40,564,323</b>	<b>38,493,268</b>
<b>Securities at Fair Value through Other Comprehensive Income</b>		
-Investment in Foreign Securities	703,435,463	729,801,009
	<b>703,435,463</b>	<b>729,801,009</b>
<b>Total Investment in Foreign Securities</b>	<b>743,999,786</b>	<b>768,294,277</b>
<b>Expected Credit Loss on Securities at Fair Value through Other Comprehensive Income (Note 9.2)</b>	<b>2,098,721</b>	<b>100,894</b>

**9.1** 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.

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

	2020			2019		
	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	81,259	19,635	100,894	63,649	-	63,649
Charge/ (Reversal) during the Year	(44,713)	2,042,540	1,997,827	17,610	19,635	37,245
Balance as at 31 December	36,546	2,062,175	2,098,721	81,259	19,635	100,894

**10. DERIVATIVE FINANCIAL INSTRUMENTS**

**10.1** 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.

	2020			2019		
	Assets	Liabilities	Notional Amount	Assets	Liabilities	Notional Amount
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Currency SWAPS	3,368,784	573,774	281,690,071	2,021,917	923,039	284,757,444
Forex Forward	1,569	408	1,025,245	-	-	-
Embedded Derivatives - Currency Options	-	-	-	-	66,919	3,087,778
<b>Total</b>	<b>3,370,353</b>	<b>574,182</b>	<b>282,715,316</b>	<b>2,021,917</b>	<b>989,958</b>	<b>287,845,222</b>

**10.2** The above derivatives consisting of Currency Swaps 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. The Bank entered into Swap transactions and Forward contracts with Licensed Banks 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.

**10.3** 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.

**10.4** 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.

**10.5** 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.

**10.6** 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.

**11. IMF RELATED ASSETS**

	2020 Rs. 000	2019 Rs. 000
<b>Measured at Fair Value through Profit or Loss</b>		
IMF Quota (Note 11.1)	157,793,346	145,165,228
	157,793,346	145,165,228
<b>Measured at Amortized Cost</b>		
Holding of Special Drawing Rights (Note 11.2)	491,874	1,319,576
Deposits with IMF (Note 11.3)	208,077	189,326
Prepaid Charges - IMF Loans	464,890	485,048
<b>Less: Expected Credit Losses on IMF Related Assets (Note 11.4)</b>	(2)	(4)
	1,164,839	1,993,946
	158,958,185	147,159,174

**11.1 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 comprise 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.

### 11.2 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.

### 11.3 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.

### 11.4 Movement in Expected Credit Losses on IMF Related Assets

	2020 Rs. 000	2019 Rs. 000
<b>Stage 1</b>		
Balance as at 1 January	4	4
Reversal for the Year	(2)	-
<b>Balance as at 31 December</b>	<b>2</b>	<b>4</b>

## 12. 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.

	2020 Rs. 000	2019 Rs. 000
Treasury Bills	637,959,075	25,125,790
Treasury Bonds	74,904,469	50,177,084
Interest Receivable	1,667,983	1,209,009
	<b>714,531,527</b>	<b>76,511,883</b>

## 13. SECURITIES PURCHASED UNDER RESALE AGREEMENTS

	2020 Rs. 000	2019 Rs. 000
Securities Purchased under Resale Agreements	2,728,000	50,275,000
Interest Receivable on Securities Purchased under Resale Agreements	412	79,879
	<b>2,728,412</b>	<b>50,354,879</b>

## 14. 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.

## 15. 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.

### 15.1 Investment position

Company	Nature of the Business	2020		2019	
		No. of Shares	Fair Value Rs. 000	No. of Shares	Fair Value Rs. 000
Lanka Clear (Private) Limited	Automated Clearing	2,986,824	597,246	2,950,000	498,268
Lanka Financial Services Bureau Limited	Automated Fund Transfers	500,000	-	500,000	81
Credit Information Bureau of Sri Lanka Limited	Provision of Credit Information	48,244	1,018,110	48,244	1,002,138
			<u>1,615,356</u>		<u>1,500,487</u>

**15.2** The equity investments were carried at fair value as at 31 December 2020 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 2020 - Net Asset Value per Share - Rs. 199.96

Lanka Financial Services Bureau Limited - 30 September 2020 - Net Asset Value per Share - Rs. -1.98

Credit Information Bureau of Sri Lanka Limited - 31 December 2020 - Net Asset Value per Share - Rs. 21,103.34

## 16. LOANS TO BANKS

	2020 Rs. 000	2019 Rs. 000
Loans to Banks (Note 16.1)	111,641,894	39,324
Less: Expected Credit Loss on Loans to Banks (Note 16.2)	(154,368)	(35)
	<u>111,487,526</u>	<u>39,289</u>

## 16.1 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.

	2020 Rs. 000	2019 Rs. 000
Medium & Long Term Credit Scheme		
- Related Parties	22,563	24,757
Resumption of Economic Activities in the East (RF Phase III)		
- Related Parties	-	50
Repair of Damaged Houses North & East		
- Related Parties	10,994	14,517
Liquidity Facility to the Construction Sector (Note 16.1.1)		
- Related Parties	4,934,335	-
- Others	11,185	-
Saubagya COVID-19 Renaissance Facility (Note 16.1.2)		
- Related Parties	72,901,250	-
- Others	10,701,621	-
Saubagya COVID-19 Renaissance Refinance Scheme (Note 16.1.3)		
- Related Parties	16,277,700	-
- Others	6,782,246	-
	<u>111,641,894</u>	<u>39,324</u>

**16.1.1** Liquidity facility to the construction sector: In order to provide funds to commercial banks in satisfying funding needs of the contractors/suppliers who had outstanding dues from Government this facility was introduced by the Central Bank as a dedicated credit scheme under the Section 83 of the Monetary Law Act No.58 of 1949.

**16.1.2** Saubagya COVID-19 Renaissance Facility : As a further measure to support the revival of the economy affected by COVID-19 outbreak, the Central Bank introduced this new credit scheme under the Section 83 of the Monetary Law Act No.58 of 1949 on the condition that Licensed Commercial Banks lend to businesses adversely affected by COVID-19 outbreak.

**16.1.3** Saubagya COVID-19 Renaissance Refinance Facility : In order to revive the Micro, Small and Medium Sector enterprises adversely affected by the COVID-19 outbreak and to promote economic activity in the country, the Central Bank launched a new refinance facility under the Saubagya Loan scheme.

**16.2 Movement in Expected Credit Losses on Loans to Banks**

	2020			2019		
	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	-	35	35	15	139	154
Charge/(Reversal) during the year	6,215	148,118	154,333	(15)	(104)	(119)
<b>Balance as at 31 December</b>	<b>6,215</b>	<b>148,153</b>	<b>154,368</b>	<b>-</b>	<b>35</b>	<b>35</b>

**17. OTHER ASSETS**

	2020 Rs. 000	2019 Rs. 000
<b>Financial Assets</b>		
Investments by Internal Funds	13,319,452	10,180,258
<b>Less:</b> Expected Credit Loss on Investments by Internal Funds ( <b>Note 17.1</b> )	(79,572)	(15,633)
Net Investment by Internal Funds	13,239,880	10,164,625
Staff Loans at Amortized Cost	5,569,225	5,469,197
Receivable from Treasury and Other Ministries	597,774	11,763
Other Receivables	1,649,540	35,301
<b>Less:</b> Expected Credit Loss on Other Receivables ( <b>Note 17.2</b> )	(183,276)	(175,275)
	7,633,263	5,340,986
	20,873,143	15,505,611
<b>Non Financial Assets</b>		
Deffered asset on Staff Loan	2,224,046	2,056,847
	23,097,189	17,562,458

**17.1 Movement in Expected Credit Loss on Investments by Internal Funds**

	2020			2019		
	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	15,617	16	15,633	92	-	92
Charge/(Reversal) during the Year	(15,569)	79,508	63,939	15,525	16	15,541
<b>Balance as at 31 December</b>	<b>48</b>	<b>79,524</b>	<b>79,572</b>	<b>15,617</b>	<b>16</b>	<b>15,633</b>

**17.2 Movement in Expected Credit Losses on Other Receivables**

	2020 Stage 3 Rs. 000	2019 Stage 3 Rs. 000
Balance as at 1 January	175,275	163,052
Charge during the year	8,001	12,223
<b>Balance as at 31 December</b>	<b>183,276</b>	<b>175,275</b>

**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 (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**

	2020 Rs. 000	2019 Rs. 000
Notes for Circulation	2,294,967	2,912,568
Coins for Circulation	3,519,159	4,028,748
Coins in Transit from the Supplier	31,876	-
Notes in Transit from the Supplier	440,203	345,954
	6,286,205	7,287,270
<b>Less:</b> Provision for Slow Moving Items	(45,000)	(45,000)
	6,241,205	7,242,270
Stationery and Sundry Inventory	60,306	55,890
Medical Center Stock	308	232
<b>Total Inventories</b>	<b>6,301,819</b>	<b>7,298,392</b>

In 2020, inventories of Rs. 2,396.89 Mn (2019 Rs. 3,234.34 Mn) were recognized as an expense during the year and included in "Cost of Inventory (Cost of New Currency Issue)".



<b>20. PROPERTY, PLANT AND EQUIPMENT</b>										
<b>Cost</b>	<b>Land and Buildings</b>	<b>Plant &amp; Plant Integrals</b>	<b>Furniture &amp; Equipment</b>	<b>Vehicles</b>	<b>Computers</b>	<b>Right of use Assets</b>	<b>Others</b>	<b>Construction In progress</b>	<b>2020 Total</b>	<b>2019 Total</b>
	<b>Rs.000</b>	<b>Rs.000</b>	<b>Rs.000</b>	<b>Rs.000</b>	<b>Rs.000</b>	<b>Rs.000</b>	<b>Rs.000</b>	<b>Rs.000</b>	<b>Rs.000</b>	<b>Rs.000</b>
<b>As at 1 January</b>	16,106,446	1,577,742	1,346,380	561,293	948,087	66,287	57,454	35,148	20,698,837	20,533,225
Additions during the Year	-	6,289	37,504	-	125,525	-	36	178,796	348,150	215,654
Disposals during the Year	-	-	(384)	-	(257)	-	-	-	(641)	(50,042)
Transfers/Write-off during the Year	1,009	-	-	-	-	-	-	(1,009)	-	-
Transfer of accumulated depreciation on revalued assets	(754,570)	-	-	-	-	-	-	-	(754,570)	-
Revaluation gain during the Year	3,814,078	-	-	-	-	-	-	-	3,814,078	-
Remeasurement of Right of Use Asset	-	-	-	-	-	4,838	-	-	4,838	-
<b>As at 31 December</b>	<b>19,166,963</b>	<b>1,584,031</b>	<b>1,383,500</b>	<b>561,293</b>	<b>1,073,355</b>	<b>71,125</b>	<b>57,490</b>	<b>212,935</b>	<b>24,110,692</b>	<b>20,698,837</b>
<b>Depreciation</b>	<b>Land and Buildings</b>	<b>Plant &amp; Plant Integrals</b>	<b>Furniture &amp; Equipment</b>	<b>Vehicles</b>	<b>Computers</b>	<b>Right of use Assets</b>	<b>Others</b>	<b>Construction In progress</b>	<b>2020 Total</b>	<b>2019 Total</b>
	<b>Rs.000</b>	<b>Rs.000</b>	<b>Rs.000</b>	<b>Rs.000</b>	<b>Rs.000</b>	<b>Rs.000</b>	<b>Rs.000</b>	<b>Rs.000</b>	<b>Rs.000</b>	<b>Rs.000</b>
<b>As at 1 January</b>	564,510	1,017,166	1,007,468	409,017	845,378	6,240	38,367	-	3,888,146	3,511,084
Depreciation for the Year	190,060	78,680	78,407	25,922	57,703	6,643	841	-	438,256	425,009
Disposals during the Year	-	-	(384)	-	(133)	-	-	-	(517)	(47,947)
Transfer of accumulated depreciation on revalued assets	(754,570)	-	-	-	-	-	-	-	(754,570)	-
<b>As at 31 December</b>	<b>-</b>	<b>1,095,846</b>	<b>1,085,491</b>	<b>434,939</b>	<b>902,948</b>	<b>12,883</b>	<b>39,208</b>	<b>-</b>	<b>3,571,315</b>	<b>3,888,146</b>
<b>Net Book Value</b>	<b>19,166,963</b>	<b>488,185</b>	<b>298,009</b>	<b>126,354</b>	<b>170,407</b>	<b>58,242</b>	<b>18,282</b>	<b>212,935</b>	<b>20,539,377</b>	<b>16,810,691</b>

The carrying values of Land and Buildings are recorded at fair value. The latest independent valuation was performed as at 31 December 2020 by Mr. A. A. M. Fathihu, Chartered Valuer, which was recorded as at 31 December 2020.

During the financial year, the Bank has acquired property, plant and equipment by means of cash with an aggregated cost of Rs.348.15 Mn (2019 - Rs. 215.65 Mn).

The value of the fully depreciated assets which are still in use as at 31 December 2020 was Rs. 1,753.86 Mn. (2019 - Rs. 1,660.12 Mn).

### Valuation Approach and Significant Unobservable Inputs used in the Valuation 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	Fair Value as at 31 December 2020 (Rs. 000)
<b>Land &amp; Building</b>								
Head Office - Colombo 01	A. A. M. Fathihu	Market Approach & Cost Approach	15,750,000	11,000 - 18,500	-	-	-	10,437,567
Whiteaways Building - Colombo 01	-do-	Market Approach & Income Approach	13,200,000	-	7,000,000	35%	16.66	783,407
Lloyds Building - Colombo 01	-do-	Market Approach & Income Approach	14,400,000	-	9,000,000	35%	16.66	992,900
Central Point Building - Colombo 01	-do-	Market Approach & Income Approach	14,400,000	-	10,000,000	35%	16.66	1,077,180
Centre for Banking Studies - Rajagiriya	-do-	Market Approach & Cost Approach	3,600,000	3,000 - 12,000	-	-	-	2,660,026
Bank House - Colombo 07	-do-	Market Approach & Cost Approach	10,000,000	4,000 - 11,000	-	-	-	1,709,163
Regional Office - Matara	-do-	Market Approach & Cost Approach	2,000,000 - 4,000,000	4,000 - 9,500	-	-	-	360,397
Regional Office - Matale	-do-	Market Approach & Cost Approach	150,000 - 750,000	3,000 - 9,500	-	-	-	222,786
Holiday Home - Nuwara Eliya	-do-	Market Approach & Cost Approach	1,350,000	5,000 - 8,750	-	-	-	334,193
Holiday Home - Kataragama	-do-	Market Approach & Cost Approach	270,000	5,000 - 12,500	-	-	-	231,605
<b>Building on Leasehold Land</b>								
Regional Office - Anuradhapura	A. A. M. Fathihu	Cost Approach	-	4,500 - 9,500	-	-	-	90,783
Holiday Home - Anuradhapura	-do-	Cost Approach	-	7,000	-	-	-	21,960
Regional Office - Kilinochchi	-do-	Cost Approach	-	2,000 - 8,500	-	-	-	199,050
Holiday Home - Somawathiya	-do-	Cost Approach	-	11,750 - 12,000	-	-	-	45,946

### Composition of Land and Buildings

	Carrying Value 2020 Rs. 000	Carrying Value 2019 Rs. 000
Freehold Land	11,334,725	8,930,375
Buildings on Freehold Land	7,520,445	6,366,871
Buildings on Leasehold Land	311,793	244,690
	<b>19,166,963</b>	<b>15,541,936</b>

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. 7,607.42 Mn (2019 - Rs. 7,751.14 Mn).

### 21. INTANGIBLE ASSETS

	2020 Rs. 000	2019 Rs. 000
<b>Computer Software:</b>		
<b>Cost:</b>		
As at 1 January	1,004,915	982,688
Additions during the Year	125	22,227
As at 31 December	<b>1,005,040</b>	<b>1,004,915</b>
<b>Amortization:</b>		
As at 1 January	966,869	952,251
Amortization Charge for the Year	13,844	14,618
As at 31 December	<b>980,713</b>	<b>966,869</b>
<b>Net Book Value:</b>		
As at 31 December	<b>24,327</b>	<b>38,046</b>

The Bank has acquired intangible assets by means of cash with an aggregated cost of Rs. 0.13 Mn during the year (2019 - Rs. 22.23 Mn).

The value of fully amortized intangible assets which are still in use as at 31 December 2020 was Rs. 952.13 Mn. (2019 - Rs. 948.65 Mn).

### 22. BANKS AND FINANCIAL INSTITUTIONS

	2020 Rs. 000	2019 Rs. 000
Payable to Foreign Banks	208,322,721	609,483
Payable to Other Foreign Financial Institutions	14,500	348,765
	<b>208,337,221</b>	<b>958,248</b>

### 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 0.15% and 1.62% during the year 2020, (2019 - 1.60% and 2.51%).

## 24. INTERNATIONAL MONETARY FUND

	2020 Rs. 000	2019 Rs. 000
Interest Bearing Loans (Note 24.1)	256,873,113	238,808,553
Allocation of Special Drawing Rights (Note 24.2)	107,810,345	99,176,963
Quota Liability (Note 24.3)	73,194,079	67,332,745
Other Amounts Payable to IMF (Note 24.4)	72,047,741	66,656,812
	<b>509,925,278</b>	<b>471,975,073</b>

**24.1 Interest Bearing Loans** consist of the Extended Fund Facility (EFF) obtained from the IMF. Extended Fund Facility is a three year facility provided by the IMF to support the Balance of Payments and Government's economic reform agenda. The IMF approved the EFF of SDR 1.10 Bn (approximately USD 1.50 Bn) in June 2016. This amount is equivalent to 185 per cent of the country's current quota with the IMF. The first tranche under the EFF amounting to SDR 119.89 Mn (approximately USD 168.10 Mn) was made available 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 November 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 by Sri Lanka on account of EFF. 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 interest rate %	Maturity	2020 Rs. 000	2019 Rs. 000
Extended Fund Facility	0.08	2029	256,873,113	238,808,553
<b>Total Interest Bearing Loans</b>			<b>256,873,113</b>	<b>238,808,553</b>

**24.2 The Special Drawing Rights (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 11. 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.

**24.3 Quota Liability** The amounts payable in respect of the IMF Quota as described in Note 11.1.

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

## 25. OTHERS

	2020 Rs. 000	2019 Rs. 000
Moragahakanda Development Project Loan under Escrow Agreement (Note 25.1)	-	640,278
DST - PRP III under Escrow Agreement (Note 25.2)	92	2,458,292
DST - PRP III Phase II under Escrow Agreement (Note 25.3)	15,437	2,527,891
Amount due to Reserve Bank of India (RBI) under SAARC swap facility (Note 25.4)	74,803,653	-
DST Special Dollar A/C 2 (Note 25.5)	-	51,409,578
Other Foreign Liabilities	51,143	55,499
	<b>74,870,325</b>	<b>57,091,538</b>

### 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. USD 3.53 Mn was disbursed on 9 December 2020 as a single transaction and thus, the balance as at 31 December 2020 remains at zero.

## 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. Several disbursements were made using these funds during 2020 resulting only USD 0.0004 Mn as the balance at 31 December 2020.

## 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. The disbursements amounting to USD 13.83 Mn were made during 2020 and thus, the balance as at 31 December 2020 is USD 0.083 Mn.

## 25.4 Amount due to Reserve Bank of India (RBI) under SAARC swap facility

The Central Bank of Sri Lanka (CBSL) and the Reserve Bank of India (RBI) entered into a currency swap agreement on 24 July 2020 under the Framework on Currency Swap Arrangement for South Asian Association for Regional Cooperation (SAARC) countries for 2019 -2022.

Under the Swap agreement, USD 400 million was received by Sri Lanka on 31 July 2020, initially for a period of 3 months and this was rolled over for another 3 months tenor on 2 November 2020, subject to agreement on terms and conditions of the existing SAARC Framework. The interest rates applicable for the drawing and roll-over are 3 months USD LIBOR rate prevailing on the date of each drawal plus 200 basis points. Drawing may be allowed in multiple tranches over the validity period of the agreement.

Outstanding balance as at 31 December 2020 represents the rolled-over USD 400 Mn swap on 2 November 2020 and the repayment of the same is due on 2 February 2021.

## 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.

## 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.

	2020 Rs. 000	2019 Rs. 000
<b>Deposits by Banks :</b>		
- Related Parties	81,586,946	148,823,686
- Others	37,099,649	95,155,405
	<u>118,686,595</u>	<u>243,979,091</u>
<b>Deposits by Financial Institutions :</b>		
- Related Parties	27	67
- Others	10,914,899	10,602,462
	<u>10,914,926</u>	<u>10,602,529</u>
<b>Total Deposits by Banks and Other Financial Institutions</b>	<u>129,601,521</u>	<u>254,581,620</u>

## 27. DEPOSITS OF GOVERNMENT AND GOVERNMENTAL ENTITIES

	2020 Rs. 000	2019 Rs. 000
Government Deposits	160,469	160,442
Government Agencies and Funds	1,300,043	339,197
	<u>1,460,512</u>	<u>499,639</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

	2020 Rs. 000	2019 Rs. 000
Standing Deposit Facility	209,507,898	43,298,325
	<u>209,507,898</u>	<u>43,298,325</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	2020	2019
Coins:	Rs. 000	Rs. 000
1 cent	3,631	3,631
2 cent	5,709	5,709
5 cent	23,267	23,266
10 cent	39,236	39,236
25 cent	121,246	121,247
50 cent	185,147	185,149
1 rupee	989,834	963,796
2 rupee	1,524,255	1,477,366
5 rupee	4,902,340	4,695,714
10 rupee	7,122,933	6,721,241
Commemorative coins	591,807	591,386
	<b>15,509,405</b>	<b>14,827,741</b>
<b>Notes:</b>		
1 rupee	4,981	4,981
2 rupee	26,694	26,694
5 rupee	37,191	37,191
10 rupee	1,253,137	1,259,975
20 rupee	6,264,415	5,876,733
50 rupee	5,954,707	5,720,916
100 rupee	24,351,138	23,662,737
200 rupee	127,051	127,820
500 rupee	45,522,962	41,697,085
1000 rupee	150,266,367	134,367,933
2000 rupee	3,327,026	4,044,172
5000 rupee	582,162,785	446,313,172
	<b>819,298,454</b>	<b>663,139,409</b>
<b>Total Currency in Circulation</b>	<b>834,807,859</b>	<b>677,967,150</b>

## 30. OTHER PAYABLES

	2020	2019
	Rs. 000	Rs. 000
Provision and Charges	1,230,135	1,392,762
Deposits by RDD	2,905,314	1,924,674
Liability against Abandoned Property Transfers Received (Note 30.1)	9,852,650	7,645,575
Balances of Employee Benefit Plans (Note 30.2)	9,189	7,599
Other Payables	745,504	1,732,278
	<b>14,742,792</b>	<b>12,702,888</b>

**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:

	2020	2019
	Rs. 000	Rs. 000
Balances in CBSL Provident fund, Pension schemes and Widows' / Widowers' & Orphans' Pension Schemes	9,189	7,599
	<b>9,189</b>	<b>7,599</b>

## 31. DEFERRED GRANTS

	2020	2019
	Rs. 000	Rs. 000
As at 1 January	5	11
Additions during the Year	785	-
Amortization during the Year	(1)	(6)
<b>As at 31 December</b>	<b>789</b>	<b>5</b>

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

This also include a research grant received from the Knowledge Partnership Program of the Bank of Korea amounting to Rs. 0.78 Mn which will be utilised to cover the cost of future local training programs of CBSL staff.

### 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 Widows' 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 Widows' 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, Widows' and Orphans' Pension Scheme, Widowers' and Orphans' Pension Scheme, new Widows' and Orphans' and Widowers' and Orphans' Pension scheme, Gratuity Scheme and Medical Benefit Scheme during the year.

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

The total present value of all benefit obligations of Rs. 70,241.23 Mn (2019 – Rs. 52,461.11 Mn) exceeds the total fair value of plan assets of Rs. 48,961.82 Mn (2019 – Rs. 43,931.50 Mn) at the end of the reporting period resulting in a deficit of Rs. 21,279.42 Mn (2019 Rs. 8,529.61 Mn).

#### As at 31 December 2020

Benefit (Asset)/Liability	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
Present Value of Benefit Obligation	47,170,831	3,223,066	10,827,211	1,932,117	1,713,506	353,689	5,020,814	70,241,234
Fair Value of Plan Assets/ Investments	(30,181,502)	(5,687,441)	(6,166,925)	(2,827,633)	(888,055)	(335,195)	(2,875,066)	(48,961,817)
<b>Net Benefit Liability/ (Asset)</b>	<b>16,989,329</b>	<b>(2,464,375)</b>	<b>4,660,286</b>	<b>(895,516)</b>	<b>825,451</b>	<b>18,494</b>	<b>2,145,748</b>	<b>21,279,417</b>

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 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).



	2020 Rs. 000	2019 Rs. 000						
Employee Retirement Pension Scheme	16,989,328	8,658,454						
Employee Retirement Pension Scheme-New	(2,464,375)	(3,074,018)						
Widows' and Orphans' Pension Scheme	4,660,286	2,289,861						
Widows' and Orphans' and Widowers' and Orphans' Pension Scheme - New	825,451	26,102						
Gratuity Scheme	353,689	373,017						
Medical Benefit Scheme	5,020,814	3,717,231						
	<u>25,385,193</u>	<u>11,990,647</u>						
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 2020	8,658,454	(3,074,018)	2,289,861	(1,123,204)	26,102	88,240	1,664,172	8,529,607
Net Benefit Expense /(Income)	995,723	(287,906)	227,944	(138,085)	(58,021)	43,858	247,702	1,031,215
Amount recognized in Other Comprehensive Income	7,646,862	1,196,748	2,472,171	365,773	857,370	(113,604)	968,738	13,394,058
Contribution Paid	(311,710)	(299,199)	(329,690)	-	-	-	(734,864)	(1,675,463)
<b>As at 31 December 2020</b>	<b>16,989,329</b>	<b>(2,464,375)</b>	<b>4,660,286</b>	<b>(895,516)</b>	<b>825,451</b>	<b>18,494</b>	<b>2,145,748</b>	<b>21,279,417</b>
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 2020	37,116,752	1,376,825	7,840,685	1,343,408	693,189	373,017	3,717,231	52,461,107
Interest Cost	4,268,426	158,335	901,679	154,492	79,717	42,897	427,482	6,033,028
Current Service Cost	-	65,606	-	-	-	33,710	66,341	165,657
Benefit Paid From the Fund	(2,846,507)	(2,137)	(532,769)	(36,170)	-	(9,064)	(228,521)	(3,655,168)
Actuarial (Gain)/Losses on Obligations	8,632,160	1,624,437	2,617,616	470,387	940,600	(86,871)	1,038,281	15,236,610
<b>As at 31 December 2020</b>	<b>47,170,831</b>	<b>3,223,066</b>	<b>10,827,211</b>	<b>1,932,117</b>	<b>1,713,506</b>	<b>353,689</b>	<b>5,020,814</b>	<b>70,241,234</b>
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 2020	28,458,297	4,450,843	5,550,824	2,466,612	667,087	284,777	2,053,059	43,931,499
Interest Income	3,272,704	511,847	638,345	283,660	76,715	32,749	236,102	5,052,122
Contributions by the Employer	311,710	299,199	329,690	-	-	-	734,864	1,675,463
Contributions by the Employees	-	-	35,390	8,917	61,023	-	10,019	115,349
Benefit Paid from the Fund	(2,846,507)	(2,137)	(532,769)	(36,170)	-	(9,064)	(228,521)	(3,655,168)
Return on Plan Assets/ Investments excluding Interest Income	985,298	427,689	145,445	104,614	83,230	26,733	69,543	1,842,552
<b>As at 31 December 2020</b>	<b>30,181,502</b>	<b>5,687,441</b>	<b>6,166,925</b>	<b>2,827,633</b>	<b>888,055</b>	<b>335,195</b>	<b>2,875,066</b>	<b>48,961,817</b>
There are no uncollateralized investments on Pension and other Post - Employment Benefit Plans as at 31 December 2020. However, during 2019, there were uncollateralized investments worth of Rs. 561.39 Mn under Pension, Widows' and Orphans' fund, Widowers' and Orphans' fund, Gratuity and Medical Benefit Scheme fund for which 100% provision has been made and thus not included in the value of plan assets.								

Expenses Recognised in Other Comprehensive Income (OCI) for the Year Ended 31 December 2020	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
<b>Actuarial (Gains)/Losses on Obligations for the Period</b>								
Due to Change in Financial Assumptions	10,262,386	1,575,451	2,877,812	567,559	913,185	(44,406)	1,248,800	17,400,787
Due to Experience	(1,630,226)	48,986	(260,196)	(97,172)	27,415	(42,465)	(210,519)	(2,164,177)
Return on Plan Assets/ Investments excluding Interest Income	(985,298)	(427,689)	(145,445)	(104,614)	(83,230)	(26,733)	(69,543)	(1,842,552)
<b>Net (Income)/Expense For the Period Recognized in OCI</b>	<b>7,646,862</b>	<b>1,196,748</b>	<b>2,472,171</b>	<b>365,773</b>	<b>857,370</b>	<b>(113,604)</b>	<b>968,738</b>	<b>13,394,058</b>
<b>Benefit Expense for the Year Ended 31 December 2020</b>								
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Interest Cost on Benefit Obligation	4,268,427	158,335	901,679	154,492	79,717	42,897	427,482	6,033,029
Interest Income on Plan Assets/ Investments	(3,272,704)	(511,847)	(638,345)	(283,660)	(76,715)	(32,749)	(236,102)	(5,052,122)
Current Service Cost	-	65,606	-	-	-	33,710	66,341	165,657
Contributions by the Employees	-	-	(35,390)	(8,917)	(61,023)	-	(10,019)	(115,349)
<b>Benefit Expense/(Income)</b>	<b>995,723</b>	<b>(287,906)</b>	<b>227,944</b>	<b>(138,085)</b>	<b>(58,021)</b>	<b>43,858</b>	<b>247,702</b>	<b>1,031,215</b>
<b>Composition of the Plan Assets/Investments</b>								
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Investment in Government Securities	24,899,275	5,414,590	4,265,463	2,541,197	878,643	315,612	2,141,467	40,456,247
Investment in Reverse Repo	2,217,485	51,523	821,410	93,156	7,464	2,046	465,653	3,658,737
Investment in Debentures	569,632	146,980	448,058	42,375	-	8,509	-	1,215,554
Investment in Fixed Deposits	2,491,432	73,598	630,977	150,320	780	9,028	267,946	3,624,081
Balances Remaining in Current Accounts	3,678	750	1,017	585	1,168	-	-	7,198
<b>Total Plan Assets/Investments as at 31 December 2020</b>	<b>30,181,502</b>	<b>5,687,441</b>	<b>6,166,925</b>	<b>2,827,633</b>	<b>888,055</b>	<b>335,195</b>	<b>2,875,066</b>	<b>48,961,817</b>
<b>As at 31 December 2019</b>								
<b>Movement in the Benefit Liability/(Asset)</b>								
	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/(Income)	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)
<b>As at 31 December 2019</b>	<b>8,658,454</b>	<b>(3,074,018)</b>	<b>2,289,861</b>	<b>(1,123,204)</b>	<b>26,102</b>	<b>88,240</b>	<b>1,664,172</b>	<b>8,529,607</b>



<b>Movement in the Present Value of Projected Benefit Obligations</b>	<b>Employee Retirement Pension Scheme</b>	<b>Employee Retirement Pension Scheme-New</b>	<b>Widows' and Orphans' Pension Scheme</b>	<b>Widowers' and Orphans' Pension Scheme</b>	<b>"Widows' and Orphans' and Widowers' and Orphans' Pension Scheme - New</b>	<b>Gratuity Scheme</b>	<b>Medical Benefit Scheme</b>	<b>Total</b>
	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>
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	(2,798,205)	(988)	(502,519)	(32,405)	-	(13,609)	(291,406)	(3,639,132)
Actuarial (Gains)/Losses on Obligations	(373,149)	145,580	1,352,622	32,761	94,265	30,002	865,635	2,147,716
<b>As at 31 December 2019</b>	<b>37,116,752</b>	<b>1,376,825</b>	<b>7,840,685</b>	<b>1,343,408</b>	<b>693,189</b>	<b>373,017</b>	<b>3,717,231</b>	<b>52,461,107</b>
<b>Movement in Fair Value of Plan Assets/Investments</b>	<b>Employee Retirement Pension Scheme</b>	<b>Employee Retirement Pension Scheme-New</b>	<b>Widows' and Orphans' Pension Scheme</b>	<b>Widowers' and Orphans' Pension Scheme</b>	<b>"Widows' and Orphans' and Widowers' and Orphans' Pension Scheme - New</b>	<b>Gratuity Scheme</b>	<b>Medical Benefit Scheme</b>	<b>Total</b>
	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>
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/ Investments Excluding Interest Income	762,247	238,141	38,170	50,668	70,145	26,039	88,380	1,273,790
<b>As at 31 December 2019</b>	<b>28,458,298</b>	<b>4,450,843</b>	<b>5,550,824</b>	<b>2,466,612</b>	<b>667,087</b>	<b>284,777</b>	<b>2,053,059</b>	<b>43,931,500</b>
<b>Expenses Recognised in Other Comprehensive Income (OCI) for the Year Ended 31 December 2019</b>	<b>Employee Retirement Pension Scheme</b>	<b>Employee Retirement Pension Scheme-New</b>	<b>Widows' and Orphans' Pension Scheme</b>	<b>Widowers' and Orphans' Pension Scheme</b>	<b>"Widows' and Orphans' and Widowers' and Orphans' Pension Scheme - New</b>	<b>Gratuity Scheme</b>	<b>Medical Benefit Scheme</b>	<b>Total</b>
	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>
<b>Actuarial (Gains)/Losses on Obligations for the Period</b>								
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/ Investments excluding Interest Income	(762,247)	(238,141)	(38,170)	(50,668)	(70,145)	(26,039)	(88,380)	(1,273,790)
<b>Net (Income)/Expense For the Period Recognized in OCI</b>	<b>(1,135,396)</b>	<b>(92,561)</b>	<b>1,314,452</b>	<b>(17,907)</b>	<b>24,120</b>	<b>3,963</b>	<b>777,255</b>	<b>873,926</b>

Benefit Expense 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' 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	4,316,583	126,683	748,991	143,898	86,171	34,912	332,242	5,789,480
Interest Income on Plan Assets/Investments	(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)
<b>Benefit Expense</b>	<b>1,182,132</b>	<b>(245,782)</b>	<b>71,561</b>	<b>(127,165)</b>	<b>(177,540)</b>	<b>36,512</b>	<b>194,747</b>	<b>934,465</b>

Composition of the 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
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
<b>Total Plan Assets/Investments as at 31 December 2019</b>	<b>28,458,298</b>	<b>4,450,843</b>	<b>5,550,824</b>	<b>2,466,612</b>	<b>667,087</b>	<b>284,777</b>	<b>2,053,059</b>	<b>43,931,500</b>

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

	2020	2019
Discount Rate	8.50%	11.50%
Expected Rate of Return on Assets	8.50%	11.50%
Rate of Salary Increases - Gratuity, W & OP, WR & OP, Old Pension Schemes	7.00%	11.50%
Rate of Salary Increase - Pension New 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	17 Years	18 Years
CBSL Medical Benefit Scheme	26 Years	26 Years
Retirement Age	60 Years	60 Years

Sensitivity Analysis at 0.5% (As at 31 December 2020)	Employee Retirement Pension Scheme	Employee Retirement Pension Scheme-New	Widows' and Orphans' Pension Scheme	Widows' and Orphans' Pension Scheme	Widows' and Orphans' and Widows' Pension Scheme - New	Gratuity Scheme	Medical Benefit Scheme
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
<b>Projected benefit obligation on current assumptions</b>	<b>47,170,831</b>	<b>3,223,066</b>	<b>10,827,211</b>	<b>1,932,117</b>	<b>1,713,506</b>	<b>353,689</b>	<b>5,020,814</b>
Effect of "+" change in discount rate	(2,263,490)	(360,641)	(614,828)	(124,668)	(218,452)	(12,912)	(275,283)
Effect of "-" change in discount rate	2,464,744	416,656	678,593	137,758	258,215	13,803	306,728
Effect of "+" change in attrition rate	-	-	-	-	-	70,468	-
Effect of "-" change in attrition rate	-	-	-	-	-	(77,432)	-
Effect of "+" change in salary escalation rate	151,098	272,749	16,499	5,677	136,964	13,935	-
Effect of "-" change in salary escalation rate	(143,899)	(249,020)	(15,780)	(5,539)	(125,179)	(13,147)	-
Effect of "+" change in Medical Cost Inflation	-	-	-	-	-	-	318,331
Effect of "-" change in Medical Cost Inflation	-	-	-	-	-	-	(285,886)
Effect of "+" change in Rate of Pension Escalation	2,317,698	-	663,819	132,301	-	-	-
Effect of "-" change in Rate of Pension Escalation	(2,154,737)	-	(608,420)	(121,239)	-	-	-

### 33. MISCELLANEOUS LIABILITIES AND ACCRUALS

Miscellaneous liabilities and accruals include the lease payables, accounts payable balances, contract retention and deposits taken as refundable tender deposits.

#### 33.1 Leases

The Bank leases several lands and buildings of which the lease periods range from 2 to 30 years with the option to renew some of those leases after that date. For some leases, payments are renegotiated every five years to reflect market rentals. Information about the leases for which the bank is a lessee is presented below.

##### 33.1.1 Right of Use Assets

Right of Use assets relate to leased land and buildings that are presented within Property, Plant and Equipment (Note 20).

##### 33.1.2 Amounts Recognised in the Statement of Income

	2020 Rs. 000	2019 Rs. 000
Interest on lease liability	6,311	5,291
Amortisation of right-of-use assets	6,643	6,240

##### 33.1.3 Amounts Recognised in the Statement of Cash Flows

	2020 Rs. 000	2019 Rs. 000
Total cash outflow for leases	8,049	3,765

#### 33.1.4 Lease Liability

	2020 Rs. 000	2019 Rs. 000
Balance as at 1 January	48,938	47,411
Remeasurement during the year	4,838	-
Interest charges during the year	6,311	5,292
Lease payments during the year	(8,049)	(3,765)
Balance as at 31 December	52,038	48,938

##### 33.1.5 Maturity Analysis of Lease Liability

	2020 Rs. 000	2019 Rs. 000
Non-current	49,460	44,449
Current	2,578	4,489
Balance as at 31 December	52,038	48,938

##### 33.1.6 Maturity Analysis based on Contractual Undiscounted Cash Flows

	2020 Rs. 000	2019 Rs. 000
Less than one year	7,990	7,827
One to five years	14,580	17,769
More than five years	135,219	114,409
<b>Total undiscounted lease liabilities</b>	<b>157,789</b>	<b>140,005</b>

### 34. EQUITY

#### Nature of Equity Items

##### 34.1 Capital Funds

**Contributed Capital** - The capital account represents the capital of the Bank in accordance with section 6 of the Monetary Law Act (MLA). As per the section 6 of the MLA (Amendment) Act No. 15 of 2014, the capital of the Bank has been increased to Rs. 50.00 Bn. Accordingly,

the Bank has increased its capital up to Rs. 50.00 Bn by capitalizing the Bank's reserves with the concurrence of Minister of Finance in September 2014.

### 34.2 Fixed Assets Revaluation Reserve

This reserve is made up of the revaluation surpluses of Property, Plant and Equipment as per IAS 16 - Property, Plant and Equipment.

### 34.3 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 2019, an amount of Rs. 43.36 Bn was transferred to MRR from Retained Earnings in 2020 as per the Monetary Board decision BP MB/F/6/28/2020 dated 26 February 2020.

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 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. 3.00 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.1.00 Bn have been transferred to this reserve from 2011

profits. During June 2015, Rs. 2.00 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.2.00 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.2.00 Bn from Medium and Long Term Credit Fund, of which Rs.1.00 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.1.00 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. An allocation of Rs. 742.48 Mn was made in March 2020, to this fund from the distributable profits of year 2019.

xi). **Medium and Long Term Credit Reserve** : In accordance with the Monetary Board decisions MB/FD/11/14/2020 dated 15 April 2020 and MB/RD/19/28/2020 dated 11 June 2020, Rs. 15.46 Bn from the General Reserve and the Building Reserve, Rs. 1.96 Bn from the Special Credit Guarantee Scheme Reserve, Rs. 3.00 Bn from the Technical Advancement Reserve and Rs. 4.33 Bn from the Reserve for Funding Purposes of Post Employment Benefit Plans was transferred during 2020 to the Medium and Long Term Credit Reserve to support the refinance lending programs initiated by the Bank to overcome the effects of COVID-19 Pandemic.

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	Reserve for Funding Purposes of Post Employ-ment 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
<b>Balance as at 1 January 2020</b>	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
Transfer to RTGS Sinking Fund	-	-	-	-	418,783	-	-	-	-	-	-	418,783
Transfer of Profits to General Reserve	-	-	638,355	-	-	-	-	-	-	-	-	638,355
Transfer of Net Foreign Exchange Revaluation Loss	-	-	-	-	-	7,123,733	-	-	-	-	-	7,123,733
Net Fair Value Gain on Securities at Fair Value through Other Comprehensive Income	-	-	-	-	-	-	-	9,910,943	-	-	-	9,910,943
Transfer of Funds to Market Revaluation Reserve	-	43,356,467	-	-	-	-	-	-	-	-	-	43,356,467
Transfer to Reserve for funding purposes of Post-Employment Benefit	-	-	-	-	-	-	-	-	-	-	742,476	742,476
Transfer of Funds to MLTC Reserve to fund COVID-19 Refinance Schemes	24,752,739	-	(15,462,739)	(1,960,000)	-	-	-	-	-	(3,000,000)	(4,330,000)	-
Market Valuation Reserve - Government Securities Classified at Fair Value through Other Comprehensive Income	-	-	-	-	-	-	-	3,547,766	-	-	-	3,547,766
Market Valuation Reserve - Equity Investments Classified at Fair Value through Other Comprehensive Income	-	-	-	-	-	-	-	108,379	-	-	-	108,379
Gain on Revaluation of Property, Plant and Equipment	-	-	-	-	-	-	3,671,689	-	-	-	-	3,671,689
<b>Balance as at 31 December 2020</b>	<u>29,577,739</u>	<u>63,463,145</u>	<u>1,142,018</u>	<u>40,000</u>	<u>2,870,918</u>	<u>147,994,227</u>	<u>12,694,596</u>	<u>21,483,407</u>	<u>2,000,000</u>	<u>-</u>	<u>745,973</u>	<u>282,012,023</u>

### 35. PROFIT DISTRIBUTION

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.

