

PART II

PART II

ACCOUNTS AND OPERATIONS OF THE CENTRAL BANK OF SRI LANKA

1. Accounts and Finance	1
2. Bank Supervision	79
3. Centre for Banking Studies	81
4. Communications	82
5. Currency	83
6. Domestic Operations	85
7. Economic Research	88
8. Employees' Provident Fund	91
9. Facilities Management	94
10. Finance	94
11. Financial Consumer Relations	96
12. Financial Intelligence Unit	96
13. Foreign Exchange	97
14. Foreign Remittances Facilitation	101
15. Human Resources	102
16. Information Technology	106
17. Internal Audit	108
18. International Operations	109
19. Legal and Compliance	111
20. Macroprudential Surveillance	111
21. Payments and Settlements	113
22. Policy Review and Monitoring	115
23. Public Debt	116
24. Regional Development	118
25. Resolution and Enforcement	122
26. Risk Management	123
27. Secretariat	124
28. Security Services	124
29. Staff Services Management	125
30. Statistics	125
31. 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 2022

1. Introduction

The Monetary Board Advisory Audit Committee (AAC) is a subcommittee of the Monetary Board which is governed by the AAC Framework approved by the Monetary Board. Thus, the content of this Activity Report is in line with the approved AAC Framework of the Central Bank. AAC provides its recommendations to the Monetary Board on policies related to financial reporting, internal controls, internal audit, external audit, and any other matters assigned to AAC by the Monetary Board.

2. Composition of AAC

AAC is chaired by an appointed member of the Monetary Board and comprises two audit /accounting professionals.

The composition of AAC during the year 2022 was as follows:

- i. Dr. Ranee Jayamaha - Chairperson
- ii. Mrs. Anusha I Mohotti - Member
- iii. Mr. A Indrajith Fernando - Member

The Secretary to the Monetary Board is the Secretary to AAC, and the Director of the Internal Audit Department (IAD) is the Assistant Secretary to AAC. IAD provides secretarial facilitation to AAC. The Assistant Governor in charge of the Finance Department, Chief Compliance Officer, Chief Accountant, and Chief Risk Officer of the Central Bank and Audit Superintendent of the National Audit Office who is in charge of the external audit of the Central Bank attend AAC Meetings as Observers. As and when necessary, AAC invites the Central Bank Heads of Department for discussions and to respond to audit queries. The engagement partner of the Audit Firm appointed by the Auditor General to carry out the external audit of the Central Bank also attends AAC meetings by invitation when the financial statements of the Central Bank are discussed.

AAC is required to meet at least six times a year. Meetings of the Committee are called by the Secretary to the Committee with the approval of the Chairperson, at the request of the Monetary Board, External Auditors/Chief Accountant or Director of IAD, and the Superintendent of the Employees' Provident Fund (EPF). The quorum for a meeting is two, including the Chairperson.

3. AAC held a total of nineteen (19) meetings (fifteen (15) in 2022 and four (04) in 2023) from 01.01.2022 to 31.03.2023 and the following activities were carried out at the said meetings in 2022 and 2023.

3.1. Activities performed by AAC during 2022 are indicated below.

3.1.1. Financial Reporting and External Audit:

AAC reviewed,

- i. Interim Management Letter and the Final Management Letter submitted by M/s. KPMG relating to the audit of the Financial Statements of the Central Bank for the year ended 31.12.2021 and the comments of the management.
- ii. Financial Statements of the Central Bank for the year ended 31.12.2021.
- iii. Report of the Auditor General on the affairs of the Central Bank including the Financial Statements for the year ended 31.12.2021 in terms of Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka and the comments of the management.
- iv. Financial Statements of EPF for the year ended 31.12.2021.
- v. Report of the Auditor General on the Financial Statements of the EPF for the year ended 31.12.2021.
- vi. Financial Statements of five Pension Funds (Pension Fund, Widows' and Orphans' Pension Fund, Widowers' and Orphans' Pension Fund, New Pension Fund, New Widows' and Orphans' and Widowers' and Orphans' Pension Fund) of the Central Bank as at 31.12.2021.
- vii. Financial Statements of the Central Bank Provident Fund for the year ended 31.12.2021.
- viii. Audit Plan of M/s. E & Y with regard to the audit of the Financial Statements of the Central Bank for the year 2022.

3.1.2. Internal Controls

- i. Reviewed and advised on internal controls of the Central Bank.
- ii. Reviewed the implementation progress of AAC recommendations by respective stakeholders.

3.1.3. Internal Audit

- i. Reviewed the progress of audits conducted by IAD.
- ii. Reviewed the implementation status of audit recommendations by process owners.
- iii. Reviewed and reassessed the Annual Audit Plan 2022.
- iv. Recommended the Strategic Audit Plan for 2023 – 2026 and the Annual Audit Plan for 2023.
- v. Reviewed the reports on Ongoing Monitoring of Internal Audit Activity and Periodic Self-Assessment for the year 2021.
- vi. Recommended the revised Internal Audit Charter.
- vii. Provided necessary information for the IMF safeguards assessment.

3.2. Activities performed by AAC during 2023 which are related to Financial Statements of 2022 are indicated below:

- i. Reviewed Interim Management Letter for the year ended 31.12.2022 issued by M/s. E & Y.
- ii. Reviewed Financial Statements of EPF for the year ended 31.12.2022.
- iii. Reviewed Financial Statements of the Central Bank for the year ended 31.12.2022.

Activity Report of the Board Risk Oversight Committee during the Financial Year 2022

1. Introduction

The 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 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 2022 was as follows:

- i. Mr. Sanjeeva Jayawardena, President's Counsel - Appointed Member of the Monetary Board (Chairman)
- ii. Mr. Naomal Goonewardena (Independent External Member – 3 year tenure ended on 14.03.2022)
- iii. Mr. Trevine Jayasekara (Independent External Member - appointed on 23.07.2022)
- iv. Mr. H A Karunaratne (Independent External Member - appointed on 23.07.2022)

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

All Deputy Governors, Chairman of the Business Continuity Planning Committee, Chief Compliance Officer of the Central Bank, and Director of the 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. Quorum for a meeting is 2, including the Chairman.

3. Activities Carried out during the Financial Year 2022

BROC held 2 meetings in 2022 and the major activities carried out are as follows:

- i. Reviewed the Departmental Risk Registers and made recommendations to the Monetary Board in order to expedite the mitigation of operational risks highlighted.
- ii. Reviewed the revised Operational Risk Taxonomy and recommended the same for approval of the Monetary Board.
- iii. Reviewed the revised Risk Management Policy Statement (RMPS) and recommended the same for approval of the Monetary Board.
- iv. Reviewed the risk management and compliance updates pertaining to funds managed by the Central Bank (International Reserves (IR), Internal Investment Funds (IIF), and Employees' Provident Fund (EPF)), to ensure that such funds are managed within the stipulated parameters.
- v. Reviewed improvements to the Investment Policy Statement for IR and IIF and recommended the same for approval of the Monetary Board.
- vi. Reviewed the proposed new Strategic Asset Allocation for IR, EPF, and IIF and recommended the same for approval of the Monetary Board.
- vii. Reviewed improvements to the Investment Guidelines for IR and IIF and recommended the same for approval of the Monetary Board.

Central Bank of Sri Lanka

Management Statement

For the period ended 31 December 2022

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

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

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

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

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

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



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தேசிய கணக்காய்வு அலுவலகம்

NATIONAL AUDIT OFFICE



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எனது இல. }
My No. }

BAN/G/CBSL/1/22/1

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உமது இல. }
Your No. }

දානය
திகதி }
Date }

31 March 2023

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 2022 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 2022, 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 of the Bank give a true and fair view of the financial position of the Bank as at 31 December 2022, 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 of financial statements that give a true and fair view 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 the annual and periodic financial statements to be prepared of the Bank.

1.4 Auditor's responsibilities for the audit of the financial statements

My objectives 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 internal controls of the Bank.



- 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 the Monetary Board regarding, among other matters 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 the following requirements:

2.1.1 I have obtained all information and explanation that were required for the audit and as far as appears from my examinations, 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 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 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 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 has 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 Section 12 (h) of the National Audit Act, No.19 of 2018.

W.P.C. Wickramaratne

Auditor General

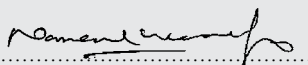
Central Bank of Sri Lanka Statement of Financial Position

As at 31 December

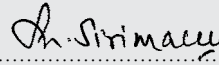
Assets	Note	2022 Rs. 000	2021 Rs. 000
Foreign Currency Financial Assets			
Cash & Cash Equivalents	8	651,687,864	512,762,452
Securities at Fair Value through Other Comprehensive Income	9	10,867,425	8,818,244
Derivative Financial Instruments	10	401,580	54,022,836
IMF Related Assets	11	281,421,074	188,045,837
Other Receivables	30.3	37,022,631	-
Total Foreign Currency Financial Assets		981,400,574	763,649,369
Local Currency Financial Assets			
Sri Lanka Government Securities	12	2,498,995,015	1,377,820,347
Securities Purchased under Resale Agreements	13	698,069,219	567,532,312
Provisional Advances to Government	14	235,638,700	150,128,800
Equity Investments in Financial and Other Institutions	15	1,817,132	1,671,218
Loans to Banks	16	28,257,902	90,572,746
Other Assets	17	30,182,560	34,063,770
Total Local Currency Financial Assets		3,492,960,528	2,221,789,193
Total Financial Assets		4,474,361,102	2,985,438,562
Foreign Currency Non-Financial Assets			
Gold	18	10,031,610	35,151,981
Non-Financial Assets			
Inventories	19	4,788,407	4,928,533
Other Receivables and Prepayments		1,222,568	961,456
Property, Plant and Equipment	20	19,035,278	19,235,994
Intangible Assets	21	908,137	561,632
Total Non-Financial Assets		35,986,000	60,839,596
Total Assets		4,510,347,102	3,046,278,158
Liabilities and Equity			
Foreign Currency Financial Liabilities			
Banks and Financial Institutions	22	146,408,028	13,701
Derivative Financial Instruments	10	71,697,994	1,139,323
Asian Clearing Union	23	736,258,129	104,764,616
International Monetary Fund	24	1,127,925,092	670,065,243
Others	25	594,383,451	357,295,676
Total Foreign Currency Financial Liabilities		2,676,672,694	1,133,278,559
Local Currency Financial Liabilities			
Deposits of Banks and Financial Institutions	26	323,046,181	300,704,162
Deposits of Government and Governmental Entities	27	221,411	1,392,301
Securities Sold Under Repurchase Agreements & Standing Deposit Facility	28	330,637,059	101,062,880
Currency in Circulation	29	1,026,567,252	1,005,099,066
Other Payables	30	68,320,347	19,163,882
Total Local Currency Financial Liabilities		1,748,792,250	1,427,422,291
Total Financial Liabilities		4,425,464,944	2,560,700,850
Other Liabilities			
Deferred Grants	31	1,834	1,178
Pension and Other Post - Employment Benefit Plans	32	1,772,429	17,929,737
Miscellaneous Liabilities and Accruals	33	855,043	4,027,349
Total Other Liabilities		2,629,306	21,958,264
Total Liabilities		4,428,094,250	2,582,659,114
Equity			
Capital Funds		50,000,000	50,000,000
Other Reserves	34	(191,184,970)	315,128,226
Retained Earnings		223,437,822	98,490,818
Total Equity		82,252,852	463,619,044
Total Liabilities and Equity		4,510,347,102	3,046,278,158

The accounting policies and notes on pages 13 to 78 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 2023 and signed on behalf of the Monetary Board.



Dr. P. Nandalal Weerasinghe – Governor



D. S. L. Sirimanne - Chief Accountant

Central Bank of Sri Lanka

Statement of Income

For the year ended 31 December		2022	2021
	Note	Rs. 000	Rs. 000
Operating Income :			
Income from Foreign Currency Financial Assets			
Interest Income	36	1,579,295	4,379,048
Gain/(Loss) from Unrealized Price Revaluations	37	(127,286,104)	41,859,703
Gain/(Loss) from Realized Price Changes		(9,968,941)	20,317,794
Total Income from Foreign Currency Financial Assets		(135,675,750)	66,556,544
Expenses on Foreign Currency Financial Liabilities			
Interest Expense	38	(32,293,277)	(3,634,528)
Reversal/(Charge) of Expected Credit Losses on Foreign Currency Financial Assets	39	(763,218)	2,282,695
Total Expenses on Foreign Currency Financial Liabilities		(33,056,495)	(1,351,833)
Net Foreign Exchange Revaluation Gain/(Loss)		(610,149,293)	34,041,805
Foreign Currency Investment Income		(778,881,538)	99,246,516
Net Income from Local Currency Financial Assets			
Interest Income	36	482,676,527	68,612,928
Gain/(Loss) from Realised Price Changes		(7,866,974)	(387,202)
Interest Expense	38	(37,619,594)	(8,469,897)
Reversal/ (Charge) of Expected Credit Losses on Local Currency Financial Assets	39	497,432	(808,696)
Net Income from Local Currency Financial Assets		437,687,391	58,947,133
Other Income	40	2,454,218	16,280,370
Other Expense	40.1	(10,260,110)	-
Total Net Operating Income		(349,000,039)	174,474,019
Operating Expenses:			
Personnel Expenses:	41		
- Salaries and Wages		(6,691,770)	(7,116,223)
- Defined Contribution Plan Costs		(11,550,422)	(1,717,811)
- Post Employment Benefit Plan Costs		(2,091,404)	(1,891,272)
		(20,333,596)	(10,725,306)
Depreciation and Amortization		(737,304)	(526,675)
Cost of Inventory (Cost of New Currency Issue)		(2,339,653)	(2,780,250)
Administration and Other Expenses	42	(1,910,381)	(2,279,122)
Total Operating Expenses		(25,320,934)	(16,311,353)
Profit/ (Loss) Before Tax		(374,820,973)	158,162,666
Tax	43	-	-
Profit/ (Loss) for the Year		(374,320,973)	158,162,666

Figures in brackets indicate deductions

The accounting policies and notes on pages 13 to 78 form an integral part of these Financial Statements.