- a) Fully remove the exchange gains and 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).

- b) Remove gains from Unrealized Price Revaluations (unrealized "marked to market" gains) but charge losses from Unrealized Price Revaluations (unrealized "marked to market" losses) (As per the Profit Distribution Policy of CBSL)

- c) Any other transfers to reserves as per Sec.38 of MLA and any other adjustments arising from Sec. 39 of MLA as decided by the Monetary Board.

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

Based on the above adjustments, the distributable profit for the year ended 31 December 2020 is as follows:

Item	2020 Rs. 000
<b>Profit for the year</b>	<b>63,432,761</b>
<b>Less:</b>	
Transfer of exchange losses to IRR in accordance with the MLA	7,123,733
Transfer of "marked to market" gain on foreign assets to Market Revaluation Reserve (MRR)	23,574,367
Other accounting adjustments	707,037
Transfer to Other Comprehensive Income (As per IAS 19 : Employee Benefits)	13,394,058
<b>Distributable Profit as per MLA, Profit Distribution Policy of the Bank and other adjustments - Realised Profit</b>	<b>18,633,566</b>
<b>Less :</b> Transfer to Reserves (Sec. 38 of MLA)	
- Transfer to Reserve for funding purpose of Post Employment Benefit Plans	757,613
- Transfer to General Reserve	2,859,208
- Recovery of outstanding GOSL obligations (Sec. 39 of MLA)	16,745
<b>Amount Credited to the Consolidated Fund (Sec. 39 of MLA)</b>	<b>15,000,000</b>

### 36. INTEREST INCOME FROM FINANCIAL ASSETS

	2020 Rs. 000	2019 Rs. 000
<b>Interest Income from Foreign Currency Financial Assets</b>		
Cash and Short Term Deposits	454,878	3,107,387
Financial Assets	13,771,910	14,245,223
Derivatives	12,027,428	15,597,950
<b>Total Interest Income from Foreign Currency Financial Assets</b>	<b>26,254,216</b>	<b>32,950,560</b>
<b>Interest Income from Local Currency Financial Assets</b>		
Sri Lanka Government Securities	20,969,883	12,079,028
Securities Purchased under Resale Agreements	1,685,965	4,579,630
Other Loans and Advances	2,686,181	1,416,092
<b>Total Interest Income from Local Currency Financial Assets</b>	<b>25,342,029</b>	<b>18,074,750</b>
<b>Total Interest Income from Financial Assets</b>	<b>51,596,245</b>	<b>51,025,310</b>

Total Interest Income calculated using the effective interest method during 2020 was Rs. 34,714.14 Mn (2019 - Rs. 26,252.46 Mn ).

### 37. GAIN FROM UNREALIZED PRICE REVALUATIONS

	2020 Rs. 000	2019 Rs. 000
Foreign Securities	(30,440)	295,181
Gold	21,785,511	27,613,441
Forex & Currency SWAPS	1,725,932	14,672,223
Currency Options	43,858	320,052
<b>Total Gain from Unrealized Price Revaluations</b>	<b>23,524,861</b>	<b>42,900,897</b>

### 38. INTEREST EXPENSES ON FINANCIAL LIABILITIES

	2020 Rs. 000	2019 Rs. 000
<b>Interest Expense on Foreign Currency Financial Liabilities</b>		
Asian Clearing Union	269,910	1,638,792
IMF Related Liabilities	3,245,651	4,937,068
Derivatives	912,259	1,722,776
Other Foreign Payable	866,032	39,383
<b>Total Interest Expense on Foreign Currency Financial Liabilities</b>	<b>5,293,852</b>	<b>8,338,019</b>
<b>Interest Expense on Local Currency Financial Liabilities</b>		
Securities Sold Under Repurchase Agreements	114,379	795,441
Standing Deposit Facility	6,766,330	2,301,163
Abandoned Property	600,757	666,335
Miscellaneous Interest Expenses	838,828	363
<b>Total Interest Expense on Local Currency Financial Liabilities</b>	<b>8,320,294</b>	<b>3,763,302</b>
<b>Total Interest Expense on Financial Liabilities</b>	<b>13,614,146</b>	<b>12,101,321</b>

The Bank has a net sterilization cost of Rs. 1,126.15 Mn (2019 - gain of Rs. 9,912.61 Mn) in its activities to absorb the liquidity from the market due to the excess liquidity position. The sterilization cost is comprised 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 and in gain/ (loss) from realized price changes, as discussed below:

	2020 Rs. 000	2019 Rs. 000
Interest expenses incurred on securities sold under agreement to repurchase	114,379	795,441
Interest expense on Standing Deposit Facility	6,766,330	2,301,163
<b>Less:</b>		
Interest income earned on the securities purchased under agreement to resale	1,685,965	4,579,630
USD/LKR Derivative Gain	4,068,592	8,429,586
	<b>(1,126,152)</b>	<b>9,912,612</b>



**39. EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS**

	2020 Rs. 000	2019 Rs. 000
<b>Foreign Currency Financial Assets</b>		
Financial Assets at Amortized Cost		
Cash & Cash Equivalents (Note 8.1)	(48,380)	(150,394)
IMF Related Assets (Note 11.4)	2	-
Securities at Fair Value through Other Comprehensive Income (Note 9.2)	(1,997,827)	(37,245)
<b>Total Expected Credit Loss Charge on Foreign Currency Financial Assets</b>	<b>(2,046,205)</b>	<b>(187,639)</b>
<b>Local Currency Financial Assets</b>		
Financial Assets at Amortised Cost		
Loans to Banks (Note 16.2)	(154,333)	119
Investments by Internal Funds (Note 17.1)	(63,939)	(15,541)
Other Receivables (Note 17.2)	(8,001)	(12,223)
Credit Guarantee Provision	-	404
Other Receivables and Prepayments	(32,921)	-
<b>Total Expected Credit Loss Charge on Local Currency Financial Assets</b>	<b>(259,194)</b>	<b>(27,241)</b>
<b>Total Expected Credit Loss Charge on Financial Assets</b>	<b>(2,305,399)</b>	<b>(214,880)</b>

**40. OTHER INCOME**

	2020 Rs. 000	2019 Rs. 000
Dividend Income - Related Party	154,381	149,686
Gain on Disposal of Property, Plant & Equipment	-	33,915
Amortization of Deferred Grant	1	6
Licensing Fees of Financial Institutions	620,902	624,100
Rent Income	321,821	346,790
Charges collected from RTGS Participants	99,585	121,576
Miscellaneous Income	250,249	238,515
Net Gains on Revaluation of Property, Plant and Equipment	142,390	-
<b>Total Other Income</b>	<b>1,589,329</b>	<b>1,514,588</b>

**41. PERSONNEL EXPENSES**

	2020 Rs. 000	2019 Rs. 000
Wages and Salaries	5,298,938	5,544,943
Defined Contribution Plan Costs	707,129	1,103,233
Post Employee Defined Benefit Plan Costs	851,435	1,120,381
<b>Total Personnel Expenses</b>	<b>6,857,502</b>	<b>7,768,557</b>

**42. ADMINISTRATION AND OTHER EXPENSES**

	2020 Rs. 000	2019 Rs. 000
Repairs and Maintenance	823,229	910,949
Operating Expenses for Reuters, Bloomberg, SWIFT etc.	213,666	188,605
Travelling	9,581	138,243
Rental Expenses	-	69,664
Printing	59,306	35,015
Audit Fees	47,448	247,435
Remuneration to Members of the Monetary Board/Sub Committees	4,325	6,420
Advertising Cost	28,248	82,686
Consultancy, Communication, Advisory and Professional Fees	80,521	124,220
Interest Expense on Lease Liability	6,311	5,292
Miscellaneous Expenses	224,405	359,952
<b>Total Administration and Other Expenses</b>	<b>1,497,040</b>	<b>2,168,481</b>

**43. TAX**

The Bank is not liable for the income tax as per section 9 (1) of Inland Revenue Act No. 24 of 2017.

During the year 2020, the Bank did not pay any taxes (2019 - Rs. 290.89 Mn was paid as Economic Service Charges).

**44. RECONCILIATION OF OPERATING PROFIT WITH CASH FLOWS FROM OPERATING ACTIVITIES**

	2020 Rs. 000	2019 Rs. 000
<b>Reported Profit from Operating Activities</b>	<b>63,432,761</b>	<b>55,604,839</b>
<b>Add/(Less) : Non-Cash Items</b>		
Depreciation & Amortization	452,353	439,918
Interest Receivable - Local Currency - Investment Portfolio	(22,657,914)	(16,658,660)
Net Provision for Defined Employee Benefit Plans	211,855	467,211
Gross Unrealised Foreign Exchange Gain	(16,414,833)	(3,012,872)
Profit on Sale of Property, Plant and Equipment	(5)	(33,915)
Provisions and Accruals	1,862,265	(805,841)
Expected Credit Loss Provision on Financial Assets	2,272,478	214,880
Deferred Grants	785	(6)
Gains on Revaluation	(142,390)	-
Amortization of PRGF Deposit	(2,174)	8,368
Amortization Expense of Fixed Income Securities	2,246,629	5,674
<b>Add/(Less) : Movements in Other Working Capital Items</b>		
(Increase)/Decrease in Inventories	996,573	(729,457)
(Increase)/Decrease in Interest Receivable	338,516	(354,822)
Increase in Miscellaneous Liabilities	811,504	323,129
Increase in Interest Payable	392,801	627,537
Increase in Other Receivables	(2,438,850)	(237,576)
<b>Add/(Less) : Investing and Financing Activities</b>		
Net Unrealised Market Value Changes	(24,537,198)	(42,694,401)
<b>Net Cash Flows from Operating Activities</b>	<b>6,825,156</b>	<b>(6,835,994)</b>

**45. NET ISSUES/(WITHDRAWALS) OF CIRCULATION CURRENCY ON GOVERNMENT TRANSACTIONS**

	2020 Rs. 000	2019 Rs. 000
Purchase/ (Sale) of Sri Lanka Government Securities	581,555,020	(147,771,168)
Interest Received – Local Currency – Sri Lanka Government Securities	(17,365,458)	(16,619,525)
Increase/(Decrease) in Advances to GOSL	(83,547,071)	37,976,400
Increase in Balances with Government and Government Entities	(960,873)	(150,920)
	<u>479,681,618</u>	<u>(126,565,213)</u>

**46. NET ISSUES/(WITHDRAWALS) OF CIRCULATION CURRENCY ON BANK AND FINANCIAL INSTITUTIONS TRANSACTIONS**

	2020 Rs. 000	2019 Rs. 000
Decrease in Deposits by Banks and Financial Institutions	124,980,099	65,524,563
	<u>124,980,099</u>	<u>65,524,563</u>

**47. CONCENTRATIONS OF FUNDING**

The Bank's concentrations of funding as at reporting date were as follows:

<b>47.1 Balance as at 31 December 2020</b>	<b>Sri Lanka Government</b>	<b>Sri Lanka Public</b>	<b>Sri Lanka Commercial Banks</b>	<b>Supranational Financial Institutions</b>	<b>Other</b>	<b>Total</b>
	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>
<b>Foreign Currency Financial Liabilities</b>						
Banks and Financial Institutions	-	-	-	-	208,337,221	208,337,221
Derivative Financial Instruments	-	-	124,237	-	449,945	574,182
Asian Clearing Union	-	-	-	63,864,652	-	63,864,652
IMF	-	-	-	509,925,278	-	509,925,278
Other	15,529	-	-	48,468	74,806,328	74,870,325
<b>Total Foreign Currency Financial Liabilities</b>	<b>15,529</b>	<b>-</b>	<b>124,237</b>	<b>573,838,398</b>	<b>283,593,494</b>	<b>857,571,658</b>
<b>Local Currency Financial Liabilities</b>						
Deposits of Banks and Financial Institutions	-	-	118,686,595	-	10,914,926	129,601,521
Deposits of Government and Government Entities	1,460,338	174	-	-	-	1,460,512
Securities Sold Under Repurchase Agreements	-	-	196,901,340	-	12,606,558	209,507,898
Currency in Circulation	-	834,807,859	-	-	-	834,807,859
Other Payables	25,474	-	2,905,314	-	11,812,004	14,742,792
<b>Total Local Currency Financial Liabilities</b>	<b>1,485,812</b>	<b>834,808,033</b>	<b>318,493,249</b>	<b>-</b>	<b>35,333,488</b>	<b>1,190,120,582</b>
<b>Total Financial Liabilities</b>	<b>1,501,341</b>	<b>834,808,033</b>	<b>318,617,486</b>	<b>573,838,398</b>	<b>318,926,982</b>	<b>2,047,692,240</b>
<b>Other Liabilities</b>						
Deferred Grants	-	-	-	-	789	789
Pension and Other Post Employment Benefit Plans	-	-	-	-	25,385,193	25,385,193
Miscellaneous Liabilities and Accruals	-	-	-	-	1,353,373	1,353,373
<b>Total Other Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>26,739,355</b>	<b>26,739,355</b>
<b>Total Liabilities</b>	<b>1,501,341</b>	<b>834,808,033</b>	<b>318,617,486</b>	<b>573,838,398</b>	<b>345,666,337</b>	<b>2,074,431,595</b>
<b>47.2 Balance as at 31 December 2019</b>	<b>Sri Lanka Government</b>	<b>Sri Lanka Public</b>	<b>Sri Lanka Commercial Banks</b>	<b>Supranational Financial Institutions</b>	<b>Other</b>	<b>Total</b>
	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>
<b>Foreign Currency Financial Liabilities</b>						
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
<b>Total Foreign Currency Financial Liabilities</b>	<b>57,036,040</b>	<b>-</b>	<b>197,014</b>	<b>555,851,305</b>	<b>925,605</b>	<b>614,009,964</b>
<b>Local Currency Financial Liabilities</b>						
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 Payable	83,678	-	1,924,674	-	10,694,536	12,702,888
<b>Total Local Currency Financial Liabilities</b>	<b>583,125</b>	<b>677,967,342</b>	<b>286,567,583</b>	<b>-</b>	<b>23,931,572</b>	<b>989,049,622</b>
<b>Total Financial Liabilities</b>	<b>57,619,165</b>	<b>677,967,342</b>	<b>286,764,597</b>	<b>555,851,305</b>	<b>24,857,177</b>	<b>1,603,059,586</b>
<b>Other Liabilities</b>						
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
<b>Total Other Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,172,461</b>	<b>12,172,461</b>
<b>Total Liabilities</b>	<b>57,619,165</b>	<b>677,967,342</b>	<b>286,764,597</b>	<b>555,851,305</b>	<b>37,029,638</b>	<b>1,615,232,047</b>



## 48. RISK MANAGEMENT

In pursuing its policy objectives, CBSL can face various risks, both financial and non-financial in nature. Since the materialization of any of such risks could have an adverse impact on the financial position and the reputation of CBSL, having a properly designed risk management framework in place is vital. 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 and the Bank is in the process of implementing an Enterprise-wide Risk Management (ERM) Framework for CBSL.

The Risk Governance Framework which was approved by the Monetary Board 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”.

The BROC was set up in August 2018 and is chaired by Mr. Sanjeeva Jayawardena, independent member of the Monetary Board and comprises two independent external experts (Mr. Naomal Goonewardena, Partner, Nithya Partners was appointed from 01 March 2019 onwards and Mr. Susantha Ratnayake, Chairman, Board of Investment of Sri Lanka (resigned from this position w.e.f. 30 November 2020) was appointed from 06 October 2020 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 Defence model. In the first line of defence, operational departments are responsible for identifying, analysing, evaluating, treating, monitoring, reviewing and reporting financial and/or operational risks related to their functions, through their respective reporting channels, in line with the risk management structure of the CBSL. The Risk Management Department, as a part of the second line of defence, is responsible for facilitating the risk management process related to financial and operational risks, by coordinating activities to direct and guide CBSL in this regard. The third line of defence, Internal Audit, is responsible for providing independent objective assurance and recommendations to add value and improving the control environment relating to operations of the CBSL through audits. Each of these three ‘lines’ plays a distinct role within the Bank’s risk governance framework.

In addition to facilitating operational risk management of all the departments under the three lines of defence

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 formulated Investment Policy Statements (IPS), Strategic Asset Allocations (SAA) and Investment Guidelines (IG) for all three funds. RMD also independently monitored market and credit risks pertaining to these fund management activities and reported risks emanating from these to the respective Investment Oversight Committees (IOCs), the BROC and the MB on a periodic basis.

In line with the new framework, RMD 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.

RMD reviews the Operational Risk Taxonomy of the CBSL annually, updating it including/excluding risk categories and incorporating any other changes required to suit the prevailing risk environment. In addition, a biennial perception survey is conducted among the management of CBSL to determine their perception on the top bank-wide operational risks impacting the CBSL. The survey results are also considered when revising the Operational Risk Taxonomy of the CBSL, which helps prioritize key operational risk categories that could impact the CBSL 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.

In order to strengthen the operational risk management function, RMD collaborated with the World Bank Technical Assistance Mission (WBTAM). However, the expected extension to WBTAM was not possible during 2020 due to the pandemic.

RMD worked with departments to facilitate the development of Risk Registers and to refine these Risk Registers in a phased-out manner using a spreadsheet based risk register format. The risk profile of CBSL is developed using these Departmental Risk Registers, enhancing the operational risk management process.

RMD continued to administer incidents reported through the Incident Reporting System, enabling the development of a central repository of incidents and tracking progress on the implementation of corrective measures. The information gathered through this system will help in identifying possible risk trends, areas of vulnerabilities and improving related risk treatment 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 these investments 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 concentrations of credit exposure by geographical area (based on the entity's country of ownership) as at reporting date were as follows:

	2020 Rs. 000	2019 Rs. 000
Sri Lanka	1,009,892,263	384,424,472
USA	457,822,320	527,800,817
Japan	85,262,633	249,868,714
Britain	6,492,727	21,960,920
Europe	110,462,895	131,542,095
Supranational	477,101,616	274,053,375
Other	170,825,331	131,112,411
<b>Total Financial Assets</b>	<b>2,317,859,785</b>	<b>1,720,762,804</b>

##### (b) Concentrations of Credit Exposure by Institutions

The Bank's significant concentrations of credit exposure by Institution type as at reporting date were as follows:

	2020 Rs. 000	2019 Rs. 000
Governments	1,554,039,564	1,234,725,958
Supranational Financial Institutions	477,101,616	274,053,375
Foreign Banks and Financial Institutions	147,194,059	139,016,154
Sri Lanka Banks & Financial Institutions	118,372,002	53,744,826
Other	21,152,544	19,222,491
<b>Total Financial Assets</b>	<b>2,317,859,785</b>	<b>1,720,762,804</b>

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

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

Credit Exposure by Credit Rating Foreign Currency Financial Assets	Credit Rating	2020 Rs.000	%	2019 Rs.000	%
<b>Cash &amp; Cash Equivalents</b>					
Federal Reserve Bank - USA/ Reserve Bank of Australia/Bank for International Settlements/ Bank of Japan/ Deutsche Bundes Bank/ Bank of England/ Sveriges Riks Bank/ Bank of Canada/ Reserve Bank of New Zealand/ Reserve Bank of India/ People's Bank of China		320,842,614	13.84%	354,721,018	20.61%
	AAA	17,985,741	0.78%	633,850	0.04%
	AA-	31,186,235	1.34%	32,167,823	1.87%
	A+	29,920,960	1.29%	32,434,119	1.88%
	A	2,789,210	0.12%	260,070	0.02%
	A-	140,847	0.01%	275,673	0.02%
	BBB+	172,614	0.01%	-	0.00%
	BBB	40,470	0.00%	-	0.00%
	BBB-	-	0.00%	1,126	0.00%
	NR	228,613	0.01%	215,790	0.01%
		403,307,304	17.40%	420,709,469	24.45%
<b>Securities at Fair Value through Other Comprehensive Income</b>					
	AAA	189,785,053	8.19%	173,323,411	10.07%
	AA+	437,986,572	18.90%	477,938,370	27.78%
	AA	15,360,081	0.66%	21,684,381	1.26%
	AA-	27,998,253	1.21%	29,937,638	1.74%
	A+	32,305,504	1.39%	20,526,460	1.19%
	NR	-	0.00%	6,390,749	0.37%
		703,435,463	30.35%	729,801,009	42.41%
<b>Securities at Fair Value through Profit or Loss</b>					
	AAA	30,034,475	1.29%	30,713,153	1.83%
	AA+	4,785,108	0.21%	2,482,002	0.10%
	AA	5,140,913	0.22%	4,072,209	0.24%
	AA-	603,827	0.03%	309,103	0.02%
	A+	-	0.00%	369,944	0.02%
	NR	-	0.00%	546,857	0.03%
		40,564,323	1.75%	38,493,268	2.24%
<b>Derivative Financial Instruments</b>					
	AA-	-	0.00%	49,364	0.00%
	A+	-	0.00%	34,141	0.00%
	A	-	0.00%	13,119	0.00%
	A-	-	0.00%	78,789	0.00%
<b>Locally Rated</b>	AA+	1,423,629	0.06%	-	0.00%
	AA	-	0.00%	772,254	0.05%
	AA-	1,360,976	0.06%	67,564	0.00%
	A+	46,825	0.00%	430,063	0.03%
	A	62,960	0.00%	-	0.00%
	A-	-	0.00%	113,046	0.01%
	BBB-	33	0.00%	-	0.00%
	BB+	65,189	0.01%	-	0.00%
	NR	410,741	0.02%	463,577	0.03%
		3,370,353	0.15%	2,021,917	0.12%
<b>IMF Related Assets</b>		158,958,185	6.86%	147,159,174	8.55%
		158,958,185	6.86%	147,159,174	8.55%
<b>Other Receivables</b>	AAA	1,702,247	0.07%	-	0.00%
		1,702,247	0.07%	-	0.00%
<b>Total Foreign Currency Financial Assets</b>		<b>1,311,337,875</b>	<b>56.58%</b>	<b>1,338,184,837</b>	<b>77.77%</b>

	Credit Rating	2020 Rs.000	%	2019 Rs.000	%
<b>Local Currency Financial Assets</b>					
Sri Lanka Government Securities	B	-	0.00%	76,511,883	4.45%
	CCC+	714,531,527	30.83%	-	0.00%
<b>Securities Purchased under Resale Agreements</b>					
	AAA	-	0.00%	9,897,503	0.57%
	AA+	-	0.00%	19,375,566	1.13%
	AA-	-	0.00%	13,524,107	0.79%
	A+	318,048	0.01%	-	0.00%
	BBB-	2,410,364	0.11%	3,553,593	0.21%
	NR	-	0.00%	4,004,110	0.23%
<b>Provisional Advances to Government</b>					
	B	-	0.00%	236,608,971	13.75%
	CCC+	153,061,900	6.60%	-	0.00%
<b>Equity Investments in Financial and Other Institutions</b>					
	NR	1,615,356	0.07%	1,500,487	0.09%
<b>Loans to Banks</b>					
	AAA	147,319	0.01%	-	0.00%
	AA+	61,475,682	2.65%	24,574	0.00%
	AA-	9,094,883	0.39%	183	0.00%
	A+	19,966,369	0.86%	-	0.00%
	A	13,458,641	0.58%	-	0.00%
	A-	937,978	0.05%	50	0.00%
	BBB+	105,757	0.00%	-	0.00%
	BBB-	3,092,924	0.13%	-	0.00%
	BB+	2,599,883	0.11%	194	0.00%
<b>Other Assets</b>					
	NR	608,090	0.03%	14,288	0.00%
	AAA	137,785	0.00%	-	0.00%
	AA+	709,281	0.03%	1,101,643	0.08%
	AA	-	0.00%	49,022	0.00%
	AA-	-	0.00%	1,875	0.00%
	A+	190,126	0.01%	186,384	0.01%
	A	19,752	0.00%	6,617	0.00%
	A-	98,293	0.00%	344,995	0.02%
	B	-	0.00%	8,310,576	0.48%
	CCC+	12,680,416	0.55%	-	0.00%
	NR	9,261,536	0.40%	7,561,346	0.44%
<b>Total Local Currency Financial Assets</b>		<b>1,006,521,910</b>	<b>43.42%</b>	<b>382,577,967</b>	<b>22.23%</b>
<b>Total Financial Assets</b>		<b>2,317,859,785</b>	<b>100.00%</b>	<b>1,720,762,804</b>	<b>100.00%</b>

**(d) Summary by Major Credit Category**

	Credit Rating	2020 Rs.000	%	2019 Rs.000	%
<b>Foreign Currency Financial Assets</b>					
Federal Reserve Bank - USA/ Reserve Bank of Australia/Bank for International Settlements/ Bank of Japan/ Deutsche Bundes Bank/ Bank of England/ Sveriges Riks Bank/ Bank of Canada/ Reserve Bank of New Zealand/ Reserve Bank of India/ People's Bank of China					
		320,842,614	13.84%	354,721,018	20.61%
<b>IMF Related Assets</b>					
		158,958,185	6.86%	147,159,174	8.55%
	AAA	239,507,516	10.33%	204,670,414	11.89%
	AA+/-	523,060,989	22.57%	568,640,890	33.05%
	A+/-	65,156,521	2.81%	53,992,315	3.14%
	BBB+/-	213,084	0.01%	1,126	0.00%
	NR	228,613	0.01%	7,153,397	0.42%
<b>Locally Rated</b>					
	AA+/-	2,784,605	0.12%	839,817	0.05%
	A+/-	109,785	0.01%	543,109	0.03%
	BBB+	33	0.00%	-	0.00%
	BB+	65,189	0.00%	-	0.00%
	NR	410,741	0.02%	463,577	0.03%
<b>Total Foreign Currency Financial Assets</b>		<b>1,311,337,875</b>	<b>56.58%</b>	<b>1,338,184,837</b>	<b>77.77%</b>
<b>Local Currency Financial Assets</b>					
	AAA	285,104	0.01%	9,897,503	0.58%
	AA+/-	71,279,846	3.07%	34,076,970	1.98%
	A+/-	34,989,207	1.51%	538,046	0.03%
	BBB+/-	5,609,045	0.24%	3,553,593	0.21%
	BB+/-	2,599,883	0.11%	194	0.00%
	B+/-	-	0.00%	321,431,430	18.67%
	CCC+	880,273,843	37.99%	-	0.00%
	NR	11,484,982	0.49%	13,080,231	0.76%
<b>Total Local Currency Financial Assets</b>		<b>1,006,521,910</b>	<b>43.42%</b>	<b>382,577,967</b>	<b>22.23%</b>
<b>Total Financial Assets</b>		<b>2,317,859,785</b>	<b>100.00%</b>	<b>1,720,762,804</b>	<b>100.00%</b>

**(e) Credit Quality Analysis****Maximum exposure to credit risk by risk rating**

The following tables set out information about the credit quality of financial assets measured at amortised cost and Fair Value through Other Comprehensive Income.

	Credit Rating	Not Subject to ECL	12 - Month ECL	Life Time ECL		2020
		Rs.000	Stage 1 Rs.000	Stage 2 Rs.000	Stage 3 Rs.000	Total Rs.000
<b>Foreign Currency Financial Assets</b>						
<b>Cash &amp; Cash Equivalents</b>						
Federal Reserve Bank - USA/ Reserve Bank of Australia/Bank for International Settlements/ Bank of Japan/Deutsche Bundes Bank/ Bank of England/ Sveriges Riks Bank/Bank of Canada/ Reserve Bank of New Zealand/ Reserve Bank of India/ People's Bank of China						
		-	229,314,631	91,779,044	-	321,093,675
	AAA	-	17,985,875	-	-	17,985,875
	AA-	-	31,190,936	-	-	31,190,936
	A+	-	29,928,070	-	-	29,928,070
	A	-	2,796,148	-	-	2,796,148
	A-	-	-	140,916	-	140,916
	BBB+	-	172,614	-	-	172,614
	BBB	-	766	39,977	-	40,743
	NR	-	228,665	-	-	228,665
Gross Carrying Amount		-	311,617,705	91,959,937	-	403,577,642
Loss Allowance		-	(90,277)	(180,061)	-	(270,338)
Carrying Amount		-	311,527,428	91,779,876	-	403,307,304
<b>Securities at Fair Value through Other Comprehensive Income</b>						
	AAA	-	142,264,212	47,520,841	-	189,785,053
	AA+	-	49,760,356	388,226,216	-	437,986,572
	AA	-	1,118,782	14,241,299	-	15,360,081
	AA-	-	6,112,997	21,885,256	-	27,998,253
	A+	-	27,284,633	5,020,871	-	32,305,504
		-	226,540,980	476,894,483	-	703,435,463
<b>IMF Related Assets</b>						
		-	158,958,187	-	-	158,958,187
Gross Carrying Amount		-	158,958,187	-	-	158,958,187
Loss Allowance		-	(2)	-	-	(2)
Carrying Amount		-	158,958,185	-	-	158,958,185
<b>Local Currency Financial Assets</b>						
<b>Sri Lanka Government Securities</b>						
	Government Securities (Risk Free Investment)	714,531,527	-	-	-	714,531,527
		714,531,527	-	-	-	714,531,527
<b>Securities Purchased under Resale Agreements</b>						
	Other Risk Free Investment	2,728,412	-	-	-	2,728,412
		2,728,412	-	-	-	2,728,412
<b>Provisional Advances to Government</b>						
	Receivable from the Government (Risk Free Investment)	153,061,900	-	-	-	153,061,900
		153,061,900	-	-	-	153,061,900
<b>Loans to Banks</b>						
	AAA	-	147,319	-	-	147,319
	AA+	-	61,475,776	-	-	61,475,776
	AA-	-	9,094,989	-	-	9,094,989
	A+	-	19,967,361	-	-	19,967,361
	A	-	13,459,930	-	-	13,459,930
	A-	-	938,151	-	-	938,151
	BBB+	-	94,935	10,864	-	105,799
	BBB-	-	3,096,013	-	-	3,096,013
	BB+	-	-	2,612,025	-	2,612,025
	NR	-	608,531	136,000	-	744,531
Gross Carrying Amount		-	108,883,005	2,758,889	-	111,641,894
Loss Allowance		-	(6,215)	(148,153)	-	(154,368)
Carrying Amount		-	108,876,790	2,610,736	-	111,487,526

	Credit Rating	Not Subject to ECL	12 - Month ECL	Life Time ECL		2020
		Rs.000	Stage 1 Rs.000	Stage 2 Rs.000	Stage 3 Rs.000	Total Rs.000
Other Assets	Government Securities (Risk Free Investment)	12,082,642	-	-	-	12,082,642
	Receivable from the Government (Risk Free Investment)	597,774	-	-	-	597,774
	Other Risk Free Receivable	9,259,535	-	-	-	9,259,535
	Locally Rated	AAA	-	137,785	-	-
	AA+	-	709,287	-	-	709,287
	A+	-	190,146	-	-	190,146
	A	-	19,756	-	-	19,756
	A-	-	98,311	-	-	98,311
	NR	-	-	81,525	183,276	264,801
Gross Carrying Amount		21,939,951	1,155,285	81,525	183,276	23,360,037
Loss Allowance		-	(48)	(79,524)	(183,276)	(262,848)
Carrying Amount		21,939,951	1,155,237	2,001	-	23,097,189

Comparative figures as at 31 December 2019 were as follows:

	Credit Rating	Not Subject to ECL	12 - Month ECL	Life Time ECL		2019
		Rs.000	Stage 1 Rs.000	Stage 2 Rs.000	Stage 3 Rs.000	Total Rs.000
Foreign Currency Financial Assets						
Cash & Cash Equivalents						
Federal Reserve Bank - USA/ Reserve Bank of Australia/Bank for International Settlements/ Bank of Japan/ Deutsche Bundes Bank/ Bank of England/ Sveriges Riks Bank/ Bank of Canada/ Reserve Bank of New Zealand/ Reserve Bank of India/ People's Bank of China						
		-	354,343,209	574,860	-	354,918,069
	AAA	-	633,863	-	-	633,863
	AA-	-	32,173,397	-	-	32,173,397
	A+	-	32,450,420	-	-	32,450,420
	A	-	210,125	52,666	-	262,791
	A-	-	275,680	-	-	275,680
	BBB-	-	1,130	-	-	1,130
	NR	-	216,077	-	-	216,077
Gross Carrying Amount		-	420,303,901	627,526	-	420,931,427
Loss Allowance		-	(219,331)	(2,627)	-	(221,958)
Carrying Amount		-	420,084,570	624,899	-	420,709,469
Securities at Fair Value through Other Comprehensive Income						
	AAA	-	152,619,436	20,703,975	-	173,323,411
	AA+	-	467,262,707	10,675,663	-	477,938,370
	AA	-	21,684,381	-	-	21,684,381
	AA-	-	26,741,934	3,195,704	-	29,937,638
	A+	-	20,526,460	-	-	20,526,460
	NR	-	6,390,749	-	-	6,390,749
		-	695,225,667	34,575,342	-	729,801,009
IMF Related Assets						
Gross Carrying Amount		-	147,159,178	-	-	147,159,178
Loss Allowance		-	(4)	-	-	(4)
Carrying Amount		-	147,159,174	-	-	147,159,174
Local Currency Financial Assets						
Sri Lanka Government Securities						
	Government Securities (Risk Free Investment)	76,511,883	-	-	-	76,511,883
		76,511,883	-	-	-	76,511,883
Securities Purchased under Resale Agreements						
	Other Risk Free Investment	50,354,879	-	-	-	50,354,879
		50,354,879	-	-	-	50,354,879
Provisional Advances to Government						
	Receivable from the Government (Risk Free Investment)	236,608,971	-	-	-	236,608,971
		236,608,971	-	-	-	236,608,971

	Credit Rating	Not Subject to ECL	12 - Month ECL	Life Time ECL		2019
		Rs.000	Stage 1 Rs.000	Stage 2 Rs.000	Stage 3 Rs.000	Total Rs.000
<b>Loans to Banks</b>						
	AA+	-	24,574	-	-	24,574
	AA-	-	183	-	-	183
	A-	-	50	-	-	50
	BB+	-	-	199	-	199
	NR	-	-	14,318	-	14,318
Gross Carrying Amount		-	24,807	14,517	-	39,324
Loss Allowance		-	-	(35)	-	(35)
Carrying Amount		-	24,807	14,482	-	39,289
<b>Other Assets</b>						
	Government Securities (Risk Free Investment)	8,298,812	-	-	-	8,298,812
	Receivable from the Government (Risk Free Investment)	11,763	-	-	-	11,763
	Other Risk Free Receivable	7,561,345	-	-	-	7,561,345
<b>Locally Rated</b>						
	AA+	-	978,207	123,480	-	1,101,687
	AA	-	49,026	-	-	49,026
	AA-	-	1,875	-	-	1,875
	A+	-	186,433	-	-	186,433
	A	-	6,623	-	-	6,623
	A-	-	345,152	-	-	345,152
	NR	-	15,374	-	175,275	190,649
Gross Carrying Amount		15,871,920	1,582,690	123,480	175,275	17,753,365
Loss Allowance		-	(15,617)	(16)	(175,275)	(190,908)
Carrying Amount		15,871,920	1,567,073	123,464	-	17,562,457

#### (f) Credit Exposure Movement - ECL Stage wise

The following tables show reconciliations from the opening to closing balance of the allowance for impairment by class of financial instruments.

	2020				2019			
	Stage 1 Rs. 000	Stage 2 Rs. 000	Stage 3 Rs. 000	Total Rs. 000	Stage 1 Rs. 000	Stage 2 Rs. 000	Stage 3 Rs. 000	Total Rs. 000
<b>Cash &amp; Cash Equivalents</b>								
Balance as at 1 January	219,331	2,627	-	221,958	71,564	-	-	71,564
Transfer to Stage 1	-	-	-	-	-	-	-	-
Transfer to Stage 2	(182,822)	182,822	-	-	(361)	361	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
Amount charged to the Income Statement	53,768	(5,388)	-	48,380	148,129	2,265	-	150,394
<b>Balance as at 31 December</b>	<b>90,277</b>	<b>180,061</b>	<b>-</b>	<b>270,338</b>	<b>219,332</b>	<b>2,626</b>	<b>-</b>	<b>221,958</b>
<b>Securities at Fair Value through Other Comprehensive Income</b>								
Balance as at 1 January	81,259	19,635	-	100,894	63,649	-	-	63,649
Transfer to Stage 1	6,380	(6,380)	-	-	-	-	-	-
Transfer to Stage 2	(24,507)	24,507	-	-	(1,884)	1,884	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
Amount charged to the Income Statement	(26,586)	2,024,413	-	1,997,827	19,494	17,751	-	37,245
<b>Balance as at 31 December</b>	<b>36,546</b>	<b>2,062,175</b>	<b>-</b>	<b>2,098,721</b>	<b>81,259</b>	<b>19,635</b>	<b>-</b>	<b>100,894</b>
<b>IMF Related Assets</b>								
Balance as at 1 January	4	-	-	4	4	-	-	4
Transfer to Stage 1	-	-	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
Amount charged to the Income Statement	(2)	-	-	(2)	-	-	-	-
<b>Balance as at 31 December</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>4</b>
<b>Loans to Banks</b>								
Balance as at 1 January	-	35	-	35	15	139	-	154
Transfer to Stage 1	-	-	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	(11)	11	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
Amount charged to the Income Statement	6,215	148,118	-	154,333	(4)	(115)	-	(119)
<b>Balance as at 31 December</b>	<b>6,215</b>	<b>148,153</b>	<b>-</b>	<b>154,368</b>	<b>-</b>	<b>35</b>	<b>-</b>	<b>35</b>
<b>Other Assets</b>								
Balance as at 1 January	15,617	16	175,275	190,908	92	-	163,052	163,144
Transfer to Stage 1	15	(15)	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
Amount charged to the Income Statement	(15,585)	79,524	8,001	71,940	15,525	16	12,223	27,764
<b>Balance as at 31 December</b>	<b>47</b>	<b>79,525</b>	<b>183,276</b>	<b>262,848</b>	<b>15,617</b>	<b>16</b>	<b>175,275</b>	<b>190,908</b>



**(g) Collateral held and other credit enhancements**

The Bank holds collateral and other credit enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

**Type of credit exposure**

	Percentage of exposure that is subject to collateral requirements		
	2020	2019	Principal type of collateral held
Securities Purchased under Resale Agreements	100	100	Marketable Government Securities
Loans to Banks			
Liquidity Facility to the Construction Sector	100	-	Marketable Government Securities
Saubagya COVID-19 Renaissance Facility	100	-	Marketable Government Securities and Loan Receivables

**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 rate 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)	
	2020	2019
Fair Value through Other Comprehensive Income	7.94	8.14
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:

Investment Segment	Modified Duration	
	2020	2019
Capital Market (Fixed Income Securities)	2.11	2.03
RAMP	1.46	1.38

- 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)	
	2020	2019
Fair Value through Other Comprehensive Income	0.08	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)	
	2020	2019
Fair Value through Other Comprehensive Income	26.72	25.30
RAMP	1.04	1.17

**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 International Reserves Investment and Oversight 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 %	2020 Total Rs. 000	6 Months or Less Rs. 000	6 to 12 Months Rs. 000	1 to 2 Years Rs. 000	2 to 5 Years Rs. 000	Over 5 Years Rs. 000
<b>Interest Sensitive Foreign Currency Financial Assets</b>							
Cash & Cash equivalents	0.1097	403,307,304	403,307,304	-	-	-	-
Securities at Fair Value through Profit or Loss	1.6238	40,564,323	40,564,323	-	-	-	-
Securities at Fair Value through Other Comprehensive Income	0.3192	703,435,463	70,627,159	85,620,480	201,448,022	340,760,944	4,978,858
IMF Related Assets	0.0800	13,538,182	13,538,182	-	-	-	-
<b>Total Interest Sensitive Foreign Currency Financial Assets</b>		<b>1,160,845,272</b>	<b>528,036,968</b>	<b>85,620,480</b>	<b>201,448,022</b>	<b>340,760,944</b>	<b>4,978,858</b>
<b>Non Interest Sensitive Foreign Currency Financial Assets</b>							
IMF Related Assets		145,420,003	911	-	-	208,077	145,211,015
Derivative Financial Instruments		3,370,353	3,370,353	-	-	-	-
Other Receivables		1,702,247	1,702,247	-	-	-	-
<b>Total non Interest Sensitive Foreign Currency Financial Assets</b>		<b>150,492,603</b>	<b>5,073,511</b>	<b>-</b>	<b>-</b>	<b>208,077</b>	<b>145,211,015</b>
<b>Total Foreign Currency Financial Assets</b>		<b>1,311,337,875</b>	<b>533,110,479</b>	<b>85,620,480</b>	<b>201,448,022</b>	<b>340,969,021</b>	<b>150,189,873</b>
<b>Interest Sensitive Foreign Currency Financial Liabilities</b>							
IMF	1.0800	256,873,113	5,447,583	5,447,583	-	190,723,378	55,254,569
Asian Clearing Union	0.1500	63,864,652	63,864,652	-	-	-	-
<b>Total Interest Sensitive Foreign Currency Financial Liabilities</b>		<b>320,737,765</b>	<b>69,312,235</b>	<b>5,447,583</b>	<b>-</b>	<b>190,723,378</b>	<b>55,254,569</b>
<b>Non Interest Sensitive Foreign Currency Financial Liabilities</b>							
Banks and Financial Institutions		208,337,221	208,337,221	-	-	-	-
Derivative Financial Instruments		574,182	574,182	-	-	-	-
IMF		253,052,165	-	-	-	-	253,052,165
Other Foreign Liabilities		74,870,325	74,870,325	-	-	-	-
<b>Total non Interest Sensitive Foreign Currency Financial Liabilities</b>		<b>536,833,893</b>	<b>283,781,728</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>253,052,165</b>
<b>Total Foreign Currency Financial Liabilities</b>		<b>857,571,658</b>	<b>353,093,963</b>	<b>5,447,583</b>	<b>-</b>	<b>190,723,378</b>	<b>308,306,734</b>
<b>Foreign Currency Interest Rate Sensitivity Gap</b>		<b>840,107,507</b>	<b>458,724,733</b>	<b>80,172,897</b>	<b>201,448,022</b>	<b>150,037,566</b>	<b>(50,275,711)</b>