Central Bank of Sri Lanka Statement of Other Comprehensive Income

For the year ended 31 December

	Note	2022 Rs. 000	2021 Rs. 000
Profit/ (Loss) for the Year		(374,320,973)	158,162,666
Other Comprehensive Income (OCI)			
Items that are or may be re-classified subsequently to Profit/(Loss)			
Net Fair Value Gain/(Loss) on Securities at Fair Value through Other Comprehensive Income	34	(1,189,382)	(16,108,192)
Net Fair Value Gain/(Loss) on Government Securities at Fair Value through Other Comprehensive Income	34	11,225,713	(11,641,542)
		10,036,331	(27,749,734)
Items that will not be re-classified subsequently to Profit/(Loss)			
Post-Employment Benefit Plan (Cost)/Income Recognized in Other Comprehensive Income	32	14,163,877	1,293,721
Net Fair Value Gain on Equity Investments at Fair Value through Other Comprehensive Income	34	145,915	55,862
		14,309,792	1,349,583
Other Comprehensive Income/(Expense)		24,346,123	(26,400,151)
Total Comprehensive Income /(Expense)		(349,974,850)	131,762,515

Figures in brackets indicate deductions

The accounting policies and notes on pages 13 to 78 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	Other Reserves	Retained Earnings	Total
	Rs.000	Rs.000	Rs.000	Rs.000
Balance as at 1 January 2021	50,000,000	282,012,023	15,153,549	347,165,572
Net Profit for the year	-	-	158,162,666	158,162,666
Transfer to RTGS Sinking Fund	-	369,008	(369,008)	-
Post Employment Benefit Plans cost recognized in Other Comprehensive Income	-	-	1,293,721	1,293,721
Transfer of Net Foreign Exchange Revaluation Gain (IRR)	-	34,041,805	(34,041,805)	-
Transfer to CBSL Internal Funds	-	-	(291,870)	(291,870)
Net Fair Value Gain on Securities at Fair Value through Other Comprehensive Income	-	(16,108,192)	-	(16,108,192)
Transfer of Funds from Retained Earnings to Market Revaluation Reserve	-	23,574,367	(23,574,367)	-
Transfer of Funds to General Reserve	-	2,859,208	(2,859,208)	-
Profit appropriation for the year 2020 - Recovery of outstanding GOSL obligations from 2020 profit	-	-	(15,016,745)	(15,016,745)
Transfer of Funds to CBSL Employees and Pensioners Distress Relief Fund	-	-	(72)	(72)
Transfer to Reserve for funding purposes of Post-Employment Benefits	-	757,613	(757,613)	-
Gain on Market Valuation of Equity Investments Classified at Fair Value through Other Comprehensive Income	-	55,862	-	55,862
Gain on Market Valuation of Government Securities Classified at Fair Value through Other Comprehensive Income	-	(11,641,542)	-	(11,641,542)
Gain on Revaluation of Property, Plant and Equipment	-	(791,926)	791,570	(356)
Balance as at 31 December 2021	<u>50,000,000</u>	<u>315,128,226</u>	<u>98,490,818</u>	<u>463,619,044</u>
Balance as at 1 January 2022	50,000,000	315,128,226	98,490,818	463,619,044
Net Profit /(Loss) for the year	-	-	(374,320,973)	(374,320,973)
Transfer to RTGS Sinking Fund	-	438,146	(438,146)	-
Post Employment Benefit Plans cost recognized in Other Comprehensive Income	-	-	14,163,877	14,163,877
Transfer of Net Foreign Exchange Revaluation Gain/(Loss) (IRR)	-	(610,149,293)	610,149,293	-
Transfer to CBSL Internal Funds	-	-	(355,494)	(355,494)
Net Fair Value Loss on Securities at Fair Value through Other Comprehensive Income	-	(1,189,382)	-	(1,189,382)
Transfer of Funds from Retained Earnings to Market Revaluation Reserve	-	49,638,590	(49,638,590)	-
Transfer of Funds to General Reserve	-	27,526,076	(27,526,076)	-
Transfer of Funds to MLTCF for the RDD operations as per the profit appropriation BP of 2021	-	15,000,000	(15,000,000)	-
Profit appropriation for the year 2021 - Recovery of outstanding GOSL obligations from 2021 profit	-	-	(31,035,788)	(31,035,788)
Transfer of Funds to CBSL Employees and Pensioners Distress Relief Fund	-	-	(60)	(60)
Transfer to Reserve for funding purposes of Post-Employment Benefits	-	1,051,039	(1,051,039)	-
Gain on Market Valuation of Government Securities Classified at Fair Value through Other Comprehensive Income	-	11,225,713	-	11,225,713
Gain on Market Valuation of Equity Investments Classified at Fair Value through Other Comprehensive Income	-	145,915	-	145,915
Balance as at 31 December 2022	<u>50,000,000</u>	<u>(191,184,970)</u>	<u>223,437,822</u>	<u>82,252,852</u>

Figures in brackets indicate deductions

The accounting policies and notes on pages 13 to 78 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	1,550,703	16,510,461
Interest Received - Local Currency - Others	3,498,481	2,433,655
Liquidity Management and Trading Income	(17,835,915)	14,468,586
Realised Exchange Loss	(179,967,468)	(13,003,097)
Other Income Received	8,020,273	1,572,512
	(184,733,926)	21,982,117

Disbursements:

Interest Paid - Foreign Currency	23,170,613	5,841,243
Interest Paid - Local Currency	40,437,692	6,571,438
Payments to Employees	12,435,846	8,295,030
Payments to Suppliers	(31,924,158)	498,361
	44,119,993	21,206,072

Net Cash Flows generated from Operating Activities

Note 44

Cash Flows from Investing Activities

Receipts:

Net Increase in Other Local Currency Financial Assets	(2,431,705)	(3,542,041)
Principal Recoveries from Loans and Advances to Other Institutions	49,642	5,534
Proceeds on disposal of Property, Plant and Equipment	(234)	338,246
Net Increase/(Decrease) in Securities Purchased under Resale Agreements	229,574,179	(108,445,017)
	227,191,882	(111,643,278)

Disbursements:

Net Decrease in Foreign Currency Securities	31,403,136	(755,979,008)
Net Increase/(Decrease) in Other Foreign Currency Financial Assets	(42,189,977)	22,242,111
Net (Increase)/Decrease in Other Foreign Currency Financial Liabilities	(704,622,720)	218,313,967
Net (Increase)/Decrease in Other Local Deposits and Payables	(3,660)	489
Purchase of Property, Plant and Equipment, net of Grants	3,773	686,469
Purchase of Intangible Assets	879,377	72,928
Purchase of Leasehold Assets	-	9,113
Net Decrease in Gold Inventory	(26,108,952)	(38,743,707)
Net Loans and Advances Granted to/(Recovered from) Other Institutions	(61,796,952)	(30,118,054)
	(802,435,975)	(583,515,692)
	1,029,627,857	471,872,414

Net Cash Flows generated from Investing Activities

Cash Flows from Financing Activities

Receipts :

Issue of Circulating Currency	347,595,479	390,975,631
Withdrawal of Circulating Currency	(326,127,293)	(220,684,424)
Net Issue of Circulating Currency	21,468,186	170,291,207

Disbursements:

Net Issues of Circulating Currency on Government Transactions	45 851,954,489	1,172,364,801
Net Issues/(Withdrawals) of Circulating Currency on Transactions with Banks and Financial Institutions	46 (22,342,019)	(171,102,641)
Net Issues of Circulating Currency	829,612,470	1,001,262,160

Net Decrease in Circulating Currency

Disbursements:

Grant/(Repayment) of Foreign Currency Term Liabilities	27,384,295	(145,925,443)
Payments to Other Funds	60	72
Payments to Pension Fund	3,363,735	7,547,179
Transfer of Profits to Consolidated Fund	30,000,000	15,000,000
	60,748,090	(123,378,192)
	(868,892,374)	(707,592,761)

Net Cash Flows used in Financing Activities

Net Increase/(Decrease) in Cash and Cash Equivalents

Exchange Rate Effect on Cash and Cash Equivalents	(68,118,436)	(234,944,302)
Cash and Cash Equivalents at the Beginning of the Year	(3,321,000)	28,871,146
	197,504,486	403,577,642
Cash and Cash Equivalents as at 31 December	8 126,065,050	197,504,486

Figures in brackets indicate deductions

The accounting policies and notes on pages 13 to 78 form an integral part of these Financial Statements.

Central Bank of Sri Lanka Notes to the Financial Statements

For the year ended 31 December 2022

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 2023.

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 2022 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.

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.

3.4 General Implications of Adverse Economic Conditions and COVID-19

The Bank considered the impact of the adverse economic environment and COVID-19 in preparing the financial statements. While the specific areas of judgement have not changed, the impact of adverse economic conditions and COVID-19 resulted in application of additional judgement and estimates mainly in relation to loans to banks 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 loan schemes implemented to support the revival of the economy. Accordingly, the Bank launched refinance and credit schemes through LCBs and LSBs under the names Saubagya COVID-19 Renaissance Facility 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. Most of these facilities were outstanding as of the end of 31.12.2022 due to the extension of the moratoriums given resulting from the adverse economic circumstances prevailed in year 2022. 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 judgments were used in the determination of the repayment terms and the market interest rate used in arriving at the initial recognition of 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 the adverse economic circumstances of year 2022 and 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 macroeconomic data used in the expected credit loss model to avoid unprecedented statistical variations caused by the

movements in the macro- economic data resulting from both the adverse economy and COVID-19.

However, for non-financial assets, the Bank's assessment is that both the adverse economic situation and 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 2022.

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	2022 Rs.	2021 Rs.
1 Australian Dollar	247.0237	145.5851
1 Canadian Dollar	268.4335	158.6150
1 Euro	388.3461	227.8832
1 Japanese Yen	2.7703	1.7417
1 Special Drawing Rights (SDR)	483.3276	280.9312
1 Sterling Pound	437.4023	271.2270
1 United States Dollar	363.1100	200.4338
1 Chinese Yuan (Offshore)	52.6513	31.5294

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, Inflation and Interest rate data as the main economic factors 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 - Average Weighted Prime Lending Rate (AWPR) 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 and buildings 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 and buildings 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 postemployment 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 and subsequent amendment as per Inland Revenue (Amendment) Act No. 10 of 2021 and as per Inland Revenue (Amendment) Act No. 45 of 2022. In terms of the Economic Service Charge (amendment) Act No. 07 of 2017, the Bank is liable for ESC commencing from 1 April 2017. However, unrealized gain on exchange rate and unrealized marked to market gain on foreign currency financial assets are exempted from ESC with effect from October 2018 as per the ESC (amendment) Act, No 33 of 2018. Further, the Bank is exempted from Value Added Tax on supply of financial services as per Value Added Tax (Amendment) Act No.17 of 2013.

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

A number of new standards and amendments to standards are effective for annual periods beginning after 1st January 2022 and earlier application is permitted; however, the Bank has not early adopted the new and amended standards in preparing these financial statements. Further, the Bank does not expect that these standard amendments and interpretations will have a material impact on the Bank's financial statements.

6.1 Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

The key amendments to IAS 1 include:

- Replaces the requirements for entities to disclose their "significant" accounting policies with a requirement to disclose "material" accounting policies.
- Provides guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.
- Specify the requirements for classifying liabilities as current or non-current

The amendments are effective for periods beginning on or after 1st January 2023.

6.2 Definition of Accounting Estimates (Amendments to IAS 8)

The amendments introduce a new definition for accounting estimates: clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty.

The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that the Bank develops an accounting estimate to achieve the objective set out by an accounting policy.

Developing an accounting estimate includes both:

- selecting a measurement technique (estimation or valuation technique) – e.g. an estimation technique used to measure a loss allowance for expected credit losses when applying IFRS 9 Financial Instruments; and
- choosing the inputs to be used when applying the chosen measurement technique – e.g. the expected

cash outflows for determining a provision for warranty obligations when applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

The amendments are effective for periods beginning on or after 1st January 2023, with earlier application permitted, and will apply prospectively to changes in accounting estimates and changes in accounting policies occurring on or after the beginning of the first annual reporting period in which the Bank applies the amendments.

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:

- (i) Liquidity management operations: Liquidity management largely involves the CBSL offsetting the daily net flows to or from government or market by advancing funds to or withdrawing funds from the banking system. Most of this business is undertaken through daily open market operations.
- (ii) Holding an investment portfolio comprising of Sri Lanka government securities to support the liability for currency in circulation. The Bank's policy is to hold these investments for monetary operations and not for trading.

7.3 Trust and Custodial Activities

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

8. CASH AND CASH EQUIVALENTS

	2022 Rs. 000	2021 Rs. 000
Cash Balances with Banks	7,626,592	23,385,534
Time Deposits with Banks	-	49,430,045
Overnight Placements	118,410,171	124,669,823
Interest Receivable on Cash and Cash Equivalents	28,287	19,084
Cash and Cash Equivalents for Cash Flow Purpose	126,065,050	197,504,486
Cash and Cash Equivalents available for Restricted Use (Note 8.1)	526,467,646	315,343,334
Less: Expected Credit Losses on Cash and Cash Equivalents (Note 8.2)	(844,832)	(85,368)
Total	651,687,864	512,762,452

8.1 The cash balance available for restricted use represents the CNY 10 billion received under the bilateral currency swap agreement between CBSL and the PBoC as explained in Note 25.5. The amount received under this arrangement can be used to finance trade and direct investment between the two countries and for other purposes agreed upon by both parties.

8.2 Movement in Expected Credit Losses on Cash and Cash Equivalents

	2022			2021		
	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	52,009	33,359	85,368	90,277	180,061	270,338
Charge/ (Reversal) during the year	789,431	(29,967)	759,464	(38,268)	(146,702)	(184,970)
Balance as at 31 December	841,440	3,392	844,832	52,009	33,359	85,368

9. INVESTMENTS IN FOREIGN SECURITIES

	2022 Rs. 000	2021 Rs. 000
Securities at Fair Value through Other Comprehensive Income		
-Investment in Foreign Securities	10,867,425	8,818,244
Total Investment in Foreign Securities	10,867,425	8,818,244
Expected Credit Loss on Securities at Fair Value through Other Comprehensive Income (Note 9.1)	4,744	995

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

	2022			2021		
	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	995	-	995	36,546	2,062,175	2,098,721
Charge/ (Reversal) during the year	3,749	-	3,749	(35,551)	(2,062,175)	(2,097,726)
Balance as at 31 December	4,744	-	4,744	995	-	995

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.

	2022			2021		
	Assets Rs. 000	Liabilities Rs. 000	Notional Amount Rs. 000	Assets Rs. 000	Liabilities Rs. 000	Notional Amount Rs. 000
Currency SWAPS	401,580	71,669,551	208,591,719	54,022,803	1,130,519	197,002,554
Forex Forward	-	28,443	1,724,773	33	8,804	229,487
Total	401,580	71,697,994	210,316,492	54,022,836	1,139,323	197,232,041

10.2 The above derivatives consisting of Currency Swaps and Foreign Exchange Forward Contracts that were used for the purpose of managing market and liquidity risks in foreign reserves held by the Bank in line with the statutory objectives of maintenance of foreign reserves. The Bank entered into swap transactions and forward contracts with Licensed Banks, Foreign Central Banks, Foreign Banks and Financial Institutions in order to maintain international stability of the Sri Lankan rupee, to strengthen the financial system stability of the country, to enhance the economic and financial cooperation among regional countries and to improve foreign exchange inflows to the country.

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 crystallized to the Bank.

10.7 Long-term USD/LKR Buy-Sell Swap Agreements

Note 10.1 consists of long-term (maturities after 30.06.2023) USD/LKR buy-sell swap agreements of which the Bank has entered with licensed commercial banks with a view to build-up foreign reserves. As at 31 December 2022, the outstanding of such swap agreements of the Bank with licensed commercial banks are as follows.

Bank	Date of Agreement	Notional Outstanding Amount (USD mn)	Last Maturity Date on Tranche-wise	Tenor/ Conditions	Underlying Transaction
Bank of Ceylon	22-Apr-21	45.00	15-Dec-27	<ul style="list-style-type: none"> • 6 years at zero cost. • Settlements in 5 tranches and approximately USD 10 mn is expected to be settled in every 6 months 	Loan received under Asian Infrastructure Investment Bank (AIIB) COVID 19 Emergency and Crisis Response Project.
Bank of Ceylon	29-Jun-21	44.78			
People's Bank	23-Apr-21	45.00			
People's Bank	30-Sep-21	44.78			
DFCC Bank PLC	24-Feb-21	125.00	15-Aug-28	<ul style="list-style-type: none"> • 7 years at zero cost. • Settlements in 20 tranches and USD 6.25 mn is expected to be settled in every 3 months. 	Loan received from the United States International Development Finance Corporation (DFC).
Commercial Bank of Ceylon PLC	17-Nov-21	35.00	23-Nov-26	<ul style="list-style-type: none"> • 5 years, at zero cost for the first 18 months and, a semi-annual premium of Rs. 1.00 per USD thereafter. • One off settlement at maturity. 	Loan received from CDC PLC, UK.
National Development Bank PLC	18-Mar-22	36.00	19-Mar-29	<ul style="list-style-type: none"> • 7 years, at a premium of Rs. 1.00 per USD for first 18 months and henceforth, a semi-annual premium of Rs. 1.00 per USD for remaining five and half years of the loan. • Settlements in 12 tranches and USD 3.00 mn is expected to be settled in semi-annually. 	Loan received from DFC

11. IMF RELATED ASSETS

11.1 IMF Quota

	2022 Rs. 000	2021 Rs. 000
Measured at Fair Value through Profit or Loss		
IMF Quota (Note 11.1)	279,779,554	162,603,548
Holding of Special Drawing Rights (Note 11.2)	626,461	24,800,563
	280,406,015	187,404,111
Measured at Amortized Cost		
Deposits with IMF (Note 11.3)	377,081	216,785
Prepaid Charges - IMF Loans	637,986	424,944
Less: Expected Credit Losses on IMF Related Assets (Note 11.4)	(8)	(3)
	1,015,059	641,726
	281,421,074	188,045,837

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 (Currently there are 190 IMF member countries). 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:

Should a member withdraw from the IMF, its quota subscription is refunded to the extent it is not needed to settle the net obligations to the IMF. However, members are not entitled for an interest on the IMF quota and hence there is no compensation for the time value of money. Therefore, under IFRS 9, this is classified as Fair Value Through Profit or Loss. Since there is no maturity period to compute the fair value, fair value would be equal to the amortized cost value.

- (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 (temporarily increased to 245 percent of quota through end 2021 as part of the Fund's COVID-19 response) 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. A general SDR allocation equivalent to about US dollars 650 billion was made to IMF members that are participants in the SDR Department in proportion to their existing quotas in the IMF, which became effective on 23 August 2021. Of this general SDR allocation Sri Lanka's share amounted to SDR 554.80 million.

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.

The characteristics of holding of SDR have traits similar to cash. Hence under IFRS 9, this is classified as Fair Value Through Profit and Loss. Since there is no maturity period to compute the fair value, fair value would be equal to the amortized cost value.

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

	2022 Rs. 000	2021 Rs. 000
Stage 1		
Balance as at 1 January	3	2
Charge/(Reversal) for the Year	5	1
Balance as at 31 December	8	3

12. SRI LANKA GOVERNMENT SECURITIES

Portfolio of Government Securities is acquired and maintained primarily 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. In addition, the Government Securities portfolio may include securities purchased by the Bank as per Section 112 of the Monetary Law Act.

	2022 Rs. 000	2021 Rs. 000
Treasury Bills	2,480,822,291	1,351,378,149
Treasury Bonds	17,708,352	25,876,232
Interest Receivable	464,372	565,966
	2,498,995,015	1,377,820,347

Government Securities held by CBSL is subject to impairment accounting in accordance with IFRS 9. However, Government Securities attracted a zero loss allowance for Expected Credit Losses in the Financial Statements up to 31 December 2021. Central Bank of Sri Lanka together with Ministry of Finance, Economic Stabilization and National Policies, held a virtual investor presentation on 30 March 2023 and indicated a Domestic Debt Optimization (DDO). The authorities are exploring options to be evaluated in the DDO; however there is no adequate information at this point to determine the impact of the DDO on the ECL of the portfolio of Sri Lanka Government Securities held by CBSL.

13. SECURITIES PURCHASED UNDER REALE AGREEMENTS

	2022 Rs. 000	2021 Rs.000
Securities Purchased under Resale Agreements	691,637,000	567,297,000
Interest Receivable on Securities Purchased under Resale Agreements	6,432,219	235,312
	<u>698,069,219</u>	<u>567,532,312</u>

14. PROVISIONAL ADVANCES TO GOVERNMENT

In terms of the Section 89 of the Monetary Law Act, the Central Bank of Sri Lanka provides provisional advances to the Government, to finance expenditures authorized to be incurred out of the Consolidated Fund, subject to a ceiling of 10 per cent of the estimated Government revenue for the financial year in which they are made. This advance is used by the Government as a interest free Revolving Credit Facility , which shall be repayable within a period not exceeding six months.

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	2022		2021	
		No. of Shares	Fair Value Rs. 000	No. of Shares	Fair Value Rs. 000
Lanka Pay (Private) Limited	Automated Clearing	2,986,824	769,866	2,986,824	653,414
Lanka Financial Services Bureau Limited	Automated Fund Transfers	500,000	-	500,000	-
Credit Information Bureau of Sri Lanka Limited	Provision of Credit Information	48,244	1,047,266	48,244	1,017,804
			<u>1,817,132</u>		<u>1,671,218</u>

Lanka Clear (Private) Limited and Lanka Pay (Private) Limited are now referred to as "Lanka Pay (Private) Limited" from 3 November 2022.

15.2 The equity investments were carried at fair value as at 31 December 2022 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 Pay (Private) Limited - 31 December 2022 - Net Asset Value per Share Rs. 257.75

Lanka Financial Services Bureau Limited - 30 November 2022 - Net Asset Value per Share Rs. -4.60

Credit Information Bureau of Sri Lanka Limited - 31 December 2022 - Net Asset Value per Share Rs. 21,707.69

16. LOANS TO BANKS

	2022 Rs. 000	2021 Rs. 000
Loans to Banks (Note 16.1)	28,601,832	90,621,674
Less: Expected Credit Loss on Loans to Banks (Note 16.2)	(343,930)	(48,928)
	<u>28,257,902</u>	<u>90,572,746</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.

	2022 Rs. 000	2021 Rs. 000
Medium & Long Term Credit Scheme		
- Related Parties	18,173	20,368
Repair of Damaged Houses North & East		
- Related Parties	42,260	89,707
Saubagya COVID-19 Renaissance Facility (Note 16.1.1)		
- Related Parties	1,337,217	60,373,446
- Others	484,532	9,245,265
Saubagya COVID-19 Renaissance Refinance Facility (Note 16.1.2)		
- Related Parties	11,207,691	8,644,208
- Others	2,570,533	3,173,742
Saubagya Loan Scheme (Note 16.1.3)		
- Related Parties	10,469,090	6,850,588
- Others	2,087,594	2,211,334
Loans Recognized under Credit Guarantee Scheme of CBSL		
- Related Parties	86,307	13,016
Domestic Agriculture Development Pilot Phase (DAD-PP) Loan Scheme (Note 16.1.4)		
- Related Parties	227,305	-
- Others	71,130	-
	28,601,832	90,621,674

16.1.1 Saubagya Covid-19 Renaissance Facility : 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.

16.1.2 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 in 2020.

16.1.3 Saubagya Loan Scheme : In terms of section 88A of the Monetary Law Act, Regional Development Department introduced Saubagya (The Prosperity) loan scheme in the year 2010 with a view to provide credit facilities for agriculture, livestock, micro, small and medium scale enterprises (MSMEs) and MSMEs affected by disaster in Sri Lanka.

16.1.4 Domestic Agriculture Development Pilot Phase Loan Scheme (DAD-PP) : In terms of section 88A

of the Monetary Law Act, Regional Development Department implemented DAD-PP in 2021 to promote inclusive development of the agriculture sector in Sri Lanka by providing affordable financing facilities for the smallholder farmer community along with a range of technical assistance and better market opportunities through well connected value chains.

16.2 Movement in Expected Credit Losses on Loans to Banks

	2022				2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 2	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Balance as at 1 January	14,435	21,477	13,016	48,928	6,215	148,153	-	154,368
Charge/(Reversal) during the year	(8,378)	230,088	73,291	295,001	8,220	(126,676)	13,016	(105,440)
Balance as at 31 December	6,057	251,565	86,307	343,930	14,435	21,477	13,016	48,928

17. OTHER ASSETS

	2022 Rs. 000	2021 Rs. 000
Financial Assets		
Investments by Internal Funds	18,557,124	16,490,667
Less: Expected Credit Loss on Investments by Internal Funds (Note 17.1)	(405)	(280)
Net Investment by Internal Funds	18,556,719	16,490,387
Investments of Schemes operated by RDD	-	5,380,169
Less: Expected Credit Loss on Investments of RDD (Note 17.2)	-	(150)
	-	5,380,019
Staff Loans at Amortized Cost	5,355,855	5,592,375
Receivable from Treasury and Other Ministries	3,540,585	4,087,983
Other Receivables	2,258,723	2,258,932
Less: Expected Credit Loss on Other Receivables (Note 17.3)	(2,226,887)	(2,226,887)
	8,928,276	9,712,403
	27,484,994	31,582,809
Non Financial Assets		
Deferred Asset on Staff Loan	2,697,566	2,480,961
	30,182,560	34,063,770

17.1 Movement in Expected Credit Loss on Investments by Internal Funds

	2022			2021		
	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	39	241	280	48	79,524	79,572
Charge/(Reversal) during the Year	47	78	125	(9)	(79,283)	(79,292)
Balance as at 31 December	86	319	405	39	241	280

17.2 Movement in Expected Credit Losses on Investment Schemes Operated by RDD

	2022 Stage 1 Rs. 000	2021 Stage 1 Rs. 000
Balance as at 1 January	150	-
Charge during the year	(150)	150
Balance as at 31 December	-	150

17.3 Movement in Expected Credit Losses on Other Receivables

	2022 Stage 3 Rs. 000	2021 Stage 3 Rs. 000
Balance as at 1 January	2,226,887	183,276
Charge during the year	-	-
Transferred from schemes operated by RDD	-	2,043,611
Balance as at 31 December	2,226,887	2,226,887

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

	2022 Rs. 000	2021 Rs. 000
Notes for Circulation	2,485,880	1,788,014
Coins for Circulation	2,074,163	2,821,514
Coins in Transit from the Supplier	-	-
Notes in Transit from the Supplier	144,188	253,168
	4,704,231	4,862,696
Less: Provision for Slow Moving Items	(2,446)	(2,446)
	4,701,785	4,860,250
Stationery and Sundry Inventory	86,622	68,124
Medical Center Stock	-	159
Total Inventories	4,788,407	4,928,533

In 2022, inventories of Rs. 2,339.65 Mn (2021 - Rs. 2,780.25 Mn) were recognized as an expense during the year and included in "Cost of Inventory (Cost of New Currency Issue)" in the Statement of Income.

20. PROPERTY, PLANT AND EQUIPMENT

Cost/Valuation	Land and Buildings Rs.000	Plant & Plant Integrals Rs.000	Furniture & Equipment Rs.000	Vehicles Rs.000	Computers Rs.000	Right of use Assets Rs.000	Others Rs.000	Construction In progress Rs.000	2022 Total Rs.000	2021 Total Rs.000
As at 1 January	18,174,063	1,615,478	1,394,680	611,793	1,141,540	69,049	57,417	154,042	23,218,062	24,026,767
Additions during the Year	2,473	14,042	221,970	-	9,841	-	286	216,736	465,348	293,823
Disposals during the Year	-	(95)	(5,357)	-	(2,025)	-	-	-	(7,477)	(1,091,338)
Transfers during the Year	-	-	-	-	-	-	-	(177,699)	(177,699)	-
Retirement of Right of Use Asset	-	-	-	-	-	-	-	-	-	(11,190)
As at 31 December	18,176,536	1,629,425	1,611,293	611,793	1,149,356	69,049	57,703	193,079	23,498,234	23,218,062
Accumulated Depreciation	Land and Buildings Rs.000	Plant & Plant Integrals Rs.000	Furniture & Equipment Rs.000	Vehicles Rs.000	Computers Rs.000	Right of use Assets Rs.000	Others Rs.000	Construction In progress Rs.000	2022 Total Rs.000	2021 Total Rs.000
As at 1 January	219,099	1,143,599	1,133,460	463,386	974,746	8,194	39,584	-	3,982,068	3,571,315
Depreciation for the Year	219,129	75,892	82,240	30,973	72,414	7,161	242	-	488,051	503,845
Disposals during the Year	-	(56)	(5,198)	-	(1,909)	-	-	-	(7,163)	(81,902)
Retirement of Right of Use Asset	-	-	-	-	-	-	-	-	-	(11,190)
As at 31 December	438,228	1,219,435	1,210,502	494,359	1,045,251	15,355	39,826	-	4,462,956	3,982,068
Net Book Value	17,738,308	409,990	400,791	117,434	104,105	53,694	17,877	193,079	19,035,278	19,235,994

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. The Bank is of the view that the carrying amounts of these lands and buildings as of 31 December 2022 have not changed significantly compared to the fair values 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.617.28 Mn (2021 - Rs. 680.89 Mn).