Local Currency Interest Rate Sensitivity Gap :	Weighted Avg. Int. Rate %	2020 Total Rs. 000	6 Months or Less Rs. 000	6 to 12 Months Rs. 000	1 to 2 Years Rs. 000	2 to 5 Years Rs. 000	Over 5 Years Rs. 000
<b>Interest Sensitive Local Currency Financial Assets</b>							
Sri Lanka Government Securities	7.6560	714,531,527	294,107,401	391,555,731	3,319,009	25,188,854	360,532
Securities Purchased under Resale Agreements	5.5000	2,728,412	2,728,412	-	-	-	-
Loans to Banks	1.0001	111,487,525	95,631,866	7,783,932	8,067,216	4,511	-
Other Assets - Staff Loans	3.3375	7,793,272	228,390	184,529	379,014	1,221,587	5,779,752
- Others	9.8666	13,056,605	2,078,654	163,050	319,407	4,460,297	6,035,197
<b>Total Interest Sensitive Local Currency Financial Assets</b>		<b>849,597,341</b>	<b>394,774,723</b>	<b>399,687,242</b>	<b>12,084,646</b>	<b>30,875,249</b>	<b>12,175,481</b>
<b>Non Interest Sensitive Local Currency Financial Assets</b>							
Provisional Advances to Government		153,061,900	153,061,900	-	-	-	-
Other Assets - Others		2,247,313	2,247,313	-	-	-	-
Investment in Equity Securities - Fair Value through Other Comprehensive Income		1,615,356	-	-	-	-	1,615,356
<b>Total Non Interest Sensitive Local Currency Financial Assets</b>		<b>156,924,569</b>	<b>155,309,213</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,615,356</b>
<b>Total Local Currency Financial Assets</b>		<b>1,006,521,910</b>	<b>550,083,936</b>	<b>399,687,242</b>	<b>12,084,646</b>	<b>30,875,249</b>	<b>13,790,837</b>
<b>Interest Sensitive Local Currency Financial Liabilities</b>							
Standing Deposit Facility	4.5000	209,507,898	209,507,898	-	-	-	-
<b>Total Interest Sensitive Local Currency Financial Liabilities</b>		<b>209,507,898</b>	<b>209,507,898</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Non Interest Sensitive Local Currency Financial Liabilities</b>							
Deposits of Banks and Financial Institutions		129,601,521	129,601,521	-	-	-	-
Deposits of Government and Governmental Entities		1,460,512	1,460,512	-	-	-	-
Currency in Circulation		834,807,859	834,807,859	-	-	-	-
Other Payables		14,742,792	14,742,792	-	-	-	-
<b>Total Non Interest Sensitive Local Currency Financial Liabilities</b>		<b>980,612,684</b>	<b>980,612,684</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Local Currency Financial Liabilities</b>		<b>1,190,120,582</b>	<b>1,190,120,582</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Local Currency Interest Rate Sensitivity Gap</b>		<b>640,089,443</b>	<b>185,266,825</b>	<b>399,687,242</b>	<b>12,084,646</b>	<b>30,875,249</b>	<b>12,175,481</b>

Comparative figures as at 31 December 2019 were as follows:							
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
<b>Interest Sensitive Foreign Currency Financial Assets</b>							
Cash & Cash equivalents	0.5951	420,709,469	420,709,469	-	-	-	-
Securities at Fair Value through Profit or Loss	1.7280	38,493,268	38,493,268	-	-	-	-
Securities at Fair Value through Other Comprehensive Income	1.6604	729,801,009	82,868,339	107,692,880	200,227,307	336,808,900	2,203,583
IMF Related Assets	0.7382	13,321,144	13,321,144	-	-	-	-
<b>Total Interest Sensitive Foreign Currency Financial Assets</b>		<u>1,202,324,890</u>	<u>555,392,220</u>	<u>107,692,880</u>	<u>200,227,307</u>	<u>336,808,900</u>	<u>2,203,583</u>
<b>Non Interest Sensitive Foreign Currency Financial Assets</b>							
IMF Related Assets		133,838,030	8,712	-	-	189,322	133,639,996
Derivative Financial Instruments		2,021,917	2,021,917	-	-	-	-
<b>Total Non Interest Sensitive Foreign Currency Financial Assets</b>		<u>135,859,947</u>	<u>2,030,629</u>	<u>-</u>	<u>-</u>	<u>189,322</u>	<u>133,639,996</u>
<b>Total Foreign Currency Financial Assets</b>		<u>1,338,184,837</u>	<u>557,422,849</u>	<u>107,692,880</u>	<u>200,227,307</u>	<u>336,998,222</u>	<u>135,843,579</u>
<b>Interest Sensitive Foreign Currency Financial Liabilities</b>							
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	-	-	-	-
<b>Total Interest Sensitive Foreign Currency Financial Liabilities</b>		<u>321,803,700</u>	<u>82,995,147</u>	<u>2,505,672</u>	<u>-</u>	<u>148,177,305</u>	<u>88,125,576</u>
<b>Non Interest Sensitive Foreign Currency Financial Liabilities</b>							
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	-	-	-	-
<b>Total Non Interest Sensitive Foreign Currency Financial Liabilities</b>		<u>292,206,264</u>	<u>58,842,730</u>	<u>130,095</u>	<u>66,919</u>	<u>-</u>	<u>233,166,520</u>
<b>Total Foreign Currency Financial Liabilities</b>		<u>614,009,964</u>	<u>141,837,877</u>	<u>2,635,767</u>	<u>66,919</u>	<u>148,177,305</u>	<u>321,292,096</u>
<b>Foreign Currency Interest Rate Sensitivity Gap</b>		<u>880,521,190</u>	<u>472,397,073</u>	<u>105,187,208</u>	<u>200,227,307</u>	<u>188,631,595</u>	<u>(85,921,993)</u>

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
<b>Interest Sensitive Local Currency Financial Assets</b>							
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	-	-	-	-
Loans to Banks	4.1046	39,289	26,562	1,743	3,336	7,648	-
Other Assets - Staff Loans	3.7969	7,504,730	207,586	210,149	434,744	1,396,201	5,256,050
- Others	9.8528	9,989,349	1,406,078	798,551	427,503	2,062,387	5,294,830
<b>Total Interest Sensitive Local Currency Financial Assets</b>		144,400,130	57,914,811	20,216,527	48,230,300	7,167,147	10,871,345
<b>Non Interest Sensitive Local Currency Financial Assets</b>							
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
<b>Total Non Interest Sensitive Local Currency Financial Assets</b>		238,177,837	236,677,350	-	-	-	1,500,487
<b>Total Local Currency Financial Assets</b>		382,577,967	294,592,161	20,216,527	48,230,300	7,167,147	12,371,832
<b>Interest Sensitive Local Currency Financial Liabilities</b>							
Standing Deposit Facility	7.0000	43,298,325	43,298,325	-	-	-	-
<b>Total Interest Sensitive Local Currency Financial Liabilities</b>		43,298,325	43,298,325	-	-	-	-
<b>Non Interest Sensitive Local Currency Financial Liabilities</b>							
Deposits of Banks and Financial Institutions		254,581,620	254,581,620	-	-	-	-
Deposits of Government and Governmental Entities		499,639	499,639	-	-	-	-
Currency in Circulation		677,967,150	677,967,150	-	-	-	-
Other Payables		12,702,888	12,702,888	-	-	-	-
<b>Total Non Interest Sensitive Local Currency Financial Liabilities</b>		945,751,297	945,751,297	-	-	-	-
<b>Total Local Currency Financial Liabilities</b>		989,049,622	989,049,622	-	-	-	-
<b>Local Currency Interest Rate Sensitivity Gap</b>		101,101,805	14,616,486	20,216,527	48,230,300	7,167,147	10,871,345

### 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 2020, the net exposure of the Central Bank of Sri Lanka to major currencies were as follows:

As at 31 December 2020	Currency									Total All Currencies
	United States Dollars	Euro	Japanese Yen	Sterling Pound	SDR	Australian Dollars	Canadian Dollars	New Zealand Dollars	Other Currencies	
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	
Foreign Currency Financial Assets										
Cash & Cash Equivalents	309,734,328	11,676,634	80,232,700	528,305	-	150,537	26,322	806,941	421,875	403,577,642
Securities at Fair Value through Profit or Loss and Fair Value through Other Comprehensive Income	663,466,506	-	5,194,267	2,276,997	-	38,564,143	-	20,120,199	14,377,674	743,999,786
Derivative Financial Instruments	-	-	-	-	-	-	-	-	3,370,353	3,370,353
IMF Related Assets	-	-	-	-	158,958,187	-	-	-	-	158,958,187
Other Receivables	1,702,247	-	-	-	-	-	-	-	-	1,702,247
Total Foreign Currency Financial Assets	974,903,081	11,676,634	85,426,967	2,805,302	158,958,187	38,714,680	26,322	20,927,140	18,169,902	1,311,608,215
Proportion	74.33%	0.89%	6.51%	0.21%	12.12%	2.95%	0.00%	1.60%	1.39%	100.00%
Foreign Currency Financial Liabilities										
Banks and Financial Institutions	208,337,021	15	-	-	-	185	-	-	-	208,337,221
Derivative Financial Instruments	449,945	-	-	-	-	-	-	-	124,237	574,182
Asian Clearing Union	63,864,652	-	-	-	-	-	-	-	-	63,864,652
IMF	-	-	-	-	509,925,278	-	-	-	-	509,925,278
Other	74,819,182	-	-	-	-	-	-	-	51,143	74,870,325
Total Foreign Currency Financial Liabilities	347,470,800	15	-	-	509,925,278	185	-	-	175,380	857,571,658
Proportion	40.52%	0.00%	0.00%	0.00%	59.46%	0.00%	0.00%	0.00%	0.02%	100.00%
Net Foreign Currency Exposure	627,432,281	11,676,619	85,426,967	2,805,302	(350,967,091)	38,714,495	26,322	20,927,140	17,994,522	454,036,557

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 2020	Sri Lanka Rupees Rs. 000	United States Dollars Rs. 000	Japanese Yen Rs. 000
Purchases	185,933,135	98,373,989	-
Sales	(38,620,260)	(183,891,689)	(60,050,721)
Forward Contra Account	(1,744,454)	-	-

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									
	United States Dollars	Euro	Japanese Yen	Sterling Pound	SDR	Australian Dollars	Canadian Dollars	New Zealand Dollars	Other Currencies	Total All Currencies
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
<b>Foreign Currency Financial Assets</b>										
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
<b>Total Foreign Currency Financial Assets</b>	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%	100.00%
<b>Foreign Currency Financial Liabilities</b>										
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
<b>Total Foreign Currency Financial Liabilities</b>	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%	100.00%
<b>Net Foreign Currency Exposure</b>	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)	-	-

The following significant exchange rates have been applied by the Bank.

Currency	Average Rate		Year-end Spot Rate	
	2020	2019	2020	2019
	Rs	Rs	Rs	Rs
1 USD	185.8584	178.8993	186.4082	181.6340
1 EUR	213.1154	199.9448	227.7256	203.6571
1 JPY	1.7488	1.6417	1.8055	1.6724
1 GBP	239.9567	228.8160	254.8200	240.7922
1 SDR	259.7846	247.2665	272.6200	250.7887
1 AUD	128.8643	124.4472	143.4225	127.5343

### Sensitivity Analysis

A reasonably possible strengthening/ (weakening) of the above currencies against the Sri Lanka Rupee as at reporting date would have affected the measurement of financial instruments denominated in a foreign currency and affected the profit or loss by the amounts shown below.

	Profit or Loss	
	Strengthening	Weakening
	Rs. 000	Rs. 000
<b>31 December 2020</b>		
USD (5% movement)	31,371,614	(31,371,614)
EUR (5% movement)	583,831	(583,831)
JPY (5% movement)	4,271,348	(4,271,348)
GBP (5% movement)	140,265	(140,265)
SDR (5% movement)	(17,548,355)	17,548,355
AUD (5% movement)	1,935,725	(1,935,725)

	Profit or Loss	
	Strengthening	Weakening
	Rs. 000	Rs. 000
<b>31 December 2019</b>		
USD (5% movement)	42,484,838	(42,484,838)
EUR (5% movement)	1,491,871	(1,491,871)
JPY (5% movement)	1,504,764	(1,504,764)
GBP (5% movement)	358,009	(358,009)
SDR (5% movement)	(16,240,795)	16,240,795
AUD (5% movement)	1,677,873	(1,677,873)

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

As at 31 December 2020, Contractual maturities of un-discounted cash flows of Financial Assets and Liabilities are as follows,

As at 31 December 2020	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
<b>Foreign Currency Financial Assets</b>						
Cash & Cash Equivalents	403,307,304	-	-	-	-	403,307,304
Securities at Fair Value through Profit or Loss	7,669,197	7,624,371	20,303,019	11,393,477	-	46,990,064
Securities at Fair Value through Other Comprehensive Income	73,114,024	90,062,578	201,465,928	338,787,647	4,807,787	708,237,964
IMF Related Assets	13,539,094	-	-	208,076	145,211,015	158,958,185
Other Receivables	1,702,247	-	-	-	-	1,702,247
<b>Total un-discounted Foreign Financial Assets</b>	<b>499,331,866</b>	<b>97,686,949</b>	<b>221,768,947</b>	<b>350,389,200</b>	<b>150,018,802</b>	<b>1,319,195,764</b>
<b>Local Currency Financial Assets</b>						
Sri Lanka Government Securities	463,313,921	405,150,819	5,524,792	26,202,317	317,849	900,509,698
Securities Purchased under Resale Agreements	2,728,412	-	-	-	-	2,728,412
Provisional Advances to Government	153,061,900	-	-	-	-	153,061,900
Equity Investments in Financial and Other Institutions	-	-	-	-	1,615,356	1,615,356
Loans to Bank	96,083,289	7,331,102	8,150,872	-	-	111,565,263
Other Assets	4,948,189	1,395,674	2,255,604	9,040,665	14,669,924	32,310,056
<b>Total un-discounted Local Financial Assets</b>	<b>720,135,711</b>	<b>413,877,595</b>	<b>15,931,268</b>	<b>35,242,982</b>	<b>16,603,129</b>	<b>1,201,790,685</b>
<b>Total un-discounted Financial Assets</b>	<b>1,219,467,577</b>	<b>511,564,544</b>	<b>237,700,215</b>	<b>385,632,182</b>	<b>166,621,931</b>	<b>2,520,986,449</b>
<b>Foreign Financial Liabilities</b>						
Banks and Financial Institutions	208,337,221	-	-	-	-	208,337,221
Asian Clearing Union	63,864,652	-	-	-	-	63,864,652
IMF	6,883,538	6,864,314	31,133,271	127,514,224	350,966,277	523,361,624
Others	74,870,325	-	-	-	-	74,870,325
<b>Total un-discounted Foreign Financial Liabilities</b>	<b>353,955,736</b>	<b>6,864,314</b>	<b>31,133,271</b>	<b>127,514,224</b>	<b>350,966,277</b>	<b>870,433,822</b>
<b>Local Currency Financial Liabilities</b>						
Deposits of Banks and Financial Institutions	129,601,521	-	-	-	-	129,601,521
Deposits of Government and Governmental Entities	1,460,512	-	-	-	-	1,460,512
Securities Sold Under Repurchase Agreements	209,507,898	-	-	-	-	209,507,898
Currency in Circulation	834,807,859	-	-	-	-	834,807,859
Other Payables	14,742,792	-	-	-	-	14,742,792
<b>Total un-discounted Local Financial Liabilities</b>	<b>1,190,120,582</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,190,120,582</b>
<b>Total un-discounted Financial Liabilities</b>	<b>1,544,076,318</b>	<b>6,864,314</b>	<b>31,133,271</b>	<b>127,514,224</b>	<b>350,966,277</b>	<b>2,060,554,404</b>
<b>Net un-discounted Financial Assets/ (Liabilities)</b>	<b>(324,608,741)</b>	<b>504,700,230</b>	<b>206,566,944</b>	<b>258,117,958</b>	<b>(184,344,346)</b>	<b>460,432,045</b>

As at 31 December 2020	Less than 6 months	6 Months -1 Year
	Rs. 000	Rs. 000
Derivative Financial Assets	117,285,065	30,027,810
Derivative Financial Liabilities	115,556,701	30,011,720

**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 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 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
<b>Foreign Currency Financial Assets</b>						
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
<b>Total un-discounted Foreign Financial Assets</b>	<b>529,246,819</b>	<b>119,534,789</b>	<b>230,080,227</b>	<b>355,372,583</b>	<b>135,788,607</b>	<b>1,370,023,025</b>
<b>Local Currency Financial Assets</b>						
Sri Lanka Government Securities	19,124,135	11,819,359	49,530,248	3,938,496	350,990	84,763,228
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
Loans to Banks	26,875	2,001	3,744	8,108	-	40,728
Other Assets	2,504,941	1,654,833	1,993,443	6,304,352	14,360,202	26,817,771
<b>Total un-discounted Local Financial Assets</b>	<b>308,619,801</b>	<b>13,476,193</b>	<b>51,527,435</b>	<b>10,250,956</b>	<b>16,211,679</b>	<b>400,086,064</b>
<b>Total un-discounted Financial Assets</b>	<b>837,866,620</b>	<b>133,010,982</b>	<b>281,607,662</b>	<b>365,623,539</b>	<b>152,000,286</b>	<b>1,770,109,089</b>
<b>Foreign Financial Liabilities</b>						
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
Others	57,091,538	-	-	-	-	57,091,538
<b>Total un-discounted Foreign Financial Liabilities</b>	<b>143,494,114</b>	<b>4,962,312</b>	<b>14,832,012</b>	<b>110,510,673</b>	<b>373,148,819</b>	<b>646,947,930</b>
<b>Local Currency Financial Liabilities</b>						
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
<b>Total un-discounted Local Financial Liabilities</b>	<b>989,049,622</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>989,049,622</b>
<b>Total un-discounted Financial Liabilities</b>	<b>1,132,543,736</b>	<b>4,962,312</b>	<b>14,832,012</b>	<b>110,510,673</b>	<b>373,148,819</b>	<b>1,635,997,552</b>
<b>Net un-discounted Financial Assets/ (Liabilities)</b>	<b>(294,677,116)</b>	<b>128,048,670</b>	<b>266,775,650</b>	<b>255,112,866</b>	<b>(221,148,533)</b>	<b>134,111,537</b>
<b>As at 31 December 2019</b>						
Derivative Financial Assets	221,766,015	7,671,870				
Derivative Financial Liabilities	219,914,106	7,628,628				

## 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.

### c) Financial assets available to support future funding

The following table sets out the availability of the Bank's financial assets to support future funding.

31 December 2020	Encumbered Pledged as collateral Rs. 000	Unencumbered Available as collateral Rs. 000	Total Rs. 000
<b>Foreign Currency Financial Assets</b>			
Cash and Cash Equivalents	-	403,307,304	403,307,304
Securities at Fair Value through Profit or Loss	-	40,564,323	40,564,323
Securities at Fair Value through Other Comprehensive Income	201,461,348	501,974,115	703,435,463
Derivative Financial Instruments	-	3,370,353	3,370,353
IMF Related Assets	-	158,958,185	158,958,185
Other Receivables	-	1,702,247	1,702,247
<b>Local Currency Financial Assets</b>			
Sri Lanka Government Securities	-	714,531,527	714,531,527
Securities Purchased under Resale Agreements	-	2,728,412	2,728,412
Provisional Advances to Government	-	153,061,900	153,061,900
Equity Investments in Financial and Other Institutions	-	1,615,356	1,615,356
Loans to Banks	-	111,487,526	111,487,526
Other Assets	-	23,097,189	23,097,189
<b>Total Assets</b>	<b>201,461,348</b>	<b>2,116,398,437</b>	<b>2,317,859,785</b>
<b>31 December 2019</b>	<b>Encumbered Pledged as collateral Rs. 000</b>	<b>Unencumbered Available as collateral Rs. 000</b>	<b>Total Rs. 000</b>
<b>Foreign Currency Financial Assets</b>			
Cash and 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	5,853,994	723,947,015	729,801,009
Derivative Financial Instruments	-	2,021,917	2,021,917
IMF Related Assets	-	147,159,174	147,159,174
<b>Local Currency Financial Assets</b>			
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
Loans to Banks	-	39,289	39,289
Other Assets	-	17,562,458	17,562,458
<b>Total Assets</b>	<b>5,853,994</b>	<b>1,714,908,810</b>	<b>1,720,762,804</b>

**49. FINANCIAL ASSETS AND FINANCIAL LIABILITIES****49.1 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

31 December 2020	FVTPL Rs. 000	FVOCI - Debt Instruments Rs. 000	FVOCI - Equity Instruments Rs. 000	Amortized Cost Rs. 000	Total Rs. 000
<b>Foreign Currency Financial Assets</b>					
Cash & Cash Equivalents	-	-	-	403,307,304	403,307,304
Securities at Fair Value through Profit or Loss	40,564,323	-	-	-	40,564,323
Securities at Fair Value through Other Comprehensive Income	-	703,435,463	-	-	703,435,463
Derivative Financial Instruments	3,370,353	-	-	-	3,370,353
IMF Related Assets	157,793,346	-	-	1,164,839	158,958,185
Other Receivables	-	-	-	1,702,247	1,702,247
<b>Total Foreign Currency Financial Assets</b>	<b>201,728,022</b>	<b>703,435,463</b>	<b>-</b>	<b>406,174,390</b>	<b>1,311,337,875</b>
<b>Local Currency Financial Assets</b>					
Sri Lanka Government Securities	-	714,531,527	-	-	714,531,527
Securities Purchased under Resale Agreements	-	-	-	2,728,412	2,728,412
Provisional Advances to Government	-	-	-	153,061,900	153,061,900
Equity Investments in Financial and Other Institutions	-	-	1,615,356	-	1,615,356
Loans to Banks	-	-	-	111,487,526	111,487,526
Other Assets	-	-	-	23,097,189	23,097,189
<b>Total Local Currency Financial Assets</b>	<b>-</b>	<b>714,531,527</b>	<b>1,615,356</b>	<b>290,375,027</b>	<b>1,006,521,910</b>
<b>Foreign Currency Financial Liabilities</b>					
Banks and Financial Institutions	-	-	-	208,337,221	208,337,221
Derivative Financial Instruments	574,182	-	-	-	574,182
Asian Clearing Union	-	-	-	63,864,652	63,864,652
IMF	-	-	-	509,925,278	509,925,278
Other	-	-	-	74,870,325	74,870,325
<b>Total Foreign Currency Financial Liabilities</b>	<b>574,182</b>	<b>-</b>	<b>-</b>	<b>856,997,476</b>	<b>857,571,658</b>
<b>Local Currency Financial Liabilities</b>					
Deposits of Banks and Financial Institutions	-	-	-	129,601,521	129,601,521
Deposits of Government and Government Entities	-	-	-	1,460,512	1,460,512
Securities Sold under Repurchase Agreements	-	-	-	209,507,898	209,507,898
Currency in Circulation	-	-	-	834,807,859	834,807,859
Other Payables	-	-	-	14,742,792	14,742,792
<b>Total Local Currency Financial Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,190,120,582</b>	<b>1,190,120,582</b>

31 December 2019	FVTPL	FVOCI - Debt Instruments	FVOCI - Equity Instruments	Amortized Cost	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
<b>Foreign Currency Financial Assets</b>					
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	145,165,228	-	-	1,993,946	147,159,174
<b>Total Foreign Currency Financial Assets</b>	<b>185,680,413</b>	<b>729,801,009</b>	<b>-</b>	<b>422,703,415</b>	<b>1,338,184,837</b>
<b>Local Currency Financial Assets</b>					
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
Loans to Banks	-	-	-	38,289	38,289
Other Assets	-	-	-	17,562,458	17,562,458
<b>Total Local Currency Financial Assets</b>	<b>-</b>	<b>76,511,883</b>	<b>1,500,487</b>	<b>304,565,597</b>	<b>382,577,967</b>
<b>Foreign Currency Financial Liabilities</b>					
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
Others	-	-	-	57,091,538	57,091,538
<b>Total Foreign Currency Financial Liabilities</b>	<b>989,958</b>	<b>-</b>	<b>-</b>	<b>613,020,006</b>	<b>614,009,964</b>
<b>Local Currency Financial Liabilities</b>					
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
<b>Total Local Currency Financial Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>989,049,622</b>	<b>989,049,622</b>

## 50. FAIR VALUE DISCLOSURES

### 50.1 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 2020	Level 1 Rs. 000	Level 2 Rs. 000	Level 3 Rs. 000	Total Rs. 000
<b>Financial Assets</b>				
Securities at Fair Value through Profit or Loss	40,564,323	-	-	40,564,323
Securities at Fair Value through Other Comprehensive Income	703,435,463	-	-	703,435,463
Derivative Financial Instruments	-	3,370,353	-	3,370,353
IMF Related Assets	157,793,346	-	-	157,793,346
	<u>901,793,132</u>	<u>3,370,353</u>	<u>-</u>	<u>905,163,485</u>
<b>Foreign Currency Non-Financial Assets</b>				
Gold	76,220,055	-	-	76,220,055
	<u>76,220,055</u>	<u>-</u>	<u>-</u>	<u>76,220,055</u>
<b>Local Currency Financial Assets</b>				
Sri Lanka Government Securities	714,531,527	-	-	714,531,527
Equity Investments in Financial and Other Institutions	-	-	1,615,356	1,615,356
	<u>714,531,527</u>	<u>-</u>	<u>1,615,356</u>	<u>716,146,883</u>
<b>Other Non-Financial Assets</b>				
Land	-	-	11,334,725	11,334,725
Building	-	-	7,832,238	7,832,238
	<u>-</u>	<u>-</u>	<u>19,166,963</u>	<u>19,166,963</u>
<b>Financial Liabilities</b>				
Derivative Financial Instruments	-	574,182	-	574,182
	<u>-</u>	<u>574,182</u>	<u>-</u>	<u>574,182</u>
<b>31 December 2019</b>	<b>Level 1 Rs. 000</b>	<b>Level 2 Rs. 000</b>	<b>Level 3 Rs. 000</b>	<b>Total Rs. 000</b>
<b>Financial Assets</b>				
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	145,165,228	-	-	145,165,228
	<u>913,459,505</u>	<u>2,021,917</u>	<u>-</u>	<u>915,481,422</u>
<b>Foreign Currency Non-Financial Assets</b>				
Gold	173,438,430	-	-	173,438,430
	<u>173,438,430</u>	<u>-</u>	<u>-</u>	<u>173,438,430</u>
<b>Local Currency Financial Assets</b>				
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>-</u>	<u>1,500,487</u>	<u>78,012,370</u>
<b>Other Non-Financial Assets</b>				
Land	-	-	8,930,375	8,930,375
Building	-	-	6,611,561	6,611,561
	<u>-</u>	<u>-</u>	<u>15,541,936</u>	<u>15,541,936</u>
<b>Financial Liabilities</b>				
Embedded Derivatives - Currency Options	-	-	66,919	66,919
Derivative Financial Instruments	-	923,039	-	923,039
	<u>-</u>	<u>923,039</u>	<u>66,919</u>	<u>989,958</u>
<b>Equity Investments in Financial and Other Institutions</b>				
Fair value of the equity investments were calculated using the Net Assets per Share valuation technique.				
<b>Significant unobservable input used</b>				
Net Asset Value per Share (NAVPS)				
<b>Sensitivity Analysis</b>				
A 10% increase in the NAVPS would increase the fair value by 10%.				
			<b>2020 Rs. 000</b>	<b>2019 Rs. 000</b>
Balance as at 1 January			1,500,487	1,381,879
Additions during the Year			6,490	2,749
Fair Value Gain Recognised in the Other Comprehensive Income			108,379	115,859
Balance as at 31 December			<u>1,615,356</u>	<u>1,500,487</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;

	2020 Rs.000	2019 Rs.000
Balance as at 1 January	66,919	466,316
Fair Value Loss recognised in the Statement of Income	(66,919)	(399,397)
Balance as at 31 December	-	66,919

	2020 Rs.000	2019 Rs. 000
Balance as at 1 January	23,062	102,406
Premium Amortised during the year	(23,062)	(79,344)
Balance as at 31 December	-	23,062

**50.2 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 2020 was Rs. 209,507.90 Mn (2019 - Rs. 43,298.32 Mn) and the carrying value of Sri Lanka Government Securities purchased under resale agreements as at 31 December 2020 was Rs.2,728.41 Mn (2019 – Rs. 50,354.88 Mn). There was no outstanding balance of Sri Lanka Government Securities sold under repurchase agreements as at 31 December 2020 (2019 – Nil).

**50.3 Currency in Circulation**

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

**50.4 Deposits**

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

**50.5 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	
	2020 Rs. 000	2019 Rs. 000	2020 Rs. 000	2019 Rs. 000
<b>Foreign Currency Financial Assets</b>				
Cash and Cash Equivalents	403,307,304	420,709,469	403,307,304	420,709,469
IMF Related Assets	1,164,839	1,993,946	1,171,285	1,996,689
Other Receivables	1,702,247	-	1,702,247	-
<b>Local Currency Financial Assets</b>				
Securities Purchased under Resale Agreements	2,728,412	50,354,879	2,728,412	50,354,879
Provisional Advances to Government	153,061,900	236,608,971	153,061,900	236,608,971
Loans to Banks	111,487,525	39,289	108,722,785	37,913
Other Assets	23,097,190	17,562,458	21,334,664	14,803,348
<b>Foreign Currency Financial Liabilities</b>				
Banks and Financial Institutions	208,337,221	958,248	208,337,221	958,248
Asian Clearing Union	63,864,652	82,995,147	63,864,652	82,995,147
IMF	509,925,278	471,975,073	509,925,278	471,975,073
Others	74,870,325	57,091,538	74,870,325	57,091,538
<b>Local Currency Financial Liabilities</b>				
Deposits of Banks and Financial Institutions	129,601,521	254,581,620	129,601,521	254,581,620
Deposits of Government and Government Entities	1,460,512	499,639	1,460,512	499,639
Securities Sold under Repurchase Agreements	209,507,898	43,298,325	209,507,898	43,298,325
Currency in Circulation	834,807,859	677,967,150	834,807,859	677,967,150
Other Payables	14,742,792	12,702,888	14,742,792	12,702,888

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 Governmental 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.

## 51. COMPARATIVE INFORMATION

Following comparative figures have been reclassified to conform with current year presentation.

### 51.1 Reclassification of Fair Valuation Benefit to Staff Loans

	2019 Rs. 000	
<b>As reported previously:</b>		
<b>Net Income from Local Currency Financial Assets</b>		
Interest Income	17,886,803	
Other Income	1,702,535	
<b>Current Presentation:</b>		
	<b>2020 Rs. 000</b>	<b>2019 Rs. 000</b>
<b>Net Income from Local Currency Financial Assets</b>		
Interest Income	25,342,029	18,074,750
Other Income	1,589,329	1,514,588

Fair Valuation Benefit to Staff Loans amounting to Rs. 187.95 Mn disclosed under Other Income in the Statement of Income in 2019 have now been disclosed under Interest Income for better presentation.

### 51.2 Segregation of Loans to Banks and Other Assets

	2019 Rs. 000	
<b>As reported previously:</b>		
<b>Local Currency Financial Assets</b>		
Other Assets	17,601,747	
<b>Current Presentation:</b>		
	<b>2020 Rs. 000</b>	<b>2019 Rs. 000</b>
<b>Local Currency Financial Assets</b>		
Loans to Banks	111,487,526	39,289
Other Assets	23,097,189	17,562,458

The amount that was disclosed under Other Assets in 2019 have now been segregated to Loans to Banks and Other Assets for better presentation.

## 52. RELATED PARTIES

### 52.1 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	2020 Rs. 000	2019 Rs. 000
<b>Transactions:</b>		
Outright purchases of Government Securities	14,044,912	42,559,699
CBSL and Government Securities Purchased/Sold under Agreement to Repurchase/Sales	19,598,940,269	5,895,258,629
Interest income/expenses on CBSL and Government Securities Purchased/Sold under Agreement to Repurchase/Sales	4,569,328	2,832,113
Funds received on behalf of Government	441,954,041	1,040,676,718
Funds disbursed on behalf of Government	35,987,068	1,118,006,037
Cost of Printing currency notes, for the year ended 31 December (Note 52.1.3)	1,195,295	1,459,560
Payments for Goods, Services and Taxes, during the year ended 31 December (Note 52.1.4)	270,783	2,050,704
Gross Foreign Exchange Transactions during the period (Note 52.1.6)		
Sales	17,749,013	7,242,180
Purchases	57,158,110	41,331,290
USD/LKR Derivatives	448,596,460	193,142,524
Funds Received in respect of Abandoned Property, during the year	1,073,398	361,297
Rent Income	321,821	346,790
Dividend Income	154,381	149,686
Other Transactions (Note 52.1.9)	1,076,897	938,056
<b>Balances:</b>		
Sri Lanka Government Securities held by CBSL (Note 52.1.7)	714,531,527	76,511,883
Provisional Advances to Government (Note 14)	153,061,900	236,608,971
Government Securities held for specific purposes	12,914,495	9,710,804
RTGS Balances with Banks and Financial Institutions (Note 26)	81,586,946	148,823,686
Nostro Balance with BOC London	228,665	216,077
Payable to Treasury and other Ministries (Note 25)	-	57,036,040
Current Account Balances with Government and Government Entities as at 31 December	(1,215,313)	(119,522)
Abandoned Property Balances	5,057,128	3,125,129
Other Balances (Note 52.1.9)	175,813	155,651

**52.1.1** 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 2020, 07 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.

**52.1.2** 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.

**52.1.3** 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.

**52.1.4** 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.

**52.1.5** 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 55.

**52.1.6** 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.

**52.1.7** 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 MLANo 58 of 1949 (amended) and enforcing Statutory Reserve Requirement as per sections 93-98 of MLA and functions as the banker to both commercial banks where Government has shareholdings and certain other financial institutions and Governmental entities. The aggregate balances arising from this function as at 31 December 2020 is given in Notes 12. Interest earned on the Government securities is given in Note 36.

**52.1.8** The Bank also has custodial arrangements with one State-controlled bank, for which charges were levied.

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

## 52.2 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:

### 52.3 Compensations to the Key Management Personnel

	2020 Rs. 000	2019 Rs. 000
Short Term Employee Benefits	193,945	188,111

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

### 52.4 Other Transactions with Key Management Personnel

	2020 Rs. 000	2019 Rs. 000
Outstanding Loans to Key Management Personnel	90,847	92,549
Loans granted during the year	10,000	10,299
Loans re-paid during the year	31,758	7,137

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.

### 52.5 Transactions with Post-Employment Benefit Plans

	2020 Rs. 000	2019 Rs. 000
Contributions paid and payable	73,173	87,413

The Bank contributed various amounts to Pension and Other Post Retirement Plans as disclosed in Note 32 and paid Rs. 709.46 Mn (2019 – Rs. 715.06 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.

## 53. CONTINGENT LIABILITIES AND COMMITMENTS

### 53.1 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 2020.

### 53.2 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 guarantees against losses arising to a participating credit institution, which grants credit to small and medium enterprises. 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	
	2020 Rs. 000	2019 Rs. 000
Related Parties	20,898,328	796
Others	539,315	-
Total Credit Guarantees	21,437,643	796

The expected credit loss on credit guarantee is recognized for the year ended 31 December 2020 is recorded in Note 39.

### 53.3 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.

### 53.4 Legal Claims

There were number of legal proceedings outstanding against the Bank as at 31 December 2020 and no provision has been made as the Bank is of the opinion that it is unlikely that any significant loss will arise.

### 53.5 Commitments

- a) As at 31 December 2020, the Bank has capital commitments amounting to Rs. 944.51 Mn, in respect of the acquisition of Property, Plant and Equipment.
- b) As at 31 December 2020, outstanding forward exchange transactions are as follows:

Forward exchange contracts	2020 '000	2019 '000
Forward Exchange Sales		
USD	986,500	357,000
JPY	33,260,000	131,500,000
Forward Exchange Purchases		
USD	208,000	-

## 54. 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

### 54.1 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 recognised 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, the Central Bank of Sri Lanka (CBSL) pledged securities amounting to AUD 35.00 Mn and obtained a credit facility of USD 30.00 Mn from Euroclear Bank. The pledged securities are held in a separate account at Euroclear Bank.

With reference to the General Conditions Governing Extensions of Credit Facilities to participants in the Euroclear System, CBSL's credit facility was reduced to USD 20.00 Mn with effect from 31 January 2017, following a review of the transaction related activity in respect of CBSL's accounts with Euroclear Bank.

As provided for in the General Conditions Governing the Extension of Credit Facilities to Participants in the Euroclear System, Euroclear Bank informed CBSL that CBSL's credit facility has been suspended with effect from 5 November 2018.

Required actions have already been taken to re-establish the suspended credit facility and informed to Euroclear Bank on 12 August 2020.

An amount of USD 1,000.00 Mn was raised under the FIMA Repo facility provided by the U.S. Federal Reserve Bank of New York on 28 September 2020 by pledging Fixed Income Securities from the CBSL foreign reserves worth of USD 1,013.10 Mn (as at 31 December 2020,

the market value of the pledged securities remained at USD 1,012.70 Mn and the outstanding value of the FIMA Repo facility remained at USD 1,000.00 Mn). This Facility will be withdrawn by the CBSL by the end of March 2021.

	2020 Financial Assets at FVOCI Rs. 000	2019 Financial Assets at FVOCI Rs. 000
<b>Assets</b>		
Securities Lending	430,965	1,059,885
Securities Pledged with Euroclear	5,258,986	4,794,109
Securities Pledged with Federal Reserve Bank	196,202,362	-
Carrying Amount of Assets	201,892,313	5,853,994

## 55. 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:

- 55.1** 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.
- 55.2** 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.
- 55.3** The bank had 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 carried 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.
- 55.4** 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, 71 institutions are members of this Scheme as at 31 December 2020. 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 Regulation 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 2020, the fund size is Rs. 60.89 Bn (unaudited). 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.

- 55.5** 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.

**55.6** 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. Further, Rs. 161.31 Mn (2019 - Rs. 102.65 Mn) of income was earned from the investments during the year 2020.

**55.7** 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	13,072.00	Extend the Business activities of MSMEs and disaster affected MSMEs.	32,061.00
"Saubagya" COVID – 19 Loan Scheme - Phase I	LKR	30,000.00	Providing working capital facility to businesses affected by the COVID – 19 outbreaks.	24,450.10

## 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 house.	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 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 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 Produces.	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 Produces.	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.	2,877.39
"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.	5,418.36
"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.	184.60
"Smallholder Agribusiness Partnership Programme (SAPP) 4P Youth"				151.50
"Smallholder Agribusiness Partnership Programme (SAPP) RF Youth"				-
"Smallholder Agribusiness Partnership Programme (SAPP) RF Agri Business"				-
"Smallholder Agribusiness Partnership Programme (SAPP) RF Income Generation"				3.60
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)	485.74
Smallholder Tea and Rubber Revitalization (STaRR)	LKR	44.37	Provide concessionary financial facilities for the smallholder farmers who experience delays in income generation from replanted tea and new planted rubber plantations	87.70

**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 agri-businesses.	881.00
Supply Chain Re – Energizing Loan Scheme (SCREL)	LKR	500.00	Provide working capital requirements for the Registered Tea Manufacturers to revamp existing businesses to conclude debt restructuring plans and settling the existing payment arrears to suppliers to make the supply chain re-energized.	141.00

**56. 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

As per the provisions of the Monetary Law Act No. 58 of 1949 and the Banking Act No. 30 of 1988, the Bank Supervision Department (BSD) has been conferred with powers and duties to conduct continuous supervision and examination of licensed commercial banks (LCBs) and licensed specialised banks (LSBs) in Sri Lanka (hereinafter referred to as licensed banks) and to issue regulations to licensed banks with the aim of ensuring the safety and soundness of the banking sector while safeguarding the interests of depositors and other stakeholders of licensed banks in Sri Lanka.

Accordingly, BSD carries out functions pertaining to the regulation and supervision of licensed banks and they include issuing licences to carry out banking business, formulating and issuing prudential regulations, conducting continuous supervision and periodic statutory examinations of licensed banks, assessing and approving the fitness and propriety of Directors, Chief Executive Officers (CEOs) and Key Management Personnel (KMPs) of licensed banks, granting regulatory approvals, initiating regulatory actions as prescribed by the Monetary Board, and engaging in awareness and capacity building of the banking sector.

As at end 2020, the banking sector in Sri Lanka comprised 24 LCBs and 6 LSBs. In addition, 3 Representative Offices (ROs) of foreign banks were in operation in Sri Lanka. During 2020, two foreign banks, namely Axis Bank Ltd and ICICI Bank Ltd, wound up their operations in Sri Lanka, in accordance with the business decisions of their respective Head Offices in line with policy decisions taken on their global operations. 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 the year 2020 is given below:

### 2.1 Issuance of Prudential Regulations

The prudential regulations issued to licensed banks during the year including extraordinary measures taken in the wake of the COVID-19 outbreak are provided in Part III of this Report. A summary of the major prudential regulations issued by the BSD is as follows:

- (a) Special credit support scheme to accelerate economic growth
- (b) Recovery of accommodation to exporters
- (c) Measures to curtail imports and foreign currency investments
- (d) Relief measures to assist COVID-19 affected businesses and individuals
- (e) Extraordinary regulatory measures to provide flexibility to licensed banks to support businesses and individuals affected by the outbreak of COVID-19
- (f) Maximum interest rates on pawning advances by licensed banks
- (g) Permission on liquid assets for licensed banks

- (h) Restrictions on discretionary payments of licensed banks
- (i) Loan to Value (LTV) ratios for credit facilities granted in respect of motor vehicles
- (j) Amendment to Banking Act Directions on capital requirements under Basel III for licensed banks
- (k) Maximum interest rates on lending products of licensed banks
- (l) Amendment to the Banking Act Directions on ownership of issued capital carrying voting rights for licensed banks
- (m) Amendments to Banking Act Directions on financial derivative transactions for licensed banks
- (n) Amendment to circular on guidelines to licensed banks on the adoption of Sri Lanka Accounting Standards – SLFRS 9: Financial Instruments
- (o) Annual licence fee of licensed banks
- (p) Maximum interest rates on mortgage-backed housing loans
- (q) Amendment to the regulatory framework on valuation of immovable properties of licensed banks.

### 2.2 Drafting the New Banking Act

BSD is in the process of drafting a new Banking Act with a view to further strengthen the legal and regulatory framework of licensed banks. The key areas to be considered for the proposed new Banking Act include an overall mandate for supervision and regulation, a differentiated regulatory framework considering systemic importance of banks, strengthening corporate governance, consolidated supervision, resolution, imposing monetary penalties/fines, ring-fencing of banks to mitigate contagion risk, strengthening provisions for mergers, acquisitions and consolidation. The Central Bank expects to enact the new Act in mid-2022.

### 2.3 Formulation of Concept for an Asset Management Company

During 2020, BSD formulated the concept to establish a dedicated Asset Management Company (AMC) to purchase and manage non-performing assets of both banks and non-banking financial institutions (NBFIs) under resolution and are viable. Establishment of AMC will be beneficial in reinforcing the financial system stability by increasing the performance of banks and NBFIs through reduction of NPLs and allowing them to direct credit to productive economic sectors.