The value of the fully depreciated assets which are still in use as at 31 December 2022 was Rs. 2,939.00 Mn. (2021 - Rs. 1,929.55 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)
Land & Building								
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
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
Building on Leasehold Land								
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 2022 Rs. 000	Carrying Value 2021 Rs. 000
Freehold Land	10,855,725	10,855,725
Buildings on Freehold Land	6,593,850	6,798,976
Buildings on Leasehold Land	288,733	300,263
	17,738,308	17,954,964

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. 7,133.73 Mn (2021 - Rs. 7,273.50 Mn).

21. INTANGIBLE ASSETS

	Intangible Assets Rs. 000	2022 Intangible Assets - WIP Rs. 000	Total Rs. 000	2021 Rs. 000
Computer Software:				
Cost:				
As at 1 January	1,083,541	481,375	1,564,916	1,088,965
Additions during the Year	879,377	329,632	1,209,009	475,951
Transfers during the Year	-	(613,507)	(613,507)	-
As at 31 December	1,962,918	197,500	2,160,418	1,564,916
Amortization:				
As at 1 January	1,003,284	-	1,003,284	980,713
Amortization Charge for the Year	248,997	-	248,997	22,571
As at 31 December	1,252,281	-	1,252,281	1,003,284
Net Book Value:				
As at 31 December	710,637	197,500	908,137	561,632

The Bank has acquired intangible assets by means of cash with an aggregated cost of Rs. 879.38 Mn during the year (2021 - Rs. 78.50 Mn).

The value of fully amortized intangible assets which are still in use as at 31 December 2022 was Rs. 982.69 Mn. (2021 - Rs. 957.20 Mn).

22. BANKS AND FINANCIAL INSTITUTIONS

	2022 Rs. 000	2021 Rs. 000
Payable to Foreign Banks	146,381,827	7,380
Payable to Other Foreign Financial Institutions	26,201	6,321
	146,408,028	13,701

Rs.146.37Bn included in the Payable to Foreign Banks represents the payable balance under the Bilateral Currency Swap Agreement (BCSA) between the Central Bank of Sri Lanka (CBSL) and the Reserve Bank of India (RBI). This was initially entered into in July 2020 under the Framework on Currency Swap Arrangement for South Asian Association for Regional Cooperation (SAARC). Under the BCSA, USD 400 million was initially received by Sri Lanka in July 2020 and after its first roll-over in November 2020, the swap facility was settled in February 2021. In January 2022, the CBSL was able to execute the second drawal of the swap facility of USD 400 million under the same BCSA and upon its first roll-over in April 2022, it was due for settlement.

23. ASIAN CLEARING UNION

	2022 Rs. 000	2021 Rs. 000
ACU Liability	731,375,677	104,755,558
Interest Accrual	4,882,452	9,058
	736,258,129	104,764,616

The Asian Clearing Union (ACU) was established in 1974 at the initiative of the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP). The ACU was established as a mechanism to settle, on a multilateral net basis, the payments for intra-regional transactions, among Central Banks of participant countries. The participants of the ACU are Sri Lanka, Bangladesh, Bhutan, India, Iran, Maldives, Myanmar, Nepal and Pakistan. The net settlement position of each ACU participant is calculated based on the daily outstanding balance held over the applicable two-month period and settlement takes place within four working days of the following month. The applicable interest rate varied between 0.10% and 4.09% during the year 2022, in comparison to a range of 0.09% to 0.15% in 2021.

24. INTERNATIONAL MONETARY FUND

	2022 Rs. 000	2021 Rs. 000
Interest bearing Loans (Note 24.1)	385,639,212	253,476,993
Allocation of Special Drawing Rights (Note 24.2)	459,264,653	266,944,782
Quota Liability (Note 24.3)	129,765,698	75,425,522
Other Amounts Payable to IMF (Note 24.4)	153,255,529	74,217,946
	1,127,925,092	670,065,243

24.1 Interest bearing Loans consist of the Extended Fund Facility (EFF) obtained from the IMF. Extended Fund Facility (EFF) is a three year facility provided by the IMF to support the Balance of Payments and Government's economic reform agenda. The IMF approved the EFF 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 comprises of the basic rate of charge, which is equivalent to the SDR interest rate (as of 31 December 2022, rate stands at 2.916 per cent per annum) plus 100 basis points.

	Effective interest rate %	Maturity	2022 Rs. 000	2021 Rs. 000
Extended Fund Facility	0.077	2029	385,639,212	253,476,993
Total Interest bearing Loans			385,639,212	253,476,993

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

	2022 Rs. 000	2021 Rs. 000
DST - PRPIII under Escrow Agreement (Note 25.1)	179	99
DST - PRPIII Phase II under Escrow Agreement (Note 25.2)	30,071	16,599
DST Special Dollar A/C 2 (Note 25.3)	991,218	1,484,824
Amount due to Bangladesh Bank (BB) under swap facility (Note 25.4)	73,060,873	40,161,167
Amount due to People's Bank of China (PBoC) under swap facility (Note 25.5)	520,231,000	315,452,000
Other Foreign Liabilities	70,110	180,987
	594,383,451	357,295,676

25.1 Priority Road Project III under Escrow Agreement

This Facility Agreement was signed between the China Development Bank (CDB) 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 funds 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. There was no transaction during 2021 and 2022. Thus, the balance remains as USD 0.0004 Mn as at 31 December 2022.

25.2 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. There was no disbursements during 2021 and 2022. The balance as at 31 December 2022 is only USD 0.082 Mn.

25.3 DST Special Dollar A/C 2

This is a dollar account maintained on behalf of the Treasury Operations Department in order to credit the proceeds received on behalf of Treasury in USD. During the year 2022, the proceeds of SLDB, miscellaneous US dollar receipts to treasury from various foreign and local organizations have been credited and utilized for repayment of loans and other disbursements on behalf of Government. The balance as at 31 December 2022 is USD 2.73 Mn.

25.4 Amount due to the Bangladesh Bank (BB) under the Bilateral Currency Swap Agreement (BCSA) signed between the BB and the CBSL

The CBSL and the BB entered into a BCSA and a subsequent Addendum to the same in August 2021 and May 2022, respectively, for a total amount of USD 200.00 million that was received in three tranches during August/September 2021, in exchange of an equivalent amount of LKR, initially for a period of three months with the possibility of rolling-over for five times for similar tenors.

Accordingly, the outstanding balance as at 31 December 2022 represents the rolled-over value of USD 200.00 million on November and December 2022 and the next roll-over is due in February and March 2023, subject to the mutual consent of the two central banks.

25.5 Amount due to the People's Bank of China (PBoC) under the Bilateral Currency Swap Agreement (BCSA) signed between the PBoC and the CBSL

Under the BCSA between the CBSL and the PBoC entered into in March 2021, CNY 10 billion (equivalent to approximately USD 1.5 Bn) was received from the PBoC in exchange of an equivalent amount of LKR for a period of one year in December 2021 and the CNY swap proceeds can be utilized for restricted use (Note 8.1).

Outstanding balance as of 31 December 2022 represents the CNY 10 billion swap rolled-over once in December 2022 for another period of one year, and its second roll-over is possible in December 2023 until the BCSA expires in March 2024, subject to the mutual consent of the PBoC and the CBSL.

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.

	2022 Rs. 000	2021 Rs. 000
Deposits by Banks :		
- Related Parties	240,719,873	221,738,927
- Others	70,817,929	67,657,247
	<u>311,537,802</u>	<u>289,396,174</u>
Deposits by Financial Institutions :		
- Related Parties	216	21
- Others	11,508,163	11,307,967
	<u>11,508,379</u>	<u>11,307,988</u>
Total Deposits by Banks and Other Financial Institutions	<u>323,046,181</u>	<u>300,704,162</u>

27. DEPOSITS OF GOVERNMENT AND GOVERNMENTAL ENTITIES

	2022 Rs. 000	2021 Rs. 000
Government Deposits	160,513	160,511
Government Agencies and Funds	60,898	1,231,790
	<u>221,411</u>	<u>1,392,301</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 & STANDING DEPOSIT FACILITY

	2022 Rs. 000	2021 Rs. 000
Standing Deposit Facility	330,637,059	101,062,880
	<u>330,637,059</u>	<u>101,062,880</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 conducting 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. There was no outstanding balance of Sri Lanka Government Securities sold under repurchase agreements as at 31 December 2022 (2021 – Nil).

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	2022 Rs. 000	2021 Rs. 000
Coins:		
1 cent	3,631	3,631
2 cent	5,709	5,709
5 cent	23,267	23,267
10 cent	39,236	39,236
25 cent	122,475	121,246
50 cent	185,097	185,147
1 rupee	1,054,291	1,023,087
2 rupee	1,633,948	1,587,838
5 rupee	5,373,467	5,168,455
10 rupee	8,278,530	7,673,980
20 rupee	149,777	40,955
Commemorative coins	604,099	598,953
	<u>17,473,527</u>	<u>16,471,504</u>

Notes:

1 rupee	4,981	4,981
2 rupee	26,694	26,694
5 rupee	37,191	37,191
10 rupee	1,247,314	1,249,128
20 rupee	7,714,028	7,235,137
50 rupee	7,672,840	7,086,604
100 rupee	27,890,398	27,472,139
200 rupee	126,206	126,412
500 rupee	52,838,832	52,284,157
1000 rupee	154,427,683	160,770,610
2000 rupee	2,709,640	2,950,509
5000 rupee	754,397,918	729,384,000
	<u>1,009,093,725</u>	<u>988,627,562</u>
Total Currency in Circulation	<u>1,026,567,252</u>	<u>1,005,099,066</u>

30. OTHER PAYABLES

	2022 Rs. 000	2021 Rs. 000
Provision and Charges	7,910,908	3,791,015
Payable to Commercial Banks	-	431,145
Liability against Abandoned Property Transfers Received (Note 30.1)	15,415,255	11,592,360
Payable to Contributory Banks under Viskam Scheme	-	1,683,468
Balances of Employee Benefit Plans (Note 30.2)	12,361	8,701
Other Payables (Note 30.3)	44,981,823	1,657,193
	<u>68,320,347</u>	<u>19,163,882</u>

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:

	2022 Rs. 000	2021 Rs. 000
Balances in CBSL Provident fund, Pension schemes and Widows' / Widowers' & Orphans' Pension Schemes	12,361	8,701
	<u>12,361</u>	<u>8,701</u>

30.3 The Rs. 37.02 bn included in other receivables represents the United States Dollar receivable to CBSL in connection with the USD/LKR Swaps which remained unsettled by domestic banks after their maturity dates and the corresponding rupee payable balance of Rs. 35.67 bn is included in other payable balance.

31. DEFERRED GRANTS

	2022 Rs. 000	2021 Rs. 000
As at 1 January	1,178	789
Additions during the Year	1,288	3,089
Amortization during the Year	(632)	(2,700)
As at 31 December	<u>1,834</u>	<u>1,178</u>

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 includes a grant received by CBSL from Project Management Unit of SAPP as a grant for 70% of the Software development cost in implementation of New Automation System for SAPP Loan Schemes, two research grants received from the Knowledge Partnership Programme of the Bank of Korea amounting to Rs. 1.45Mn (received in 2020 & 2021) which will be utilized to cover the cost of local training programmes of CBSL staff and Rs. 2.32 Mn received from the United Nations Development Programme which has been utilized for awareness programmes on sustainable finance.

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 fair value of plan assets/investments of Rs.43,838.73 Mn (2021 – Rs. 53,334.41Mn) exceeds the total present value of all benefit obligations of Rs. 40,853.23 Mn (2021 – Rs. 66,279.21Mn) at the end of the reporting period resulting in an excess of Rs. 2,985.49 Mn (2021 – Deficit of Rs. 12,944.80 Mn).

As at 31 December 2022

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	28,743,485	742,361	6,594,557	769,222	256,344	316,311	3,430,954	40,853,234
Fair Value of Plan Assets/Investments	(27,133,747)	(4,890,127)	(5,575,619)	(2,151,516)	(1,101,040)	(210,570)	(2,776,110)	(43,838,729)
Net Benefit Liability/ (Asset)	1,609,738	(4,147,766)	1,018,938	(1,382,294)	(844,696)	105,741	654,844	(2,985,495)

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).