### 2.4 Approvals granted by the Monetary Board and the Director of Bank Supervision

#### (a) Mergers, Acquisitions and Closures of Licensed Banks

The merger process between the Housing Development Finance Corporation Bank of Sri Lanka (HDFC Bank) and State Mortgage and Investment Bank (SMIB), which commenced in 2018 continued during 2020. In addition, facilitation for the merger of Sri Lanka Savings Bank Limited

(SLSBL), with National Savings Bank (NSB) continued in order to further strengthen the banking industry.

#### (b) Branches and Other Banking Outlets of Licensed Banks

By end 2020, 1,251 requests were processed, and 1,193 approvals were granted, while 58 requests were deferred/declined on prudential grounds (Table II-1). Accordingly, by December 2020, there were 3,370 bank branches, 3,787 Student Savings Units, and 6,176 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
<b>Opening and Installation</b>	<b>981</b>	<b>944</b>
Branches	27	20
Self Service Machines (SSMs)	113	95
Student Saving Units (SSUs)	47	47
Mobile Banking Units and Vehicles	98	97
Other Banking Outlets	12	4
Agents of Licensed Banks	684	681
<b>Relocation</b>	<b>128</b>	<b>113</b>
Branches	101	97
Self Service Machines (SSMs)	27	16
<b>Closures and cancellation of approvals granted for branches and other service outlets</b>	<b>6</b>	<b>5</b>
<b>Discontinuation and cancellation of approvals granted for ATMs and Other Automated Machines</b>	<b>46</b>	<b>41</b>
<b>Discontinuation and cancellation of approvals granted for Agents of licensed banks</b>	<b>90</b>	<b>90</b>
<b>Total</b>	<b>1,251</b>	<b>1,193</b>

#### (c) Other Regulatory Approvals

Further, during 2020, a total of 460 other regulatory approvals were granted (Table II-2).

**Table II-2**  
**Other Regulatory Approvals**

Type of Approval	No. of Approvals
Assessing fitness and propriety for the appointment of new/continuing directors, CEOs & KMPs and persons engaged in foreign exchange business	304
Outsourcing arrangements	18
Disposal of property below market value	21
Inclusion of debentures in Tier 2 capital	5
Exceeding maximum amount of accommodation	4
Abandoned property reimbursements	7
Acquiring material interest in shareholding	4
Requests for expatriate staff visa recommendations/ renewals	15
Other Approvals	82
<b>Total</b>	<b>460</b>

#### (d) Regulatory Actions

During 2020, licensed banks were required to initiate corrective measures with regard to non-compliance with the Banking Act and Directions issued thereunder on 25 instances. Further, the Monetary Board was apprised of the banking sector performance on a quarterly basis.

### 2.5 Conduct of Continuous Supervision

- 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 licensed banks, and enables the implementation of corrective measures where necessary to ensure the safety of depositors' funds.
- Continuous supervision is conducted based on periodic financial and prudential information submitted weekly/monthly/quarterly/annually by each bank largely through the web-based FinNet system. The initiative to revamp the database maintained in BSD in consultation with the Information Technology Department (ITD), continued in 2020 in order to facilitate better report generation. Further, 8 new FinNet returns were developed while 2 existing returns were amended.
- In light of the COVID-19 outbreak in 2020, special reports were submitted with regard to foreign borrowings, foreign exchange inflows, outflows position, etc. In addition, banking industry aggregate data were shared with other departments of the Central Bank and external government institutions to facilitate policy decisions and preparation of reports. Further, 15 presentations on the performance of the banking industry were also prepared for various forums.
- With the establishment of the Financial Consumer Relations Department (FCRD), the majority of the customer complaints were directed to FCRD, while BSD attended to complaints made by customers/general public regarding fraud by bank staff/external parties, misconduct by bank staff, etc. Further, during 2020, approximately 12 requests made under the Right to Information Act No. 12 of 2016 were handled by BSD.
- BSD facilitated the collection and submission of information on reimbursement of interest relating to the Special Interest Scheme for Senior Citizens to the Ministry of Finance on a quarterly basis and a special examination was conducted on a remote basis to reconcile the accuracy of information provided by licensed banks.
- BSD continued to monitor the progress on addressing supervisory concerns identified during statutory examinations of banks within specified time targets on a quarterly basis.

### 2.6 Conduct of Periodic Examinations

- During 2020, BSD conducted 19 Statutory Examinations, including examinations on full scope basis and follow-

up examinations. Due to the COVID-19 outbreak in the country since March 2020, physical visits for on-site examination of banks were limited and alternatively, Statutory Examinations were conducted on a remote basis during this period.

- (b) In addition to the above, Spot Examinations were conducted on several licensed banks on 8 instances to verify matters relating to operational risk, market risk, corporate governance, interest computation methodology adopted by banks with respect to moratorium loans granted under the COVID-19 Relief Scheme and on USD/LKR movement in the domestic foreign exchange market, etc. Reports on Statutory Examinations of 14 banks conducted during 2019 were submitted to the Monetary Board. In addition, reports of Statutory Examinations of 15 banks conducted in 2020, including 6 Statutory Examinations conducted on a remote basis, were submitted to the Monetary Board. 4 reports of Statutory Examinations conducted in 2020 are in the process of completion.
- (c) Further, several limited scope examinations were conducted on areas, such as customer complaints, credit/debit card transactions, security of customer information, etc. Accordingly, banks were recommended to take appropriate measures to avoid recurrence of such events.
- (d) Major concerns raised at certain examinations included deteriorating asset quality in terms of increased impaired loans, lapses identified in the computation of impairment charges resulting in inaccurate computation of impaired loans, low capitalisation and efficiency, lapses in corporate governance and management, deficiencies in technology risk and liquidity risk management, and concerns over treasury operations in certain banks.
- (e) Conducting Statutory Examinations of banks on a consolidated basis was initiated during 2020 and several meetings were held with other financial sector regulators of the group entities of the selected banks. Accordingly, 2 Statutory Examinations extending the scope to consolidated supervision were completed during 2020 and the reports including findings of the consolidated supervision were submitted to the Monetary Board.
- (f) The Bank Sustainability Rating Indicator (BSRI), a comprehensive supervisory guidance framework on assigning scores/ratings to licensed banks was further developed in 2020 in order to adopt a more robust risk-based examination mechanism. During this process, 3 banks were assigned with supervisory ratings based on the BSRI Model considering a combination of quantitative and qualitative indicators attributable to the banks' efficiency and sustainability. The progress on implementing the model was submitted to the Monetary Board and full implementation of the model will commence from 01 October 2021 onwards in line with the revised BSRI framework as approved by the Monetary Board.

## 2.7 Awareness and Capacity Building of the Banking Sector

### (a) Capacity Building

During 2020, BSD provided resource persons for capacity building programmes of the banking sector, covering subject areas of regulatory compliance, banking, risk management and laws and regulatory developments pertaining to banking and finance. Considering the COVID-19 outbreak, such programmes were conducted virtually.

BSD continued its commitment to build capacity of its staff in 2020, and officers participated in both local and foreign online training programmes conducted in the areas of risk-based supervision, banking sector regulatory and supervisory responses to deal with the impact of COVID-19, Basel III standards, cybersecurity, financial innovation, financial reporting standards and sustainable finance.

Officers of BSD also continued to serve as committee members in various committees including the Working Committee on Prudential Directions and Regulations of the Government Securities Market and Operations of Primary Dealers, Steering Committee of the Financial Sector Computer Security Incident Response Team (FINCSIRT), Taskforce to Study Virtual Currency Schemes in Sri Lanka, Working Group of Proposed Measures to Enhance the Marketability of Sri Lanka Development Bonds (SLDBs), Co-operative Bank Supervision National Committee, Technical Evaluation Committee of Consultant to Amend the Payment and Settlement Act, Domestic Financial Market Infrastructure Development Project, etc.

### (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 which are aimed at maintaining a continuous dialogue between the Central Bank of Sri Lanka and the banking sector on matters relating to the developments in the Sri Lankan economy, the banking sector, and the regulatory and supervisory framework. Due to the situation that prevailed amidst the COVID-19 outbreak, most of these meetings were conducted virtually. 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, and the expectations of the regulator during these extraordinary times.

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 actions, and to ensure the sustainability of

the banking sector. Further, BSD conducted a series of meetings with external auditors of licensed banks and the Institute of Chartered Accountants of Sri Lanka to discuss matters pertaining to specific areas to focus on bank audits and consistent application of accounting standards by licensed banks amidst the COVID-19 outbreak.

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

## Annex II - 1

### List of Licensed Banks

#### Licensed Commercial Banks

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

#### Licensed Specialised Banks

1. Housing Development Finance Corporation Bank of Sri Lanka
2. National Savings Bank
3. Pradeshiya Sanwardhana Bank
4. Sanasa Development Bank PLC
5. Sri Lanka Savings Bank Ltd
6. State Mortgage & Investment Bank

#### Representative Offices of Foreign Banks

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

## 3. CENTRE FOR BANKING STUDIES

Centre for Banking Studies (CBS), as the training arm of the Central Bank, plays a key and strategic role in human capital development of the financial services industry in support of the key objectives of the Central Bank. Accordingly, giving due prominence to developing necessary competencies and

enhancing knowledge on monetary policy operations and financial sector regulations, CBS offered a number of relevant and timely programmes during 2020. Even though the operations of CBS were affected by the COVID-19 pandemic due to restrictions on conducting in-person programmes, CBS continued to offer various training programmes, seminars and workshops through online platforms and webinars in the areas of banking and finance, treasury operations, economics, rural sector development, risk management and compliance, accounting and financial management, laws and regulations, research and data analysis, information technology, human resources and general management to the whole financial services sector in 2020.

CBS, successfully implementing its blended training strategy in 2020 through physical and virtual methods, conducted 52 programmes during the year which consisted of 22 calendar programmes, 13 special programmes, 06 educational programmes and 10 public lectures. Throughout the year 3,468 participants attended CBS programmes in person and via online platforms.

Several programmes were conducted in collaboration with international organisations with the view of sharing international perspectives and latest developments. Capacity building programmes were conducted in collaboration with the SEACEN Research and Training Centre and the Reserve Bank Staff College of Reserve Bank of India (RBI). In addition, CBS conducted special programmes on the request of the local commercial banks, specialised banks, other financial institutions and government institutions to meet their new and emerging needs.

Appreciating the importance of social responsibility of promoting public awareness and improving economic and financial literacy, CBS also hosted public lectures on contemporary issues related to the economy and the financial sector. Further, CBS assisted its regional offices to conduct series of webinars covering diverse areas with a wider viewership. CBS continued to co-ordinate the educational television series, "Thakshilawa" and "Ariwotroo", which was telecasted in Sinhala and Tamil medium respectively, mainly targeting the GCE Advanced Level students who follow Economics as a subject. Further, CBS conducted the 70th Anniversary Oration programme of the Central Bank in collaboration with the Secretariat Department.

## 4. COMMUNICATIONS

During 2020, Communications Department (CMD) continued to support the accomplishment of the Central Bank's core objectives of maintaining economic and price stability and financial system stability, as well as its ancillary objectives carried out by its agency functions and corporate services, through the timely dissemination of information. CMD started the year by web-uploading the "Road Map 2021: Monetary and Financial Sector Policies for 2021 and Beyond" in January 2020, to communicate the way forward for monetary and financial sector policies. However, the situation changed

drastically with the onset of the COVID-19 pandemic. Although direct communications, such as press conferences, speeches, lectures, seminars, etc. were limited to an extent due to the restrictions on travel and gatherings brought about by the pandemic situation, CMD overcame this challenge by enhancing communications through digital media. Its official website, [www.cbsl.gov.lk](http://www.cbsl.gov.lk), was developed further to host a “COVID-19 Webpage” as a single location with access to all information on policies and measures implemented by the Central Bank to counter the economic impact of COVID-19. While the Sinhala translations were done by the officers in the respective departments, the Tamil Translation Unit of CMD ensured all Tamil translations for the Bank in 2020 were completed in a timely manner, thereby contributing towards achieving Central Bank’s mission of providing information in all three official languages, in compliance with the National Language Policy.

#### 4.1 Core Functions

Overall, CMD issued over a thousand press releases, including ‘Monetary Policy Reviews’ and the decisions of the Monetary Board in relation to financial institutions and financial markets, in all three official languages. Although eight monetary policy press conferences were scheduled for 2020 as per the Advance Release Calendar, the curfew and lockdown situation that prevailed in the country enabled the Central Bank to host only a limited number of press conferences pertaining to monetary policy in-person, during the first and third quarters of the year, and a virtual press conference during the fourth quarter via Zoom. CMD also supported the monetary policy endeavors of the Central Bank through its analyses of monetary policy expectations prior to the Monetary Board meetings and monetary policy reach subsequent to the monetary policy announcements. The former summarises policy rate predictions and forecasts by local research institutions as published in the local newspapers, and their rationales, to gauge public perceptions and expectations, while the latter strives to assess the reach of the core messages of the monetary policy review within a week after each press conference, to identify the reactions by the media to the monetary policy decisions of the Central Bank. Corrective actions were taken to rectify all inadvertent mis-reporting and deliberate inaccuracies by the media.

CMD facilitated the press conference on “2020-The Year of Digital Transactions” organised by the Payments and Settlements Department, as an effort to broaden CMD’s agenda to areas outside monetary policy.

As the general public was increasingly relying on unauthorised financial institutions and other illegal means of making money, such as pyramid and Ponzi schemes. CMD embarked on an awareness campaign on unauthorised financial businesses, to warn the general public about their dangers. As part of this campaign, CMD designed several advertisements in collaboration with key departments that are responsible for

maintaining financial system stability, comprising comic strips, audio and video clips in the official languages, that were published in newspapers, broadcasted on radio stations, and posted on social media. In addition, several posters were designed in the official languages in collaboration with these departments and the Regional Offices of the Central Bank. In 2020, CMD strengthened communication through the Central Bank Twitter account and disseminated information through easily comprehensible infographics on both Facebook and Twitter.

#### 4.2 Other Communications

CMD also published a special newspaper supplement in the official languages to mark the 70th Anniversary of the Central Bank and contributed to the many other flagship events in the Bank, amongst which were the Bank’s 70th Anniversary Oration on “Central Banking in the Sri Lankan Developmental State” delivered by the Governor, Deshamanya Professor W. D. Lakshman. In addition, CMD issued press notices, including advertisements and allotted Gazette notifications as per the requirements of other departments, from time to time, during 2020. CMD also sent out SMS alerts pertaining to Telegraphic Transfer (exchange) rates, Sri Lanka Interbank Offered Rates (SLIBOR) rates and policy rates.

Public awareness programmes of the Central Bank were also affected by COVID-19. Nevertheless, several awareness programmes on a range of diverse topics such as ‘Objectives and Functions of the Central Bank’, ‘Sri Lanka’s Economy’, and ‘Prohibited Investment Schemes & Unauthorised Deposit Taking’ were coordinated by CMD despite the challenges faced during the pandemic situation. CMD, in collaboration with Centre for Banking Studies (CBS), also successfully conducted awareness programmes during 2020 for journalists to make them aware of Central Bank objectives and functions, and for Central Bank staff to help develop their journalistic writing skills.

Sales of Central Bank publications were made through its sales counters at the Economic History Museum, CBS in Rajagiriya, and the Regional Offices, as well as at the Colombo International Book Fair held at the Bandaranaike Memorial International Conference Hall, Colombo, from 18 - 27 September 2020. CMD also distributed copies of various publications free of charge among government schools offering the GCE Advanced Level Economics subject and public libraries throughout the country.

CMD’s Photography and Video Unit continued to cover the events of the Central Bank in 2020 and delivered all related services, including uploading recordings to the website of the Bank and YouTube in a timely manner. CMD operated the Printing Press of the Central Bank, which provided the services to meet the printing requirements of the Central Bank with high quality standards, including its magazines “Satahana”, “News Survey” and “Vaippaham”. and preparing the print-ready version of “Economic and Social Statistics of Sri Lanka

– 2020". Further, printing of posters, handbills, leaflets, letterheads, certificates, visiting cards, various forms, etc. was undertaken by the Central Bank Printing Press. However, the Central Bank Printing Press was closed down in November 2020 and all printing and related functions of the Central Bank were outsourced thereafter.

### 4.3 Internal Communications

Internal communication was also strengthened to enable the senior management to be well informed of the current affairs in the economy, the financial sector and other matters relevant to the Central Bank in the international arena. Articles and public opinions extracted from fifteen national newspapers published in all three official languages were summarised for the senior management on a monthly basis. Similarly, summaries of online news relevant to the Central Bank were shared with the senior management via email daily. The official internal newsletter, "Kavuluwa" was published digitally and uploaded to the internal website of the Central Bank staff, "Mansala".

Library and Information Centre (LIC) plays a central role in internal communications by helping officers of the Central Bank prepare for their professional roles through the acquisition of knowledge, and enabling them to be up-to-date with economic developments. LIC increased its collection of books, reports, CDs and journals for the staff to refer regarding various subjects. LIC has subscribed to online databases, such as 'ScienceDirect', 'EconLit' and 'Wiley Online Journals', which provide access to a vast collection of publications on topics relating to economics, management and finance. In addition, LIC has subscribed to several other online resources on subjects relevant to central banking, e.g., [www.centralbanking.com](http://www.centralbanking.com), [www.risk.net](http://www.risk.net) and [www.ft.com](http://www.ft.com), and continues to provide staff access to these resources on a daily basis. In 2020, LIC continued the subscription to OpenAthens, which provides the Central Bank's officers remote access to journal articles. LIC subscribed to 84 Foreign Journals and 18 Local Journals in print form in 2020. LIC continued to compile electronic notifications such as "Recent Additions" (i.e. new books), "Current Contents", "International News Alert", "Local Press", and notes and reports on economics, banking and finance were disseminated via the intranet.

## 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 (MLA) No. 58 of 1949. Accordingly, Currency Department (CRD) of the Central Bank handles functions related to the statutory responsibility of the Monetary Board on currency operations. During 2020, amidst the adverse effects of COVID-19, CRD was able to fulfill its statutory and all other obligations through effective planning and perseverance. A summary of the activities of CRD and currency operations during 2020 is given below.

### 5.1 Currency in Circulation

Demand for currency soared in 2020 as a direct impact of the prevailing COVID-19 pandemic situation in the country. Accordingly, the value of total currency in circulation (CIC) increased by 23.1 percent to Rs. 834.2 billion as at 31 December 2020, as shown in Table II-3 below.

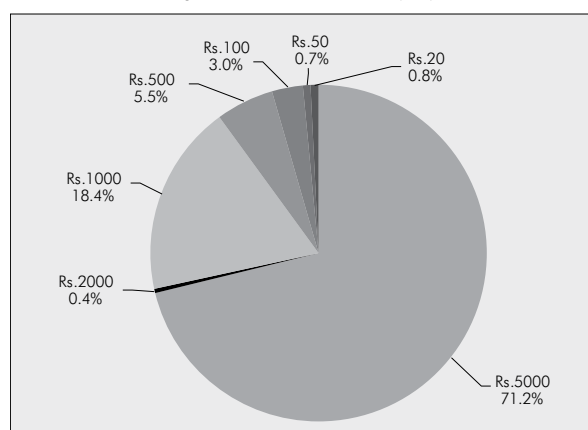
**Table II-3**  
**Currency in Circulation (as at 31st December 2020)**

Item	Value (Rs. bn)					Change (%)				
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
Notes	541.5	585.3	627.1	663.1	819.3	12.3	8.1	7.1	5.7	23.6
Coins(a)	10.7	12.1	13.2	14.2	14.9	17.3	13.1	9.0	7.6	4.9
<b>Total</b>	<b>552.2</b>	<b>597.4</b>	<b>640.3</b>	<b>677.4</b>	<b>834.2</b>	<b>12.4</b>	<b>8.2</b>	<b>7.2</b>	<b>5.8</b>	<b>23.1</b>

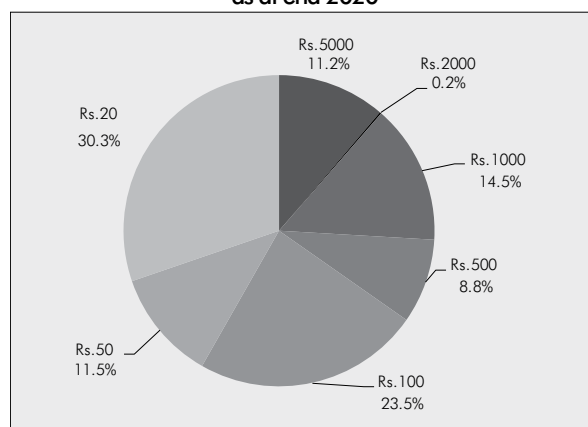
(a) The commemorative coins are excluded

The value of currency notes in circulation increased by 23.6 per cent into Rs. 819.3 billion in 2020.

**Chart II-1**  
**Value of Currency Notes in Circulation (Rs.) as at end 2020**

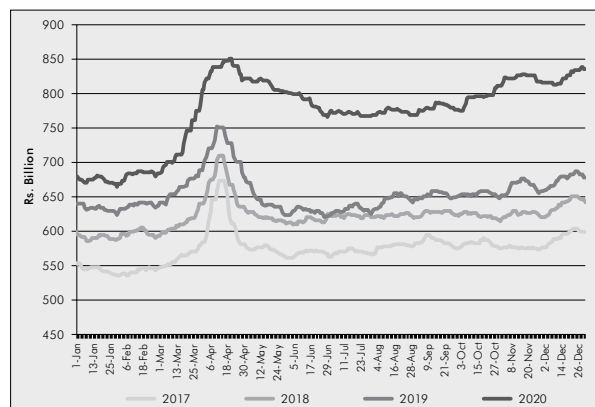


**Chart II-2**  
**Volume of Currency Notes in Circulation (Pieces) as at end 2020**



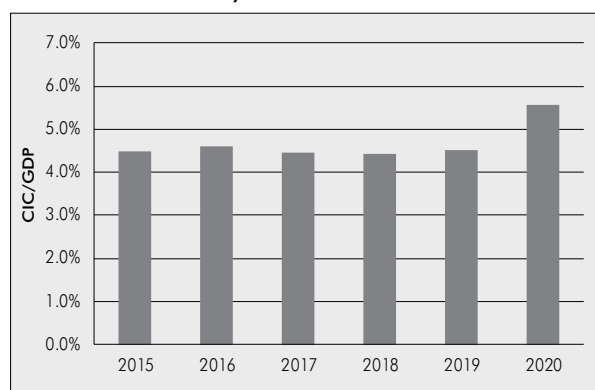
This unprecedented increase in CIC has been a clear indication of the tendency of the general public, business entities and financial institutions to hold cash in hand as store of value during times of uncertainty.

**Chart II-3**  
**Currency in Circulation 2017-2020**



The ratio of CIC to GDP increased to 5.6 per cent in 2020, demonstrating the significance of currency as a mode of payment in the country.

**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, acceptance of currency deposits from Licensed Commercial Banks (LCBs), and withdrawal of unfit (unserviceable) currency notes and coins from circulation while facilitating payment mechanisms in the country. In order to ensure effective currency management, CRD continued the following activities during the year 2020:

### (a) Currency Printing and Minting

CRD placed an order for 160 million pieces of new currency notes for the year 2020 to meet the demand and maintain sufficient stocks and placed orders for minting 7.5 million pieces of circulation coins.

### (b) Issuance of Currency

Due to the unforeseen high demand for currency notes and operational limitations owing to strict adherence

to health guidelines and other related directives issued by the Government and health authorities, CRD had to adapt to the new normal. Accordingly, CRD focused on direct reissuance of fit (serviceable) currency notes deposited by LCBs back into circulation and to encourage direct exchange of serviceable currency notes among LCBs. In such context, during 2020, CRD issued currency for the value of Rs. 697.3 billion into circulation, which comprised Rs. 467.1 billion of serviceable currency notes and Rs. 229.5 billion of new currency notes and coins for the value of Rs. 0.7 billion. The decrease in currency note issues in 2020 in comparison with the previous year is mainly due to direct exchange of serviceable currency notes by LCBs among themselves.

**Table II-4**  
**Issuance of Currency Notes and Coins**

Item	Value (Rs. bn)				
	2016	2017	2018	2019	2020
Fit Notes	455.6	504.6	467.0	526.5	467.1
New Notes	138.4	123.3	328.4	248.7	229.5
Coins (a)	1.6	1.4	1.1	1.0	0.7
<b>Total</b>	<b>595.6</b>	<b>629.3</b>	<b>796.5</b>	<b>776.2</b>	<b>697.3</b>

(a) Commemorative coins are excluded from coin issues

### (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 unserviceable currency notes including damaged currency notes from LCBs to remove those from circulation to maintain good quality notes in circulation. The number of serviceable currency notes deposited by LCBs during 2020 recorded lower compared with previous years, mainly due to the reduction of the Statutory Reserve Ratio and the facilitation of direct exchange of serviceable currency among LCBs. Further, deposits of unserviceable currency notes also decreased in 2020.

**Table II-5**  
**Deposit of Currency Notes**

Item	Value (Rs. bn)				
	2016	2017	2018	2019	2020
Fit Notes	433.8	464.2	524.1	606.9	445.0
Unfit Notes	100.7	119.9	229.6	132.1	95.4
<b>Total</b>	<b>534.5</b>	<b>584.1</b>	<b>753.7</b>	<b>739.0</b>	<b>540.4</b>

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

### (d) Destruction of Unserviceable Currency Notes

During the year 2020, CRD destructed 127.3 million pieces of unserviceable currency notes of value amounting to Rs. 62.2 billion (Table II-6), exercising the statutory power granted to the Central Bank to destruct unserviceable currency notes.



**Table II-6**  
**Destruction of Unserviceable Currency Notes**

Notes	2016	2017	2018	2019	2020
Pieces (mn)	179.2	177.1	343.8	235.0	127.3
Value (Rs. bn)	57.4	94.2	252.2	139.8	62.2

### 5.3 Other Activities

#### (a) Operating Currency Counters

During the year 2020, CRD catered to the public through the currency counters by exchanging damaged currency notes to the value of Rs. 79 million and exchanging coins to the value of Rs. 35 million. In addition, CRD continued facilitation of the special exchange counter for the public established at the Bank of Ceylon, Pettah Branch by issuing currency notes and coins to the values of Rs. 379 million and Rs. 34 million, respectively.

#### (b) Operating Economic History Museum

Due to health regulations imposed by the authorities, CRD was unable to render regular services to the public through the Economic History Museum (EHM) unlike in previous years. However, during the year 2020, EHM rendered services to 2,385 individuals by providing a wide knowledge on Sri Lankan currency notes and coins, sale of commemorative notes, coins and collector items, and by conducting presentations.

#### (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 2,160 counterfeit notes, which were detected and referred to the Central Bank. The rate of counterfeit notes detected was around 2 notes per million notes in circulation, indicating a substantially low level of incidence of counterfeiting compared to many other countries. 130 certificates were issued as conclusive evidence of the imitation of currency notes to facilitate court proceedings in terms of Section 59 of the MLA, and CRD attended 5 court cases relating to counterfeiting during the year. From a stability point of view, appropriate policy initiatives would also help preserve the value of currency.

#### (d) Issuance of Commemorative Coin

In commemoration of the Central Bank's unique and valued contribution to the prosperity of Sri Lanka for over 70 years since 1950, an uncirculated commemorative coin in the denomination of Rs. 20 was issued in 2020. Further, a circulation standard commemorative coin of the same was introduced into circulation at the beginning of the year 2021.

#### (e) Approvals for Reproduction of Currency Notes

In terms of the Monetary Board-approved policy on reproduction of currency notes, CRD granted approval for 5 requests during the year 2020.

### 5.4 Developments and New Projects

#### (a) Introduction of the Rs. 2000 Note to 11th Note Series

In 2020, an international market survey was conducted by CRD to study the latest security features and banknote substrate available. This survey was done in line with designing the proposed Rs. 2000 note to the 11th note series and improve security aspects of other high-denominated currency notes. The note is currently being designed and it is expected to be issued during the year 2021.

#### (b) Revamping Currency Operations

The first stage of the procurement for revamping of currency operations was concluded in 2020. Accordingly, interested parties were invited to submit their proposals. Through this project, CRD expects to address several operational issues, including increasing currency note processing capacity and operational efficiency.

## 6. DOMESTIC OPERATIONS

### 6.1 Functions of DOD

As per the enabling provisions of the Monetary Law Act (MLA) No. 58 of 1949, the Domestic Operations Department (DOD) is entrusted with performing 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), updating the RTGS by accounting Multilateral Net Settlement Balances (MLNSB) of LCBs generated by the Lanka Clear (Pvt) Ltd., provision of intraday liquidity facility (ILF) to the RTGS participants and the regulating authorised money brokers (AMBs).

### 6.2 Implementation of Monetary Policy

With the objective of maintaining short-term interest rates at a level commensurate with the monetary policy stance of the Central Bank, while preventing undue pressure on short-term interest rates, DOD continued to implement monetary policy actions of the Central Bank. Monetary policy implementation in 2020, particularly with the COVID-19 pandemic, mainly revolved around the extra accommodative monetary policy with significant levels of excess liquidity to mitigate the adverse impacts of the pandemic on economic activity.

DOD relied mainly on OMOs to steer the Average Weighted Call Money Rate (AWCMR), towards the desired level with low volatility. Accordingly, to ensure certainty of liquidity during the COVID-19 pandemic, while conducting its overnight and short-term liquidity operations, the Central Bank provided long-term liquidity assistance to LCBs through the long-term reverse repo auctions for an extended period of three months. In the meantime, long-term liquidity assistance was also extended for a period up to 15 days to Standalone Primary Dealers (SPDs) through the Liquidity Support Facility (LSF). In addition, while reducing the Statutory Reserve Ratio (SRR) to infuse a substantial amount of permanent liquidity, with the view of providing more flexibility in liquidity management, the minimum daily reserve requirement to be held by a LCB with the Central Bank was reduced from 90 per cent to 20 per cent of the required reserves on any given day. Meanwhile, standing facilities were also provided continuously to market participants to address liquidity needs on an overnight basis.

With a view to ensuring adequate credit flows towards the sectors having special liquidity needs during the COVID-19 pandemic and to support the revival of economic activities through ensuring such credit flows, the Central Bank introduced two new credit schemes to provide funds to LCBs under the provisions of Section 83(1) of the MLA. Accordingly, the Liquidity Facility to the Contractors and Suppliers (LFCS) and the Saubagya COVID-19 Renaissance Facility (SCRF) were implemented by DOD in June 2020.

### 6.2.1 Open Market Operations

#### (a) Liquidity forecast

DOD undertakes estimation of domestic money market liquidity on a daily basis based on a number of factors with a view to address liquidity needs of the market participants through appropriate market operations in consistency with the monetary policy stance of the Central Bank. In this regard, the impact of monetary operations initiated by the Central Bank as well as the liquidity effects of autonomous factors such as currency in circulation, foreign exchange related transactions of the Central Bank, changes in the commercial bank reserve positions and transactions of the Government with the Central Bank are also 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. Accordingly, upon reviewing developments in the domestic money and foreign exchange markets on a daily basis, the MOC decides on the required actions in relation to liquidity management, taking into consideration the estimated liquidity conditions, desired level of the operating target, liquidity distribution among market participants, the need for devising appropriate market signals, etc.

### (c) Auctions

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

#### (i) Repurchase (Repo) Auctions

In early 2020, DOD conducted overnight, short-term and long-term repo auctions on a needs basis to absorbing 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 a surplus position. Short-term repo auctions were conducted as a strategy to absorb liquidity for a period of up to 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 that appears to persist for a considerable period.

**Table II-7**  
**Repo Auctions Conducted during 2020**

Type of Repo Auction	No. of Auctions	(Rs. bn)	
		Total Amount offered	Total Amount Accepted
Overnight	20	444.0	320.0
Short-term	4	52.0	31.3
Long-term	1	15.0	2.9

#### (ii) Reverse Repo Auctions

Reverse repo auctions including the LSF for SPDs were conducted to inject liquidity to the domestic money market on overnight, short-term and long-term basis.

**Table II-8**  
**Reverse Repo Auctions Conducted during 2020**

Type of Reverse Repo Auction	No. of Auctions	(Rs. bn)	
		Total Amount offered	Total Amount Accepted
Overnight - LCBs	23	357.0	175.4
- SPDs	5	20.5	17.9
Short-term - LCBs	18	270.0	65.9
- SPDs	8	55.0	48.4
Long-term - LCBs	34	655.0	298.8
- SPDs	9	108.0	85.9

#### (iii) Outright Auctions

During 2020, outright purchase of Treasury bond auctions were conducted by the Central Bank to inject durable liquidity to the money market by way of purchasing securities from Participatory Institutions (PIs) and transferring the ownership of securities held by such PIs.

**Table II-9**  
**Outright Auctions Conducted during 2020**

Type of Outright Auctions	No. of Auctions	(Rs. bn)	
		Total Amount Offered	Total Amount Accepted
Purchase of Treasury Bonds	3	52.0	21.7
Purchase of Treasury Bills	-	-	-

#### (d) Special Credit Schemes

As per the provisions of the MLA, the Central Bank implemented two special loan schemes during the year 2020 to provide funds to LCBs at a concessionary rate of 1.00 per cent per annum for a period of up to 180 days for the purpose of on-lending to the contractors and suppliers of the Government in the construction, pharmaceutical and such other identified sectors and businesses affected by the COVID-19 pandemic, respectively, at a rate not exceeding 4.00 per cent. LCBs were required to provide credit facilities to contractors and suppliers of the Government upon the receipt of a letter of acceptance for payment of outstanding bills issued by the Government and the Central Bank disbursed funds under the LFCS to LCBs based on the promissory notes from such LCBs which have been backed by Treasury bills and Treasury bonds as eligible collaterals. Under the SCRF, Central Bank provided funds to LCBs at the concessionary rate of 1.00 per cent against the pledge of a broad spectrum of collaterals, with a view to reviving businesses adversely affected by the COVID-19 pandemic.

**Table II-10**  
**Performance under new credit schemes by end 2020**

Loan Scheme	(Rs. bn)	
	Approved Amount	Disbursed Amount
LFCS	9.7	7.2
SCRF	92.7	83.4

#### 6.2.2. Standing Facility

Standing facilities were provided to Pls throughout the year at the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR). The Standing Deposit Facility (SDF) was used to accept excess liquidity of Pls, while the Standing Lending Facility (SLF) was available to provide liquidity to Pls, when they were unable to fulfil their overnight liquidity requirements completely through the inter-bank money market and OMO auctions. Prevalence of significant levels of excess liquidity in the banking system has led SDF to attract more and more funds on an overnight basis. During the year 2020, as DOD introduced process improvement by reducing manual intervention in the system, Pls were able to utilise additional time for their decision on Standing Facility due to the extension of the cut-off time for Standing Facility until 15:30 hours with effect from 06 July 2020.

**Table II-11**  
**Standing Facility under Open Market Operations in 2020**

Facility	(Rs. bn)	
	Total Volume	Daily Average
SDF	32,809.4	136.7
SLF	714.7	3.0

#### 6.2.3 Statutory Reserve Ratio (SRR)

The SRR determines the minimum amount of reserves that each LCB should hold in terms of the provisions of the 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 the compliance of LCBs in this regard. The SRR applicable to rupee deposit liabilities of commercial banks was reduced by 100 basis points to 4.00 per cent from 5.00 per cent with effect from 16 March 2020 and further by 200 basis points to 2.00 per cent from 4.00 per cent with effect from 16 June 2020. At the same time, the amount of Till cash, which is considered in the Statutory Reserve Requirement of LCBs, was reduced from 2.0 percent to 1.0 percent.

At the end of each day, the minimum amount of deposits required to be retained in the relevant reserve maintenance period in the Settlement Accounts maintained by the LCBs at the Central Bank was 90 per cent of the relevant reserve requirement. In order to make liquidity management more flexible for LCBs, the minimum daily deposit requirement in the reserve account with the Central Bank was reduced from 90 per cent to 20 per cent with effect from 16 April 2020. However, as before, at the end of the relevant reserve period, 100 per cent of the reserve requirement has to be met.

#### 6.2.4 Bank Rate

The Bank Rate is a penalty rate which is higher than other market rates and is termed as Lender of Last Resort (LOLR) rate at which emergency loans are provided to LCBs under Section 87 of the MLA. The Bank Rate was reduced by 500 basis points to 10.00 per cent from 15.00 per cent with effect from 16 April 2020 in line with the relaxed monetary policy stance of the Central Bank and it was decided to allow it to automatically adjust in line with the SLFR, with a margin of +300 basis points. Accordingly, it was further reduced by a cumulative 150 basis points to 8.50 per cent with policy rate revisions on 06 May 2020 and 09 July 2020. However, the Central Bank did not lend funds to any LCB at these rates during 2020.

### 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 DOD to facilitate clearance of payments and settlements and also for settlements of payments for scripless securities transactions among RTGS participants. Further, LCBs use the same accounts for the purpose of maintaining their bank reserves. DOD is responsible for updating RTGS by accounting Multilateral Net Settlement Balances (MLNSB) of LCBs generated by LankaClear Pvt. Ltd (LCPL) during its 18 sessions on a daily basis. MLNSB consists 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 2020, the DOD maintained RTGS accounts for 24 LCBs and 8 SPDs.

**Table II-12**  
**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
<b>Total Sessions</b>	<b>18</b>

#### 6.3.2 Government Accounts

In performing the functions relating to the role of the Central Bank 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 2020, DOD maintained 49 such accounts, and more than 85 per cent of the transaction volume was 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 the financial year in which they are made. This advance is being used by the Government as a Revolving Credit facility, which shall be repayable within a period not exceeding six months. The limit of the provisional advances to the Government for fiscal year 2020 was initially fixed on the basis of previous year's (2019) revenue estimate until the Government's estimated revenue for the fiscal year 2020 was finalised. Later, the provisional advance to the Government for 2020 was changed to Rs. 154.72 billion as per the Government revenue estimate for the fiscal year 2020 approved by the Parliament.

**Table II-13**  
**Central Bank Provisional Advances to the Government (2019 - 2021)**

Year	(Rs. mn)				
	Estimated Revenue + Grants	Grants	Estimated Revenue (Excluding Grants)	10% of Estimated Revenue	Revolving Credit Difference
2019	2,390,606	10,000	2,380,606	238,061	13,061
2020	2,390,606	10,000	2,380,606	238,061	-
2020 (a)	1,555,200	8,000	1,547,200	154,720	-83,341
2021	1,994,400	10,000	1,984,400	198,440	43,720

(a) Revised after the Government's estimated revenue for 2020 was finalised

**Table II-14**  
**Details of Accounts Maintained by DOD as at the end of 2020**

Types of Accounts	No. of Accounts
LCBs	24
SPDs	08
Government Departments	35
Government Agencies and Institutions	14
Accounts of Internal Departments of the Central Bank	38
Foreign Agencies (Operated by DOD)	09
<b>Total</b>	<b>128</b>

#### 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 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 sufficient hair cuts 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. 15,843 billion and Rs. 66.85 billion, respectively. This indicated an increase in ILF utilisation over that of the previous year, which amounted to a total of Rs. 15,241 billion with a daily average of Rs. 62.72 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. 01 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. 01 of 2018 was issued with effect from 05 March 2018, repealing the Money Broking Regulations No. 01 of 2013 as amended by the Money Broking Regulations No. 01 of 2016. Further, with effect from 14 February 2019, the Money Broking Regulations No. 01 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.

As at end March 2020, about nine companies have been issued the “Certificate of Authorisation” under these regulations, which are designated as “Authorised Money Brokers” (AMBs). DOD conducted one on-site examination at the beginning of the year 2020 and for the rest eight AMBs, remote examinations were conducted during the year 2020 amidst the restrictions in terms of accessing premises of AMBs due to the COVID-19 pandemic.

#### **List of Authorised Money Brokers as at 31 December 2020**

1. Bartleet Mecklai & Roy (Pvt) Ltd
2. Central Forex & Money Brokers Ltd
3. First Alliance Money Brokers (Pvt) Ltd
4. George Steuart Investments (Pvt) Ltd
5. MVS 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**

Economic Research Department (ERD), one of the two key departments specially recognised in the Monetary Law Act (MLA) No. 58 of 1949, is vested with the responsibility 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 as per Section 25 of the MLA. Accordingly, ERD continued to perform its duty of providing policy advice through research to guide the economy on a recovery path and to preserve economic and price stability in 2020, amidst the COVID-19 pandemic. Performing the Central Bank’s role as the advisor on economic affairs to the Government, ERD provided policy advice on emerging economic issues under challenging circumstances. ERD published statutory and other publications on time, thereby disseminating information to stakeholders on economic conditions, along with various public awareness programmes with the fullest support of the staff, both working remotely and being physically present as and when required. ERD facilitated close cooperation with foreign counterparts and international agencies mostly through online platforms given the pandemic’s impact on mobility.

### **7.1 Maintaining Economic and Price Stability**

ERD continued to compile, monitor and analyse trends, developments and projections in the monetary, external, real and fiscal sectors of the domestic economy as well as the global economy to facilitate proactive and timely monetary

policy decision making by the Monetary Board to maintain economic and price stability. Despite the challenging working environment due to lockdowns amidst the pandemic, ERD staff provided necessary inputs and analyses for the use of the Monetary Board and the management of the Central Bank. Measures were taken to improve the compilation and dissemination of monetary and interest rate statistics during 2020, including efforts towards automating the collection and the compilation of monetary and interest rate data, and the introduction of a new monthly survey on Small and Medium Enterprises (SME) to collect micro level data across various sectors of the economy. Further, as the Secretariat of the Monetary Policy Committee (MPC), ERD presented comprehensive reports to the MPC on economic and monetary conditions, including forward looking analyses supported by model based macroeconomic projections, enabling the MPC to make informed judgements and make necessary recommendations to the Monetary Board on the appropriate monetary policy stance of the Central Bank. Considering the immediate need of supporting economic activity amidst the pandemic, ERD facilitated unscheduled monetary policy announcements during the year. ERD coordinated the preparation of the annual policy statement, *Road Map 2021 - Monetary and Financial Sector Policies for 2021 and Beyond*, in which the Central Bank announced its broad policy framework for monetary and financial sectors in the medium term, thereby providing information and guidance on the policy direction of the Central Bank to financial markets and all stakeholders of the economy. To support the efforts of the Government to revive the economy amidst the pandemic, ERD also provided recommendations to the Monetary Board on the implementation of extraordinary measures within the scope of the provisions of the MLA. While continuing assessment of risks arising from macroeconomic developments and the possible impact of such risks on inflation and economic growth, ERD provided analyses on various measures implemented by the Government, highlighting their economic implications. Further, ERD continued to facilitate Monetary Policy Consultative Committee (MPCC) meetings with the view to strengthening the monetary policy decision making process with inputs from the experts in academia and the private sector. Moreover, ERD continued to improve its inhouse modelling and forecasting capacity by expanding the fiscal and external sector modules of the model-based Forecasting and Policy Analysis System (FPAS) as a part of the continuous effort in enhancing the monetary policy decision making and communication process. Further, ERD initiated several measures to improve external communication and enhance awareness among the general public and other stakeholders, thereby helping to anchor inflation expectations in line with the envisaged inflation path over the medium term. ERD continued the publication of regular press releases on Monetary Policy Review informing the general public of the stance of the Monetary Board and

facilitated the press conference proceedings, which were livestreamed via various online platforms enabling a wider reach of monetary policy communication on a real time basis. Amidst challenging circumstances, ERD facilitated the Flexible Inflation Targeting (FIT) framework of the Central Bank in the conduct of monetary policy, in addition to being the lead department in implementing an International Transaction Reporting System (ITRS) under the Central Bank's bankwide strategic priorities.

## 7.2 Maintaining External Sector Stability

ERD continued to conduct comprehensive surveillance of global and domestic economic developments amidst external risks and vulnerabilities stemming from the challenging global environment created by the COVID-19 pandemic. Timely and appropriate policy advice and recommendations were provided to the MPC and the Monetary Board on external sector developments by collecting, compiling and analysing statistics related to international trade and external finance on a regular basis. Further, ERD monitored movements in exchange rate to identify any pressures on the rupee and recommended corrective measures to offset excessive volatility in the exchange rate as appropriate. Specifically, the Monetary Board was apprised of the developments in the domestic foreign exchange market amidst the COVID-19 pandemic in collaboration with International Operations Department. Further, ERD delivered presentations to the senior management on the external debt position of Sri Lanka, highlighting the concerns and way forward. Meanwhile, ERD continued to assess monetary implications of foreign loans obtained by the Government. Measures were also taken 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 the International Reserve Data Template (RDT) on a monthly basis, while submitting Quarterly External Debt Statistics (QEDS) to the World Bank and direct investment data for the Coordinated Direct Investment Survey (CDIS) on an annual basis. With a view to supporting the maintenance of the external sector stability by ensuring the accuracy and timeliness of external sector data, ERD conducted several surveys during the year, including 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, telecommunication, construction and insurance sectors, and a monthly survey on inward workers' remittances. Further, as the lead department responsible for the implementation of the ITRS, ERD coordinated with all Licensed Commercial Banks to improve technical aspects of the ITRS with the aim of monitoring both cross border and foreign currency transactions that take place through the banking sector. The ITRS is expected to be operationalised in 2022.

## 7.3 Providing Proactive Policy Advice

ERD performed a prominent role in providing 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 amidst the challenges posed by the pandemic. At the onset of the pandemic, the likely challenges that the economy would face were highlighted at various fora as well as in reports to the senior management and the Government. A report was submitted to the Government in June 2020 titled *Proposals to Strengthen the Economic Recovery – Post COVID-19*, containing proposals on all sectors of the economy to revive activity in the immediate aftermath of the lockdown measures. A comprehensive assessment of inequalities in income and asset distribution of Sri Lanka was submitted to the Government in September 2020, in collaboration with other government agencies. *The September 15th Report*, which is a confidential report on developments and risks in the economy with policy suggestions was submitted to the Hon. Minister of Finance by the statutory deadline in compliance with Section 116 (1) of the MLA. Providing necessary policy advice, Director of Economic Research (DER) served in several internal committees, including the MPC, 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, and the Steering Committee for the Organisation of 70th Anniversary Celebrations of the Central Bank. In addition, DER served as an observer in the Internal Investment Oversight Committee (IIOC) and the International Reserve Investment Oversight Committee (IRIOC). DER and senior members of ERD made presentations at regular and special meetings, including the Monetary Board and meetings of Chairpersons and Chief Executive Officers of financial institutions, covering macroeconomic developments, issues and subjects of topical interest. The senior staff of ERD also extended their service at the MPC and several other internal committees. 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) and several committees appointed by His Excellency the President, Ministry of Finance, Ministry of Agriculture, Ministry of Public Services, Provincial Councils and Local Government, Ministry of Higher Education, Ministry of Education, Ministry of Trade, Ministry of Industries, and Ministry of Energy. Officers of ERD also represented the Central Bank in following committees: Project Committee on the Rehabilitation on the Northern Part of Elephant Pass Saltern, Committee to Conduct an Analysis on the Vehicle Assembly Industry, National Trade Facilitation Committee (NTFC), Government Finance Statistics (GFS) Coordinating Committee, Tariff Determination Committee, Advisory Committee on Trade Promotion and Information of Export Development Board, Committee on Implementation

of Integrated Tourism Digital Platform, National Committee on Socio-Economics and Policy Analysis, Fertilizer Price Deciding Committee, Committees on Introducing a Pricing Formula for LP Gas and Wheat Flour, Special Committees on Supporting SMEs Affected by the Pandemic, Committee to Conduct a Preliminary Study on the Associated Credit Costs of Oil Procurement by the CPC, Committee on Extending the Compulsory Age of Retirement, Advisory Council in 13 Years Guaranteed Education Programme, Committee to Study the Issue of Releasing Z-Scores at the G.C.E. (A/L) Examination 2020, and the Committee on Maintaining Cost of Living.

#### 7.4 Statutory Publications and Dissemination of Data and Information

ERD duly complied with the statutory requirements under the MLA by publishing the Annual Report of the Central Bank in all three languages with the assistance of other departments of the Central Bank. This annual flagship publication for the year 2019 was presented to the Hon. Minister of Finance and disseminated to the public by end April 2020. The other key annual publication of ERD, the half-yearly report on *Recent Economic Developments - Highlights of 2020 and Prospects for 2021*, was released in October 2020. ERD assisted the Governor to prepare the policy statement of the Central Bank, *Road Map 2021 - Monetary and Financial Sector Policies for 2021 and Beyond*, which was presented in a virtual setting on 04 January 2021 for the fourteenth consecutive year. At the same time, ERD ensured the availability of daily, weekly and monthly economic and financial information in the online data library of the Central Bank, while disseminating such information frequently via other media. With the aim of enhancing awareness of the general public, media statements were released on regular and emergency monetary policy reviews and external sector developments, which included statistics and updates covering monetary, interest rate, balance of payments, and other external sector information. Statistics covering all sectors of the economy were disseminated by ERD, adhering to the requirements of the Special Data Dissemination Standard (SDDS). In addition, considering the delay in publishing official national accounts statistics, ERD produced a report titled *The Sri Lankan Economy on a Steady Recovery Path* for the information of the public in September 2020.

#### 7.5 Engaging in Policy Research and Knowledge Sharing

With a view to fostering research and analysis on subjects of contemporary importance, ERD continued to promote the research culture within the department and the Central Bank. The Research Advisory Panel (RAP), an internal committee within ERD, which is responsible for research related activities, continued to provide guidance to researchers while carrying out knowledge sharing activities throughout the year. ERD organised an international research workshop on *Macroeconomic Stability and Economic Growth* in collaboration with the Asian Development Bank Institute

(ADB) and Asia Pacific Applied Economic Association (APAEA) to mark the 70th Anniversary of the Central Bank. At this workshop, ERD staff presented three research papers prepared jointly with researchers from APAEA. Further, ERD hosted the 6th SAARCFINANCE Database Seminar and Research Conference online on 16 July 2020. A paper on *Revisiting Key Monetary Facts for SAARC Countries* was presented by ERD officers at this conference. ERD also took part in SAARCFINANCE Webinar on *Financial Inclusion*.

The Central Bank's official research publication, *Staff Studies*, was published in 2020 under the guidance of the RAP. The staff of ERD continued to present their research in local and international fora. In addition to the special research study on *Assessment of Inequalities in Income and Asset Distribution of Sri Lanka*, ERD commenced a series of studies on *Potential Winning Industries* as advised by the Governor, in line with the national policy drive to develop the domestic production economy.

ERD continued to share expertise of its staff to improve knowledge of economics, both within and outside the Central Bank, in collaboration with Communications Department (CMD), Centre for Banking Studies (CBS) and Regional Offices of the Central Bank, for the benefit of students of schools and universities, and officers of public and private sector institutions. Public lectures on *The State of the Economy as Reflected in the Annual Report 2019* were conducted virtually in all three languages by senior officers of ERD. Despite the lack of in-person educational events due to the pandemic, a significant number of virtual educational sessions was conducted by officers of ERD on the areas of objectives and functions of the Central Bank, monetary policy, fiscal policy, external sector policies and recent economic developments, including contemporary issues and challenges. Also, senior ERD officers with doctoral and masters level academic qualifications continued to assist internal postgraduate aspirants in developing research skills through conducting short term courses on macroeconomics, microeconomics and mathematics to fulfil the requirements of the postgraduate scholarship scheme of the Central Bank. ERD officials continued to evaluate research proposals and research papers of the postgraduate aspirants of the Central Bank. Meanwhile, several staff members of ERD rendered their services as resource persons for the televised educational lecture series organised by CBS, *Thakshilawa and Arivootru*, conducted in Sinhala and Tamil languages, respectively, for the benefit of G.C.E. Advanced Level students.

#### 7.6 Maintaining International Relations

ERD continued to function as the focal point of contact for multilateral financial organisations, such as the International Monetary Fund (IMF), SAARCFINANCE and the South East Asian Central Banks (SEACEN) Centre, on behalf of the Government and the Central Bank. ERD also assisted in the coordination between the Government and key multilateral development banks and agencies, including the World Bank and the Asian Development Bank (ADB),



in addition to providing information and sharing views on macroeconomic developments. In addition, ERD coordinated the IMF staff visit to Sri Lanka in January-February 2020. ERD continued to support several SAARCFINANCE initiatives, including the revisiting of the e-newsletter and launching of the SAARCFINANCE Sync portal, a portal for SAARC central banks. Further, ERD provided necessary inputs for the 40th SAARCFINANCE Governors' Meeting, which was held on 04 November 2020. ERD benefitted from Technical Assistance Missions conducted by the IMF, in May and November 2020, focused on improving the Central Bank's Quarterly Projection Model (QPM) as part of the FPAS. Further, ERD facilitated the Central Bank's virtual participation in the annual meetings of SEACEN Board of Governors in December 2020 and the 19th Executive Committee of the SEACEN Centre in September 2020. In addition, DER and senior officers of ERD participated in virtual investor meetings throughout the year, providing necessary information and clarifications as requested by them, in order to maintain a continuous dialogue with external stakeholders of the economy during the pandemic.

## 8. EMPLOYEES' PROVIDENT FUND

The Employees' Provident Fund (EPF) was established under the Employees' Provident Fund Act No. 15 of 1958 (EPF Act). In terms of Section 5 of the EPF Act, all the powers, duties and responsibilities in relation to the Fund vested in the Monetary Board of the Central Bank of Sri Lanka as the custodian of the Fund, while the general administration of the Act is vested in the Commissioner General of Labour unless specified otherwise. In terms of Section 5 of the EPF Act, the Monetary Board has delegated its powers, duties and responsibilities to the Employees' Provident Fund Department of the Central Bank (EPF Department) to act as the operational arm.

### 8.1 Functions of the Department

EPF Department is responsible for the collection of member contributions and surcharges from employers, 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 General of Labour in the performance of their duties and functions. During 2020, 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 under review is given below.

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

In 2020, total member contributions decreased by 4.1 per cent to Rs. 150.7 billion from Rs. 157.2 billion recorded in the previous year, while the total refunds made to the members and their legal heirs also decreased to Rs. 109.7

billion which was a 13.1 per cent decrease compared to year 2019 (Table II-15). Accordingly, the net contribution for 2020 increased to Rs. 41.0 billion compared to Rs. 30.9 billion recorded in 2019.

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

The total value of the Fund increased by 11.2 per cent to Rs. 2,824.3 billion as at end 2020, compared to Rs. 2,540.4 billion as at end 2019, due to the income generated from investments and net contributions (after deducting refunds from contributions) received. Total liability to the members (member balances) stood at Rs. 2,767.8 billion as at end 2020, recording a 10.8 per cent increase from Rs. 2,497.6 billion as at end 2019 (Table II-15).

**Table II-15**  
**Selected Key Information of the Fund**

Item	2019	2020(a)	Change (%)
Total value of the Fund (Rs.bn)	2,540.4	2,824.3	11.2
Total liability to members (Rs.bn)	2,497.6	2,767.8	10.8
Total number of member accounts (mn)	19.4	19.4	-
Contributing member accounts (mn)	2.9	2.0	(31.0)
Non-contributing member accounts (mn)	16.5	17.4	5.5
Total contributions (Rs.bn)	157.2	150.7	(4.1)
Total refunds (Rs. bn)	126.3	109.7	(13.1)
Net contribution (Rs.bn)	30.9	41.0	32.6
Number of refunds	241,581	197,401	(18.3)

(a) Provisional

Source: EPF Department, Central Bank of Sri Lanka

#### (c) Investment Activities of the Fund

##### (i) Investment Portfolio

In 2020, 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 11.0 per cent to Rs. 2,829.5 billion as at end 2020 from Rs. 2,548.7 billion recorded as at end 2019 (Table II-16). The investment policy of the Fund continued to focus on providing a long term positive real rate of return to the members while ensuring the safety of the Fund and maintaining a sufficient level of liquidity to meet refund payments and other expenses of the Fund.

Accordingly, as at end 2020, the investment portfolio consisted of 93.4 per cent in government securities, 2.8 per cent in equity, 1.2 per cent in corporate debentures, 2.0 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 2020 is given in Table II-17.

**Table II-16**  
**Investment Portfolio**

Type of Investment	End 2019		End 2020	
	Amount (Rs.bn)	Share (%)	Amount (Rs.bn)	Share (%)
Treasury Bonds & Bills	2,390.4	93.8	2,642.9	93.4
Equity	75.4	3.0	79.9	2.8
Corporate Debts	42.2	1.7	34.9	1.2
Fixed Deposits	25.0	0.9	55.8	2.0
Reverse Repos	15.6	0.6	16.0	0.6
<b>Total</b>	<b>2,548.7</b>	<b>100.0</b>	<b>2,829.5</b>	<b>100.0</b>

Source: EPF Department, Central Bank of Sri Lanka

**Table II-17**  
**Maturity Profile of Government Securities Portfolio**  
**(As at end of 2020)**

Maturity	Maturity Value (Rs.mn)	Share (%)	Weighted Average Yield (%)
Less than 1 year	76,490.0	2.9	4.8
1-2 years	339,259.3	13.0	5.8
3-4 years	361,104.6	13.8	6.5
More than 5 years	1,835,362.1	70.2	7.4
<b>Total</b>	<b>2,612,216.0</b>	<b>100.0</b>	<b>7.0</b>

Source: EPF Department, Central Bank of Sri Lanka

## (ii) Investment Income

During 2020, the total investment income of the Fund amounted to Rs. 285.4 billion, recording an increase of 10.2 per cent over the previous year (Table II-18). Interest income was the major source of income to the Fund and it grew by 8.9 per cent to Rs. 277.4 billion in 2020 from Rs. 254.7 billion in 2019. The dividend income realised from the equity portfolio decreased by 52.2 per cent to Rs. 2,985.0 million in 2020, compared to Rs. 6,247.5 million earned in 2019. Further, a marked to market gain of Rs. 5.0 billion on the financial assets, especially the listed equities was recorded in 2020, whereas a marked to market loss of Rs. 1.9 bn was recorded in 2019. Overall, return on investments of the Fund has recorded 10.6 per cent in 2020, compared to 10.7 per cent recorded in 2019.

**Table II-18**  
**Income on Investments**

Source of Income	2019		2020	
	Amount (Rs.mn)	Share (%)	Amount (Rs.mn)	Share (%)
Interest with amortisation gains	254,681.0	98.3	277,409.0	97.2
Marked to market gain/loss from Equity	(1,890.0)	(0.7)	5,023.1	1.8
Capital gains from Government Securities	0.1	-	-	-
Dividends	6,247.5	2.4	2,985.0	1.0
Impairment of financial assets	0.3	-	1.6	-
<b>Total</b>	<b>259,038.9</b>	<b>100.0</b>	<b>285,418.8</b>	<b>100.0</b>

Source: EPF Department, Central Bank of Sri Lanka

## (iii) Expenditure

The total operational expenditure of the Fund increased by 4.0 percent to Rs. 1,645.1 million in 2020, compared to Rs. 1,581.8 million in 2019, and as a ratio of total gross income, it had decreased to 0.58 per cent in 2020, from 0.61 per cent in 2019 (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 (%)
	2019	2020	
Personnel expenses	1,062.6	1,102.3	3.7
Administrative expenses	450.7	472.0	4.7
Other expenses	68.5	70.8	3.3
<b>Total</b>	<b>1,581.8</b>	<b>1,645.1</b>	<b>4.0</b>
<b>Total Expenses as a % of Gross Revenue</b>	<b>0.61</b>	<b>0.58</b>	

Source: EPF Department, Central Bank of Sri Lanka

## (d) Payment of Interest on Member Balances

Over the last 10 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 of this Report.

**Table II-20**  
**Rate of Interest paid on Member Balances**

Year	Interest Rate Paid (%)	Effective Interest Rate (%) <sup>1</sup>
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	9.25	9.27
2020(a)	9.00	9.02

(a) Provisional

Source: EPF Department, Central Bank of Sri Lanka

<sup>1</sup> 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

Member account statements are distributed to active members through their employers registered with the Fund, on a semiannual basis. Accordingly, the member account statements of the first half of 2019 were distributed in 2020, and the member account statements of the second half of 2019 will be distributed to members in the first quarter of 2021 (Table II-21).

**Table II-21**  
**Issue of Member Account Statements**

Period	No. of Employers	No. of Statements (Active Members)
2019 1st half	74,822	2,226,126
2019 2nd half	83,051	2,752,326

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 i.e. Housing Development and Finance Corporation Bank, State Mortgage and Investment Bank, Bank of Ceylon, People's Bank and Co-operative Rural Banks, continued during the year. Under this scheme, during 2020, EPF Department issued 8,537 certificates of guarantees to members against their EPF balances to the participating lending institutions for the approval of housing loans amounting to Rs. 4,497 million (Table II-22). Further, during the year under review, nearly Rs. 3,321 million was deducted from relevant member accounts and remitted to the participating lending institutions in order to settle the overdue loan amount in 2019.

**Table II-22**  
**Housing Loan Guarantee Facility**

Year	Issued Certificates (No.)	Credit Approved (Rs. mn)	Amount Remitted to Lending Institutions (Rs. mn)
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	10,022	5,097	3,164
2020(a)	8,537	4,497	3,321

(a) Provisional

Source: EPF Department, Central Bank of Sri Lanka

**(iii) Pre-Retirement Refund Scheme**

In terms of the provisions in Employees Provident Fund (Amendment) Act No. 02 of 2012 and the subsequent procedures passed by the Parliament, payments under the 30 per cent EPF pre-retirement refund scheme has been in operation since 1 July 2015. During 2020, Rs. 9.7 billion was released to 19,247 beneficiaries under this scheme. The scheme is in high demand by beneficiaries, and since its inception, a sum of Rs. 98.2 billion has

been refunded to over 180,503 beneficiaries as at end 2020.

**(iv) EPF Mobile Service Programme**

EPF mobile services were planned for the year 2020 with a view towards enhancing the delivery of member services at their convenience and conducting public awareness on EPF operations. EPF mobile services offer almost all the services a member could obtain by visiting the EPF Department located in Colombo, in their own area or workplace. The services include issuing of EPF balance statements, amendment of EPF member details, amendment of EPF account details, re-registration of member details, promoting SMS & Internet member services, awareness for employers on electronic payments media such as e-media and direct debit system and providing advice on the overall EPF procedures.

During the first quarter of the year 2020, EPF Department conducted three (03) mobile services. However, conducting of mobile services during the subsequent months was curtailed due to the COVID-19 pandemic situation in the country.

**(v) EPF Contribution through Electronic Media**

The e-Return system, which facilitates collection of EPF contributions and respective member details in electronic means was introduced by the Fund with the objective of improving its operational efficiency in a paperless operating environment. This system was operated on a voluntary basis until the EPF (Amendment) Act No. 02 of 2012 came into effect, making submission of EPF contribution details through electronic media mandatory for employers having more than 50 employees in their employment cadre. In 2011, Licensed Commercial Banks (LCBs) joined this system as facilitators to collect EPF contributions via their own online portals, which paved the way for a remarkable improvement in employer participation and a speedy 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 updation of member accounts. Accordingly, eight LCBs are facilitating EPF online payments while four of them provide online member information validation and a real time member accounts updating facility for their customers.

The year 2020 was a remarkable year for EPF Department with regard to e-collection due to the introduction of a modification in the system

of crediting EPF contributions to the member accounts. With the implementation of the system, error-free contributions are credited to the members automatically upon the processing of the e-files with an automated reply for fund acknowledgement and details of member name discrepancies, if any. Further, with a view of 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 using the Common Electronic Fund Transfer (CEFT) System, which enables employers to pay monthly contributions from any participating bank.

By end 2020, the participation of employers in the e-Return submission system had increased to 10,069 from 9,267 in 2019, covering approximately 88 per cent of the active member accounts and approximately 88 per cent of the total monthly EPF contribution. In addition, actions were taken to make employers further aware of the e-Return submission procedure and its benefits for EPF stakeholders, while emphasising the importance of taking actions to rectify issues with regard to member name discrepancies of e-correspondences to assure that contributions are credited to member accounts in a timely manner.

#### (vi) Re-registration of EPF Members

The special project for re-registering member details in accordance with their details on their National Identity card (NIC), which was commenced by EPF Department in 2010, continued in the year 2020. This project was implemented in collaboration with the Department of Labour, with the intention of rendering an efficient service to both employers and employees. Accordingly, members were re-registered with the Fund as per the collected NIC details, and this is the preliminary work that is underway to accomplish a Member Centric Database that can be utilised by both institutions commonly through the facility of identifying each member by their NIC number as their Unique Identification Number. The statistical information on re-registered members during the year 2020 under this project is given below.

**Table II-23**  
**Re-registration of Member Accounts**

No. of Members Re-registered during the Year 2020	Total No. of Members Re-registered by the End of the Year 2020
24,100	1,598,934

In addition, a procedure has been established to update the information of new members accurately. Accordingly, a monthly monitoring process is followed to collect the NIC information of the new members.

Although a Memorandum of Understanding was signed on 13.01.2020 with the Department of Registration of Persons (DRP) to facilitate EPF Department to access their corporate database and verify their NIC details to strengthen the re-registration process, since DRP has introduced a new methodology to make the process more efficient, EPF Department is currently in the process of signing a new Memorandum of Understanding in this regard.

#### (vii) Image Scanning Project

The Image Scanning Project (ISP) was implemented with a view towards improving the efficiency of services provided by the Fund by establishing a near-paperless operating system.

With the completion of Phase-I of the project, the traditional model of the EPF record room was converted into an e-Record room. All the Master File records, Form D and re-registration Documents were scanned, indexed and uploaded to the Document Management System. The document retrieval, file updating, notification and all other related functions have been made available for the departmental users on their own desktop. Most of the manual processes have been automated minimising the involvement of staff members. This transformation has resulted in a considerable saving of time, space and human resources.

Based on the process efficiencies gained through Phase-I, Phase-II of the project was initiated at the end of the year 2016 to digitise the other frequently used records. The digitisation of documents in Phase-II includes the following: Form C and C3 used for the collection of contributions from employers belonging to the years 2013, 2014 and 2015, refund worksheets from 2002 to 2015 except for the year 2013, Individual Employer Ledgers (IEL) for the period 1974 to 2015 (except year 2013), amendment letters from 2010 onwards and re-registration documents belonging to the year 2014. At the end of 2017, the scope of Phase-II of the project was extended to include the scanning and indexing of Form C & C3 belonging to the years 2016 & 2017. Accordingly, the above scope of the project was completed during the year 2018. The verification of the scanned images was completed in the year 2020.

Refund payment and part payment processes were made more efficient as all correspondences related to payments from 2001 were scanned and uploaded to the system. Other member services such as name amendment and re-registered member detail amendments are also being made efficient.

The department is in the process of making arrangements to expand the capacity of the document management server with a Disaster Recovery arrangement, and thereby initiating real time scanning of documents in order to digitise documents at the point of reception.

#### **(viii) Other Services**

The Public Relations and Inquiries Counter of EPF Department concluded a challenging year in 2020. During the year under review, the number of member/employer visits to the department was recorded as 102,383, while the department had received 55,123 member inquiries through telephone calls and 7,063 member inquiries through e-mails. The department had also received 2,097 letters in 2020 through members, employers and other stakeholders.

In year 2020, the Record Amendment Division attended to approximately 60,000 EPF records and EPF accounts amendments. A new Information Technology system has been introduced during the year, for tracking the status of amendments while keeping a log of supporting documents. The new system is updated with the status of amendment and progress notified to the member through a SMS text message. The Department of Labour accepts the SMS message received to the member as a proof of amendment and proceeds to confirm the identity of the member. This new system has improved the efficiency of the EPF record amendment process and the members were immediately informed about the progress of their requests.

#### **(f) Other Functions**

Furthermore, EPF is commenced reviewing and restructuring its investment strategy and framework under the Financial Sector Modernisation Project assisted by the World Bank and the Government of Sri Lanka.

Actions have been initiated for introducing web based and mobile applications for paying contributions and sending respective contribution details specifically targeting small and medium scale employers. This facility embedded the feature of automated member accounts updating upon a confirmation received for remittance contribution payments and intends to enhance the efficiency and effectiveness of the respective process.

### **9. FACILITIES MANAGEMENT**

Facilities Management Department (FMD) has been entrusted with the key responsibility of maintaining and upgrading of buildings and properties of the Central Bank to facilitate and create a conducive working environment for its core functions to be carried out effectively. Towards

achieving this goal, FMD continued its key project of retrofitting the Head Office Building, which envisages a major refurbishment of the building interior as well as the replacement of the electro-mechanical plant and equipment. Several milestones of completing plant retrofits were achieved during this period with the replacement of the cold-water supply booster pumping systems, replacement of the standby generator control system of the Extension Building, and the installation of an IP based CCTV system to facilitate security surveillance of the entire Head Office premises. As a part of this project, the procurement process was initiated for the refurbishment of one of the toilet blocks and waterproofing of the roof terrace of the Head Office Building.

During the year under review, FMD continued the task of upgrading the building properties belonging to the Central Bank at the Centre for Banking Studies (CBS) in Rajagiriya, Regional Offices, and Holiday Homes. Taking the emerging requirements of a modern-day training facility into consideration, FMD initiated a major face-lifting project for the CBS Building to enhance its appearance and to provide modern smart classroom facilities in order to deliver better service to internal and external customers. Infrastructure facilities of the CBS premises were strengthened during the year with the replacement of passenger elevators and the replacement of the existing sewage pumping system. Refurbishment work at Regional Offices was continued with the installation of a security surveillance system and the replacement of the passenger elevator at the Regional Office in Anuradhapura. Further, upgrading of the power distribution system and the installation of a security surveillance system at the Regional Office in Nuwara Eliya were completed. A new standby generator was installed at the Holiday Home in Kataragama and necessary repairs were carried out to the water supply and sewage disposal systems of the premises. A new project was commenced to replace the existing Pantry Units at the Holiday Home in Nuwara Eliya, and color washing of the Holiday Home was also completed.

The year under review was a challenging year to FMD due to travel restrictions and social distancing requirements that were imposed due to the pandemic. FMD took initiatives to implement all COVID-19 protocols within the Central Bank building premises by imposing restrictions on the staff, visitors and tenants, and by taking various measures relevant to safeguarding the building staff and occupants from the spread of COVID-19, while addressing environmental, health and safety aspects. FMD, being the transport facilities provider to the Central Bank staff, made special arrangements to provide transport facilities to essential staff to report to duties in person, and to provide a dedicated transport service to the Central Bank staff to ensure minimal social contacts. In line with the decisions of the Monetary Board, FMD discontinued the lease agreements with the

Department of Project Management and Monitoring, as well as the Ministry of Southern Development, in respect of office spaces during the period concerned. As customary, FMD continued to maintain the critical services of buildings, and provided necessary support services in transport and telecommunication 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) No. 58 of 1949. Since 2002, the 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 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 requirements of the MLA, monthly Balance Sheets for December 2019 and January to November 2020 were prepared and published in the Government Gazette.
- (b) **Quarterly Reports:** The financial performance and financial position of the Central Bank 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 as at end December 2020. Audited Financial Statements of the Central Bank for the year ending 31 December 2020 are presented in Part II of the Annual Report.

### 10.2 Preparation of the Annual Budget

The annual income and expenditure budget and the capital budget of the Central Bank for the year 2021 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 2021 of the Central Bank was obtained in December 2020 and the budget was made available to departments on the first working day of 2021. Meanwhile, quarterly budgetary performance statements for the year 2020 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 2020 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 the year 2020, a total of 5,825 payments were effected, out of which 5,632 were to local suppliers and 193 to foreign suppliers.
- (c) Nearly 3,043 disbursements amounting to Rs. 584.41 billion to the General Treasury and relevant projects, and 587 installments amounting to Rs. 1,070.88 billion on repayment of foreign loans were made during the year 2020. In addition, 3 banking arrangement agreements were signed with one foreign bank 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 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 the Resolution and Enforcement Department, 3 funds administered by the Staff Services Management Department, and 14 project funds administered by the Regional Development Department. All funds are invested under a common Investment Policy by FD and the relevant owner departments are 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 includes an independently operating front office and a back office and decisions taken at the Internal Investment Oversight Committee (IIOC) chaired by a Deputy Governor, which met 9 times during the year 2020, to advise and monitor the investments of funds. Performance of these Investments were reported quarterly 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 2019 were submitted to the Monetary Board as per the rules of those funds. As at end 2020, the total fund base had increased to Rs. 131.69 billion.



**Table II-24**  
**Portfolio Position (Rs. bn.)**

Department	Portfolio value as at 31 Dec 2020 (invested values)	Portfolio value as at 31 Dec 2019 (invested values)
Finance	64.87	59.96
Resolution and Enforcement	60.43	64.06
Regional Development	6.33	6.07
Staff Services Management	0.06	0.08
<b>Total</b>	<b>131.69</b>	<b>130.17</b>

### 10.5 Maintaining Fixed Assets Register

FD maintains all records of 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 the year 2020. The register was updated during 2020 with 1,088 items procured and 24 disposals. A revaluation of all land and buildings held by the Central Bank was carried out as at 31 December 2020, and the resulting values were included in the Bank's financial statements.

### 10.6 Maintaining the database of staff loans

FD continuously updated the loan database of the Central Bank staff with the assistance of the Information Technology Department to facilitate the loan recovery recording process and to supply information to employees and to the Management, during the year 2020. A total of 1,320 loans amounting to Rs 1.39 billion were granted to employees during 2020.

### 10.7 Other Operations - Procurement Process

According to the Rules of the Central Bank, FD is represented 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 the year 2020, officers of FD represented 75 Tender Boards and 66 Technical Evaluation Committees related to procurements.

## 11. FINANCIAL CONSUMER RELATIONS

Financial Consumer Relations Department (FCRD) was established on 10.08.2020 by the Central Bank under the provisions of Section 33 of the Monetary Law Act No. 58 of 1949, as amended. FCRD serves as a single point of contact for receipt and dissemination of all external complaints and grievances directed by consumers of the Central Bank regulated entities. The entities regulated by the Central Bank that come under the purview of FCRD are Licensed Commercial Banks, Licensed Specialised Banks, Licensed Finance Companies, Specialized Leasing Companies, Primary Dealers, and Participants of Payments and Settlement Systems.

From 2022, FCRD will focus on supervising standards of market conduct, formulating financial consumer protection

policies in line with the local and international market developments and best practices, taking proactive and reactive measures with respect to malpractices and misconducts whilst identifying and monitoring emerging vulnerabilities in issues related to financial consumer protection.

The department has received a significant amount of complaints, grievances and inquiries related to entities regulated by the Central Bank. Since its inception, the total number of calls attended to by FCRD during 2020 was over 22,000 while the number of faxes, emails and letters received during the same period was over 3,500. FCRD is planning to set up a new Contact Center at the Central Bank, which is expected to be operative by the first quarter of 2021.

## 12. FINANCIAL INTELLIGENCE UNIT

Financial Intelligence Unit (FIU) of the Central Bank has continuously demonstrated 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. 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 covered the majority of Financial Institutions (FIs) and Designated Non-Finance Businesses and Professions (DNFBPs) under the AML/CFT regime of the country in order to comply with the international standards on AML/CFT and Financial Action Task Force (FATF) Recommendations, and is supervised by FATF jointly with the 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 others major (pieces of) legislation, i.e. the Prevention of Money Laundering Act No. 5 of 2006 (PMLA) and the Convention on the Suppression of Terrorist Financing Act No. 25 of 2005 (CSTFA), where FIU is involved in implementing their provisions effectively.

### 12.1 Receipt, Analysis and Dissemination of Information

In terms of the mandatory requirements, during the year 2020, Reporting Institutions (RIs) continued to submit information on financial transactions, including suspicious transactions, 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 (ICs), 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, in 2020, RIs reported 3.8 million (provisional) CTRs and 6.5 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 of received STRs, they were referred to Law Enforcement Authorities (LEAs) and Regulatory Authorities (RAs) for further investigation. 3,665 STRs were reported to FIU during 2020, and FIU disseminated a total of 2,801 STRs to LEAs and RAs for further investigations.

## 12.2 Regulation of Reporting Institutions

With a view to strengthening the AML/CFT supervision process and institutional compliance, FIU issues Regulations, Rules and Guidelines to FIs as well as DNFBPs. Accordingly, FIU issued several Guidelines during the year 2020 on “Scenario-based LankaFIN Reporting for LFCs, ICs and SBs”, “AML/CFT Compliance Obligations for Accountants and Trusts or Company Service Providers”, and “Non-Face-to-Face Customer Identification and Verification Using Electronic Interface Provided by the Department for Registration of Persons”.

Similarly, FIU took continuous 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 18 risk-based onsite examinations, including 7 follow-up examinations, and 16 spot examinations to FIs, as well as 18 risk-based onsite examinations to DNFBPs to assess compliance with the FTRA, Customer Due Diligence (CDD) Rules, and other regulations and rules issued by FIU. During 2020, several thematic reviews were also conducted on FIs as well as DNFBPs, due to the limitations that were experienced in conducting planned onsite examinations as a result of the COVID-19 pandemic situation in the country.

Further, during 2020, FIU undertook other regulatory actions regarding AML/CFT non-compliances by FIs and DNFBPs, such as imposing penalties, issuing warning letters and show cause letters, issuing time-bound action plans, and conducting follow-up meetings. Moreover, FIU imposed financial penalties amounting to Rs. 3.3 million on 5 LFCs for the year 2020.

## 12.3 Domestic and International Cooperation

### (a) Memoranda of Understanding

As per Section 15 (1) (r) of the FTRA, FIU is vested with the legal authority to enter into a Memorandum of Understanding (MOU) with any government institution or agency with respect to the exchange of information.

Accordingly, during 2020, FIU entered into an MOU with the Chief of National Intelligence with a view to sharing information to facilitate the analysis process of FIU. Accordingly, the total number of MOUs signed with domestic agencies by FIU increased to 12 as at end 2020.

Further, in terms of Sections 16 and 17 of the FTRA, FIU can enter into agreements for the exchange of information regularly with any institution or agency of a foreign state with the approval of the Minister of Finance. Accordingly, negotiations were initiated to sign MOUs with 2 foreign FIUs during 2020.

### (b) Egmont Group

FIU obtained assistance from members of the Egmont Group, the Association of global FIUs consisting of 166 members, in order to carry out investigations and collaborate with member countries to gather intelligence on their investigations. During 2020, FIU responded to 34 requests from counterpart FIUs and made 34 requests from counterpart FIUs to share information relating to on-going investigations. Further, FIU officers participated in the Egmont Working Group meetings held in Mauritius in January 2020. However, as a result of the circumstances caused by the COVID-19 pandemic, the Egmont Group Plenary, originally scheduled for July 2020, was postponed to July 2021.

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

Due to the pandemic, the APG did not conduct its annual plenary in 2020. However, FIU participated in several virtual Mutual Evaluation Committee (MEC) meetings held during the year, mainly to discuss the members' mutual evaluation reports and follow-up reports.

The Follow-up Mutual Evaluation Report on Sri Lanka was discussed at the virtual MEC held in October 2020. Out of 40 Recommendations, Recommendation 14 on Money or Value Transfer Service Providers, which was rated as non-compliant in 2015, was re-rated to Largely Compliant with the progress reported, and the Largely Compliant rating given in 2015 to Recommendation 15 on New Technologies was re-rated to Partially Compliant due to the fact that Sri Lanka had not taken actions to fulfil the new requirements imposed by the FATF in October 2019. Accordingly, out of 40 FATF recommendations, by end 2020, Sri Lanka's ratings stood as, 7 Compliant, 24 Largely Compliant, 8 Partially Compliant, and 1 Non-Compliant.

## 12.4 Institutional Capacity Building and Awareness Programmes

Awareness building is vital for the establishment of an effective AML/CFT regime in the country. Accordingly, continuing the efforts to enhance the awareness on detecting,

analysing and reporting of ML and TF related transactions, 19 awareness/training programmes were conducted during the year, accommodating 1,881 participants. This included face-to-face programmes as well as online programmes. FIU initiated a series of measures to further strengthen the LEAs' efforts in combating ML related to the illicit drug trade, to increase the awareness of ML investigations among investigating officers of Sri Lanka Police, and to continuously coordinate with investigators, prosecutors and FIs to support the LEAs' efforts. A workshop was also conducted to enhance awareness of suspicious financial transactions related to drug trafficking for the board of directors and the senior management of licensed banks.

Furthermore, several high-level workshops and web conferences were organised by FIU for the board of directors and the senior management of licensed banks and LFCs to enhance awareness of their obligations on AML/CFT compliance. The Resident Advisor from the US Department of Treasury also continued to provide technical assistance to improve the quality and effectiveness in FIU operations, AML/CFT supervision and AML/CFT case management.

### 13. FOREIGN EXCHANGE

Department of Foreign Exchange (DFE), which was established on 20 November 2017, continued to carry out the responsibility vested in the Central Bank as the agent of the Government for implementing the provisions of Foreign Exchange Act No. 12 of 2017 (FEA), in order to ensure proper promotion and regulation of foreign exchange in Sri Lanka.

The main functions of DFE are as follows.

- a) 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
- b) Implementing provisions of the FEA by formulating Regulations and Orders and issuing of Directions for carrying out foreign exchange activities and transactions
- c) Granting permissions for specific purposes not covered by the general permissions given under the FEA
- d) Conducting policy-oriented studies to determine the effectiveness of existing policies and to identify requirements for new policies in line with developments in the foreign exchange market
- e) Monitoring compliance with the Regulations, Orders and Directions issued under the FEA by respective authorised persons and conducting investigations on non-compliances with the provisions of the FEA
- f) 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 consists of 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 2020 is given below.

#### 13.1 Facilitating the issuance of new Regulations, Orders and Directions

##### (a) Facilitating the Issuance of Regulations

During the year, DFE facilitated issuance of four Regulations by Hon. Minister of Finance under the FEA, mainly focusing on attracting fresh inward remittances during the current economic downturn experienced by the country. These four Gazette Notifications are given in Part III of this Report and titles are given below.

- i. Regulations issued under Section 29 of FEA read with Section 7 of FEA dated 08 April 2020, as published in the Gazette (Extraordinary) Notification No. 2170/4
- ii. Regulations issued under Section 29 of FEA read with Section 7 of FEA dated 01 July 2020 as published in the Gazette (Extraordinary) Notification No. 2182/32
- iii. Regulations issued under Section 29 of FEA read with Section 7 of FEA dated 06 October 2020 as published in the Gazette (Extraordinary) Notification No. 2196/22
- iv. Regulations issued under Section 29 of FEA read with Section 7 of FEA dated 17 November 2020 as published in the Gazette (Extraordinary) Notification No. 2202/7

##### (b) Facilitating the Issuance of Orders

DFE facilitated issuance of four Orders with a view to minimise the pressure on the exchange rate and possible negative impact to the Sri Lankan economy due to the COVID-19 pandemic. The titles of such Orders are given below and relevant Gazette Notifications are given in Part III of this Report.

- i. Order under Section 22 of FEA as published in the Gazette (Extraordinary) Notification No. 2169/3 dated 02.04.2020
- ii. Order under Section 8 of FEA as published in the Gazette (Extraordinary) Notification No. 2182/33 dated 01.07.2020
- iii. Order under Section 22 of FEA as published in the Gazette (Extraordinary) Notification No. 2182/37 on 02.07.2020
- iv. Order under Section 22 of FEA as published in the Gazette (Extraordinary) Notification No. 2206/25 dated 18.12.2020

**(c) Issuance of Directions to ADs/RDs**

During the year DFE issued ten Directions to ADs and one Direction to RDs, of which titles are given below. These Directions are given in Part III of this Report.

- i. Directions No. 01 of 2020 dated 19 March 2020
- ii. Directions No. 02 of 2020 dated 20 March 2020
- iii. Directions No. 03 of 2020 dated 03 April 2020
- iv. Directions No. 04 of 2020 dated 09 April 2020
- v. Directions No. 05 of 2020 dated 16 April 2020
- vi. Directions No. 06 of 2020 dated 06 July 2020
- vii. Directions No. 07 of 2020 dated 07 October 2020
- viii. Directions No. 08 of 2020 dated 07 October 2020
- ix. Directions No. 09 of 2020 dated 07 October 2020
- x. Directions No. 10 of 2020 dated 25 November 2020
- xi. Directions No. 11 of 2020 dated 25 November 2020

**13.2 Granting of Permission for Foreign Exchange Transactions****(a) Special Permissions were granted under the FEA as illustrated in Table II-25 below.**

**Table II-25**  
**Special Permissions granted under the FEA**

Purpose	No. of approvals	Value in USD mn
Resident Companies to invest abroad*	1	-
Resident Companies to issue bank/corporate guarantees in favour of residents outside Sri Lanka	5	39.02
ADs/Resident Companies to process certain miscellaneous foreign exchange transactions that are not covered from the general permissions granted under FEA	8	N/A**

\* Share SWAP had taken place and hence no net outward remittances occurred.