	2022 Rs. 000	2021 Rs. 000
Employee Retirement Pension Scheme	1,609,738	15,142,138
Employee Retirement Pension Scheme-New	(4,147,765)	(3,589,011)
Widows' and Orphans' Pension Scheme	1,018,938	2,649,217
Widows' and Orphans' and Widowers' and Orphans' Pension Scheme - New	(455,747)	(455,747)
Gratuity Scheme (Gross)	316,311	379,276
Medical Benefit Scheme (Gross)	3,430,954	3,803,864
	1,772,429	17,929,737

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' 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 2022	15,142,138	(3,589,011)	2,649,217	(1,147,643)	(455,747)	53,957	291,888	12,944,799
Net Benefit Expense/(Income)	1,753,459	(336,011)	258,156	(146,789)	(175,238)	35,323	1,131,049	2,519,949
Amount recognized in Other Comprehensive Income	(11,675,870)	342,225	(1,777,027)	(87,862)	(213,711)	16,461	(768,093)	(14,163,877)
Contribution Paid	(3,609,989)	(564,969)	(111,408)	-	-	-	-	(4,286,366)
As at 31 December 2022	1,609,738	(4,147,766)	1,018,938	(1,382,294)	(844,696)	105,741	654,844	(2,985,495)
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' 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 2022	47,559,244	2,047,071	10,151,236	1,537,384	801,139	379,275	3,803,864	66,279,213
Interest Cost	5,507,360	237,051	1,175,513	178,029	92,772	43,920	440,487	7,675,132
Current Service Cost	-	79,596	-	-	-	29,075	63,979	172,650
Past Service Cost	-	-	-	-	-	-	1,040,563	1,040,563
Benefit Paid From the Fund	(4,024,579)	(10,118)	(844,658)	(62,097)	(803)	(68,904)	(327,305)	(5,338,464)
Actuarial Gains on Obligations	(20,298,540)	(1,611,239)	(3,887,534)	(884,094)	(636,764)	(67,055)	(1,590,634)	(28,975,860)
As at 31 December 2022	28,743,485	742,361	6,594,557	769,222	256,344	316,311	3,430,954	40,853,234
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' 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 2022	32,417,106	5,636,082	7,502,019	2,685,027	1,256,886	325,318	3,511,976	53,334,414
Interest Income	3,753,901	652,658	868,734	310,926	145,547	37,672	406,687	6,176,125
Contributions by the Employer	3,609,989	564,969	111,408	-	-	-	-	4,286,366
Contributions by the Employees	-	-	48,623	13,892	122,463	-	7,293	192,271
Benefit Paid from the Fund	(4,024,579)	(10,118)	(844,658)	(62,097)	(803)	(68,904)	(327,305)	(5,338,464)
Return on Plan Assets/ Investments excluding Interest Income	(8,622,670)	(1,953,464)	(2,110,507)	(796,232)	(423,053)	(83,516)	(822,541)	(14,811,983)
As at 31 December 2022	27,133,747	4,890,127	5,575,619	2,151,516	1,101,040	210,570	2,776,110	43,838,729
Expenses/(Income) Recognised in Other Comprehensive Income (OCI) for the Year Ended 31 December 2022	Employee Retirement Pension Scheme	Employee Retirement Pension Scheme - New	Widows' and Orphans' Pension Scheme	Widowers' and Orphans' Pension Scheme	Widows' and Orphans' and Widowers' Pension Scheme - New	Gratuity Scheme	Medical Benefit Scheme	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Actuarial (Gains)/Losses on Obligations for the Year								
Due to Change in Financial Assumptions	(21,280,959)	(1,681,421)	(5,338,738)	(821,271)	(690,550)	(149,497)	(1,908,889)	(31,871,325)
Due to Experience	982,419	70,182	1,451,204	(62,823)	53,786	82,442	318,255	2,895,465
Return on Plan Assets/ Investments excluding Interest Income	8,622,670	1,953,464	2,110,507	796,232	423,053	83,516	822,541	14,811,983
Net (Income)/Expense for the Year Recognized in OCI	(11,675,870)	342,225	(1,777,027)	(87,862)	(213,711)	16,461	(768,093)	(14,163,877)

Benefit Expense for the Year Ended 31 December 2022	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	5,507,360	237,051	1,175,513	178,029	92,772	43,920	440,487	7,675,132
Interest Income on Plan Assets/Investments	(3,753,901)	(652,658)	(868,734)	(310,926)	(145,547)	(37,672)	(406,687)	(6,176,125)
Expected Return on Plan Assets	-	-	-	-	-	-	-	-
Net Actuarial (Gain) /Loss recognized during the year	-	-	-	-	-	-	-	-
Transitional Adjustment	-	-	-	-	-	-	-	-
Current Service Cost	-	79,596	-	-	-	29,075	63,979	172,650
Past Service Cost	-	-	-	-	-	-	1,040,563	1,040,563
Contributions by the Employees	-	-	(48,623)	(13,892)	(122,463)	-	(7,293)	(192,271)
Benefit Expense/(Income)	1,753,459	(336,011)	258,156	(146,789)	(175,238)	35,323	1,131,049	2,519,949

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	25,156,360	4,598,490	5,063,782	1,955,169	1,072,593	196,145	2,658,415	40,700,954
Investment in Reverse Repo	112,927	42,808	33,002	2,015	9,225	9,252	43,525	252,754
Investment in Debentures	817,628	222,411	342,261	58,157	17,361	5,173	74,170	1,537,161
Investment in Fixed Deposits	1,043,051	24,187	134,333	134,847	968	-	-	1,337,386
Balances Remaining in Current Accounts	3,781	2,231	2,241	1,328	893	-	-	10,474
Total Plan Assets/Investments as at 31 December 2022	27,133,747	4,890,127	5,575,619	2,151,516	1,101,040	210,570	2,776,110	43,838,729

As at 31 December 2021								
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 2021	16,989,329	(2,464,375)	4,660,286	(895,516)	825,451	18,494	2,145,748	21,279,417
Net Benefit Expense /(Income)	1,444,093	(53,181)	364,126	(86,665)	5,855	31,478	262,381	1,968,087
Amount recognized in Other Comprehensive Income	2,157,568	(752,427)	(421,712)	(165,462)	(889,978)	3,986	(1,225,696)	(1,293,721)
Contribution Paid	(5,448,852)	(319,028)	(1,953,483)	-	(397,075)	-	(890,545)	(9,008,983)
As at 31 December 2021	15,142,138	(3,589,011)	2,649,217	(1,147,643)	(455,747)	53,958	291,888	12,944,800

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 2021	47,170,831	3,223,066	10,827,211	1,932,117	1,713,506	353,689	5,020,814	70,241,234
Interest Cost	4,009,521	273,961	920,313	164,230	145,648	30,064	426,769	5,970,506
Current Service Cost	-	156,290	-	-	-	29,906	87,410	273,606
Benefit Paid From the Fund	(2,926,130)	(11,321)	(560,527)	(39,986)	-	(21,590)	(277,412)	(3,836,966)
Actuarial Gains on Obligations	(694,978)	(1,594,925)	(1,035,761)	(518,977)	(1,058,015)	(12,793)	(1,453,717)	(6,369,166)
As at 31 December 2021	47,559,244	2,047,071	10,151,236	1,537,384	801,139	379,276	3,803,864	66,279,214

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 2021	30,181,502	5,687,441	6,166,925	2,827,633	888,055	335,195	2,875,066	48,961,817
Interest Income	2,565,428	483,432	524,189	240,349	75,485	28,492	244,381	4,161,756
Contributions by the Employer	5,448,852	319,028	1,953,483	-	397,075	-	890,545	9,008,983
Contributions by the Employees	-	-	31,998	10,546	64,308	-	7,417	114,269
Benefit Paid from the Fund	(2,926,130)	(11,321)	(560,527)	(39,986)	-	(21,590)	(277,412)	(3,836,966)
Return on Plan Assets/ Investments, Excluding Interest Income	(2,852,546)	(842,498)	(614,049)	(353,515)	(168,037)	(16,779)	(228,021)	(5,075,445)
As at 31 December 2021	32,417,106	5,636,082	7,502,019	2,685,027	1,256,886	325,318	3,511,976	53,334,414
Expenses Recognised in Other Comprehensive Income (OCI) for the Year Ended 31 December 2021	Employee Retirement Pension Scheme	Employee Retirement Pension Scheme-New	Widows' and Orphans' Pension Scheme	Widowers' and Orphans' Pension Scheme	Widows' and Orphans' and Widowers' and Orphans' Pension Scheme - New	Gratuity Scheme	Medical Benefit Scheme	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Actuarial (Gains)/Losses on Obligations for the Year								
Due to Change in Financial Assumptions	(6,924,201)	(1,751,717)	(3,345,121)	(867,007)	(1,078,686)	(88,794)	(740,428)	(14,795,954)
Due to Experience	6,229,223	156,792	2,309,360	348,030	20,671	76,001	(713,289)	8,426,788
Return on Plan Assets/ Investments, excluding Interest Income	2,852,546	842,498	614,049	353,515	168,037	16,779	228,021	5,075,445
Net (Income)/Expense For the Year Recognized in OCI	2,157,568	(752,427)	(421,712)	(165,462)	(889,978)	3,986	(1,225,696)	(1,293,721)
Benefit Expense for the Year Ended 31 December 2021	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	4,009,521	273,961	920,313	164,230	145,648	30,064	426,769	5,970,506
Interest Income on Plan Assets/Investments	(2,565,428)	(483,432)	(524,189)	(240,349)	(75,485)	(28,492)	(244,381)	(4,161,756)
Current Service Cost	-	156,290	-	-	-	29,906	87,410	273,606
Contributions by the Employees	-	-	(31,998)	(10,546)	(64,308)	-	(7,417)	(114,269)
Benefit Expense / (Income)	1,444,093	(53,181)	364,126	(86,665)	5,855	31,478	262,381	1,968,087

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	26,570,667	5,287,728	5,537,069	2,383,033	1,224,677	310,153	2,806,478	44,119,805
Investment in Reverse Repo	1,568,583	75,086	427,511	50,582	13,509	-	224,262	2,359,533
Investment in Debentures	820,495	219,709	342,517	56,934	16,850	5,094	70,832	1,532,431
Investment in Fixed Deposits	3,454,948	52,207	1,193,074	193,479	869	10,071	410,404	5,315,052
Balances Remaining in Current Accounts	2,413	1,352	1,848	999	981	-	-	7,593
Total Plan Assets/Investments as at 31 December 2021	32,417,106	5,636,082	7,502,019	2,685,027	1,256,886	325,318	3,511,976	53,334,414

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

	2022	2021
Discount Rate	19.00%	11.58%
Expected Rate of Return on Assets	19.00%	11.58%
Rate of Salary Increases - Gratuity, W & OP, WR & OP, Old Pension Schemes	7.00%	7.00%
Rate of Salary Increase - Pension New and WR & OP New	6.50%	6.50%
Future Pension Increases - Old Pension Scheme	6.00%	7.50%
Future Pension Increases - New Pension Scheme	2.50%	2.00%
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	39 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	39 Years	38 Years
Gratuity Scheme	17 Years	17 Years
CBSL Medical Benefit Scheme	27 Years	26 Years
Retirement Age	60 Years	60 Years

Sensitivity Analysis at 0.5% (As at 31 December 2022)	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
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Projected benefit obligation on current assumptions	28,743,485	742,361	6,594,557	769,222	256,344	316,311	3,430,954
Effect of "+" change in discount rate	(668,156)	(65,500)	(158,025)	(23,092)	(17,521)	(6,674)	(84,038)
Effect of "-" change in discount rate	702,459	31,989	166,673	24,480	19,426	6,982	88,853
Effect of "+" change in attrition rate	-	-	-	-	-	68,915	-
Effect of "-" change in attrition rate	-	-	-	-	-	(73,479)	-
Effect of "+" change in salary escalation rate	24,664	38,679	955	384	11,353	7,748	-
Effect of "-" change in salary escalation rate	(24,212)	(36,178)	(939)	(376)	(10,648)	(7,438)	-
Effect of "+" change in Medical Cost Inflation	-	-	-	-	-	-	101,086
Effect of "-" change in Medical Cost Inflation	-	-	-	-	-	-	(95,784)
Effect of "+" change in Rate of Pension Escalation	761,600	-	185,807	27,040	-	-	-
Effect of "-" change in Rate of Pension Escalation	(727,576)	-	(176,763)	(25,592)	-	-	-

33. MISCELLANEOUS LIABILITIES AND ACCRUALS

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

	2022 Rs. 000	2021 Rs. 000
Lease Liability (Note 33.1.4)	60,142	61,144
Provision for Credit Guarantees (Note 33.2)	220,347	1,117,492
Other Liabilities	574,554	2,848,713
	855,043	4,027,349

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

	2022 Rs. 000	2021 Rs. 000
Interest on lease liability	6,030	5,482
Amortisation of right-of-use assets	7,161	6,501

33.1.3 Amounts Recognised in the Statement of Cash Flows

	2022 Rs. 000	2021 Rs. 000
Total cash outflow for leases	7,032	5,489

33.1.4 Lease Liability

	2022 Rs. 000	2021 Rs. 000
Balance as at 1 January	61,144	52,038
Additions during the year	-	9,114
Remeasurement during the year	-	-
Interest charges during the year	6,030	5,481
Lease payments during the year	(7,032)	(5,489)
Balance as at 31 December	60,142	61,144

33.1.5 Maturity Analysis of Lease Liability

	2022 Rs. 000	2021 Rs. 000
Non-current	57,642	58,815
Current	2,500	2,329
Balance as at 31 December	60,142	61,144

33.1.6 Maturity Analysis based on Contractual Undiscounted Cash Flows

	2022 Rs. 000	2021 Rs. 000
Less than one year	8,303	8,359
One to five years	23,198	20,836
More than five years	119,492	130,157
Total undiscounted lease liabilities	150,993	159,352

33.2 Provision for Credit Guarantees

	2022 Rs. 000	2021 Rs. 000
Deferred Income on Credit Guarantee Schemes operated by RDD	1,023	105,760
Expected Credit Loss on Credit Guarantees (Note 33.2.1)	219,324	1,011,732
Balance as at 31 December	220,347	1,117,492

33.2.1 Movement in Expected Credit Losses on Credit Guarantees

	2022 Stage 1 Rs. 000	2021 Stage 1 Rs. 000
Balance as at 1 January	1,011,732	-
Reversal during the Year	(792,408)	1,011,732
Balance as at 31 December	219,324	1,011,732

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 2021, an amount of Rs. 49.64 Bn was transferred to MRR from Retained Earnings in 2022 as per the Monetary Board decision BP MB/F/6/3/2022 dated 24 February 2022.

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 fair valuation 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) 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.

ix) Reserve for Funding purpose of Post Employment Benefit Plans - As per Monetary Board decision MB/F/39/20/2016 dated 16.12.2016, 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.1,051.04 Mn was made to this fund in February 2022, from the distributable profits of year 2021.

x) 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.

Further, based on the RDD net asset incorporation performed on 31st December 2021 in accordance with the Monetary Board decision MB/F/6/4/2022 dated 24 February 2022, the net impact of such absorption for a value of Rs.15.0Bn was subsequently transferred to this reserve from the distributable profit of year 2021.

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	Fixed Asset Revaluation Reserve	IRR	Net Fair value Gain/(Loss) on FVOCI Securities	Pension Fund Reserve	Reserve for Funding Purposes of Post Employment Benefit Plans	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Balance as at 1 January 2022	29,577,739	87,037,512	4,001,226	40,000	3,239,926	11,902,670	182,036,032	(6,210,465)	2,000,000	1,503,586	315,128,226
Transfer to RTGS Sinking Fund	-	-	-	-	438,146	-	-	-	-	-	438,146
Transfer of Profits to General Reserve	-	-	27,526,076	-	-	-	-	-	-	-	27,526,076
Transfer of Funds to MLTCF for the RDD operations as per the profit appropriation BP of 2021	15,000,000	-	-	-	-	-	-	-	-	-	15,000,000
Transfer of Net Foreign Exchange Revaluation Gain/ (Loss)	-	-	-	-	-	-	(610,149,293)	-	-	-	(610,149,293)
Net Fair Value Loss on Securities at Fair Value through Other Comprehensive Income	-	-	-	-	-	-	-	(1,189,382)	-	-	(1,189,382)
Transfer of Funds to Market Revaluation Reserve	-	49,638,590	-	-	-	-	-	-	-	-	49,638,590
Transfer to Reserve for funding purposes of Post-Employment Benefit Plans	-	-	-	-	-	-	-	-	-	1,051,039	1,051,039
Market Valuation Reserve - Government Securities Classified at Fair Value through Other Comprehensive Income	-	-	-	-	-	-	-	11,225,713	-	-	11,225,713
Market Valuation Reserve - Equity Investments Classified at Fair Value through Other Comprehensive Income	-	-	-	-	-	-	-	145,915	-	-	145,915
Balance as at 31 December 2022	44,577,739	136,676,102	31,527,302	40,000	3,678,072	11,902,670	(428,113,261)	3,971,781	2,000,000	2,554,624	(191,184,970)

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.

- 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).
- 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)
- 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 2022 is as follows. However, the adjustment referred in a) above has not

been performed in arriving at the distributable profit indicated below in order to comply with the section 41 of the MLA. Accordingly, the exchange losses of the reporting year has been fully removed in arriving at the distributable profit with the approval of the Monetary Board.

Item	2022 Rs. 000
Calculation of Distributable Profit	
IFRS Profit/(Loss)	(374,320,973)
Less:	
Transfer of exchange losses to International Revaluation Reserve (IRR) in accordance with the MLA	(610,149,293)
Transfer of interest income on internal Funds to respective Funds	793,692
Distributable Profit as per MLA and Profit Distribution Policy	235,034,628
Distribution of Profit	
Transfer to Surplus	235,034,628

As per Section 39 (b) of the Monetary Law Act any net profits remaining shall be carried to surplus until such time as the equity to domestic assets ratio reach 15 percent. Accordingly, the entire distributable profit of 2022 of Rs. 235.03Bn will be transferred to surplus.

36. INTEREST INCOME FROM FINANCIAL ASSETS

	2022 Rs. 000	2021 Rs. 000
Interest Income from Foreign Currency Financial Assets		
Cash and Short Term Deposits	1,229,509	274,786
Financial Assets	349,787	4,104,262
Total Interest Income from Foreign Currency Financial Assets	1,579,295	4,379,048
Interest Income from Local Currency Financial Assets		
Sri Lanka Government Securities	357,442,399	55,718,603
Securities Purchased under Resale Agreements	117,769,763	8,806,814
Other Loans and Advances	5,661,688	2,770,062
Interest Income from Other Assets	1,802,677	1,317,449
Total Interest Income from Local Currency Financial Assets	482,676,527	68,612,928
Total Interest Income from Financial Assets	484,255,823	72,991,976

Total Interest Income calculated using the effective interest method during 2022 was Rs.357,596.28 Mn (2021 - Rs.58,662.72 Mn).

37. GAIN/(LOSS) FROM UNREALIZED PRICE REVALUATIONS

	2022 Rs. 000	2021 Rs. 000
Foreign Securities	-	(302,953)
Gold	(3,106,177)	(7,475,934)
Forex & Currency SWAPS	(124,179,927)	49,638,590
Total Gain/(Loss) from Unrealized Price Revaluations	(127,286,104)	41,859,703

38. INTEREST EXPENSES ON FINANCIAL LIABILITIES

	2022 Rs. 000	2021 Rs. 000
Interest Expense on Foreign Currency Financial Liabilities		
Asian Clearing Union	13,109,060	78,207
IMF Related Liabilities	14,332,873	2,946,797
Other Foreign Payables	4,851,344	609,524
Total Interest Expense on Foreign Currency Financial Liabilities	32,293,277	3,634,528
Interest Expense on Local Currency Financial Liabilities		
Securities Sold Under Repurchase Agreements	465,598	890,946
Standing Deposit Facility	29,948,163	5,668,475
Abandoned Property	3,072,799	623,593
Miscellaneous Interest Expenses	4,133,034	1,286,883
Total Interest Expense on Local Currency Financial Liabilities	37,619,594	8,469,897
Total Interest Expense on Financial Liabilities	69,912,871	12,104,425

The Bank has a net sterilization gain of Rs. 72,133.23 Mn (2021 - Rs. 3,050.59 Mn) in its activities to inject liquidity to the domestic market. The sterilization cost is comprised of the interest expenses incurred on securities sold under agreement to repurchase, interest expense on bond borrowing, interest expense on Standing Deposit Facility and USD/LKR Derivative loss included in the gain/ (loss) from realized price changes netted off with interest income earned on the securities purchased under agreement to resale (Reverse Repurchase) and interest expenses incurred on Standing Lending Facility included under interest income from Sri Lanka Government Securities.

	2022 Rs. 000	2021 Rs. 000
Interest expenses incurred on securities sold under agreement to repurchase	465,598	890,946
Interest expense on Standing Deposit Facility	29,948,163	5,668,475
Less:		
Interest income earned on the securities purchased under agreement to resale	117,769,763	8,806,814
USD/LKR Derivative Gain	(15,222,772)	803,202
	72,133,230	3,050,595

39. REVERSAL/(CHARGE) OF EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS

	2022 Rs. 000	2021 Rs. 000
Foreign Currency Financial Assets		
Financial Assets at Amortized Cost		
Cash & Cash Equivalents (Note 8.2)	(759,464)	184,970
IMF Related Assets (Note 11.4)	(5)	(1)
Securities at Fair Value through Other Comprehensive Income (Note 9.2)	(3,749)	2,097,726
Total Expected Credit Loss Reversal/(Charge) on Foreign Currency Financial Assets	(763,218)	2,282,695
Local Currency Financial Assets		
Financial Assets at Amortised Cost		
Loans to Banks (Note 16.2)	(295,001)	123,745
Investments by Internal Funds (Note 17.1 & 17.2)	25	79,291
Credit Guarantee Provision (Note 33.2.1)	792,408	(1,011,732)
Total Expected Credit Loss Charge on Local Currency Financial Assets	497,432	(808,696)
Total Expected Credit Loss Reversal/(Charge) on Financial Assets	(265,786)	1,473,999

40. OTHER INCOME			42. ADMINISTRATION AND OTHER EXPENSES		
	2022 Rs. 000	2021 Rs. 000		2022 Rs. 000	2021 Rs. 000
Dividend Income - Related Party	138,037	153,987	Repairs and Maintenance	1,277,530	879,065
Amortization of Assets received from Grants	28	28	Loss on Disposal of Property, Plant and Equipment	-	669,923
Licensing Fees of Financial Institutions	673,300	614,575	Operating Expenses for Reuters, Bloomberg, SWIFT etc.	285,862	205,041
Rent Income	207,766	282,174	Travelling	48,967	22,008
Charges collected from RTGS Participants	71,809	54,237	Printing	61,428	41,699
Other income from the RDD net asset incorporation (Note 40.2)	597,118	14,705,875	Statutory Audit Fees	12,338	9,225
Miscellaneous Income	766,160	469,494	Remuneration to Members of the Monetary Board/Sub Committees	4,500	3,975
Total Other Income	2,454,218	16,280,370	Advertising Cost	50,765	48,796
			Consultancy, Communication, Advisory and Professional Fees	220,071	210,337
			Interest Expense on Lease Liability	6,030	5,482
			Miscellaneous Expenses	(57,110)	183,571
			Total Administration and Other Expenses	1,910,381	2,279,122
40.1 OTHER EXPENSE			43. TAX		
	2022 Rs. 000	2021 Rs. 000		2022 Rs. 000	2021 Rs. 000
Incentives on Inward Foreign Remittances	10,260,110	-			
	10,260,110	-			
<p>With an objective of encouraging more workers' remittances to the country through formal fund transferring channels, the Central Bank of Sri Lanka decided to grant an incentive for Sri Lankans working abroad by reimbursing the transaction cost incurred on account of inward workers' remittances. Accordingly, the total transaction cost reimbursed to all Licensed Banks by CBSL during the year 2022 is disclosed under other expense.</p>			<p>The Bank is not liable for the income tax as per section 9 (1) of Inland Revenue Act No. 24 of 2017 and subsequent amendments as per Inland Revenue (Amendment) Act No. 10 of 2021 & Inland Revenue (Amendment) Act No. 45 of 2022. During the year 2022, the Bank did not pay any taxes (2021 - Nil).</p>		
40.2 Incorporation of net assets of schemes operated by Regional Development Department			44. RECONCILIATION OF OPERATING PROFIT WITH CASH FLOWS FROM OPERATING ACTIVITIES		
<p>The Monetary Board of the Central Bank of Sri Lanka approved to incorporate the balances related to the refinance and credit guarantee schemes operated by Regional Development Department (RDD) in the financial statements of the Bank for the year ended 31 December 2021. Accordingly, a net asset value of Rs.14.706Bn was recorded under other income from the RDD net asset incorporation for the year ended 31 December 2021.</p>			<p>Reported Profit from Operating Activities</p>		
<p>The subsequent adjustments occurred in relation to this absorption was recorded under other income from the RDD net assets incorporation during the year 2022</p>			<p>Add/(Less) : Non-Cash Items</p>		
	2022 Rs. 000	2021 Rs. 000		2022 Rs. 000	2021 Rs. 000
Wages and Salaries	6,691,770	7,116,223	Depreciation & Amortization	737,304	526,675
Defined Contribution Plan Costs	11,550,422	1,717,811	Interest Receivable – Local Currency – Investment Portfolio	(475,212,162)	(64,504,574)
Post Employee Defined Benefit Plan Costs	2,091,404	1,891,272	Net Provision for Defined Employee Benefit Plans	7,810,442	2,290,446
Total Personnel Expenses	20,333,596	10,725,306	Gross Unrealised Foreign Exchange Gain	430,181,826	(43,638,970)
			Loss/(Profit) on Sale of Property, Plant and Equipment	548	669,924
			Provisions and Accruals	43,215,464	3,144,366
			Expected Credit Loss Provision on Financial Assets	265,786	(1,473,999)
			Deferred Grants	656	389
			Amortization of PRGF Deposit	(3,953)	(2,372)
			Write off of Construction in Progress	-	(356)
			Amortization Expense of Fixed Income Securities	(9,800)	877,761
			Other Income Net Impact from the RDD Net Asset Incorporation	5,568,805	(14,705,875)
			Add/(Less) : Movements in Other Working Capital Items		
			Decrease in Inventories	140,126	1,373,286
			Decrease in Interest Receivable	(33,191,964)	3,593,983
			Increase in Miscellaneous Liabilities	(6,324,458)	1,539,342
			Increase in Interest Payable	12,431,642	425,395
			Increase in Other Receivables	32,570,689	(2,236,407)
			Add/(Less) : Investing and Financing Activities		
			Net Unrealised Market Value Changes	127,286,104	(45,265,635)
			Net Cash Flows from Operating Activities	(228,853,919)	776,045

45. NET ISSUES/(WITHDRAWALS) OF CIRCULATION CURRENCY ON GOVERNMENT TRANSACTIONS			46. NET ISSUES/(WITHDRAWALS) OF CIRCULATION CURRENCY ON BANK AND FINANCIAL INSTITUTIONS TRANSACTIONS		
	2022 Rs. 000	2021 Rs. 000		2022 Rs. 000	2021 Rs. 000
Purchase of Sri Lanka Government Securities	1,132,877,429	1,218,291,655	(Increase)/Decrease in Deposits by Banks and Financial Institutions	(22,342,019)	(171,102,641)
Interest Received – Local Currency – Sri Lanka Government Securities	(367,603,730)	(43,061,965)			
Decrease in Advances to GOSL	85,509,900	(2,933,100)			
(Increase)/Decrease in Balances with Government and Government Entities	1,170,890	68,211			
	851,954,489	1,172,364,801			

47. CONCENTRATIONS OF FUNDING							
The Bank's concentrations of funding as at reporting date were as follows:							
47.1 Balance as at 31 December 2022	Sri Lanka Government	Sri Lanka Public	Sri Lanka Commercial Banks	Foreign Banks & Financial Institutions	Supranational Financial Institutions	Other	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Foreign Currency Financial Assets							
Cash and Cash Equivalents	-	-	-	643,040	651,044,824	-	651,687,864
Securities at Fair Value through Other Comprehensive Income	-	-	-	-	10,867,425	-	10,867,425
Derivative Financial Instruments	-	-	401,580	-	-	-	401,580
IMF Related Assets	-	-	-	-	281,421,074	-	281,421,074
Other Receivables	-	-	37,022,631	-	-	-	37,022,631
Total Foreign Currency Financial Assets	-	-	37,424,211	643,040	943,333,323	-	981,400,574
Local Currency Financial Assets							
Sri Lanka Government Securities	2,498,995,015	-	-	-	-	-	2,498,995,015
Securities Purchased under Resale Agreements	698,069,219	-	-	-	-	-	698,069,219
Provisional Advances to Government	235,638,700	-	-	-	-	-	235,638,700
Equity Investments in Financial and Other Institutions	-	-	-	-	-	1,817,132	1,817,132
Loans to Banks	-	-	28,257,902	-	-	-	28,257,902
Other Assets	-	-	-	-	-	30,182,560	30,182,560
Total Local Currency Financial Assets	3,432,702,934	-	28,257,902	-	-	31,999,692	3,492,960,528
Total Financial Assets	3,432,702,934	-	65,682,113	643,040	943,333,323	31,999,692	4,474,361,102
Foreign Currency Non - Financial Assets							
Gold	-	-	-	-	-	10,031,610	10,031,610
	-	-	-	-	-	10,031,610	10,031,610
Non - Financial Assets							
Inventories	-	-	-	-	-	4,788,407	4,788,407
Other Receivables and Prepayments	-	-	-	-	-	1,222,568	1,222,568
Property, Plant and Equipment	-	-	-	-	-	19,035,278	19,035,278
Intangible Assets	-	-	-	-	-	908,137	908,137
Total Non - Financial Assets	-	-	-	-	-	25,954,390	25,954,390
Total Assets	3,432,702,934	-	65,682,113	643,040	943,333,323	67,985,692	4,510,347,102