\*\* N/A – Not Applicable

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

- i. Two new money changing permits were issued during 2020 to limited liability companies (i.e. money changers) of which one permit was issued only for buying and exchanging foreign currency and another permit was issued for buying, selling and exchanging foreign currency.
- ii. In addition, approval was granted to an existing money changer to open a new branch.

- iii. One branch of an existing money changer and one Licensed Finance Company ceased their money changing operations during the year 2020.
- iv. The details of permits that have been issued to each RD to engage in money changing business are illustrated in Table II-26 below.

**Table II-26**  
**RDs Permitted to Engage in Money Changing Business as at 31 December 2020**

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	67*
	Buying, selling and exchanging foreign currency	
Licensed Finance Companies (LFCs)	Buying, selling and exchanging foreign currency	08
Tourist Hotels	Buying foreign currency	03
<b>Total</b>		<b>78</b>

\* Permits were issued to 67 companies, which include 78 money changing outlets/branches. Out of those 78 outlets, 64 were permitted to buy and exchange foreign currency while the remaining 14 were permitted to buy, sell and exchange foreign currency.

Accordingly, as at 31 December 2020, 26 ADs and 80 RDs (this includes only the main outlet of the RDs) 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, 68 money changers and 3 tourist hotels were granted money changing permits for the year 2021 in December 2020. Out of the said 68 money changers, 42 money changers were granted money changing permits for the whole year of 2021 and the remaining were granted permits only for 6 months in 2021. Further, out of the above 68 money changers, 2 companies were newly appointed as money changers w.e.f. 01 January 2021 and 1 existing money changer ceased their business operations w.e.f. 01 January 2021. The validity of the existing permits issued to LFCs will expire on 31 January 2021.

**(c) Transfer of Migrants' funds**

ADs were permitted to open 742 CTAs during the year for the purpose of releasing migration allowance to Sri Lankan emigrants and to facilitate outward remittances of inherited funds to non-nationals.

**13.3 Issuing Clearance Letters to Resident Investors**

DFE issued 78 clearance letters during the year to resident investors (compared to 355 letters in 2019) 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.

### 13.4 Monitoring and Investigation of Foreign Exchange Transactions

- i. 61 investigations were initiated in respect of ADs, RDs and other persons with regard to non-compliances under the Regulations, Directions and Orders issued under the FEA.
- ii. Of these, 20 investigations were concluded during the year taking appropriate actions upon following the investigation procedure stipulated in the FEA.
- iii. Additionally, law enforcement authorities were assisted in litigation and juridical proceedings by providing expert evidence/ testimonies by the DFE in respect of matters pertaining to the provisions of the FEA.

### 13.5 Initiating a Foreign Exchange Transactions Monitoring System

Further, actions were taken during 2020 in collaboration with the Economic Research Department and the Information Technology Department of the Central Bank and ADs 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/purchases and inflows/outflows thereby enabling continuous monitoring of the foreign exchange operations.

### 13.6 Enhancing Awareness on Foreign Exchange Regulations

Presentations/workshops/virtual seminars were carried out for professional members and stakeholders, on the provisions of the FEA and recent relaxations on FEA regulations. Further, the official website of DFE ([www.dfe.lk](http://www.dfe.lk)) was also duly updated to enhance public awareness of 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 December 2020

Licensed Commercial Banks	
1	Amana Bank PLC
2	Bank of Ceylon
3	Bank of China Ltd
4	Cargills Bank Ltd
5	Citibank, N.A.
6	Commercial Bank of Ceylon PLC
7	Deutsche Bank AG
8	DFCC Bank PLC
9	Habib Bank Ltd
10	Hatton National Bank PLC

11	Indian Bank
12	Indian Overseas Bank
13	MCB Bank Ltd
14	National Development Bank PLC
15	Nations Trust Bank PLC
16	Pan Asia Banking Corporation PLC
17	People's Bank
18	Public Bank Berhad
19	Sampath Bank PLC
20	Seylan Bank PLC.
21	Standard Chartered Bank
22	State Bank of India
23	The Hongkong & Shanghai Banking Corporation Ltd
24	Union Bank of Colombo PLC

#### Licensed Specialised Banks

25	National Savings Bank
26	Sanasa Development Bank PLC

#### Annex II-3

##### List of Restricted Dealers (RDs) as at 31 December 2020

RDs permitted to buy and exchange foreign currency	
Money Changers	
1	A. H. M. Trading (Pvt) Ltd
2	A.O.Lakshmi Jewels (Pvt) Ltd
3	Abdeen Money Changers (Pvt) Ltd
4	Abilash Money Exchange (Pvt) Ltd
5	Ariyawansa Enterprises (Pvt) Ltd
6	Aruna Forex (Pvt) Ltd
7	Asian Money Exchange (Pvt) Ltd
8	Brescia Grameen (Pvt) Ltd
9	Bullion Money Exchange (Pvt) Ltd
10	Capital Exchange (Pvt) Ltd
11	Carlo International (Pvt) Ltd
12	Central Money Exchange (Pvt) Ltd
13	Colombo Money Exchange (Pvt) Ltd - Colombo 01
14	Colombo Money Exchange (Pvt) Ltd - Colombo 06
15	Dadigama Group (Pvt) Ltd
16	Data Exchange International (Pvt) Ltd
17	Daya Authorized Money Changer (Pvt) Ltd
18	Delta Sarath Holdings (Pvt) Ltd
19	Galle Money Exchange (Pvt) Ltd - Galle
20	Galle Money Exchange (Pvt) Ltd - Galle Fort
21	George Michael Holdings (Pvt) Ltd
22	Gexon Exchange (Pvt) Ltd
23	Global Trust Money Exchange (Pvt) Ltd
24	Global Village Exchange (Pvt) Ltd
25	Golden Money Changers (Pvt) Ltd
26	Haiifa Travels and Tours (Pvt) Ltd
27	International Exchange (Pvt) Ltd
28	Jayes Investments 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 - Colombo City Center
59	Thomas Cook Lanka (Pvt) Ltd – Colombo 02 - One Galle Face Mall
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
<b>RDs permitted to buy, sell and exchange foreign currency</b>	
<b>Money Changers</b>	
65	Arrujina Jewellery (Pvt) Ltd
66	Crown Money Exchange (Pvt) Ltd
67	City Exchange (Pvt) Ltd
68	Devi Forex (Pvt) Ltd
69	Jewel Lanka Money Exchange (Pvt) Ltd
70	Maruthi Money Exchange (Pvt) Ltd – Colombo 06
71	Mercantile Merchant Bank Ltd
72	Metro Forex (Pvt) Ltd
73	Prasanna Money Exchange (Pvt) Ltd – Colombo 01
74	Prasanna Money Exchange (Pvt) Ltd – Colombo 06
75	Pushpa Money Changer (Pvt) Ltd
76	Ravi Forexae (Pvt) Ltd
77	Thomas Cook Lanka (Pvt) Ltd – Bandaranaike International Airport
78	Universal Money Changers (Pvt) Ltd
<b>Licensed Finance Companies</b>	
79	Asia Asset Finance PLC
80	Bimputh Finance PLC
81	Citizens Development Business Finance PLC
82	Lanka Credit and Business Finance Ltd
83	L B Finance PLC*
84	Senkadagala Finance PLC
85	Sinhaputhra Finance PLC
86	Singer Finance (Lanka) PLC

<b>RDs permitted to buy foreign currency</b>	
<b>Tourist Hotels</b>	
87	Pearl City Hotel
88	Shangri-La Hotel Colombo
89	Shangri-La's Hambantota Resort & Spa
<b>Other Entities</b>	
90	MMBL Money Transfer (Pvt) Ltd
91	Sri Lanka Export Credit Insurance Corporation
* In addition, permit of LB Finance PLC as a RD has been extended during the year, enabling to engage in the inward money transfer business with Western Union Network.	

## 14. HUMAN RESOURCES

The strategic objective of Human Resources Department (HRD) is to ensure the availability of a highly productive, motivated and contended team of employees, who contribute towards achieving the overall objectives of the Central Bank, amidst emerging challenges. Considering skill development and capacity building as an integral part of the human resources management, the functions of Training and Development Department were absorbed into HRD during 2020, thereby enabling the effective coordination of training and development to match competency requirements of employees. In line with the strategies identified in the Strategic Plan of the Central Bank, HRD continued to perform its key functions, such as recruitment, training and development, performance evaluation, succession planning, promotions, and maintaining industrial harmony, creating a conducive environment with good employer-employee relations.

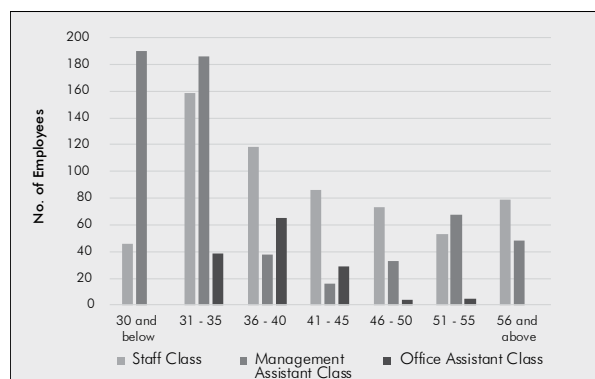
With the outbreak of the COVID-19 pandemic in 2020, and the resultant mobility restrictions imposed by the health authorities, HRD took measures to ensure a safe working environment for employees while ensuring uninterrupted operations of the Bank. Accordingly, arrangements were made to facilitate Central Bank employees to 'Work from Home', and HRD issued guidelines on working arrangements as well as on health and safety measures that were required to be adhered with, in line with the guidelines issued by the health authorities from time to time. Further, arrangements were made to carry out a survey on a continuous basis to assess the vulnerability and risk exposure of Central Bank employees to COVID-19, in line with the guidelines issued by the health authorities as and when required.

### 14.1 Human Resources Structure

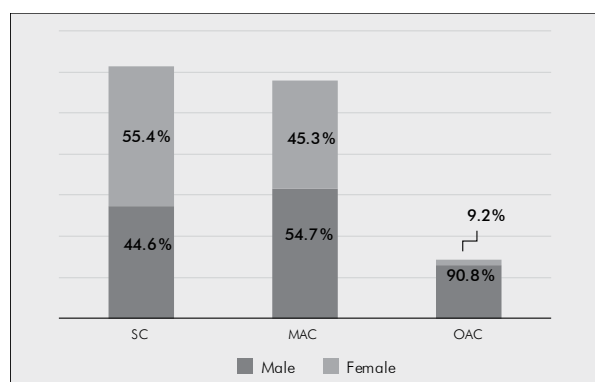
The total number of staff of the Central Bank as at end 2020 was 1,335, which consisted of 614 Staff Class (SC) officers, 579 Management Assistant Class (MAC) officers and 142 Office Assistant Class (OAC) employees. The total staff of the Central Bank consisted of 720 male and 615 female officers, representing 54 per cent and 46 per cent, respectively. The average age of an employee of the Central Bank was 39 years as at end 2020.

The age and gender distribution of the staff as at end 2020 are shown in Chart II-5.

**Chart II-5**  
**Composition of the Staff as at 31.12.2020**  
**(a) Class-wise Age Distribution**



**(b) Class-wise Gender Distribution**



## 14.2 Educational and Professional Qualifications of the Employees

The Central Bank has a diverse and talented pool of human resources with a high level of academic and professional qualifications. Table II-27 shows the details of educational and professional qualifications possessed by Central Bank employees as at end 2020.

**Table II-27**  
**Educational Qualifications/Professional Memberships of Employees of the Central Bank as at 31.12.2020**

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	21	130	165	67	29	2	136	12	562
MAC	-	14	27	20	22	28	62	37	210
OAC	-	-	-	-	-	-	7	-	7
<b>Total</b>	<b>21</b>	<b>144</b>	<b>192</b>	<b>87</b>	<b>51</b>	<b>30</b>	<b>205</b>	<b>49</b>	<b>779</b>

## 14.3 Human Resources Management

### (a) Recruitments

In 2020, HRD carried out General Recruitments to meet staff requirements in various employee categories of the Central Bank, and Lateral Recruitments to recruit employees with specific skill requirements. Further, to fulfil other short term specific skill requirements, HRD made arrangements to recruit suitable employees on Contract Basis for a short term period.

In 2020, Junior Personal Assistants (Sinhala and English) were recruited to the Central Bank under the General Recruitment process while a Chief Librarian and a FinTech Development Officer were recruited under the Lateral Recruitment process and on Contract Basis, respectively. During the year, applications were called for the posts of Notarial Clerk under the Lateral Recruitment process, and Senior Executive - Technology Risk Supervision, Senior Executive - Treasury Operations Supervision, Operational Risk Management Specialist, and Technology Risk Specialist on Contract Basis.

Further, HRD carried out continuous dialogue with the Department of Examinations to expedite the conducting of the competitive examinations to recruit Management Trainees, and to promote internal candidates as Probationary Staff Officers, which was delayed due to the COVID-19 pandemic.

### (b) Performance Management

The 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 on the generic and technical competencies as specified in the evaluation criteria. The final performance marks of employees up to SC Grade III (2) 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 for the year 2019 was completed and marks were communicated to all Heads of department and the relevant employees. Further, HRD issued a circular to conduct the mid-year performance review process of all departments. It provided an opportunity for all relevant parties to understand the level of performance of staff members during the first half of the year.

### (c) Promotions

In line with the applicable promotion criteria, HRD facilitated the granting of promotions, ensuring the career progression of employees. A total of 126 staff members were granted their class and grade promotions in 2020. This included three Assistant Governors who were promoted as Deputy Governors, two Senior Heads of Departments who were promoted as Assistant Governors, 17 Deputy Heads of Departments who were promoted as Additional Heads of Departments, and 104 other employees who were granted their class and grade promotions.

### (d) Training and Skills Development

HRD identifies training needs, formulates strategies to fill up training gaps, prepares and implements the annual training plan, facilitates the staff to pursue postgraduate studies, and provides opportunities for foreign/local short term training for the staff, to meet emerging needs of human capital development of the Central Bank.

The Central Bank defrays the cost of postgraduate studies in Sri Lanka or abroad of employees of the Central Bank, and accordingly, in 2020, HRD facilitated 10 staff class officers to embark on postgraduate programmes in reputed universities in Australia and the United Kingdom, while, two officers commenced Master's degree programmes in local universities on a part-time basis. The number of officers who have commenced/completed postgraduate studies under the Central Bank Scholarship Programme during the period 2016-2020 is given in Table II - 28.

**Table II – 28**  
**Postgraduate Studies under the Central Bank**  
**Scholarship Programme**

Year	Postgraduate Studies			
	PhD		Master's Degree	
	Commenced	Completed	Commenced	Completed
2016	4	3	15	18
2017	6	6	9	18
2018	8	1	8	14
2019	4	1	7	7
2020	3	5	7	8

In 2020, HRD facilitated 20 short term foreign training programmes including two study visits. A total of 29 SC officers and eight MAC officers participated in these short term foreign training programmes. In addition, the Central Bank facilitated 807 officers to participate in 350 online programmes conducted by other Central Banks and reputed foreign training institutions.

During the year, HRD facilitated 325 officers to participate in 54 local training programmes conducted by reputed local training institutions, while facilitating 159 officers to participate in 19 local training programmes conducted by Centre for Banking Studies (CBS). Since the outbreak of the COVID-19 pandemic, most of the institutions conducted their programmes online. In addition, HRD facilitated the Central Bank employees to follow local long term (part-time) training programmes, as it continued its sponsorship scheme for the Chartered Financial Analyst (CFA) qualification.

HRD also facilitates knowledge sharing among the staff of the Central Bank and other Central Banks, and accordingly, conducted knowledge sharing sessions with the Bank of Korea in 2020 in the field of Macroeconomics.

### (e) Job Rotation

A policy on job rotation has been established for transferring employees below SC Grade III (2) annually, with a view of providing opportunities for the employees to groom themselves in several areas of experience of the operations of the Bank. However, only 27 employees in OAC were transferred under this rotation policy in 2020 due to the delay in recruitments of required human capital caused by the COVID-19 outbreak during the year 2020.

### (f) Industrial Harmony

HRD continued to perform its role as the facilitator for maintaining a closer dialogue between Management and the Trade Unions of the Central Bank. Accordingly, four discussions were arranged in 2020, giving the opportunity to Management and the Trade Unions to discuss and resolve some of the issues relating to remuneration, promotions, training, welfare, recruitment, work arrangements under the prevailing pandemic situation, and general administration of the Bank.

## 14.4 Closing Down and Establishment of Departments

In accordance with the provisions of Section 33 of the Monetary Law Act No. 58 of 1949 and as per the Monetary Board decision taken at its Meeting No. 26/2020 held on 22 July 2020, Financial Consumer Relations Department was established with effect from 10 August 2020. Further, in line with the same Monetary Board decision, Regional Office Management Department was amalgamated with Regional Development Department with effect from 30 July 2020, and the functions of Training and Development Department were absorbed into HRD with effect from 10 August 2020.



#### 14.5 International Meetings Virtually Attended by the Governor During the Year 2020

- (a) G – 24 Ministerial Meeting on 13 October 2020
- (b) Annual Global Sovereign Investor Forum on 14 October 2020
- (c) High Level Virtual Meeting organised by Asia Pacific Department on 15 October 2020
- (d) Bilateral Meeting with the World Bank – South Asia Region on 16 October 2020
- (e) G – 24/ AFI Round table discussion on 19 October 2020
- (f) 40th SAARC FINANCE Governors' Group Meeting on 04 November 2020
- (g) SEACEN Board of Governors' Meeting on 01 December 2020

#### 14.6 Promotions/Appointments

- (a) Promotions and appointments to Staff Class Special Grade were made as follows:
  - (i) Mr. K M M Siriwardana was appointed as a Deputy Governor with effect from 12 February 2020.
  - (ii) Mrs. T M J Y P Fernando and Mr. N W G R D Nanayakkara were appointed as Deputy Governors with effect from 14 December 2020.
  - (iii) Mr. D M Rupasinghe and Mr. A R K Wijesekera were appointed as Assistant Governors with effect from 12 February 2020 and 01 April 2020, respectively.
- (b) Dr (Ms). D S T Wanaguru, Additional Superintendent of Public Debt Department, was appointed as Additional Director of Economic Research Department with effect from 02 January 2020.
- (c) Mr. J M Ameer, Additional Superintendent of Employees' Provident Fund Department, was appointed as Additional Director of Regional Office Management Department with effect from 02 January 2020, and subsequently he was appointed as Additional Secretary with effect from 01 June 2020.
- (d) Mr. M R Wijewardane, Additional Director of Information Technology Department, was appointed as Additional Director of Payments and Settlements Department with effect from 05 February 2020.
- (e) Mr. N R Wickramasinghe, Additional Secretary was appointed as the Secretary of the Central Bank of Sri Lanka with effect from 07 February 2020.
- (f) Mr. G D P D Jayathilake, Additional Director of Human Resources Department, was appointed as Director of Statistics Department with effect from 15 April 2020.
- (g) Mrs. E H Mohotty, Additional Director of Financial Intelligence Unit was appointed as Director of Financial Intelligence Unit with effect from 15 April 2020.

- (h) Mr. D L Nihal, Additional Secretary was appointed as Additional Director of Regional Development Department with effect from 01 June 2020.
- (i) Mr. J D S J Nanayakkara, Additional Superintendent of Employees' Provident Fund Department, was appointed as Director of Department of Supervision of Non-Bank Financial Institutions with effect from 01 July 2020.
- (ii) Mr. J P Gamalath, Director of Department of Supervision of Non-Bank Financial Institutions, was appointed as Additional Superintendent of Employees' Provident Fund Department with effect from 08 July 2020, and subsequently he was appointed as Director of Financial Consumer Relations Department with effect from 10 August 2020.
- (k) Mr. B L J S Balasooriya, Director of Training and Development Department, was appointed as Director of Staff Service Management Department with effect from 15 July 2020.
- (l) Mr. G K K Gamage, Additional Director of Resolutions and Enforcement Department, was appointed as Additional Director of Department of Supervision of Non-Bank Financial Institutions with effect from 14 August 2020.
- (m) Mrs. U L Muthugala, Chief Accountant was appointed as Secretary of the Central Bank of Sri Lanka with effect from 23 October 2020.
- (n) Mrs. D S L Sirimanne, Additional Chief Accountant was appointed as Chief Accountant of the Central Bank of Sri Lanka with effect from 23 October 2020.

#### 14.7 Employees on Release

- (a) Mr. S R Attygalle, Deputy Governor, to the Ministry of Finance as the Secretary to the Ministry of Finance.
- (b) Dr (Mrs). Y M Indraratna, Staff Class Grade IV officer, to the International Monetary Fund as an Alternate Executive Director.
- (c) Mrs. S Ranasinghe, Staff Class Grade II officer, to the International Monetary Fund as Administrative Assistant.
- (d) Mr. H B S Duminda and Mr. S D N Deshapriya, Office Assistant Class Grade III employees of the Central Bank to the Ministry of Finance.

#### 14.8 Retirements/Resignations

During the year, a total of 55 officers retired from the Bank Service, including one Deputy Governor, four Assistant Governors, one Senior Head of Department, and five Heads of Department, while a total of five officers resigned from the Central Bank Service.

## 15. INFORMATION TECHNOLOGY

Information Technology Department (ITD) successfully managed the technological challenges during the COVID-19 pandemic in 2020, and continued to contribute towards accomplishing the core objectives of the Central Bank. ITD's dynamic role of providing enterprise level integrated applications to the Bank continued in the same vein even during such challenging times.

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) upgrading ICT competencies among the staff under strategic and operational activities of the Bank.

### (a) Delivering cost-effective business solutions

The Central Integrated Market Monitor (CIMM), the system which monitors the Foreign Exchange Market and the Domestic Money Market, was further enhanced as a response to the new requirements arising due to the COVID-19 pandemic. A new Import Trade Information data capturing and monitoring module and development of an interface for licensed banks and Domestic Operations Department (DOD) to view and manage security allocation details of COVID-19 relief loans were successfully incorporated into CIMM.

In order to ensure transparency and to improve the overall effectiveness of the Treasury Bill auction process, a new Treasury Bill Auction System was developed for the Public Debt Department (PDD) by incorporating a voluntary second phase of bidding.

ITD eliminated inefficiencies related to stock keeping within departments through the implementation of a new and improved Inventory Management System for Secretariat Department (SD) and Facilities Management Department (FMD).

ITD developed an internal file sharing system, ShareDoc, with features of a mail application and One Time Password (OTP) verification, to ensure secure and confidential transmission of the Central Bank's internal files among its employees. It was further extended for the usage of external parties to share documents with supervision departments of the Bank. This application significantly contributed to mitigate any vulnerabilities that may have arisen from the pandemic induced work culture during the year under review.

The FinNet System, which is the Central Database System used by several departments to monitor information reported by the financial institutions regulated by the Bank, was upgraded by migrating to a more secure and stable new environment, involving a substantial amount of platform accommodating re-development. Further,

several new returns were introduced to collect data from Dealer Direct Participants and Non-Bank Financial Institutions. In addition, users of relevant departments were trained to perform data analysis and report generation by themselves, using a cutting-edge data analytic and visualisation tool.

DOD's operations related to the managing of Standing Lending Facility (SLF) and Standing Deposit Facility (SDF) were streamlined through system modifications enabling more automation in its processes. In addition, a Society for Worldwide Interbank Financial Telecommunications (SWIFT) message viewing system was implemented for DOD to remotely access SWIFT related information online, eliminating the need to view traditional paper based reports.

ITD accommodated new loan schemes of Regional Development Department (RDD) and DOD in its systems, further developing a web application to manage Saubagya COVID-19 Renaissance loan applications received from licensed banks.

Currency Department (CRD), which manages the currency printing, coins minting, and currency issuing, was provided with an automated currency valuation process in the Currency Management System (CMS), based on the weighted average cost methodology, enabling CRD to value its inventories more accurately and facilitate more informed decision making related to currency in stock.

ITD extended its services to the Employees' Provident Fund (EPF) by implementing a new member contribution processing module covering both C-Form and e-media contributions. An integrated payment solution with LankaClear was also made ready to commence with the launch of the new EPF website. Further, a module to monitor name and account amendments was implemented along with an integrated SMS feature facilitating EPF members to obtain services in a prompt and hassle-free manner.

ITD managed to successfully incorporate the new Advanced Personal Income Tax (APIT) scheme introduced by the Inland Revenue Department (IRD) to its internal systems, facilitating employees' consent based tax deduction. Related statutory requirements incorporating both APIT and PAYE tax schemes were completed timely, while assisting Finance Department (FD) with all data requirements including the annual Audit, Actuarial and Budget procedures. ITD also provided Finance Department (FD) with a system to accommodate Internal Fund Management-Front Office operations, automating the generation of deal tickets and related functionalities. The system further benefits back-office operations through timely visibility of front-office documents.

A Vehicle Requisition System was developed for FMD to streamline and automate the manual process so far used by employees in reserving transport for official matters.

Employees are now able to submit vehicle requests via the system and are even able to share a ride with another officer with similar travel requirements, which in turn reduces peak time disappointments and facilitates a more cost-effective option for the Bank simultaneously.

In addition to the above completed projects, ITD initiated and progressed with several other new system implementations and enhancements vital to the Bank, within the year 2020.

ITD progressed with implementing a Regional Development Loan Management System to cater to the 4P (Public-Private-Producer Partnerships) Loan Scheme, completing its loan processing and refinancing modules for RDD.

To ease complications related to the present manual performance evaluation process, ITD initiated the development of an Online Performance Evaluation System. Modules for Goal Assignment and Performance Evaluation were completed within the reviewed period.

In addition to the above, ITD significantly contributed to the procurement process of the Reserve Management System (RMS) by providing professional expertise in evaluating technical aspects of responses for the tender. Further, ITD was actively involved in the initial scoping phase and configuration and design phase of the system implementation. In addition, ITD was able to procure and configure the required hardware for the RMS as per the project schedule, within a short period of time. ITD also contributed to the procurement of an integrated IT system for Centre for Banking Studies to replace manual operations of the operational clusters through an automated, secure and easy-to-use solution.

Further, ITD expanded the use of the Document Management System (DMS) to SD and CRD by digitizing physical documents, eliminating persistent challenges arising from dealing with them. The document digitization process was extended to FIU and the Board Secretariat during the year.

#### **(b) Continuous enhancements of the ICT infrastructure**

Continuous upgrading and ensuring the resiliency of the ICT infrastructure of the Central Bank remained a core objective of ITD and hence, systems were thoroughly monitored and improved during the year to be on par with the latest advancements in technology.

In response to the sudden challenge of the COVID-19 pandemic, the most critical task in terms of ICT infrastructure was to readily provide an efficient and secure Work From Home (WFH) facility for the employees of the Bank. ITD overcame this challenge successfully by enabling users to connect to the Bank's network and continue the business activities remotely using Virtual Private Network

(VPN) portals and other secure connection mechanisms complying with industry standards. ITD connected more than 500 users through VPN portals and provided prompt technical support for the same, continuously, thereby ensuring a smooth and hassle-free WFH environment to its users.

ITD progressed with the revamping of the existing Head Office Data Centre to modern TIA 942 Rating 3 complied level. ITD completed the Bid evaluation process and awarded the Tender and completed the design of the Data Centre during the year under review. ITD also progressed with establishing a disk based data backup system for the Central Bank Head Office and its Disaster Recovery (DR) site. The team managed to implement the said system using existing hardware for the servers of the Head Office and completed replicating all data on new storage devices.

ITD managed to extend the e-mail cluster to the DR site by purchasing relevant storage devices and servers. Required Data Replications were also completed during the reviewed period.

Moreover, even during the challenging pandemic situation, ITD constantly maintained the availability of critical systems and critical infrastructure above 99.5% on par with industry standards.

#### **(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.

ITD significantly contributed towards the RTGS Modernisation Project by providing technical expertise for the preparation of Request for Proposal (RFP) document in order to initiate the procurement process. Further, to strengthen the secondary market of government securities, action was initiated to establish an Electronic Trading Platform (ETP) and a Clearing House with a Central Counter Party (CH/CCP) solution. ITD officers assessed the existing market infrastructure with the consultant and assisted in the preparation of an inception report and a gap analysis report for the same. The team was also able to finalise the target operating model of the proposed system and is in the process of providing input for the drafting of the RFP.

#### **(d) Strengthening IT Security and Resilience**

During the year, ITD enhanced its IT security framework and executed several proactive measures to ensure that the Bank's systems are protected against any cybersecurity threat.

ITD drafted an Information Security Governance Framework to prioritise and properly manage any vulnerabilities that may pose a risk to the IT systems of the Bank. Further, vulnerability assessments were carried out for the Corporate and EPF websites with the assistance of the Sri Lanka Computer Emergency Readiness Team (SLCERT). The Information Security Maturity Assessment was also completed for the year under review. In addition, ITD also initiated to conduct an external security assessment for the critical systems to further ensure the safety and the preparedness of its technical infrastructure.

ITD upgraded its servers to the latest versions and improved the security and resilience of the same, ensuring overall safety of the IT infrastructure of the Central Bank, thereby providing a safe zone of access to any remote user connecting to the Bank network via external devices.

#### **(e) Upgrade ICT Competencies among the Staff**

To build a more technologically savvy and threat-ready community within the Bank, ITD continued to publish awareness banners on the intranet and circulate security advisory alerts through email to the staff of the Central Bank.

Further, the staff of ITD continued to improve their skills and knowledge through active participation in webinars and other virtual workshops and conferences organised both locally and internationally, uplifting their capacity to ensure that the Bank's systems are reliant on and monitored by an updated and skilled workforce.

## **16. 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 the 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 2020 is given below.

### **16.1 Internal Audit Plan**

Strategic Internal Audit Plan for 2021 – 2023 and Annual Audit Plan for 2021 were compiled during the year.

### **16.2 Conduct of Audit Assignments**

#### **(a) Process and Information Systems Audits**

In 2020, process and information systems audits were conducted. Each audit engagement was carried out in four sequential steps, i.e. planning, performing, communicating audit results and taking resolution actions. A three-step process was followed for the communication of audit results, i.e. conducting closing conference with Auditee Department to get audit observations validated, issuing of draft audit report

and issuing of the final report. Implementation of audit recommendations by process owners was also followed-up during the year.

#### **(b) Progress of the Conduct of Audits**

Progress of the conduct of audit assignments was reported to the Monetary Board Advisory Audit Committee (AAC) and the Monetary Board. Audit reports were submitted to the Superintendent of the National Audit Office through the AAC.

#### **(c) Submission of Internal Audit Reports to the Ministry of Finance (MOF)**

During the year, Internal Audit Reports were submitted to the Director General of the Management Audit Department of the MOF as requested and in line with the National Audit Act No. 19 of 2018.

### **16.3 Awareness Programmes and Provisioning of Training**

IAD conducted a presentation for the Audit Coordinating Officers on the 'Internal Audit Facilitation Guidelines'. A Guest Auditor Presentation on 'Importance of Cyber Security under New Normal' was conducted by an expert in the field for the benefit of all the staff of the Bank in 2020. Further, as per the request of Human Resources Department, IAD continued to provide training on internal audit and related disciplines to undergraduates during the year.

### **16.4 Facilitation of the Monetary Board Advisory Audit Committee**

AAC is a sub-committee appointed by the Monetary Board which advises the Monetary Board on financial reporting, internal controls, internal audit, external audit and any other matters assigned by the Monetary Board. The Secretary to the Monetary Board is the Secretary to the AAC. The Director of IAD functions as the Assistant Secretary to the AAC. Accordingly, IAD provided secretarial facilitation to the AAC during the year.

## **17. INTERNATIONAL OPERATIONS**

As per the Monetary Law Act (MLA) No. 58 of 1949, the Central Bank is responsible for managing the official foreign exchange reserves of the country. In this regard, International Operations Department (IOD) is entrusted to perform the function of managing the official foreign exchange reserves and monitoring domestic foreign exchange market activities to ensure their smooth operation.

### **17.1 International Reserves Management**

Investments of international reserves are undertaken in accordance with the Investment Policy Statement and the Investment Guidelines 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.

**(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 its liability structure, which mainly considers the objectives of capital preservation, liquidity requirements, income generation and its risk tolerance. Accordingly, the foreign reserves of the Central Bank are objectively divided into three main tranches, which comprise different portfolios and are assigned with an investment horizon, currency composition and an asset composition.

**(b) External Manager for Central Bank Reserves**

Since 2016, under the RAMP, the World Bank Treasury has been the external manager for the Central Bank reserve management with a pre-defined mandate and a portfolio of USD 200 million.

**(c) SWAP Facility of US dollars 400 Million from the Reserve Bank of India (RBI)**

In order to build up the foreign reserves, the Central Bank obtained funds amounting to US dollars 400 million under the bilateral currency swap agreement signed between the Central Bank and the RBI in July 2020.

**(d) Debt Repayments of the Government**

Debt repayments of the Government are usually settled using the Government's foreign reserves. However, as the Government could not raise adequate liquidity owing to the unprecedented adverse market conditions, the Central Bank continued to provide liquidity from the foreign reserves of the Central Bank since 08 April 2020 to settle Government debts, and accordingly, from 08 April 2020 to 31 December 2020, the Central Bank settled US dollars 3,555 million of Government debt utilising the Central Bank's foreign reserves. In addition, the Central Bank obtained a Repo Facility for US dollar 1,000 million from Federal Reserve Bank New York, to meet the contingent liquidity needs of the Government.

**17.2 Performance Analysis and Facilitation Activities****(a) Compilation of Foreign Reserves and Performance Measurement of Reserve Management Activities**

IOD compiles and reports on the Central Bank Reserve and Gross Official Reserve figures daily, whilst assessing the performance of reserve management activities on a total return approach and presents to the Monetary Board on a quarterly basis. The returns of Fixed Income

Securities (FIS) and Money Market (MM) Investments are measured against respective benchmarks according to the SAA approved by the Monetary Board.

**(b) New Reserve Management System (RMS)**

In 2020, IOD completed the procurement process for acquiring a new RMS as the license for the existing TMS is to be expired by late 2021.

**(c) Registration with the Society for Worldwide Interbank Financial Telecommunication (SWIFT) Know Your Customer (KYC) Registry**

During 2020, as a measure of adopting the international standards for KYC review, the Central Bank was successfully registered with the SWIFT KYC Registry which is a standard global KYC Data Repository.

**17.3 Domestic Foreign Exchange Market Developments**

Despite the series of catastrophic events triggered by the COVID-19 pandemic, IOD made continuous efforts to ensure smooth operations in the domestic foreign exchange (FX) market, allowing reasonable flexibility while curbing excessive 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 through the Request for Quote (RFQ) mechanism, under disorderly market conditions especially during the challenging times of COVID-19 in April and November 2020 in order to curb the undue volatility in the exchange rate. Further, the Central Bank was able to purchase FX from the market during the conducive time to support building up reserves. At the same time, Sell-Buy Swap auctions were introduced as an alternative intervention mechanism, to address the temporary liquidity shortage in the domestic FX market without depleting the forex reserves.

**(b) Dissemination of Information**

IOD continued to publish the USD/LKR indicative exchange rate along with indicative exchange rates for fifty-six world currencies and average Telegraphic Transfer (TT) buying and selling exchange rates of Licensed Commercial Banks (LCBs) against LKR for nine major currencies, on the Central Bank website daily. In addition, IOD disseminated information on exchange rates to Government organisations and various other parties including the general public at their requests.

**(c) Ensured the Orderly Behaviour of the Market Conduct**

Given the nebulous conditions that emerged as a result of the COVID-19 pandemic in 2020, some stringent measures were taken by IOD to identify speculative behaviours of some LCBs and to truncate the Net Open

Position (NOP) limits applicable to foreign exchange operations temporarily, to facilitate smooth operations in the domestic FX market, on a case by case basis. At the same time, regulatory actions were taken in order to avoid the misbehaviour of some market participants, as appropriate.

**(d) Observations on Market Sentiments**

In the context of challenges faced by the unexpected emergence of the global COVID-19 pandemic, as the department responsible for monitoring the domestic FX market activities, IOD provided its views, observations and recommendations for various proposals, regulations, amendments and policy matters submitted by other departments of the Central Bank and external organisations throughout 2020, regarding the possible implications of such proposals on the exchange rate movements.

**(e) Affiliation with Market Participants**

IOD conducted a series of meetings with Ceylon Petroleum Corporation (CPC), in order to facilitate FX purchases by CPC and different options for oil procurement.

**(f) Initiatives to attract FX Flows**

With the emergence of the COVID-19 pandemic and also due to the consecutive sovereign rating downgrades by the global rating agencies, foreign exchange inflows to the country were declined. Therefore, in order to address the FX liquidity shortage in the market, IOD introduced to offer medium to long term USD/LKR zero cost Buy-Sell Currency Swaps to Licensed Banks as a hedging instrument to encourage foreign investors to bring foreign exchange into the country. At the same time, IOD supported in implementing the new scheme introduced under the Government's Budget 2021 to pay extra Rs.2.00 for each US dollar converted from workers' remittances in order to attract more workers' remittances.

**(g) Supporting the Capital Market Development Project (CMDP) of the Central Bank**

In order to develop the domestic FX market and to improve the market monitoring activities of the Central Bank, IOD continued to provide contributions and inputs to the CMDP.

## 18. LEGAL AND COMPLIANCE

Legal and Compliance Department (LCD) was established with a view to safeguarding the interests of the Central Bank and ensuring compliance with all laws and procedures in the discharge of duties entrusted to it. LCD is charged with the duty to develop new laws and to review and propose suitable amendments to the existing laws administered by it, with a view to enhancing the regulatory and supervisory sphere of the Central Bank, transparency and accountability standards thereof, within an effective compliance framework.

Amidst many challenges faced by the Central Bank during 2020 due to the COVID-19 pandemic which caused several setbacks in the overall economy, requiring a large number of regulatory measures to be taken to arrest the situation, LCD extended the required assistance by developing the legal and regulatory framework of the Central Bank to suit the situation.

LCD contributed in introducing law reforms to major pieces of legislation administered by the Central Bank, namely the Banking Act No. 30 of 1988 and the Finance Business Act No. 42 of 2011, with the objective of strengthening and enhancing the regulatory and supervisory powers vested therein. Accordingly, the new Banking Act would provide for a stronger legal foundation for regulation and supervision of systemically important banks, an effective resolution regime for licensed banks and enhanced governance requirements. Amendments to the Finance Business Act No. 42 of 2011 are aimed at enhancing regulatory and supervisory powers on non-bank financial institutions. In addition to that, LCD engaged in drafting amendments to the Registered Stock and Securities Ordinance No. 7 of 1937 and the Finance Leasing Act No.56 of 2000.

With a view to augmenting the country's capital market infrastructure to an internationally competitive level, which will in turn re-designate Sri Lanka's position as an investor-friendly country, multiple initiatives were taken by the Central Bank under the Capital Market Development Project. This project has *inter alia* aimed at introducing new laws on Netting and Clearing and insolvency, the establishment of a central counterparty and an electronic trading platform for securities trading, a larger portion of which requires serious changes to be made to the existing legal framework applicable for the capital market. LCD engaged in this project throughout the year.

LCD played a major role in the preparation of subordinate pieces of legislation to be introduced under the statutes administered by the Central Bank. Accordingly, LCD drafted such instruments as well as amendments to such instruments in respect of the areas covered by the Local Treasury Bills Ordinance No. 8 of 1923, Registered Stock and Securities Ordinance No. 7 of 1937, Finance Leasing Act No.56 of 2000, Finance Business Act No. 42 of 2011 and the Banking Act No. 30 of 1988. With a view to enhancing the institutional governance framework, LCD further worked on improving the Codes of Conduct applicable to employees and members of the Monetary Board. As a result of these endeavours, the employees will have the benefit of a more user friendly and comprehensive code. The Whistle Blowing Policy of the Central Bank was further reviewed and redrafted considering the views expressed by stakeholders.

During the COVID-19 pandemic situation in 2020, LCD was largely involved in numerous regulatory measures adopted by the Central Bank to revive the economy and to support affected businesses and individuals of the country. Accordingly, LCD continued drafting and advising

on administrative and contractual instruments to facilitate interaction with numerous domestic and international stakeholders.

In order to ensure the Central Bank's compliance with the provisions of the Right to Information Act No. 12 of 2016, as a public authority, a dedicated Right to Information (RTI) Unit, established within LCD, handled an increasing number of requests for information, responding to 132 requests and 9 appeals relating to the Central Bank during 2020.

LCD successfully handled litigations filed for and against the Monetary Board, the Central Bank, or its employees, in consultation with the relevant authorities. Several regulatory actions were taken on distressed non-bank financial institutions with a view to safeguarding the interest of the depositors and creditors. LCD continued initiating litigation relating to unauthorised finance companies, prohibited schemes, winding up of finance companies whose licences have been cancelled by the Monetary Board and such other issues in the financial sector under the Banking Act No. 30 of 1988, the Finance Business Act No. 42 of 2011 and other statutes, for the purpose of maintaining the resilience and confidence of the public towards the financial system.

Despite the adverse effects of the pandemic situation, 2020 was a year that exposed opportunities to take many regulatory initiatives focusing on novel concepts in central banking, new technology and expanding the regulatory sphere in the virtual environment. Accordingly, LCD represented several internal and external committees and task forces *inter alia*, to identify the irregularities and illegalities of the finance leasing business industry, to procure new operating system for reserve management, to introduce distributed ledger systems to financial institutions via Block-chain technology and introducing Electronic Know Your Customer (E-KYC) assessment process, to enhance the marketability of Sri Lanka Development Bonds (SLDB) via scripless forms thereof, to develop an open banking framework in Sri Lanka, and to study the virtual currency schemes in Sri Lanka.

Furthermore, with a view to minimising the legal, compliance and operational risks in the Central Bank activities involving internal and external parties, LCD was actively involved in providing legal opinions, observations on various legal instruments and issues, ensuring that all actions and decisions are taken by the Central Bank considering the procedural propriety, transparency and accountability, as a public body.

In order to strengthen the compliance framework, the Central Bank joined the SWIFT KYC Registry in 2020, which is a global database designed to facilitate anti-money laundering legal and regulatory requirements of its members. LCD was involved in submitting compliance related information of the Central Bank to this Registry with a view to initiating compliance assessments of its foreign counterparties via this database.

Moreover, in order to enhance public awareness on certain issues, such as prohibited schemes, unauthorised finance business, and evolving issues in the finance and leasing sector, LCD contributed resource persons to educate the general public of such concerns and to avoid them from unduly entangling themselves in such illegal activities.