47.2 Balance as at 31 December 2021	Sri Lanka Government	Sri Lanka Public	Sri Lanka Commercial Banks	Foreign Banks & Financial Institutions	Supranational Financial Institutions	Other	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Foreign Currency Financial Assets							
Cash and Cash Equivalents	-	-	-	51,348,516	461,413,936	-	512,762,452
Securities at Fair Value through Other Comprehensive Income	-	-	-	-	8,818,244	-	8,818,244
Derivative Financial Instruments	-	-	54,022,836	-	-	-	54,022,836
IMF Related Assets	-	-	-	-	188,045,837	-	188,045,837
Other Receivables	-	-	-	-	-	-	-
Total Foreign Currency Financial Assets	-	-	54,022,836	51,348,516	658,278,017	-	763,649,369
Local Currency Financial Assets							
Sri Lanka Government Securities	1,377,820,347	-	-	-	-	-	1,377,820,347
Securities Purchased under Resale Agreements	567,532,312	-	-	-	-	-	567,532,312
Provisional Advances to Government	150,128,800	-	-	-	-	-	150,128,800
Equity Investments in Financial and Other Institutions	-	-	-	-	-	1,671,218	1,671,218
Loans to Banks	-	-	90,572,746	-	-	-	90,572,746
Other Assets	-	-	-	-	-	34,063,770	34,063,770
Total Local Currency Financial Assets	<u>2,095,481,459</u>	-	<u>90,572,746</u>	-	-	<u>35,734,988</u>	<u>2,221,789,193</u>
Total Financial Assets	<u>2,095,481,459</u>	-	<u>144,595,582</u>	<u>51,348,516</u>	<u>658,278,017</u>	<u>35,734,988</u>	<u>2,985,438,562</u>
Foreign Currency Non - Financial Assets							
Gold	-	-	-	-	-	35,151,981	35,151,981
	-	-	-	-	-	35,151,981	35,151,981
Non-Financial Assets							
Inventories	-	-	-	-	-	4,928,533	4,928,533
Other Receivables and Prepayments	-	-	-	-	-	961,456	961,456
Property, Plant and Equipment	-	-	-	-	-	19,235,994	19,235,994
Intangible Assets	-	-	-	-	-	561,632	561,632
Total Non-Financial Assets	-	-	-	-	-	<u>25,687,615</u>	<u>25,687,615</u>
Total Assets	<u>2,095,481,459</u>	-	<u>144,595,582</u>	<u>51,348,516</u>	<u>658,278,017</u>	<u>96,574,584</u>	<u>3,046,278,158</u>
47.3 Balance as at 31 December 2022	Sri Lanka Government	Sri Lanka Public	Sri Lanka Commercial Banks	Supranational Financial Institutions	Other	Total	
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	
Foreign Currency Financial Liabilities							
Banks and Financial Institutions	-	-	-	-	146,408,028	146,408,028	
Derivative Financial Instruments	-	-	71,697,994	-	-	71,697,994	
Asian Clearing Union	-	-	-	736,258,129	-	736,258,129	
IMF	-	-	-	1,127,925,092	-	1,127,925,092	
Other	1,021,468	-	-	69,173	593,292,810	594,383,451	
Total Foreign Currency Financial Liabilities	<u>1,021,468</u>	-	<u>71,697,994</u>	<u>1,864,252,394</u>	<u>739,700,838</u>	<u>2,676,672,694</u>	
Local Currency Financial Liabilities							
Deposits of Banks and Financial Institutions	-	-	311,537,802	-	11,508,379	323,046,181	
Deposits of Government and Government Entities	221,406	5	-	-	-	221,411	
Securities Sold Under Repurchase Agreements & Standing	-	-	330,637,059	-	-	330,637,059	
Deposit Facility	-	-	-	-	-	-	
Currency in Circulation	-	1,026,567,252	-	-	-	1,026,567,252	
Other Payables	86,808	-	-	-	68,233,539	68,320,347	
Total Local Currency Financial Liabilities	<u>308,214</u>	<u>1,026,567,257</u>	<u>642,174,861</u>	-	<u>79,741,918</u>	<u>1,748,792,250</u>	
Total Financial Liabilities	<u>1,329,682</u>	<u>1,026,567,257</u>	<u>713,872,855</u>	<u>1,864,252,394</u>	<u>819,442,756</u>	<u>4,425,464,944</u>	
Other Liabilities							
Deferred Grants	-	-	-	-	1,834	1,834	
Pension and Other Post - Employment Benefit Plans	-	-	-	-	1,772,429	1,772,429	
Miscellaneous Liabilities and Accruals	-	-	-	-	855,043	855,043	
Total Other Liabilities	-	-	-	-	<u>2,629,306</u>	<u>2,629,306</u>	
Total Liabilities	<u>1,329,682</u>	<u>1,026,567,257</u>	<u>713,872,855</u>	<u>1,864,252,394</u>	<u>822,072,062</u>	<u>4,428,094,250</u>	

47.4 Balance as at 31 December 2021	Sri Lanka Government	Sri Lanka Public	Sri Lanka Commercial Banks	Supranational Financial Institutions	Other	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Foreign Currency Financial Liabilities						
Banks and Financial Institutions	-	-	-	-	13,701	13,701
Derivative Financial Instruments	-	-	1,139,323	-	-	1,139,323
Asian Clearing Union	-	-	-	104,764,616	-	104,764,616
IMF	-	-	-	670,065,243	-	670,065,243
Other	1,501,522	-	-	178,312	355,615,842	357,295,676
Total Foreign Currency Financial Liabilities	1,501,522	-	1,139,323	775,008,171	355,629,543	1,133,278,559
Local Currency Financial Assets						
Deposits of Banks and Financial Institutions	-	-	289,396,174	-	11,307,988	300,704,162
Deposits of Government and Government Entities	1,392,104	197	-	-	-	1,392,301
Securities Sold Under Repurchase Agreements & Standing	-	-	99,426,206	-	1,636,674	101,062,880
Deposit Facility	-	-	-	-	-	-
Currency in Circulation	-	1,005,099,066	-	-	-	1,005,099,066
Other Payables	26,525	-	8,947,739	-	10,189,618	19,163,882
Total Local Currency Financial Liabilities	1,418,629	1,005,099,263	397,770,119	-	23,134,280	1,427,422,291
Total Financial Liabilities	2,920,151	1,005,099,263	398,909,442	775,008,171	378,763,823	2,560,700,850
Other Liabilities						
Deferred Grants	-	-	-	-	1,178	1,178
Pension and Other Post - Employment Benefit Plans	-	-	-	-	17,929,737	17,929,737
Miscellaneous Liabilities and Accruals	-	-	-	-	4,027,349	4,027,349
Total Other Liabilities	-	-	-	-	21,958,264	21,958,264
Total Liabilities	2,920,151	1,005,099,263	398,909,442	775,008,171	400,722,087	2,582,659,114

48. RISK MANAGEMENT

In pursuing its policy objectives, CBSL faces various risks, both financial and non-financial in nature. Since the materialization of any of such risks could have an adverse impact on the achievement of objectives, financial position and the reputation of CBSL, having a properly designed risk management framework in place is vital. Accordingly, CBSL has established an Enterprise-wide Risk Management (ERM) Framework to ensure the risks faced by CBSL are properly managed.

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, i.e. 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 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 consists of a Non-Financial Risk Management Committee (NFRMC), Investment

Oversight Committees (IOCs) and all departments. The CBSL follows the "Three Lines of Defence" risk management model where all departments form the first line of defence. 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. 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 relevant activities to direct and guide CBSL in this regard. With regard to operational risks, RMD reports to the BROC, through the NFRMC and with regard to financial risks, RMD reports directly to the BROC, on a periodic basis. Internal Audit Department (IAD), as the third line of defence, 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. IAD reports the progress of the conduct of audits to the MB and MBAAC, quarterly and submits information on audit reports issued to the Auditor General on quarterly basis.

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

RMD is responsible for facilitating the financial risk management of the fund management activities of the International Reserves, and the Internal Investment Funds of CBSL, as well as the Employees' Provident Fund which is managed by CBSL as an agency function of the Government. Accordingly, RMD has formulated Investment Policy Statements (IPS), Strategic Asset Allocation (SAA) and Investment Guidelines (IGs) for all three funds and reviews them regularly to incorporate any required changes. RMD also independently monitors market and credit risks pertaining to these fund management activities to ensure these investments are within the stipulated limits specified by the MB approved SAA, IPS and IGs and reports to the respective Investment Oversight Committees, the BROC and the MB on a periodic basis.

In facilitating the operational risk management, RMD reviews the Operational Risk Taxonomy of the CBSL on need basis, updating it including/excluding risk categories and incorporating any other changes required to suit the prevailing risk environment. To promote a risk culture within the bank, RMD conducts numerous risk awareness sessions for CBSL staff throughout the year at various fora. In addition, a biennial perception survey is conducted among selected staff of CBSL to determine the level of awareness with regard to the existing operational risk management mechanism in place. The survey results are used to design future awareness sessions appropriately, leading to enhancing the risk culture within CBSL and to further improve the operational risk management mechanism currently in use.

Further, RMD works with departments to provide the initial facilitation for the development of their Risk Registers and to refine these Risk Registers 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 continuously administers 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.

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:

	2022 Rs. 000	2021 Rs. 000
Sri Lanka	3,530,384,740	2,275,756,176
USA	129,318,087	130,712,211
Japan	158,350	9,457,390
Britain	140,790	1,008,405
Europe	2,232,018	1,582,664
Supranational	284,961,366	190,963,416
Other	527,165,751	375,958,300
Total Financial Assets	4,474,361,102	2,985,438,562

(b) Concentrations of Credit Exposure by Institution

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

	2022 Rs. 000	2021 Rs. 000
Governments	3,403,598,633	2,014,470,178
Supranational Financial Institutions	295,828,791	227,180,460
Foreign Banks and Financial Institutions	643,040	15,187,326
Sri Lanka Banks & Financial Institutions	764,200,061	718,635,801
Other	10,090,577	9,964,797
Total Financial Assets	4,474,361,102	2,985,438,562

(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. Uncured payment defaults or distressed debt exchanges on bonds, loans, or other significant financial obligations are indicated by RD ratings. NR indicates that Standard and Poor's or Fitch Rating have not rated the entity.

Credit Exposure by Credit Rating	Credit Rating	2022 Rs.000	%	2021 Rs.000	%
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		651,044,824	14.55%	497,630,980	16.67%
Other Counterparties	AAA	-	0.00%	4,009,562	0.13%
	AA-	96,911	0.00%	2,004,771	0.07%
	A+	80,743	0.00%	8,094,146	0.27%
	A-	353,258	0.01%	768,180	0.03%
	BBB	68,247	0.00%	40,255	0.00%
	NR	43,881	0.00%	214,558	0.01%
		651,687,864	14.56%	512,762,452	17.18%
Securities at Fair Value through Other Comprehensive Income					
	AAA	1,090,124	0.03%	2,830,756	0.09%
	AA+	9,777,301	0.23%	5,987,488	0.20%
		10,867,425	0.24%	8,818,244	0.29%
Derivative Financial Instruments					
Locally Rated	A	-	0.00%	55,853	0.00%
	AA-	-	0.00%	34,088,798	1.14%
	A+	-	0.00%	19,788,494	0.67%
	A	343,437	0.01%	33,378	0.00%
	A-	58,143	0.00%	-	0.00%
	BBB-	-	0.00%	2	0.00%
	BB+	-	0.00%	56,311	0.00%
		401,580	0.01%	54,022,836	1.81%
IMF Related Assets					
		281,421,074	6.29%	188,045,837	6.30%
		281,421,074	6.29%	188,045,837	6.30%
Other Receivables					
	A	37,022,631	0.83%	-	0.00%
		37,022,631	0.83%	-	0.00%
Total Foreign Currency Financial Assets					
		981,400,574	21.93%	763,649,369	25.58%

	Credit Rating	2022 Rs.000	%	2021 Rs.000	%
Local Currency Financial Assets					
Sri Lanka Government Securities	RD	2,498,995,015	55.85%	-	0.00%
	CCC+	-	0.00%	1,377,820,347	46.15%
Securities Purchased under Resale Agreements	AAA	8,624,339	0.19%	-	0.00%
	AA-	-	0.00%	557,856,718	18.69%
	A	650,453,702	14.54%	5,656,932	0.19%
	A-	15,966,586	0.36%	-	0.00%
	BBB-	3,327,832	0.07%	-	0.00%
	NR	19,696,760	0.45%	4,018,662	0.14%
Provisional Advances to Government	RD	235,638,700	5.27%	-	0.00%
	CCC+	-	0.00%	150,128,800	5.03%
Equity Investments in Financial and Other Institutions	NR	1,817,132	0.04%	1,671,218	0.06%
Loans to Banks	AAA	3,327	0.00%	24,917	0.00%
	AA-	-	0.00%	51,999,491	1.74%
	A+	-	0.00%	16,372,930	0.55%
	A	12,416,991	0.28%	9,977,843	0.33%
	A-	5,473,684	0.12%	-	0.00%
	BBB+	79,516	0.00%	6,201,554	0.21%
	BBB-	1,134,172	0.03%	2,933,926	0.10%
	BB+	9,070,842	0.20%	2,688,669	0.09%
	NR	79,370	0.00%	373,416	0.01%
Other Assets	AAA	-	0.00%	325,579	0.01%
	AA-	188,211	0.00%	5,699,123	0.19%
	A+	-	0.00%	727,308	0.02%
	A	299,219	0.01%	-	0.00%
	A-	149,510	0.00%	-	0.00%
	RD	21,460,386	0.48%	-	0.00%
	CCC+	-	0.00%	19,206,430	0.64%
	NR	8,085,234	0.18%	8,105,330	0.27%
Total Local Currency Financial Assets		3,492,960,528	78.07%	2,221,789,193	74.42%
Total Financial Assets		4,474,361,102	100.00%	2,985,438,562	100.00%