## 19. MACROPRUDENTIAL SURVEILLANCE

Macroprudential Surveillance Department (MSD) conducts a wide range of analyses, some of which complement microprudential supervision, to assess the build up of systemic risks within the financial system of the country with a view of facilitating the Central Bank to achieve one of the two statutory objectives of maintaining financial system stability. 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 surveillance outcome of the department facilitates the policy formulation process of the Central Bank to mitigate systemic risks. A summary of the main activities undertaken by MSD during 2020 is given below.

### (a) Macroprudential Surveillance

Macroprudential surveillance is conducted to identify build up of systemic risks in the financial sector and to assess the resilience of the financial system to such risks. The surveillance framework analyses risks emanating from global and domestic macroeconomic developments, financial market activities and the financial institutions sector using the data reported by regulated financial institutions and data collected by MSD from other sources. In addition, assessment of household and non-household sector debt dynamics and corporate sector risk profiles assist to evaluate the impact of macro level developments on financial system stability. 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, the banking sector and licensed finance companies sector top-down macro stress testing continued during the year 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. Several board papers were submitted by the department to the Monetary Board with risk assessments highlighting possible threats to the stability of the financial system, and other contemporary concerns over financial system stability during 2020.

While macroeconomic and financial developments affect corporate sector performance and balance sheets, cohesive behaviour of corporates or the behaviour of



systemically important corporates could in turn influence the macroeconomy and the financial system. Therefore, with a view of addressing the need for a comprehensive assessment on the risks emanating from the corporate sector to financial system stability, MSD introduced scenario stress testing to corporate sector risk profiles. MSD also developed an interconnectedness analysis which evaluates the contagion risks of the banking sector. The Financial Stress Index, a new stability indicator, was constructed by MSD 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 expanded the scope of stress testing further by initiating a liquidity stress testing framework in the banking sector and the licensed finance companies sector during the year 2020 and intends to introduce a dynamic stress testing framework in 2021.

The Central Bank obtained Technical Assistance (TA) from the International Monetary Fund (IMF) to expand the breadth and depth of the macroprudential surveillance framework in Sri Lanka. The TA project financed by the Financial Sector Stability Fund (FSSF) commenced in August 2020 to promote a dynamic and resilient financial sector for sustainable growth by enhancing the systemic risk monitoring mechanism. Under this TA program, it is envisaged that improvements would be made to data collection and analysis, the depth of the stress testing functionality via International Financial Reporting Standards (IFRS) based dynamic stress tests, improving risk surveillance by enhancing the forward-looking element, the calibration of policy instruments, and improving the governance structure of macroprudential policy making. Accordingly, the first batch of data collection on interconnectedness and stress testing related to credit risk was initiated by MSD by developing structured templates and reporting guidelines with the support of the TA received from the IMF to collect the required granular data and issuing the same to licensed banks in December 2020. Further, MSD intends to conduct its second batch of data collection on market risk, interest rate risk, profitability and risk weighted assets modules in its stress testing toolkit in 2021.

## (b) Surveys and Data Collection

**Systemic Risk Survey (SRS):** MSD continued to conduct the SRS on a biannual basis since 2017. SRS is a forward-looking survey which quantifies and tracks market participants' perceptions on the potential risks to financial system stability signalling any build up of systemic vulnerabilities. The SRS covers perceptions of risk officers of financial institutions, such as licensed banks, licensed finance companies, specialised

leasing companies, insurance companies, unit trusts managing companies, stock brokering companies and rating agencies. Materialisation of these risks could potentially disrupt the financial intermediation process, including the orderly functioning of the financial institutions, financial markets and the payments system, while affecting public confidence in financial system stability as well. The survey results provide early warning signals to foresee systemic risks to the financial system and facilitates the prioritisation of actions to be taken to mitigate emerging risks and the 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):**

The HHCS was initiated with the purpose of enhancing household sector surveillance. MSD initiated the tender procedure to outsource the data collection of survey to a third party to expand the coverage of the HHCS and identify risks and vulnerabilities emanating from the household sector and its implications on financial system stability. However, due to the COVID-19 pandemic, the survey had to be postponed to 2021.

**Data Collection:** With the view of enriching the database, MSD continued to gather granular level data from several external parties. The department continued to collect data regularly from external institutions, such as the Colombo Stock Exchange, Insurance Regulatory Commission of Sri Lanka, Securities and Exchange Commission of Sri Lanka, Department of Co-operative Development, Department of Labour, Department of Pensions, Employees' Trust Fund Board, SANASA Federation, Credit Information Bureau, Sri Lanka Customs and the Unit Trust Association of Sri Lanka. Further, in 2020 MSD started to collect data directly from licensed banks for dynamic stress testing and network analysis under SLFRS 9.

## (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) 2020:**

To present an independent evaluation of risks and vulnerabilities faced by the Sri Lankan financial sector and to present risk mitigation measures adopted, MSD continued to publish the FSSR annually. The FSSR 2020 consisted of five chapters namely, Macro financial Conditions; Financial Markets; Financial Institutions; Household Sector and 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 in relation to the financial sector in 2020, and three informative box articles on the Financial Stress Index for Sri Lanka, Systemic Risk Survey 2020 and Strengthening the Macroprudential Framework of Sri Lanka.

**Other Publications:** In view of providing a comprehensive analysis on the 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, MSD continued to contribute to the key publications of the Central Bank. Accordingly, MSD coordinated and compiled the chapters on “Financial Sector Developments and Stability” of the Central Bank Annual Report 2019 and the “Recent Economic Developments 2020”, both published by the Central Bank. Further, in terms of the September 15th Report, which is submitted to the Minister in charge of Finance, MSD contributed to the chapter on Financial Sector Developments. In addition, MSD also contributed to other publications of the Central Bank by way of compiling financial sector data and providing analyses on subsectors of the financial system.

**(d) Coordination of the Committees on Financial System Stability**

**Financial System Stability Committee (FSSC):** The FSSC, which is an interdepartmental forum in the Central Bank, 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. MSD serves as the secretariat for the FSSC. Seven FSSC meetings, including two mini FSSC meetings for specific matters, were held during 2020. 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):** MSD provides secretarial services to the FSSCC. The FSSCC is expected to provide policy suggestions to the Central Bank for maintaining financial system stability. It consists of personnel from key institutions of the Sri Lankan financial system. These personnel are appointed by the Governor and the current FSSCC comprises eight members. Six FSSCC meetings were held during the year.

**(e) Coordination with International Agencies**

MSD, as the coordinating department of the Financial System Stability cluster, engaged with the IMF in responding to the Macroprudential Survey. At the same time, MSD coordinated with the IMF in seeking technical assistance for other departments within the financial system stability cluster. Further, as a member of the steering committee on implementing the Sustainable Finance Road Map, MSD coordinated the initiatives on developing the Sustainable Finance Taxonomy with the

International Finance Corporation (IFC), World Bank Sustainable Banking Network, and the United Nations Development Programme (UNDP).

## 20. PAYMENTS AND SETTLEMENTS

Payments and Settlements Department (PSD) discharged the responsibilities entrusted to the Central Bank under Section 62A of the Monetary Law Act, No. 58 of 1949 (MLA), which provides authority for the Central Bank to establish and operate systems for transfer of funds, settle payment obligations, and issue system rules to participating institutions. In addition, 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, is also carried out through PSD.

During the year 2020, despite the COVID-19 pandemic situation in the country, continuous operations of the department were carried out to ensure the provision of payment and settlement facilities to the general public while facilitating timely settlement of transactions to ensure maintenance of the financial system stability. Main functions carried out by PSD are operations of the Real Time Gross Settlement System (RTGS), providing back-office service for financial transactions, management of the Society for Worldwide Interbank Financial Telecommunications (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 2020 is given below.

### 20.1 Operations of the Real Time Gross Settlement System

- (a) PSD continued to operate the RTGS system, which settles time-critical large value inter-participant payments as well as customer payments on a real time gross basis and to ensure smooth functioning of the RTGS System, PSD facilitated and monitored the provisioning of the Intraday Liquidity Facility (ILF) to the Participating Institutions (PIs). 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 2020, the number of PIs of the RTGS System was 34. In 2020, Axis Bank Limited and ICICI Bank Limited ceased business operations in Sri Lanka and discontinued participation in the LankaSettle System. The operator charge levied by the Central Bank on PIs was reduced from Rs. 450 to Rs. 200 and the maximum fee of Rs. 1,000 per transaction, charged by PIs from customers for effecting fund transfers through the LankaSettle system was reduced

to Rs. 400 with effect from October 2020. During the year, the RTGS System settled 397,206 transactions of a total value of Rs. 150,051 billion. The average volume and value of RTGS transactions settled per day were 1,655 and Rs. 625 billion, respectively. With regard to ILF operations, on average, Rs. 66 billion per day was released to Pls. Adhering to international best practices, the LankaSettle System availability was maintained at a high level of 99.68 per cent during 2020.

## 20.2 Providing Back-office service for financial transactions of the Central Bank

### (a) Back-office service for Foreign Exchange Transactions

During 2020, back-office services provided to facilitate international reserve management of the Central Bank covered the following:

- (i) Settled 11,033 transactions relating to foreign exchange trading and funding, money market, fixed income securities, gold trading, ACU and Repo/ Reverse Repo amounting to US Dollars 218.99 billion.
- (ii) Involved in the implementation of the new Reserves 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 the year, PSD effected and facilitated 191 Repo transactions amounting to Rs. 335.8 billion, 6,510 Standing Deposit Facility transactions amounting to Rs. 32,649.9 billion, 1,553 reverse repo transactions amounting to Rs. 1,399 billion, and 70 Outright Purchase transactions amounting to Rs. 23 billion.

## 20.3 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 Network 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 has obtained the connectivity to SWIFT-Net, via Lanka Financial Services Bureau Ltd.

The SWIFT System in the Central Bank was upgraded to version 7.5.20 during 2020 and continued with quarterly security updates in 2020. The new mandatory update was carried out to provide a highly secure and more efficient

service for SWIFT users. Further, 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 of PSD throughout the year. Further, the SWIFT System ensured 100 per cent of its global and domestic operations uninterrupted during 2020.

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

PSD continued to facilitate settlement of eligible trade and trade related transactions among member central banks of the ACU on a multilateral net basis during the year 2020.

The total number of transactions effected through the ACU mechanism was 5,637 with a value of total transactions was Rs. 478.2 billion. The value of net settlement made under the ACU mechanism was Rs. 364.6 billion.

## 20.5 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 the safety and efficiency of electronic payment systems. Accordingly, the following major activities were carried out by PSD during 2020:

- (a) Established the FinTech Regulatory Sandbox in February 2020 with the objective of providing a safe space in a controlled environment for innovators to test their products and services without infringing on regulatory requirements. During the year 2020, PSD received six applications submitted by interested parties for the Regulatory Sandbox.
- (b) The Working Committee for Blockchain Technology (WCBT) called for applications to develop a Shared Know-Your-Customer (KYC) Blockchain Proof of Concept (POC). During the year 2020, applications were evaluated and selected applicants completed the development of POCs, and LCBs interested in joining the testing of POC were assigned to each developer.
- (c) Mandated LCBs incorporated in Sri Lanka and operators of mobile phone based e-money systems joining "LANKAQR" as issuers and acquirers in order to promote the implementation of "LANKAQR" for retail payments. In addition, PSD launched the island-wide promotional campaign to popularise the usage of "LANKAQR". The first promotional programme was held in Matale in September 2020, while another programme was held in Colombo in October 2020.
- (d) In order to promote usage of digital payment mechanisms by the general public, the year 2020 was designated as the year of digital transactions and many promotional

activities were carried out throughout the year. In March 2020, PSD launched the digital campaign with the concept of “Cash Wade”. In addition, advertisements were published in electronic media and posters, banners and other materials were distributed to all stakeholders to educate their staff and customers on the usage of digital payment mechanisms.

- (e) Introduced a reduced fee structure for cash withdrawals carried out using payment cards issued under the National Card Scheme through the Common ATM Switch (CAS). Accordingly, General Direction No. 1 of 2020 on fees chargeable on the transactions effected through the Common ATM Switch was issued to specify maximum fees that can be charged for ATM transactions carried out using payment cards issued under the National Card Scheme.
- (f) JustPay, a Mobile Application based payment solution for low value payments in which the transactions are cleared through the Common Electronic Fund Transfer Switch (CEFTS), operated by LankaClear (Pvt) Ltd. (LCPL), facilitated payments up to Rs. 10,000. In April 2020, the maximum per transaction value of JustPay was increased to Rs. 25,000.
- (g) Granted approval to several Government and private institutions to join the LankaPay Online Payment Platform (LPOPP) which facilitates online real time payments. In June 2020, the maximum per transaction value limit of LPOPP was set at Rs. 250 million for other institutions except for Sri Lanka Customs and the Inland Revenue Department.
- (h) Liability Manager (LM) limits in CAS and CEFTS were reviewed considering the increased transaction volumes and revised the LM limits in CEFTS and the categorisation of primary members for the purpose of imposing LM limits. Accordingly, Payment and Settlement Systems Circular No. 19 of 2020 was issued to communicate the revised LM limits.
- (i) Evaluated applications submitted by financial institutions and issued licences to two financial institutions enabling them 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 financial institution, 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.
- (j) Several actions were taken during the COVID-19 pandemic to facilitate payment needs of the country. Temporary maximum transaction value limit enhancements were granted to mobile phone based e-money systems during this period. Approval was granted to open wallet or wallet facilitation accounts by conducting KYC verification

digitally subject to physical verification of KYC details within the approved time period. In addition, temporary approval was granted for cash delivery products to be operated at the request of customers.

- (k) Conducted on-site supervision on 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.
- (l) Evaluated the Business Continuity Plans of the LankaSettle participants and LCPL, in order to ensure their ability to continue business operations in a contingency situation.

## 20.6 National Payment Council

The National Payment Council (NPC), which is the industry consultative and monitoring committee on payment systems, monitored the progress of implementing the Road Map for 2020-2022 and the progress of committees appointed to focus on new technologies and concepts, such as digital payment platform, open application programming interface, open banking and promoting digitalisation of payments to enhance financial inclusion. A policy decision was taken to minimise customer charges to reduce the cost of transactions and accordingly, maximum per transaction fees that can be charged from customers for effecting transactions through several payment mechanisms were reduced.

Further, as per a decision taken by the NPC, the Central Bank designated the year 2020 as the year of digital transactions with the objectives of popularising digital payment schemes, educating the general public on digital payments, building a society that uses less cash, and uplifting the economy. Accordingly, PSD conducted several programmes to increase awareness and to promote the use of digital payment modes to effect payments throughout the year 2020.

## 20.7 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. Further, several press releases were issued to enhance customer awareness on new technologies, payment mechanisms and related issues.

## 21. POLICY REVIEW AND MONITORING

Policy Review and Monitoring Department (PRMD) facilitates the strategic planning process of the Central Bank, aligning departmental functions towards achieving its core objectives. Accordingly, PRMD facilitates the formulation of strategic priorities for the Central Bank and Departmental Action Plans for the forthcoming year, and reviews the progress made in implementing such plans. In this regard,

PRMD conducts the annual Strategic Planning Retreat (SPR), meetings with Task Forces under each strategic priority and periodic reviews on Departmental Action Plans with each department.

An independent assessment on the progress made in achieving the strategic priorities and the planned activities is reported to the Corporate Management Committee (CMC) for its review and subsequently to the Monetary Board for required guidance. PRMD also compiles the Strategic and Action Plan of the Central Bank and publishes the same for the information of the Central Bank staff.

### 21.1 Action Plan 2020 and Strategic Priorities 2018 - 2021

Action Plan 2020 of the Central Bank, which included annual targets for 2020 with respect to Bank-wide strategic priorities and key operations/functions of the departments for the year, was launched at the New Year Work Commencement Ceremony held on 01 January 2020. In view of enhancing the effectiveness and successful implementation of Departmental Action Plans 2020, awareness sessions were conducted at departmental level within the first week of the year for the entire staff of the Central Bank.

There were seven Bank-wide strategic priorities identified to be implemented during 2018-2021, as follows:

- (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 for payments and settlements systems: paving the path towards a less-cash society
- (iv) Improving prudent debt management endeavoring debt sustainability
- (v) Formulation and implementation of a comprehensive HR strategy
- (vi) Implementing an Enterprise-wide Risk Management (ERM) Framework and strengthening compliance
- (vii) Introduction of an International Transactions Reporting System (ITRS)

### 21.2 Progress Monitoring and Review

In order to assess the progress of implementation of the Bank-wide strategic priorities, the Task Force meetings, chaired by Senior Deputy Governor/respective Deputy Governor for each strategic priority, were conducted with the participation of the Assistant Governor (AG) in-charge of the respective departments and the representatives of lead and other responsible departments. The Task Force deliberated on the issues encountered and pending actions and recommended the way forward, identifying the parties responsible and planned timelines for the completion of required actions under each strategic priority.

PRMD conducted Quarterly Review meetings to assess the progress of implementation of Departmental Action Plans with the participation of the AG in-charge of the respective department and the AG in-charge of PRMD. Progress in the Departmental Action Plans was discussed in terms of the level of achievement made in the Key Performance Indicators (KPIs) as per the planned timeline.

The outcome of the periodic reviews along with observations of PRMD was reported to the CMC and to the Monetary Board.

### 21.3 Introduction of a Categorisation Method for Key Performance Indicators

In streamlining the Departmental Action Plan preparation and progress update, a new categorisation for KPIs was introduced by PRMD to the progress review process during 2020. Accordingly, KPIs included in each Departmental Action Plan 2020 were grouped under the categories 'Strategic', 'Mission critical', 'Process improvement', 'Critical operations & functions', and 'Other'. This categorisation helps for clear identification of the activities and functions of the Central Bank required to be performed to achieve its core objectives, and could be used for effective allocation of resources and monitoring progress.

### 21.4 Facilitation of Achievement of Sustainable Development Goals Applicable to the Central Bank

PRMD took measures to facilitate the introduction and prioritisation of activities related to achieving Sustainable Development Goals (SDGs), which are applicable to the Central Bank, in the Departmental Action Plans 2021. SDGs adopted by United Nations member countries cover areas, such as economic growth, improving health and education, reduction of poverty and inequality, and preservation of the environment. The National SDG Portal will be updated with the data relevant to the Central Bank and the progress made in achieving the planned SDGs.

## 22. PUBLIC DEBT

Public Debt Department (PDD) is accountable for discharging statutory responsibilities of the Central Bank, as the agent of the Government for the management of public debt in terms of Section 113 of the Monetary Law Act (MLA) No. 58 of 1949. In order to ensure these responsibilities, PDD was established on 28 August 1950, at the inception of the Central Bank. The strategic priority of PDD is to improve prudent debt management endeavouring debt sustainability.

Accordingly, the key objectives of the PDD include, but are not limited to;

- i. formulation, implementation and advice of a sound debt management strategy to improve the debt profile of the government;

- ii. ensuring that the Government's financing needs are met at the lowest possible cost at a prudent level of risk; and
- iii. developing the government securities market, deepening and broadening the secondary market for government securities, thereby enhancing the effectiveness of primary auction participation for government securities while adhering to the best standards of practices in transparency of the government securities market.

In achieving these objectives, the principal functions of PDD include;

- i. raising funds in line with the gross borrowing requirement of the Government as per the Appropriation Act or other relevant legislation/authorisations from issuance of debt securities both domestically and in the international capital market;
- ii. accessing the international capital market through issuances of securities based on conducive market conditions and in concurrence with the Ministry of Finance (MOF). However, in 2020, Sri Lanka did not access the international capital market to issue International Sovereign Bonds (ISBs) as the market conditions remained hostile.
- iii. maintaining the unblemished debt service payment record of the Government by servicing debt accurately and on time;
- iv. maintaining the LankaSecure system in order to facilitate smooth functioning of the settlement of market transactions in government securities;
- v. maintaining the title registry of government securities in the Central Depository System (CDS); and
- vi. undertaking analytics on debt dynamics for risk management of the central Government debt portfolio.

## 22.1 Raising of Funds to Meet the Government's Gross Borrowing Requirement as Specified in the Appropriation Act or other Relevant Legislation/ Authorisations

- (a) Issuances of Treasury bills (T-bills), Treasury bonds (T-bonds) and Sri Lanka Development Bonds (SLDBs) were the main debt instruments used for financing the Government's gross borrowing requirement in 2020.

- (b) An abridged table of activities under each of the sources of funds is given below.
- (c) Issuance dynamics in line with resource availability and a conducive policy environment enabled a cost saving of Rs. 283.1 billion through issuances of T-bills and T-bonds spread across the duration of issuances in 2020 compared to the average cost of issuances in 2019.

## 22.2 Servicing of Government Debt

Domestic currency debt service payments of Rs. 2,687.15 billion, which includes maturity payments of T-bills and foreign currency debt service payments of Rs. 1,102.03 billion, totalling Rs. 3,789.16 billion were facilitated during the year 2020 in a timely and effective manner.

The number of International Securities Identification Numbers (ISINs) serviced in domestic currency amounted to 215 for coupon and maturity payments, whereas the number of foreign loans serviced in 2020 amounted to 1894.

## 22.3 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 31 Dealer Direct Participants (24 licensed commercial banks and 7 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 of Sri Lanka 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 2020 amounted to Rs. 7,340.9 billion. This consisted of Rs. 1,621.4 billion in T-bills and Rs. 5,719.5 billion in T-bonds.

## 22.4 Maintenance of the Registry in Government Securities

Facility for real-time updates in the Title Registry of government securities in the Central Depository System (CDS), which is maintained at PDD, has ensured safekeeping

**Table II-29**  
**Instruments and Auction Performance**  
**2019 and 2020**

Instrument	2019				2020			
	Issuances Rs. billion	WAYR (%)	ATM (Years)	No. of Auctions	Issuances Rs. billion	WAYR (%)	ATM (Years)	No. of Auctions
Treasury bills	1,719.3	8.92	0.57	52	2,590.5	5.82	0.60	52
Treasury bonds	798.0	10.74	8.37	12	1,332.1	7.39	5.27	15
	Issuances USD million	WAYR (%) (a)	ATM (Years)	No. of Auctions	Issuances USD million	WAYR (%) (a)	ATM (Years)	No. of Auctions
Sri Lanka Development Bonds	345.2	5.87 [3.50]	2.33	2	507.0	6.43 [4.22]	1.70	7
International Sovereign Bonds	4,400.0	7.35	8.56	2	-	-	-	-

WAYR : Weighted Average Yield Rate/ Cost; ATM: Average Time to Maturity

(a) Values in [ ] indicate the WAYR of Spreads for Floating Rate SLDBs

of government securities. As at end December 2020, there were 94,242 registered CDS account holders.

Periodic statements to CDS account holders on their holdings, transactions and payments were sent continuously throughout the year. PDD sent 1,278 statements in electronic form, and 12,755 semi-annual statements of holdings, 32,713 monthly statements of transactions and 14,109 payment statements by post to CDS account holders during 2020.

The real-time notification facility of LankaSecure, which was introduced in 2019, delivers a real-time notification 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 and/or e-mail alert to the customers registered and opted for the facility in the CDS. During the year 2020, LankaSecure sent 129,941 e-mails and 40,063 SMS alerts as real-time notifications. This facility was introduced to further enhance the safety and security features of customer securities accounts and to keep beneficiary accounts holders aware of securities movements in their accounts.

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.

## 22.5 Debt Management Initiatives and Market Developments

In order to enhance the efficiency, effectiveness and transparency with the purpose of developing the government securities market, the following initiatives were undertaken during the year 2020.

### (a) Prudent Debt Management Strategy

The strategic and prudent debt management initiatives by the Central Bank in tandem with the MOF resulted in an improvement in foreign currency Average Time to Maturity (ATM), while significantly lowering the foreign currency debt exposure during 2020 despite the challenging circumstances. The debt maturing within one year increased marginally, having to rely more on T-bills during the pandemic period to facilitate the increased cashflow requirement of the Government to ensure smooth functioning of the critical government services during the pandemic.

In executing its responsibilities as the agent of the Government for managing public debt, PDD took necessary actions to keep the relevant Government and policy authorities informed about the mounting challenges in meeting debt service payments, particularly the foreign currency debt service payments in the medium term, given the unfavourable international capital market access conditions in the midst of the COVID-19 pandemic, less liquidity for securities issued by developing market economies, rating downgrades and elevated secondary market yield levels of Government of Sri Lanka International Sovereign Bonds (ISBs).

### (b) Inclusion of Settlement Value, Price and Interest Rate of Secondary Market Transactions in Government Securities

To enhance the transparency in conducting government securities transactions in the secondary market, settlement value, price and interest rate of each and every Securities transaction is captured in the LankaSecure System, with effect from 01 January 2020.

### (c) 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 four months during 2020, where advanced T-bond and T-bill auction calendars covering the period from January to April and September to December 2020 were published with the concurrence of the MOF in view of further enhancing the predictability and transparency of the primary auction process of government securities.<sup>1</sup>

### (d) Publication of Maximum Yield Rate of Acceptance at the T-bills and T-bond auctions

PDD with the concurrence of the Monetary Board, as per the policy direction of the Government and having obtained the approval of the MOF, introduced the maximum yield rate for acceptance for all maturities offered at T-bill and T-bond auctions since 06 May 2020. This initiative was introduced as part of the Government's policy to maintain a low interest rate environment to stimulate the economic growth and to minimise the Government's borrowing cost during the pandemic period.

### (e) Capital Market Infrastructure Development Project

The Central Bank contracted to obtain consultancy services for the Capital Market Infrastructure Development Project from BTA Consulting Limited of United Kingdom in August 2020. The selected consultant would guide through the proposed implementation of a state-of-the-art Electronic Trading Platform (ETP), Central Counterparty (CCP) settlement system and an upgraded Central Securities Depository (CSD). In addition, required legal reforms are also to be identified and implemented to facilitate the smooth functioning of new systems.

## 22.6 Coordinating Sovereign Rating Review Missions

In 2020, PDD facilitated international rating agencies (Fitch Ratings, Moody's Investors Services, S & P Global Ratings) for their annual rating reviews in order to ensure availability of international sovereign ratings for Sri Lanka. Further, the rating announcements were critically reviewed in collaboration with related departments within the Central Bank and the MOF, and periodic public announcements were made.

<sup>1</sup> With the dissolution of the Parliament of Sri Lanka on 02 March 2020, the advanced T-bond and T-bill auction calendars were not issued until September 2020.



## 22.7 Way Forward

- (a) Effectively strategise access to the international capital market to finance required foreign currency resources to meet debt service obligations and to gradually reduce the relative share of external debt within the overall debt profile in the medium-term. Given the highly restrictive international capital market access for both conventional and non-conventional fund raising initiatives, an immediate priority is to manage the foreign exchange outflow, accumulating non-debt creating inflows, efforts to strengthen official credit inflows for programme and project loans and liquidity facilitation arrangements as proposed and collaborated until such time market conditions return to normalcy.
- (b) Introduce a new primary issuance system for T-bills and improve the existing T-bond issuance system to further enhance the efficiency of Government borrowings from the domestic market. Further, the introduction of an arrangement to open an issuance window for SLDBs in the event of an under allocation at an SLDB auction, and to expand the investment possibilities among prospective investors.
- (c) Further facilitation of an issuance window for T-bills and T-bonds for investments upon regular issuance cycles for smoothening future issuance cycles, is also being reviewed.
- (d) With a view of enhancing the accuracy and reliability of the data recorded in the LankaSecure system on government securities transactions, a guideline was issued to all participants of the LankaSettle System on 09 December 2020 on recording of secondary market transaction data and sending securities settlement instructions to the Scripless Securities Settlement System (SSSS) to reinforce the current transaction recording requirements and to improve transaction recording practices in the secondary market with effect from 01 January 2021.

## 23. REGIONAL DEVELOPMENT

The year 2020 was a challenging year for Regional Development Department (RDD) since it had to be proactively involved in implementing several initiatives of the Government and the Central Bank during the COVID-19 pandemic to support individuals and businesses and review economic activity while carrying out its routine operations. As a result, several unprecedented policy measures were taken to support Micro, Small and Medium Enterprises (MSMEs) including self-employed individuals of all economic sectors, to rescue them from the negative economic impact of the pandemic. In this regard, six Regional Offices of the Central Bank also played a predominant role in addition to representing the Central Bank at the regional level.

The conventional concessionary loan schemes operated by RDD were continued successfully in spite of the unforeseen circumstances which presented many uncompromising challenges. Thus, the coordination, facilitation and implementation of refinance, interest subsidy and credit guarantee schemes funded by the Government, the Central Bank, Donor Agencies and Participating Financial Institutions (PFIs) continued amidst the pandemic.

In 2020, several new loan schemes were implemented by the RDD. Three of them i.e. Phase I, Phase II and Phase III of the Saubagya COVID-19 Renaissance Facility (SCRF) solely focused on the economic recovery of the MSMEs affected by the COVID-19 pandemic. Further, RDD implemented the Supply Chain Re-Energising Loan Scheme (SCRELS) for the tea sector while introducing the operations of Smallholder Tea and Rubber Revitalisation (STaRR) Interest Subsidy Scheme and Credit Guarantee Scheme for working capital loans for Small and Medium Scale Enterprises (SMEs) with loans currently in the Non-Performing Loans (NPL) category.

Furthermore, RDD took measures to restructure the existing loan schemes. Accordingly, the credit component of the Smallholder Agribusiness Partnerships Programme (SAPP) was increased while reducing the interest rates of the New Comprehensive Rural Credit Scheme (NCRCS). In addition, the interest rate of the Saubagya Loan Scheme, the flagship loan scheme of the RDD, was reduced to support MSMEs to continue their businesses in the critical time period faced during the year 2020, while introducing home-gardening with the intention of improving access to finance for the underprivileged and vulnerable sectors of the economy.

In the year 2020, RDD used electronic media vigorously to increase public awareness on the actions taken to counter the economic impact of the COVID-19 pandemic. As a result, many MSMEs, who were affected by the pandemic, benefited and obtained credit and other concessions through the financial sector.

### 23.1 Providing Concessionary Financial Facilities

In 2020, 14 refinances, interest subsidy and credit guarantee schemes, funded by the Government, the Central Bank and Donor Agencies, were implemented by RDD. Summary information on these schemes are given in Table II - 31.

Overall, RDD supported 130,642 beneficiaries by releasing Rs. 185,055.29 million through PFIs in 2020 under 10 refinance and 4 interest subsidy and/or credit guarantee schemes. Out of total loans granted, 65.1 per cent were granted through the refinance schemes while the balance 34.9 per cent was released through interest subsidy and/or credit guarantee schemes. With respect to the funding source, the Central Bank funded 95.4 per cent of the total loan amount, reflecting the commitment of the Central Bank to overcome the negative economic impact of COVID-19. The share of loans disbursed by RDD during 2020 using

funds from the Government and donors accounted for 4.4 per cent and 0.2 per cent, respectively. However, it was observed that the significantly lower performance of the donor funded projects can be attributed to the strict social distancing measures that prevailed in the country in 2020, which prevented in-person value chain development activities.

Detailed information on the credit schemes implemented by RDD in 2020, including new developments with regard to these loan schemes, are given below.

### **23.1.1 Implementation of Government Funded Schemes**

RDD, as an agent of the Government, implemented 7 Government funded schemes consisting of 5 refinance schemes and 2 interest subsidy and credit guarantee schemes by contributing Rs. 8,190.66 million i.e., 4.4 per cent of the total loan disbursements during 2020 serving 67,110 beneficiaries.

#### **(a) Government Funded Interest Subsidy and Credit Guarantee Schemes**

During the year, “Sarushara” i.e. NCRCS, a Government funded interest subsidy scheme and a credit guarantee scheme, catered 62,439 farmers to meet their short term working capital requirements for cultivating 33 short term crop varieties. In 2020, loans worth of Rs. 7,441.45 million disbursed by the PFI under the NCRCS accounted for 90.49 per cent of the disbursements of the Government funded schemes. Of this amount, a sum of Rs. 4,990.1 million was disbursed among 40,666 farmers during the 2019/2020 Maha season while the balance Rs. 2,451.31 million was disbursed among 21,773 farmers during the 2020 Yala season. During the year, the Government provided Rs. 162.86 million worth of interest subsidy under the NCRCS. In the policy front, the interest rate to the end borrower of the NCRCS was reduced from 7.0 per cent per annum to 4.0 per cent per annum considering the un conducive economic environment in the country. Further, with the view of encouraging domestic agriculture, arrangements were made to include Home Gardening under the NCRCS with a maximum loan amount of Rs. 40,000 per borrower.

Operations of the STaRR interest subsidy scheme commenced during 2020 with the involvement of the Ministry of Plantation Industries and Export Agriculture (MPIEA). While the STaRR Project is funded by the International Fund for Agriculture Development (IFAD), the STaRR Interest Subsidy Scheme is funded by the Government. The STaRR Project is intended to support 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.

A new credit guarantee scheme, designed for granting credit guarantees for the Working Capital Loans (WCLs) for SMEs whose previous loans are currently in the NPL category, was implemented in 2020. The Central Bank, on behalf of the Government, provides a credit guarantee covering up to 75.0 per cent of the WCLs for the existing borrowers who are currently in the NPL category. PFIs are required to pay a guarantee premium of 1.0 per cent per annum for the repayment period of the WCLs from the value of the guaranteed amount of the WCLs to claim the credit guarantee under the scheme.

#### **(b) Government Funded Refinance Schemes**

In 2020, RDD implemented 5 refinance loan schemes, namely, the Poverty Alleviation Microfinance Project – Revolving Fund (PAMP-RF), Self-Employment Promotion Initiative Loan Scheme - Phase II (SEPI – Phase II), Swashakthi Loan Scheme, SCRELS, and Revolving Fund (RF) Income Generation Loan Scheme under the Government funded component of the SAPP.

Out of these schemes, SCRELS was introduced in 2020 with Rs.500 million allocated by the Tea Promotion and Marketing Fund of the Sri Lanka Tea Board (SLTB) with the primary objective of aiding Registered Tea Manufacturers (RTM) who have already been identified by the SLTB to provide working capital loans to restart their businesses. The scheme was jointly designed by the Central Bank, the Ministry of Plantation Industries and Export Agriculture (MPI&EA) and the SLTB. A maximum loan amount of Rs.3 million will be granted per RTM under this scheme for a maximum loan tenure of 2 years to revamp existing businesses, to conclude debt restructuring plans, to work out new business plans and modernisation strategies for each tea factory, and to settle the existing payment arrears to suppliers to re-energise the supply chain.

Further, with the newly introduced changes to the credit component of SAPP, the RF component of the SAPP funded by the Government was expanded to seven loan schemes (RF Agribusiness Loan Scheme, RF Youth Loan Scheme, RF Income Generation Loan Scheme, RF Promoter Loan Scheme, RF Promoter Bulk Loan Scheme, RF Financial Intermediary (FI) Bulk Loan Scheme, and RF Tea and Rubber Sector Loan Scheme) in late 2020. These new schemes will be implemented from the beginning of 2021.

### **23.1.2 Implementation of the Central Bank Funded Schemes**

In 2020, the Central Bank funded schemes played a predominant role in supporting MSMEs and individuals whose economic activities were affected during the COVID-19 pandemic by disbursing 94.0 per cent of the total loans disbursed through the loan schemes implemented by RDD.

The “Saubagya COVID-19 Renaissance Facility (SCRF)” was established by RDD, initially to operate as a separate

refinance component of the Saubagya Loan Scheme, the flagship refinance scheme funded by the Central Bank. Later, SCRF was implemented in another 2 phases. The SCRF Phase I was established in terms of Section 88 of the Monetary Law Act (MLA) No. 58 of 1949 through both Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs) as PFIs to disburse loans. The SCRF Phase I provided refinancing at a concessionary interest rate of 1.0 per cent per annum to PFIs to release loans to affected businesses at a concessionary interest rate of 4.0 per cent per annum to cover short term working capital requirements subject to a maximum of Rs. 25 million, i.e. two months' working capital of affected business to be paid in 24 months including a 6 month grace period.

The SCRF Phase II, a financing facility provided in terms of Section 83 of the MLA was implemented with the same conditions of Phase I for the affected businesses only through LCBs. For the funding arrangements, LCBs are required to pledge the collaterals with the Central Bank.

The third phase of the COVID-19 renaissance effort was implemented as a Credit Guarantee and Interest Subsidy Scheme under the provisions of Section 108 of the MLA, to encourage PFIs to lend to the affected MSMEs utilising own funds of the PFIs.

The performance of the SCRF Phase I, II and III is given below;

**Table II-30**  
**Summary of the SCRF Performance**

Name of the Scheme	Number of Beneficiaries	Amount (Rs. Million)
SCRF Phase I	13,637	24,450.1
SCRF Phase II	26,652	92,625.6
SCRF Phase III	19,565	56,841.5
<b>Total</b>	<b>59,854</b>	<b>173,917.2</b>

### 23.1.3 Implementation of Donor Funded Schemes

In 2020, RDD continued to implement the donor funded component of the Smallholder Agribusiness Partnerships Programme (SAPP) funded by IFAD, in collaboration with the Project Management Unit of SAPP. This component included Public-Private-Producer-Partnership (4P) Agribusiness and 4P Youth Loan Schemes. These schemes released Rs. 336.03 million among 1,517 beneficiaries during 2020.

The SAPP acts as an agriculture value chain financing programme mainly focusing on improving access to finance among farmers, farmer groups and youth entrepreneurs who participated in the agricultural value chains, from its inception.

Considering the importance of addressing many issues in the sectors, a major restructuring process was implemented to allow, the Promoters officially partnered with 4P arrangements of SAPP and the Community based Financial Intermediaries (FI), such as Co-operative Rural Banks registered under the Department of Co-operative

Development, Agrarian Banks (Govijana Banks) registered under the Department of Agrarian Development, Samurdhi Banks registered under the Department of Samurdhi Development and Sanasa Societies registered under the Federation of Thrift and Credit Co-operative Societies in Sri Lanka, to obtain loans under the SAPP.

The new credit component of the SAPP includes five 4P loan schemes (4P Agribusiness Loan Scheme, 4P Youth Loan Scheme, 4P Promoter Loan Scheme, 4P Promoter Bulk Loan Scheme and 4P Financial Intermediary Bulk Loan Scheme) instead of the previous five 4P loan schemes operated under the SAPP.

### 23.2. Amalgamating Operations of the Regional Offices (ROO) of the Central Bank

The Central Bank has established Regional Offices from time to time from 1981 to address issues in the lagging regions and to provide certain services of the Central Bank to the community in remote areas. At present, there are six Regional offices operating in Matara, Anuradhapura, Matale, Kilinochchi, Trincomalee and Nuwaraeliya. With a view to strengthening the activities of Regional Offices in line with the financial inclusion objectives of the Central Bank, Regional Offices were amalgamated with RDD in July 2020.

#### 23.2.1 Webinars as a Knowledge Dissemination Tool

In spite of the difficulties created by the COVID-19 pandemic, RDD and the Regional Offices conducted awareness programmes on formal and affordable financial services, financial literacy, entrepreneurship and skill development for the benefit of entrepreneurs, government officials, students and general public island-wide. Since COVID-19 pandemic related health guidelines restricted in-person gatherings, Regional Offices that are operated under RDD commenced conducting webinars instead of in-person programmes to continue financial literacy dissemination. Accordingly, nearly 115,000 participants benefited from the online programmes in 2020.

#### 23.2.2 Regional Level Representation

Regional Offices facilitated conducting various programmes coordinated by other departments in the respective regions while helping needy pockets in the remote and lagging regions by conducting awareness sessions, credit camps, trade fairs, etc. Apart from the above, Regional Offices directly handled more than 64,000 Employees' Provident Fund related queries and activities during the year.

### 23.3 Other Initiatives of RDD

#### 23.3.1 The National Financial Inclusion Strategy (NFIS) in Sri Lanka

In 2020, all the resources of RDD were mainly allocated to support the economic recovery efforts in line with government directions. This skewed resource allocation, coupled with the negative social environment that prevailed in the country, hindered most of the planned activities of the NFIS during

**Table II-31**  
**Lending Programmes Implemented by the Regional Development Department in 2020**

Information on the Lending Programme/Concessionary Credit Scheme						Amounts in Rs. mn
Source of Funds	Name	Objective	Refinance/Interest Subsidy	Funds Disbursed in 2020	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 organizing low income groups to link them with formal banking system.	Refinance	Rs. 133.78 million	12%	
	“Swashakthi” Loan Scheme	Generate employment opportunities, for both new entrants and existing entrepreneurs engaged in income generating activities MSME Sectors.	Refinance	Rs. 300.49 million	5.5%	
	Self-Employment Promotion Initiative Loan Scheme (SEPI) Phase II	To provide financial assistance to youth trained by recognized vocational training institutions for establishment of their own self-employment projects.	Refinance	Rs. 81.04 million	7%	
	SAPP – RF Income Generation Loan Scheme	Contribute to Sri Lanka’s smallholders’ poverty reduction, increase competitiveness while enhancing the quality of diet of smallholders involved in commercially oriented production & marketing systems	Refinance	Rs. 3.55 million	6.5%	
	Supply Chain Re-Energizing Loan Scheme (SCRELS)	To reenergize the Tea supply chain by supporting existing tea manufactures to revamp their businesses.	Refinance	Rs. 141 million	3.5%	
	“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 including home gardening.	Interest Subsidy & Credit Guarantee	Rs. 7,441.45 million	4%	PFI's own funds and Interest Subsidy by GOSL
	Smallholder Tea and Rubber Revitalization (STaRR) Interest Subsidy Scheme	To provide concessionary financial facilities for the smallholder farmers involved in STaRR Project, who experience delays in income generation from replanted and new planted tea and rubber plantations, by supporting them to establish a self-employment or a short-term income generating activity until such time the income is generated from their replanted or new planted plantations.	Interest Subsidy	Rs. 89.35 million	7%	PFI's own funds and Interest Subsidy by GOSL
CBSL Funded	Credit Guarantee Scheme for Working Capital Loans (CGWCL)	To provide access to finance for the SMEs whose previous loans are in the Non-Performing Loan (NPL) Category.	Credit Guarantee Scheme	Rs. 294.25 million	2%	Loans provided by the PFIs using their own funds
	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. 2,317.18 million	6%	
	Saubagya COVID-19 Renaissance Facility (SCRF) Phase I	To support the economic recovery efforts of the businesses and individuals negatively affected by the COVID-19 pandemic	Refinance	Rs. 24,450.10 million	4%	
	SCRF Phase II		Refinance	Rs. 92,625.60 million	4%	
	SCRF Phase III		Interest Subsidy & Credit Guarantee	Rs. 56,841.50 million	4%	PFI's own funds and Interest Subsidy by the Central Bank
Donor Funded	SAPP – 4P Agribusiness Loan Scheme	Contribute to Sri Lanka’s smallholders’ poverty reduction, increase competitiveness while enhancing the quality of diet of smallholders involved in commercially oriented production & marketing systems.	Refinance	Rs. 184.56 million	6.5%	Funded by the International Fund for Agriculture Development (IFAD)
	SAPP – 4P Youth Loan Scheme		Refinance	Rs. 151.47 million	6.5%	

2020. Thus, the national launch of the NFIS and the Financial Literacy Survey for Sri Lanka planned to be completed in 2020 were postponed to the first quarter of 2021.

Nonetheless, with the approval of the Cabinet of Ministers in March 2020 for the implementation of the proposed actions of the NFIS, a national-level coordination mechanism was established by conducting the first ever management committee meeting of the NFIS in late 2020 and the National Financial Inclusion Council meeting in January 2021. Further, arrangements are being made to establish

the NFIS Secretariat which is expected to coordinate the financial inclusion efforts in the country.

### 23.3.2 CBSL-AFI Virtual Member Training on Implementation and Monitoring of the NFIS

Since it was impossible to conduct in-person international training programmes due to the pandemic, RDD, jointly with the Alliance for Financial Inclusion (AFI), conducted the “CBSL-AFI Virtual Member Training on Implementation and Monitoring of National Financial Inclusion Strategy” from 6th to 8th July 2020.

## 23.4 Financial Literacy

During the first quarter of 2020, RDD and Regional Offices of the Central Bank conducted awareness programmes and workshops to promote financial literacy and financial inclusiveness, targeting those who have been excluded from the formal financial sector. However, the situation that prevailed in the country hindered the conducting of the awareness programmes during the second half of the year. 356 programmes on financial literacy, entrepreneurship development and skill development and MSME issues were conducted during 2020 of which 168 programmes were directly conducted by the Regional Offices of the Central Bank. Further, RDD conducted 17 other programmes including 3 Training of Trainers (TOT) programmes in 2020 (Table II - 32).

**Table II-32**  
**Awareness and Special Programmes Conducted during 2020**

Type of Programme	No. of Programmes
Financial Literacy, Entrepreneurship and Skill Development	356
TOT Programmes	03
Radio Programmes	03
Newspaper Articles	01
Special Projects Programmes	10
<b>Total</b>	<b>373</b>

## 24. RESOLUTION AND ENFORCEMENT

Resolution and Enforcement Department (RED) was established on 01 January 2018 by amalgamating the Enforcement Unit and the Deposit Insurance Unit, which operated within Legal and Compliance Department (LCD) and Bank Supervision Department (BSD), respectively.

The key objectives of RED are resolving distressed financial institutions, conducting special investigations against officials of institutions who have acted in contravention of the provisions of relevant regulations and laws of the Banking Act No. 30 of 1988 (BA) and the Finance Business Act No. 42 of 2011, including prohibited schemes. RED consists of five (05) divisions, namely, Resolution, Enforcement and Prosecution, Special Investigations, Deposit Insurance and Administration, to perform the following core functions assigned to the department.

### 24.1. Resolution of Distressed Financial Institutions

RED 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 initially develop a comprehensive resolution framework to include resolution mechanisms on Licensed Banks and Licensed Finance Companies within the

existing regulatory framework with clearly defined resolution powers and resolution authority. 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 Activities

Enforcement functions of RED are being conducted under the current operating procedures prepared including internal arrangements in terms of the prevailing legal provisions. Accordingly, in order to conduct investigations on prohibited schemes, the Governor appoints officers of RED under Section 83C of the BA.

Based on the above, two (02) new investigations were initiated by authorised officers of RED under the provisions of BA after conducting preliminary investigations of the businesses of five (05) institutions alleged to be operating prohibited schemes in contravention of the provisions of the Banking Act. Further, RED coordinated and followed up the investigations already referred to the Attorney General for prosecutions with the support of LCD.

As a preventive measure, the Enforcement Division conducts awareness programmes to educate different segments of the general public on prohibited schemes and to improve their financial literacy in coordination with other departments of the Central Bank. RED was able to conduct eleven (11) awareness programmes for students, government officers and police officers during the year under review despite the restrictions imposed due to the COVID-19 pandemic.

**Table II-33**  
**Awareness Programmes**

Target Group	No of Programmes	No of Participants
School Students	7	640
Government Officers	2	105
Officers of Security Forces	2	157
<b>Total</b>	<b>11</b>	<b>902</b>

### 24.3. Administration of the Sri Lanka Deposit Insurance and Liquidity Support Scheme (SLDILSS)

As at 31 December 2020, the Scheme comprised seventy one (71) member institutions with a total fund of approximately Rs. 51.3 billion (unaudited). As at 31 December 2020, the value of the investments in government securities and the loan granted to a member institution by the fund in 2014 under the liquidity support facility for restructuring were Rs. 67.8 billion (at fair value) and Rs. 0.7 billion (net of provisions), respectively. Financial highlights of SLDILSS are given in Table II-34.

The SLDILSS has reported a loss of Rs.11.15 billion during the year 2020 mainly due to the significant amount of compensation payments to the insured depositors of failed

Licensed Finance Companies through the Scheme during the year. The total expenditure includes compensation payments to the failed Licensed Finance Companies including, The Finance Company PLC (TFC), ETI Finance Limited (ETIFL) and Swarnamahahal Financial Services PLC (SFSP) amounting to Rs.22.06 billion and provision made due to increase of amount of maximum compensation payable of the SLDILSS from Rs.600,000 to Rs.1,100,000 as per the Monetary Board decision in order to provide the benefit of increase of compensation payable amount to the insured depositors of already failed six (06) member institutions amounting to Rs.9.56 billion.

**Table II - 34**  
**Financial Highlights of the Sri Lanka Deposit Insurance and Liquidity Support Scheme**

Item	Amount (Rs. mn)	
	As at 31.12.2019	As at 31.12.2020
Size of the fund	62,672.8	51,332.1
Total Income	15,829.6	20,814.0
Total Expenditure	1,210.0	31,964.4
Surplus/(Loss) for the year (before tax)	14,619.7	(11,150.4)
Total Assets	69,062.3	73,559.1
Investment in Government Securities	65,452.4	67,877.8
Loans and Receivables (net of provisions)	1,345.7	682.1
Other Comprehensive Income Reserve	2,662.9	7,778.2

- (i) Licensed banks, which maintained a capital adequacy ratio of 14 per cent or above at the end of the immediately preceding financial year, are required to pay a premium of 0.10 per cent per annum on the total amount of all eligible deposits, and all other banks are charged a premium of 0.125 per cent per annum. The premium applicable for licensed finance companies is 0.15 per cent per annum. Premia and penalties from member institutions during the year under review amounted to Rs. 10.4 billion.
- (ii) The deposit insurance coverage per depositor per institution is increased to Rs. 1,100,000 from 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 four (04) distressed member institutions, namely Central Investments and Finance PLC (CIFL), The Standard Credit Finance Ltd (TSCFL), TKS Finance Ltd (TKSFL) and TFC during the period from 2018 to 2020 and the suspension of the business of ETIFL and SFSP during the year 2020. Accordingly, compensation payments to the depositors of companies referred to above commenced from 2018 and continued during the year 2020 as well, in accordance with SLDILSS Regulations.

With a view to compensating the insured depositors of SLDILSS in an efficient and timely manner, an Agency Banking concept was introduced when making the compensation to the depositors of TFC, ETIFL and SFSP. Agency Banking is an internationally accepted method widely used by well-established Deposit Insurance Systems in the world. Accordingly, People's Bank was selected as the Agent Bank of SLDILSS in making the compensation payments to the depositors of TFC, ETIFL and SFS by considering its large network of branches and adequate resources to facilitate the payments to depositors scattered islandwide. SLDILSS was able to pay compensation amounting to Rs. 21,114.9 million to 66,731 depositors of all six (06) license cancelled and suspended companies as at 31.12.2020, and such details are given in Table below.

**Table II - 35**  
**Total Compensation Paid by SLDILSS as at 31.12.2020**

Name of the Company	No. of Depositors paid as at 31.12.2020	Compensation paid as at 31.12.2020 (Rs.million)
CIFL	3,345	1,395.5
TSCFL	2,458	993.1
TKSFL	1,621	664.4
TFC	32,273	8,274.0
ETIFL	24,636	8,953.6
SFSP	2,398	834.3
<b>Total</b>	<b>66,731</b>	<b>21,114.9</b>

## **25. RISK MANAGEMENT**

Risk Management Department (RMD) sets out the policies for the implementation of risk management across the Central Bank as stipulated in the Risk Management Policy Statement (RMPS) developed in line with the risk management framework of the Central Bank. In this process, the Central Bank follows accepted standards, guidelines and best practices for managing risks, while assigning risk ownership and management among different stakeholders with clear accountability.

### **25.1 Operational Risk**

RMD developed the Operational Risk Management (ORM) Guidelines during 2020, aligning them with RMPS, to facilitate the operational risk assessment of the Central Bank.

In order to keep the risk identification process up-to-date and to effectively manage any risk involved in operations, RMD reviewed the Operational Risk Taxonomy of the Central Bank during 2020, and incorporated amendments as required.

Continuing the facilitation provided for departmental risk assessments, RMD worked closely with departments in assisting the development of Departmental Risk Registers. The risk profile of the Central Bank is developed using Departmental Risk Registers, enhancing the operational risk management process.

With the view of promoting a risk culture within the Central Bank, RMD conducted risk awareness sessions for the Central Bank staff throughout the year. Such one-on-one departmental discussions facilitated the development of Departmental Risk Registers. However, providing any training through external professionals was not possible due to the pandemic.

RMD continued to administer incidents reported through the Incident Reporting System, enabling the development of a central repository of incidents and tracking progress on the implementation of corrective measures. The information gathered through this system helps in identifying possible risk trends, areas of vulnerabilities and improving related risk treatment measures.

In order to strengthen the operational risk management function, RMD collaborated with the World Bank Technical Assistance Mission (WB TAM). However, the expected extension to WB TAM was not possible during 2020 due to the COVID-19 pandemic.

## 25.2 Financial Risk

As the second line of defence, RMD independently monitors, analyses, evaluates, and reports financial risks covering credit, market and liquidity risks. Further, it ensures compliance with Investment Policy Statements (IPS) and Investment Guidelines (IG) developed in line with the RMPS, relating to International Reserves (IR), Internal Investment Funds (IIF) of the Central Bank and the Employees' Provident Fund (EPF), which is carried out as an agency function for the Government.

RMD reviewed the IG for IIF, incorporating amendments as required while introducing a new IG for IR during 2020. Further, RMD reviewed the Strategic Asset Allocation (SAA) for IR. RMD commenced reviewing the Counterparty Credit Risk Management Guidelines (CCRMG) for IR and also intends to introduce new CCRMGs for IIF and EPF in the future. RMD assessed market and credit risks by frequent analyses of the relevant risk indicators and monitoring adherence to the limit framework given in SAAs, IPSs and IGs for IR, IIF and EPF, as well as CCRMG for IR. Risk assessments and non-compliances were presented at relevant monthly Investment Oversight Committee (IOC) meetings.

Quarterly reporting to the Non-Financial Risk Management Committee (NFRMC) on operational risks and the Board Risk Oversight Committee (BROC) and the Monetary Board on both operational and financial risks was carried out by RMD to effectively manage risks related to operations and fund management activities of the Central Bank.

## 26. SECRETARIAT

Secretariat Department (SD) is one of the few departments that was 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 assets disposal management, and providing secretarial and protocol assistance to the Governor.

### (a) Overall Corporate Administration

During the year 2020, overall corporate administration was performed in line with governing regulations, accountability, risk management, and other key attributes of good governance. In doing so, SD conducted a survey on the Central Bank's properties, and having identified the risk areas, obtained a comprehensive insurance cover for all the properties of the Central Bank, facilitated incoming and outgoing postal services of the Central Bank through its mail management service, ensured efficient and economical stationery store management, organised a variety of events for the Central Bank, and signed several agreements with service providers on behalf of the Monetary Board during the year.

### (b) Procurement Management

During 2020, SD carried out the procurement of goods and services required for the bank in accordance with the procurement plan which was prepared based on the Monetary Board approved Annual Budget of the Central Bank. Procurements were done through tender procedures as well as non-tender procedures in line with the procurement procedures set out in the Central Bank Manual which are broadly consistent with National Procurement Guidelines. In addition, SD promptly attended a number of time-critical ad-hoc procurements. Further, SD contributed to the procurement of goods and services under the Financial Sector Modernisation Project of the World Bank. Considering postal delays and their impact on the tender processes due to the COVID-19 pandemic situation, with the support of the Information Technology Department (ITD), SD introduced an on-line internet mode for tender-based procurements, while ensuring adequate security measures. This enabled SD to attend to tenders timely, amidst the COVID-19 pandemic when procuring Goods and Services. In addition, SD implemented a new Stationery Management System with the assistance of ITD for facilitating effective and efficient stationery management of the Central Bank.

### (c) Administration of Superannuation Funds

SD continued to administer the payments relating to the Superannuation Funds of the Central Bank which involve 2,314 beneficiaries. Accordingly, SD engaged in paying gratuities, commuted pensions, releasing provident fund balances, and making monthly pensions, Widows' and Orphans' Pension (W&OP) payments, and Widowers' and Orphans' Pension (WR&OP) payments. Further, SD attended to a number of correspondences with the beneficiaries in



order to fulfill their requirements and also collected 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 2020, 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 payments to universities, other training institutions and to the employees who travelled abroad for aforesaid purposes. In addition, SD issued visa letters and Provident Fund balance confirmation letters enabling obtaining visas and also facilitated purchasing air tickets and travel insurance. However, compared to previous years, the number of opportunities for such foreign travel was at a subdued level due to the COVID-19 pandemic.

**(e) Conducting Board of Survey**

The Board of Survey is the method employed by the Central Bank for disposal of its fixed assets. Accordingly, a survey of the assets was completed during the year. However, due to the COVID-19 pandemic, disposal of the assets was not undertaken.

**(f) Provision of Secretarial and Protocol Assistance to the Governor**

The Governor's Secretariat provided secretarial and protocol assistance to the Governor in 2020. The secretarial and protocol assistance provided included scheduling of appointments and meetings, preparation and compilation of presentations and speeches for the Governor, coordinating and arranging the Governor's local travels, arranging 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, visitors and properties of the Central Bank including the Regional Offices and other establishments in spite of the various challenges encountered during the year as a result of the COVID-19 pandemic. Special security arrangements were provided for Licensed Finance Companies and their branches on an urgent basis and currency consignments in transit coordinating with the Sri Lanka Police as organisational priorities. Upgrading of CCTV system from analogue to IP based was completed and is to be commissioned with interfacing the security monitoring system with the assistance of Facilities Management Department (FMD). SSD actively contributed to all business continuity drills of the Central Bank and also conducted annual fire drills with the assistance of Fire Services Department.

### System Improvements

Operational fitness of all fire-fighting equipment located at the Head Office and other premises that belong to the Central Bank were inspected, maintained and replaced on a regular basis during the year. Maintenance services of all other security equipment including baggage scanners, cargo scanners were carried out as per the service agreements with the respective service providers. SSD continuously updated itself with intelligence information and maintained relationships with relevant authorities.

### Skills and Competency Building

SSD arranged several educational programmes for its staff in order to improve the skills of Security Officers. These educational programmes covered the key areas of security, information technology, ethics and customer care. SSD also initiated a new one day workshop on 'Asset Protection' for the Security Officers of the department, regarding the latest security procedures and technology prevailing in the world.

### Surveillance activities

SSD screened and facilitated 61,715 visitors to the Head Office of the Central Bank and all visitors to its Regional Offices. 25,714 currency boxes in transit were screened throughout the year. Security controls were enhanced by installing a new CCTV system and an emergency alarm system at the Regional Office in Anuradhapura for special monitoring of currency contingency vaults operations and a CCTV system at the Regional Office in Nuwara-Eliya.

### Prevention of COVID-19

SSD conducted prevention measures such as, monitoring the temperature of the staff, visitors and screened and registered all the visitors through the visitor management system before entering the premises according to the guidelines imposed by the health authorities. SSD supported documentation and mail management systems of all the departments who could not receive the services of the staff due to the pandemic. SSD authorised curfew permission letters in coordination with Sri Lanka Police and assisted to sanitise the suspected and common areas and facilitated the provision of staff restaurant services, temporary accommodations, transport and delivery services during the COVID-19 pandemic, especially during the lockdown period. Further, SSD introduced a new duty roster system for its staff to reduce human contact inside the bank premises.

### Assessment of Security Controls

The security plan was updated based on the findings of the security control assessment, and accordingly, action was initiated to purchase two explosive detectors and two new baggage scanners for Centre for Banking Studies and Employees' Provident Fund Department, to replace existing radio sets. Arrangements were made to strengthen human resources in order to enhance the protection of the employees and properties of the Central Bank.

## 28. STAFF SERVICES MANAGEMENT

Amidst the challenging environment caused by COVID-19 pandemic, Staff Services Management Department (SSMD) continued to extend welfare facilities to all beneficiaries during the year 2020. The measures taken to comply with the guidelines issued by the health authorities regarding COVID-19 pandemic led to reduction in the number of staff attending office in person. However, work from home arrangements introduced by the Bank helped to perform the activities in the department. The key services rendered by the department include the provision of medical facilities and restaurant facilities to the staff within the premises of the Central Bank, disbursement of loans under the Staff Housing (Mortgage) Loan Scheme, Provident Fund Loan Scheme and Staff Benefit Scheme, and reimbursement of medical expenses under the Employer Contributory Medical Benefit Scheme (MBS).

SSMD continued to provide medical facilities to the staff through the medical center during office hours. In addition, online service of a medical officer was made available to those who sought such facilities during the COVID-19 affected period when physical movement of the staff members had to be curtailed. Medical tests and laboratory services were also provided to the members of staff at the medical center at a reasonable rate.

The disbursement of housing and other welfare loans provided to staff members as assistance for major life cycle events were continued during the year. The loan systems enabled timely disbursement of housing loan instalments and supervision and monitoring of loans.

SSMD continued to reimburse medical expenses incurred by all beneficiaries registered under the MBS during the year. The number of beneficiaries under the MBS consisting of employees, pensioners and their registered dependents together with widows/widowers stood at approximately 10,000 as at end 2020.

Restaurant facilities were provided to members of staff during working hours through an outsourced service provider. SSMD supervised the operations of the restaurant to ensure the provision of quality food and beverages to the staff at reasonable prices.

## 29. STATISTICS

Statistics Department (STD) contributed towards the attainment of the Central Bank's objectives of 'maintaining economic and price stability' and 'maintaining financial system stability' by effectively engaging in its operations. Even in the midst of the restrictions on mobility and the challenging work environment, which prevailed during the year, the department was able to successfully carry out its functions as initially planned using novel technologies with minimal disturbances.

### 29.1 Collecting Data and Compiling Indices through Surveys and Other Data Sources

#### (a) Business Surveys

Despite all the obstacles that emanated from the COVID-19 pandemic, Purchasing Managers' Index (PMI) Surveys for Manufacturing, Construction and Services activities were conducted during the year on a monthly frequency, to be used as real-time indicators.

Based on the findings of PMI surveys, sub-indices were compiled to assess the month-on-month developments. PMI Manufacturing consists of five sub-indices, namely, New Orders, Production, Employment, Suppliers' Delivery Time, and Stock of Purchases, while PMI Services consists of New Businesses, Business Activity, Employment, Backlogs of Work, and Expectations for Activity sub-indices. The results were used in GDP forecasting and were reported to the management for policy decision making, while press notices were issued for the use of the general public.

The PMI Construction survey also consists of five sub-indices, i.e. New Orders, Total Activity, Employment, Quantity of Purchases, and Suppliers' Delivery Time. The results were used in forecasting GDP and reported to the management to be considered in the policy decision making process.

The Business Outlook Survey (BOS) was continued on a quarterly basis during 2020 to capture the sentiments of the corporate sector with respect to current and expected developments of key areas of business activities, which serve to monitor the ongoing status of the economy. Especially, during 2020, the survey provided up-to-date information on the impact of the COVID-19 pandemic on the economy and the required policy considerations.

Based on the results of the BOS, Business Sentiment Indices, namely, Business Condition, Profitability, Skilled Labour Availability, Sales, Demand, and Capacity Utilisation were compiled and used mainly in forecasting GDP. The results and detailed reports were submitted to the management for policymaking purposes. Further, major indices were published quarterly in aggregate form on the Central Bank website for the information of external users.

Credit Conditions Surveys, namely Credit Demand Survey (CDS) and Credit Supply Survey (CSS), designed to capture both demand and supply side developments of the credit activities were continued during 2020. With regard to the CDS, the target population was the Small and Medium Enterprises (SMEs) of the economy. The survey was conducted by STD in association with the Regional Offices of the Central Bank. Further, this survey was restructured in 2020 and conducted as an annual survey, and the results were key to having an insight on

the implications for credit activities amidst the pandemic situation, in the policymaking process. The CSS, designed to capture the recent developments and forward-looking information on the credit activities, covering all licensed banks was conducted on a quarterly basis. The results facilitated technical analyses relating to the monetary policy and the 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.

The Retail Sales Volume Survey (RSVS) and the Supermarket Retail Trade Survey (SRTS) were continued on a monthly and quarterly basis, respectively, to understand developments in the retail sector. Through these surveys, fluctuations in the trade volumes related to the general retail trade activities as well as trends in the modern retail trade activities were captured. To understand the developments in the transportation sector, the department initiated a monthly survey covering the key segments in transportation, such as land transportation, port and logistic services, and air transportation. The target population of this survey was major players involved in transportation related activities of the economy. The results of these surveys are currently used for internal economic analyses of the Central Bank.

The Condominium Market Survey (CMS), which was launched with the objective of obtaining data related to the developments of the condominium sector, was continued during 2020 on a quarterly basis. The survey covered major condominium developers and gathered data 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. With the emergence of adverse conditions pertaining to the pandemic, forward-looking opinions were also gathered to understand the future direction of the sector, which would complement the policy setting process of the Central Bank. A summary report of the findings of this survey was published on the Central Bank website from the third quarter of 2020 onwards.

Based on the results of the CMS, a quarterly index was compiled for monitoring the price developments in the primary condominium market. Simultaneously, a property price index for secondary condominium market was compiled on a monthly basis, using the price information advertised on real estate websites. Subsequently this was further extended to cover lands and houses segments.

Further, STD compiled the Land Valuation Indicator (LVI) (base period: first half of 2017), on a semi-annual basis of all Divisional Secretariats of the Colombo District. The index comprised three sub-indices that were compiled covering Residential, Commercial and Industrial lands, based on per perch bare land valuations obtained from the Government Valuation

Department. Further, STD issued press releases on LVI for the information of the public.

Meanwhile, STD is continuously engaged in exercises to improve the property price indices with the technical assistance extended by the International Monetary Fund (IMF) in order to compile and publish a comprehensive set of indices in the future.

## **(b) Inflation Expectations Survey (IES)**

STD continued to conduct the IES on a monthly basis to gather data and information on inflation expectations of selected categories of economic agents, i.e. the Corporate Sector and the Household Sector. During 2020, with the objective of expanding the coverage of the Household Sector further at the national level, STD conducted three pilot surveys in selected institutions of the public sector located in the vicinities of the Matara, Anuradhapura and Matale Regional Offices of the Central Bank, with the assistance of the respective Regional Offices. Awareness sessions were also conducted while carrying out these surveys to bridge the awareness gaps on inflation and inflation expectations of the Household Sector.

## **(c) Country Wide Data Collection System (CWDCS)**

Operations of the CWDCS were continued during 2020 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 policymaking processes. With the view of improving the quality of data collected through the CWDCS, STD conducted on-site and off-site supervision of data collection with the help of the Regional Offices of the Central Bank to identify the outliers and inconsistencies in data and to take necessary corrective measures. Further, STD conducted three virtual seminars during 2020, to discuss the issues faced by TIs during the data collection process and the remedial actions.

Moreover, the services of non-teacher data investigators were also obtained to collect data/information on wholesale and retail prices from the Pettah market, Marandaghamula rice market, Dambulla and Narahenpita Special Economic Centres, and Negombo and Peliyagoda Fish markets on a daily basis. The department collected the information from those key markets to strengthen the management information system on the price movements of essential food items and for forecasting purposes. Further, having analysed, the price data were published daily on the Central Bank website in summarised form.

STD initiated monitoring the price behaviour of the items of the food basket of the Colombo Consumer Price Index (CCPI), using prices of food items available in major supermarkets, with the objective of developing leading indicators to be used in CCPI based inflation forecasting. For this purpose, prices of all items in the food basket of the CCPI were collected from the websites of the supermarkets on a daily basis. Using these data, month-on-month price changes of each item in the food basket were derived and used as a leading indicator for CCPI based inflation forecasting.

#### (d) Public Sector Employment Survey and Labour Force Information

The Public Sector Employment Survey was conducted on an annual basis covering all public sector institutions (i.e. institutions under the central Government, provincial councils and local government authorities, and semi-government institutions) to ascertain the developments in public sector employment. In addition, overall labour market data analysis with respect to employment, unemployment, foreign employment, labour relations, strikes, and labour market reforms was done by STD by obtaining data/information from the Department of Census and Statistics, Department of Labour, Sri Lanka Bureau of Foreign Employment and other data providers.

Wage rate indices covering the public, formal and informal private sectors were compiled by STD to assess the movements of salaries and wages within the economy. During 2020, 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. The wage rate indices were submitted monthly to the Special Data Dissemination System (SDDS).

#### (e) On Demand Surveys

STD, in addition to its regular surveys, undertakes numerous surveys based on the requirements that may arise spontaneously due to the occurrence of contingent events/developments that might have a significant impact on the economy and/or important areas for central banking activities. During 2020, several such surveys, particularly relating to manufacturing, construction, services and IT/BPM activities, were conducted on a needs basis to capture the impact of the COVID-19 pandemic.

## 29.2 Forecasting Short Term Inflation and GDP

STD continuously engaged in forecasting short term inflation and GDP, contributing to the Forecasting and Policy Analysis System (FPAS) of the Central Bank, while providing relevant analyses and other information to the management. Accordingly, both the model based and indicator based forecasts were produced using relevant inputs from various sources. These forecasts were detailed at regular monetary policy cycles and submitted to the Monetary Board to facilitate policy decision making.

Both the CCPI and NCPI short term inflation forecasts were based on recent price trends, expected price movements associated with market developments, and econometric techniques. The department continuously explored new variables, which reflected both the supply and demand side impact on inflation, to improve inflation forecasting. In addition, in 2020, STD carried out a project to identify suitable inflation forecasting models using time series techniques.

Near term GDP growth forecasts were prepared on a quarterly basis using both the indicator and model based techniques. Primary and secondary leading economic indicators and survey findings ranging from hard data to soft data, which were related to economic sub-activities, were combined with the expert judgments in indicator based forecasting, while model based forecasts were prepared using empirical evidence. The estimates were submitted to the management for policymaking purposes.

Further, being one of the main users of GDP estimates compiled by the DCS, views were provided periodically to DCS to widen the coverage of the GDP compilation in order to better reflect the performance of the economic activities, which are expected to be considered in the GDP rebasing process scheduled to be completed in early 2021.

## 29.3 Compiling Regional Statistics

### (a) Sri Lanka Prosperity Index (SLPI)

SLPI is a multi-dimensional indicator developed by the Central Bank to measure the progress of the country moving beyond the aspects considered in GDP. It is compiled on an annual basis using suitable provincial indicators that represent various aspects of the lives of people and comprises three sub-indices, namely; Economic and Business Climate, Wellbeing of the People, and Socio Economic Infrastructure. In 2020, STD compiled SLPI for the year 2019 using 41 representative variables and issued a press release in December 2020.

### (b) Provincial Gross Domestic Product (PGDP)

PGDP for 2019 was compiled in nominal terms by STD employing the top-down methodology. Accordingly, the National Accounts estimates of the Department

of Census and Statistics were disaggregated to the provinces using suitable indicators covering agriculture, industry, and services related activities. In the midst of data constraints caused by the pandemic, the department managed to issue the press release on the latest PGDP figures in December 2020. These estimates provide useful insights on the contribution of each province to the national GDP, and thus are beneficial for public authorities in making decisions on the allocation of resources among provinces.

#### 29.4 Disseminating Information

Amidst the challenging conditions, the department continued its regular dissemination of official statistics during 2020 through both print and electronic modes. Addressing the need to disseminate high frequency data, STD introduced “Daily Economic Indicators”, which included data on exchange rates, the money market, share market, and energy sector on a daily basis. The two main annual statistical publications, “Economic and Social Statistics of Sri Lanka 2020 – Volume XLII” and “Sri Lanka Socio Economic Data 2020 – Volume XLIII”, were released in September 2020 in all three official languages. In 2020, the department mainly contributed to two chapters of both the Annual Report of the Central Bank and the report on Recent Economic Developments, and also continued to provide data for the Monthly Bulletin of the Central Bank.

The regular releases of the department, including the Daily Price Report of selected consumer items, and Weekly and Monthly Economic Indicators, were published on time 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 the “Data Library”, the online database of the Central Bank, was updated and maintained to cater to the data needs of researchers and other interested parties.

### 30. SUPERVISION OF NON-BANK FINANCIAL INSTITUTIONS

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 (FBA) No. 42 of 2011, the Finance Leasing Act (FLA) No. 56 of 2000 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 licensed entities, while

the regulatory function involves issuance of prudential regulations, granting regulatory approvals, and investigating 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 2020, there were 40 LFCs, 3 SLCs, 4 LMFCs and 7 PDCs (out of 8 PDCs, the appointment of one PDC was withdrawn in November 2020) under the purview of the Department. In addition, licences have been granted for 59 Registered Finance Leasing Establishments (RFLEs) under the FLA, including the 3 SLCs. The names of these LFCs, SLCs, RFLEs, LMFCs and PDCs are provided at the end of the Part III of this Report. The main functions and activities performed by DSNBFI during 2020 are summarised below.

#### 30.1 Policy Measures

The prudential regulations issued during 2020 are provided in Part III of this Report. A summary of the major prudential measures issued is given below.

- (a) The department announced the Master Plan of the LFCs/SLCs sector which is a consolidation process with a view to establish resilient and well performing 25 LFCs in the medium term, each operating with/maintaining prudential requirements well above the minimum requirements with diversified business models. The medium-term Master Plan was announced to the industry on 10.11.2020, with the objective of ensuring LFCs are fully compliant with prudential requirements by mid of 2023 and to establish resilient, sound and stable LFCs by mid of 2026.
- (b) A Direction was issued to LFCs and SLCs on Classification and Measurement of Credit Facilities.
- (c) A Circular was issued to LFCs and SLCs providing guidelines for the implementation of a special credit support for the eligible individuals and entities engaged in income generating activities.
- (d) A Circular was issued to LFCs and SLCs on providing relief measures for businesses and individuals affected by the COVID-19 outbreak, up to 30.09.2020 on loans and advances as at 25.03.2020.
- (e) A Circular was issued to LFCs and SLCs on extending the Debt Moratorium for COVID-19 affected businesses and individuals in the tourism industry for a further period of six months from 01.10.2020 to 31.03.2021.
- (f) An amendment was issued with respect to the existing Direction on liquid assets to be maintained by LFCs effective for a period of six months. The effective period was further extended for another period of six months until 31.03.2021.

- (g) The existing Direction on Loan to Value (LTV) ratio issued to LFCs and SLCs was revised allowing higher LTV ratios for locally assembled motor cars, SUVs and vans.
- (h) The Direction on maximum interest rates on deposits and debt instruments of LFCs and SLCs was revised with marginally reduced rates.
- (i) An amendment to the Corporate Governance Direction of LFCs and SLCs was issued permitting a director of an LFC/SLC who is already holding office and reaches the age of 70 years to continue in office as a director with the prior approval of the Monetary Board.
- (j) A Direction on Business Expansion and Operations was issued to LFCs and SLCs.
- (k) The definition of Liquid Assets of LFCs was amended under Section 74 of the FBA.
- (l) LFCs were requested to follow a new format for publication of financial information and key performance indicators.
- (m) A Circular was issued to LFCs and SLCs on the Debt Moratorium for COVID-19 affected businesses and individuals with a view to meeting the challenges faced by businesses and individuals due to the second wave of COVID-19 in the country.
- (n) A Prompt Corrective Action (PCA) framework for LFCs was issued with a view to ensuring financial soundness through better risk management policies and practices.
- (o) Maximum percentage limits of share capital of LFCs were issued with the effective implementation date being 01.01.2022.

**A consultation paper was issued on the proposed new Direction on Corporate Governance to strengthen the governance structures of LFCs.**

## 30.2 Supervision of Licensed Entities

### (a) Conduct of Statutory Examinations

- (i) DSNBFI conducted 13 statutory examinations of LFCs, SLCs and PDCs during 2020. The main findings of the examinations included weaknesses in the risk management function, issues of corporate governance and related party transactions, lapses in internal audit and compliance functions, failure to meet regulatory requirements, deteriorating quality of loans and advances, inadequate core business income, lower operational efficiency in financial intermediation, and issues regarding sustainability of the business models.
- (ii) The Monetary Board approved time bound action plans and recommendations of 18 examinations,

including 13 examinations of the previous periods, and these 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 implement the recommendations within the agreed timelines are monitored by the Off-site Surveillance Division.

- (iii) Further, DSNBFI conducted Spot Examinations of 6 LFCs to investigate information received from third parties on irregularities or to review the progress of implementing special directions issued by the Monetary Board.
- (iv) Statutory examinations of 2 PDCs were completed during 2020 while continuous surveillance was carried out on an ongoing basis for all PDCs.
- (v) Further, as a supervisory measure, suspension of business activities of Perpetual Treasuries Limited (PTL), was extended for a period of six months w.e.f. 05.01.2021. Participation in Government Securities Primary Auctions was prohibited for Entrust Securities PLC (ESP) w.e.f. 24.07.2017.

### (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 the internal rating system on the areas of capital, liquidity and provisioning.
- (ii) Several regulatory actions were initiated including imposing restrictions on deposits, lendings and borrowings on LFCs non-compliant with capital requirements.
- (iii) Regular meetings were also held with the Boards of Directors, Senior Management and External Auditors to monitor the progress and restructuring/revival plans of these companies.
- (iv) The PCA framework for LFCs outlines the minimum corrective actions applicable when certain capital based triggers are met. 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.
- (v) Further, sector performance was reported to the Monetary Board on a quarterly basis in view of keeping the senior management informed of the latest developments in the sector.

- (vi) 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.
- (vii) 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, ownerships transfers, etc.
- (viii) DSNBFI mediated to resolve a large number of complaints received from the general public with regard to LFCs and SLCs, mainly with respect to policy matters and LFCs of which licences have been cancelled, and unauthorised finance business activities.

**(c) Resolution Actions on Distressed LFCs and PDCs**

The key focus of DSNBFI during 2020 was to resolve the insolvent companies that have been confronted with prolonged liquidity crises during the past several years. Accordingly, the following steps were taken in this regard:

- (i) The licence issued to The Finance Company PLC was cancelled with effect from 22.05.2020. Business operations of ETI Finance Ltd. and Swarnamahal Financial Services PLC were suspended with effect from 13.07.2020.
- (ii) Suspension of business of Perpetual Treasuries Ltd. was extended in order to continue the investigations being conducted by the Central Bank. Appointment of NatWealth Securities Ltd. as a Primary Dealer was withdrawn by the Monetary Board with effect from 30.11.2020.

**(d) Public Awareness and Capacity Building of the LFC/SLC Sector**

**(i) Public Disclosure**

The names of LFCs and SLCs indicating non-compliance with prudential capital requirements and subject to regulatory restrictions, if any, were published on the Central Bank website and newspapers.

**(ii) Capacity Building**

With a view to enhancing the skills/competences, the officers of DSNBFI participated in local and foreign training programmes through online

connectivity, especially in the areas of forensic investigations, Basel principles, stress testing, corporate governance, accounting standards, etc. The senior officers of the department continued to serve as resource persons at the training sessions conducted at the Centre for Banking Studies of the Central Bank and other external institutions.

**(iii) Meeting with LFCs/SLCs and other stakeholders**

DSNBFI conducted 2 meetings with the Chief Executive Officers of LFCs/SLCs chaired by the Governor with the objective of sharing views between the Central Bank and the LFC/SLC sector on matters relating to economic and regulatory developments. In addition, the department held continuous meetings with LFCs/SLCs, the Finance House Association (FHA), external auditors and international agencies to discuss issues relating to the individual licensed entities/sector as a whole and to implement corrective actions.

**(iv) Public awareness programmes**

DSNBFI provided assistance to conduct awareness programmes upon requests of other departments, such as Resolution and Enforcement Department, Regional Development Department and Regional Offices Monitoring Department as and when required. Press releases were also issued with the intention of increasing public awareness.

**30.3 Investigation of Unauthorised finance business entities**

The investigation function on unauthorised deposit taking and finance businesses, which was assigned to the Resolution and Enforcement Department (RED), was transferred to DSNBFI w.e.f. 27 July 2020. During 2020, the Central Bank commenced 50 investigations based on complaints and information received subsequent to re-establishment of the Investigation Unit in the DSNBFI. One entity was determined by the Monetary Board as accepting deposits and carrying on finance business in contravention of the provisions of the FBA and was referred to the Hon. Attorney General for the institution of criminal proceedings. In addition, field visits were completed with respect to another institution while information was called under Section 42(1) of the FBA from another 33 companies. Further, relevant parties, i.e., complainants, other government organisations, and the Central Bank Regional Offices have been requested to submit more information with respect to another 15 investigations.



## Annex II - 4

Authorised Financial Institutions (As at end 2020)	
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 (a)
4. Arpico Finance Co. PLC (a)	24. Multi Finance PLC
5. Asia Asset Finance PLC	25. Nation Lanka Finance PLC (a)
6. Associated Motor Finance Co. PLC (a)	26. Orient Finance PLC
7. Bimpuh Finance PLC (a)	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	32. Senkadagala Finance PLC
13. ETI Finance Ltd. (b)	33. CBC Finance Ltd. (Previously known as Serendib Finance Ltd.)
14. Fintrex Finance Ltd.	34. Sinhaputhra Finance PLC (c)
15. HNB Finance PLC	35. Singer Finance (Lanka) PLC
16. Ideal Finance Ltd.	36. Siyapatha Finance PLC
17. Kanrich Finance Ltd. (a)	37. Softlogic Finance PLC (a)
18. Lanka Credit and Business Finance Ltd.	38. Swarnamahar Financial Services PLC (d)
19. L B Finance PLC	39. U B Finance Co. Ltd. (a)
20. LOLC Development Finance PLC	40. Vallibel Finance PLC
# The licence issued to The Finance Company PLC was cancelled w.e.f. 22.05.2020. # Trade Finance & Investments PLC was merged with Commercial Credit and Finance PLC w.e.f. 31.12.2020.	
Registered Finance Leasing Establishments	
<b>(A) Licensed Commercial Banks</b>	<b>(B) Licensed Specialised Banks</b>
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	4. Sri Lanka Savings Bank Ltd.
5. Hatton National Bank PLC	
6. MCB Bank Ltd.	<b>(C) Specialised Leasing Companies</b>
7. National Development Bank PLC	1. Assetline Leasing Co. Ltd.
8. Nations Trust Bank PLC	2. Co-operative Leasing Co. Ltd.
9. Pan Asia Banking Corporation PLC	3. SMB Leasing PLC
10. Sampath Bank PLC	
11. Seylan Bank PLC	
12. Union Bank of Colombo PLC	

**(D) 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                       | 32. Senkadagala Finance PLC                                      |
| 13. ETI Finance Ltd. (b)                     | 33. CBC Finance Ltd. (Previously known as Serendib Finance Ltd.) |
| 14. Fintrex Finance Ltd.                     | 34. Sinhaputhra Finance PLC (e)                                  |
| 15. HNB Finance PLC                          | 35. Singer Finance (Lanka) PLC                                   |
| 16. Ideal Finance Ltd.                       | 36. Siyapatha Finance PLC  |
| 17. Kanrich Finance Ltd. (e)                 | 37. Softlogic Finance PLC  |
| 18. Lanka Credit and Business Finance Ltd.   | 38. Swarnamahala Financial Services PLC (d)                      |
| 19. L B Finance PLC                          | 39. U B Finance Co. Ltd.   |
| 20. LOLC Development Finance PLC             | 40. Vallibel Finance PLC   |

# The registration of Unisons Capital Leasing Ltd. was cancelled w.e.f. 18.05.2020 and the company was acquired by Citizens Development Business Finance PLC.

# Trade Finance & Investments PLC was merged with Commercial Credit and Finance PLC w.e.f. 31.12.2020.

**Licensed Microfinance Companies**

- |  |                                 |
|--|---------------------------------|
| 1. Berendina Micro Investments Company Limited | 3. Dumbara Micro Credit Limited |
| 2. Lak Jaya Micro Finance Limited              | 4. Sejaya Micro Credit Limited  |

**Primary Dealer Companies**

- |                                 |                                  |
|---------------------------------|----------------------------------|
| 1. Acuity Securities Ltd.       | 5. NSB Fund Management Co. Ltd.  |
| 2. Capital Alliance Ltd.        | 6. Perpetual Treasuries Ltd. (g) |
| 3. Entrust Securities PLC (f)   | 7. WealthTrust Securities Ltd.   |
| 4. First Capital Treasuries PLC |                                  |

# Appointment of NatWealth Securities Ltd. was withdrawn w.e.f. 30.11.2020.

- (a) Non-compliant with the minimum capital adequacy requirement and those companies are required to comply with the requirements of the Master Plan introduced to LFC/SLCs sector by the Monetary Board, within a given time frame of the Master Plan.
- (b) Business operations were suspended on 13.07.2020 by the Monetary Board. On 06.01.2021, the Monetary Board decided to cause Director, Supervision of Non-Bank Financial Institutions to make an application to a competent court for the winding up.
- (c) A notice of cancellation of the licence was issued by the Monetary Board under the provisions of FBA. Subsequently, the Monetary Board decided to provide the company with an opportunity to implement the proposed capital augmentation plan within the stipulated timeframe without revoking the notice of cancellation issued. However, since the company is behind the deadlines of the capital augmentation plan, it has been required to comply with the requirements of the Master Plan introduced to LFC/SLCs sector by the Monetary Board within a given time frame.
- (d) Business operations were suspended on 13.07.2020 by the Monetary Board and was subsequently permitted to resume businesses notionally for 3 months from 13.01.2021 for a limited purpose.
- (e) Restrictions were imposed by the Monetary Board on conducting new leasing business.
- (f) Participation in government securities primary auction was refrained w.e.f. 24.07.2017.
- (g) Suspended carrying on the business and activities of a primary dealer since 06.07.2017 and current suspension is effective until 05.07.2021.