(d) Summary by Major Credit Category

	Credit Rating	2022 Rs.000	%	2021 Rs.000	%
Foreign Currency Financial Assets					
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		651,044,824	14.55%	497,630,980	16.67%
IMF Related Assets		281,421,074	6.29%	188,045,837	6.30%
	AAA	1,090,124	0.01%	6,840,318	0.22%
	AA+/-	9,874,212	0.22%	7,992,259	0.27%
	A+/-	434,001	0.01%	8,918,179	0.30%
	BBB+/-	68,247	0.00%	40,255	0.00%
	NR	43,881	0.00%	214,558	0.01%
Locally Rated	AA+/-	-	0.00%	34,088,798	1.14%
	A+/-	37,424,211	0.85%	19,821,872	0.67%
	BBB+	-	0.00%	2	0.00%
	BB+	-	0.00%	56,311	0.00%
	NR	-	0.00%	-	0.00%
Total Foreign Currency Financial Assets		981,400,574	21.93%	763,649,369	25.58%
Local Currency Financial Assets					
	AAA	8,627,666	0.19%	350,496	0.01%
	AA+/-	188,211	0.00%	615,555,332	20.62%
	A+/-	684,759,692	15.29%	32,735,013	1.09%
	BBB+/-	4,541,520	0.10%	9,135,480	0.31%
	BB+/-	9,070,842	0.20%	2,688,669	0.09%
	CCC+	2,756,094,101	61.60%	1,547,155,577	51.82%
	NR	29,678,496	0.67%	14,168,626	0.48%
Total Local Currency Financial Assets		3,492,960,528	78.07%	2,221,789,193	74.42%
Total Financial Assets		4,474,361,102	100.00%	2,985,438,562	100.00%

(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 Rs.000	Life Time ECL			2022 Total Rs.000
			12 - Month ECL Stage 1 Rs.000	Stage 2 Rs.000	Stage 3 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						
		-	649,672,094	2,217,173	-	651,889,267
	AAA	-	-	-	-	-
	AA-	-	97,027	-	-	97,027
	A+	-	80,749	-	-	80,749
	A-	-	12,185	341,301	-	353,486
	BBB	-	68,279	-	-	68,279
	NR	-	43,887	-	-	43,887
Gross Carrying Amount		-	649,974,221	2,558,474	-	652,532,695
Loss Allowance		-	(841,440)	(3,391)	-	(844,831)
Carrying Amount		-	649,132,781	2,555,083	-	651,687,864
Securities at Fair Value through Other Comprehensive Income						
	AAA	-	1,090,124	-	-	1,090,124
	AA+	-	9,777,301	-	-	9,777,301
		-	10,867,425	-	-	10,867,425
IMF Related Assets						
	NR	-	281,421,082	-	-	281,421,082
Gross Carrying Amount		-	281,421,082	-	-	281,421,082
Loss Allowance		-	(8)	-	-	(8)
Carrying Amount		-	281,421,074	-	-	281,421,074
Local Currency Financial Assets						
Sri Lanka Government Securities						
	Government Securities (Risk Free Investment)	2,498,995,015	-	-	-	2,498,995,015
		2,498,995,015	-	-	-	2,498,995,015
Securities Purchased under Resale Agreements						
	Other Risk Free Investment	698,069,219	-	-	-	698,069,219
		698,069,219	-	-	-	698,069,219
Provisional Advances to Government						
	Receivable from the Government (Risk Free Investment)	235,638,700	-	-	-	235,638,700
		235,638,700	-	-	-	235,638,700
Loans to Banks						
	AAA	-	-	3,333	-	3,333
	AA+	-	-	-	-	-
	AA	-	-	-	-	-
	AA-	-	-	-	-	-
	A+	-	-	-	-	-
	A	-	5,513,369	6,906,357	-	12,419,726
	A-	-	4,133,725	1,342,976	-	5,476,701
	BBB+	-	-	79,786	-	79,786
	BBB	-	-	-	-	-
	BBB-	-	1,126,323	11,592	-	1,137,915
	BB+	-	-	9,318,648	-	9,318,648
	BB	-	-	-	-	-
	BB-	-	-	-	-	-
	NR	-	79,416	-	-	79,416
	Credit Guarantee Scheme of CBSL	-	-	-	86,307	86,307
Gross Carrying Amount		-	10,852,833	17,662,692	86,307	28,601,832
Loss Allowance		-	(6,057)	(251,566)	(86,307)	(343,930)
Carrying Amount		-	10,846,776	17,411,126	-	28,257,902

	Credit Rating	Not Subject to ECL Rs.000	Life Time ECL			2022
			12 - Month ECL Stage 1 Rs.000	Stage 2 Rs.000	Stage 3 Rs.000	Total Rs.000
Other Assets						
	Government Securities (Risk Free Investment)	17,919,801	-	-	-	17,919,801
	Receivable from the Government (Risk Free Investment)	3,540,585	-	-	-	3,540,585
	Other Risk Free Receivable	8,085,234	-	-	-	8,085,234
Locally Rated	AAA	-	-	-	-	-
	AA-	-	188,293	-	-	188,293
	A+	-	-	-	-	-
	A	-	130,285	168,989	-	299,274
	A-	-	9,252	140,526	-	149,778
	BBB+	-	-	-	-	-
	BBB	-	-	-	-	-
	BBB-	-	-	-	-	-
	BB+	-	-	-	-	-
	BB	-	-	-	-	-
	BB-	-	-	-	-	-
	NR	-	-	-	2,226,887	2,226,887
Gross Carrying Amount		29,545,620	327,830	309,515	2,226,887	32,409,852
Loss Allowance		-	(86)	(319)	(2,226,887)	(2,227,292)
Carrying Amount		29,545,620	327,744	309,196	-	30,182,560
Comparative figures as at 31 December 2021 were as follows:						
	Credit Rating	Not Subject to ECL Rs.000	Life Time ECL			2021
			12 - Month ECL 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 Riksbank/ Bank of Canada/ Reserve Bank of New Zealand/ Reserve Bank of India/ People's Bank of China	-	487,881,870	9,805,548	-	497,687,418
	AAA	-	4,009,618	-	-	4,009,618
	AA-	-	2,004,789	-	-	2,004,789
	A+	-	8,094,153	-	-	8,094,153
	A	-	-	-	-	-
	A-	-	768,194	-	-	768,194
	BBB+	-	-	-	-	-
	BBB	-	40,261	-	-	40,261
	NR	-	-	243,387	-	243,387
Gross Carrying Amount		-	502,798,885	10,048,935	-	512,847,820
Loss Allowance		-	(52,009)	(33,359)	-	(85,368)
Carrying Amount		-	502,746,876	10,015,576	-	512,762,452
Securities at Fair Value through Other Comprehensive Income						
	AAA	-	2,830,756	-	-	2,830,756
	AA+	-	5,987,488	-	-	5,987,488
	AA	-	-	-	-	-
	AA-	-	-	-	-	-
	A+	-	-	-	-	-
		-	8,818,244	-	-	8,818,244
IMF Related Assets						
	NR	-	188,045,840	-	-	188,045,840
Gross Carrying Amount		-	188,045,840	-	-	188,045,840
Loss Allowance		-	(3)	-	-	(3)
Carrying Amount		-	188,045,837	-	-	188,045,837
Local Currency Financial Assets						
Sri Lanka Government Securities						
	Government Securities (Risk Free Investment)	1,377,820,347	-	-	-	1,377,820,347
		1,377,820,347	-	-	-	1,377,820,347
Securities Purchased under Resale Agreements						
	Other Risk Free Investment	567,532,312	-	-	-	567,532,312
		567,532,312	-	-	-	567,532,312
Provisional Advances to Government						
	Receivable from the Government (Risk Free Investment)	150,128,800	-	-	-	150,128,800
		150,128,800	-	-	-	150,128,800

	Credit Rating	Not Subject to ECL	12 - Month ECL		Life Time ECL		2021
			Rs.000	Stage 1	Stage 2	Stage 3	Total
				Rs.000	Rs.000	Rs.000	Rs.000
Loans to Banks	AAA	-	24,917	-	-	-	24,917
	AA+	-	-	-	-	-	-
	AA-	-	46,591,702	5,408,477	-	-	52,000,179
	A+	-	16,374,633	-	-	-	16,374,633
	A	-	9,979,661	-	-	-	9,979,661
	A-	-	-	-	-	-	-
	BBB+	-	6,205,432	-	-	-	6,205,432
	BBB-	-	2,939,496	-	-	-	2,939,496
	BB+	-	390,018	2,320,747	-	-	2,710,765
	BB	-	-	-	-	-	-
	BB-	-	-	-	-	-	-
	NR	-	373,575	-	-	-	373,575
	Credit Guarantee Scheme of CBSL	-	-	-	13,016	-	13,016
Gross Carrying Amount		-	82,879,434	7,729,224	13,016	-	90,621,674
Loss Allowance		-	(14,435)	(21,477)	(13,016)	-	(48,928)
Carrying Amount		-	82,864,999	7,707,747	-	-	90,572,746
Other Assets							
	Government Securities (Risk Free Investment)	15,118,446	-	-	-	-	15,118,446
	Receivable from the Government (Risk Free Investment)	4,087,983	-	-	-	-	4,087,983
	Other Risk Free Receivable	8,105,330	-	-	-	-	8,105,330
Locally Rated	AAA	-	325,580	-	-	-	325,580
	AAA-	-	5,681,358	17,393	-	-	5,699,251
	AA+	-	-	-	-	-	-
	A+	-	600,404	127,206	-	-	727,610
	A	-	-	-	-	-	-
	A-	-	-	-	-	-	-
	BBB+	-	-	-	-	-	-
	BBB	-	-	-	-	-	-
	BBB-	-	-	-	-	-	-
	BB+	-	-	-	-	-	-
	BB	-	-	-	-	-	-
	BB-	-	-	-	-	-	-
	NR	-	-	-	2,226,887	-	2,226,887
Gross Carrying Amount		27,311,759	6,607,842	144,599	2,226,887	-	36,291,087
Loss Allowance		-	(189)	(241)	(2,226,887)	-	(2,227,317)
Carrying Amount		27,311,759	6,607,653	144,358	-	-	34,063,770

(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.

	2022				2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Cash & Cash Equivalents								
Balance as at 1 January	52,009	33,359	-	85,368	90,277	180,061	-	270,338
Transfer to Stage 1	28,828	(28,828)	-	-	1,164	(1,164)	-	-
Transfer to Stage 2	(34)	34	-	-	(52)	52	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
Amount charged to the Income Statement	760,638	(1,174)	-	759,464	(39,380)	(145,590)	-	(184,970)
Balance as at 31 December	841,440	3,393	-	844,832	52,009	33,359	-	85,368
Securities at Fair Value through Other Comprehensive Income								
Balance as at 1 January	995	-	-	995	36,546	2,062,175	-	2,098,721
Transfer to Stage 1	-	-	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
Amount charged to the Income Statement	3,749	-	-	3,749	(35,551)	(2,062,175)	-	(2,097,726)
Balance as at 31 December	4,744	-	-	4,744	995	-	-	995
IMF Related Assets								
Balance as at 1 January	3	-	-	3	2	-	-	2
Transfer to Stage 1	-	-	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
Amount charged to the Income Statement	5	-	-	5	1	-	-	1
Balance as at 31 December	8	-	-	8	3	-	-	3
Loans to Banks								
Balance as at 1 January	14,435	21,477	-	35,912	6,215	148,153	-	154,368
Transfer to Stage 1	-	-	-	-	140,773	(140,773)	-	-
Transfer to Stage 2	(4,804)	4,804	-	-	(37)	37	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
Amount charged to the Income Statement	(3,574)	225,285	-	221,711	(132,516)	14,060	-	(118,456)
Balance as at 31 December	6,057	251,566	-	257,623	14,435	21,477	-	35,912
Claims paid under Credit Guarantee Scheme								
Balance as at 1 January	-	-	13,016	13,016	-	-	-	-
Transfer to Stage 1	-	-	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
Amount charged to the Income Statement	-	-	73,291	73,291	-	-	13,016	13,016
Balance as at 31 December	-	-	86,307	86,307	-	-	13,016	13,016
Other Assets								
Balance as at 1 January	189	241	2,226,887	2,227,317	48	79,524	183,276	262,848
Transfer to Stage 1	-	-	-	-	(1)	1	-	-
Transfer to Stage 2	(1)	1	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
Amount charged to the Income Statement	(102)	77	-	(25)	142	(79,284)	2,043,611	1,964,469
Balance as at 31 December	86	319	2,226,887	2,227,292	189	241	2,226,887	2,227,317
Credit Guarantees								
Balance as at 1 January	1,011,732	-	-	1,011,732	-	-	-	-
Transfer to Stage 1	-	-	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
Amount charged to the Income Statement	(792,408)	-	-	(792,408)	1,011,732	-	-	1,011,732
Balance as at 31 December	219,324	-	-	219,324	1,011,732	-	-	1,011,732

(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			Principal type of collateral held
	2022	2021		
Securities Purchased under Resale Agreements	100	100		Marketable Government Securities
Loans to Banks				
Saubagya Covid Renaissance Facility	100	100		Marketable Government Securities and Loan Receivables

(h) Amounts arising from ECL

The following table provides an explanation of how significant changes in the gross carrying amount of financial instruments during the period contributed to changes in loss allowance.

	2022		
	Impact: Increase/ (Decrease)		
	Stage 1	Stage 2	Stage 3
	Rs. 000	Rs. 000	Rs. 000
Cash and Cash Equivalents			
Cash balances have increased with the objective of increasing the liquid assets available to serve government debt obligations and forex market intervention activities with counterparties with declined credit ratings	789,431	(29,967)	-
Securities at Fair Value through Other Comprehensive Income	3,749	-	-
Disposal of a substantial portion of the Fixed Income Security portfolio to pay foreign currency debt obligations of the government			
Loans to Banks			
- Already Existed balances			
Increased due to the rating downgrades of local banks	(8,378)	230,089	-
Increased due to the payment of credit guarantee claims to banks	-	-	73,291
Internal Funds			
- Already Existed balances			
Increased due to the rating downgrades of domestic banks	47	78	-
- Absorbed balances			
Decreased due to the disposal of RDD investments during 2022	(151)	-	-
Credit Guarantees	(792,408)	-	-
Decreased due to the reduction in credit guarantee contingent liability			
	<u>(7,710)</u>	<u>200,200</u>	<u>73,291</u>
	2021		
	Impact: Increase/ (Decrease)		
	Stage 1	Stage 2	Stage 3
	Rs. 000	Rs. 000	Rs. 000
Cash and Cash Equivalents			
Increase of cash balances with counterparties with improved credit ratings	(38,267)	(146,702)	-
Securities at Fair Value through Other Comprehensive Income	(35,551)	(2,062,174)	-
Disposal of part of the Fixed Income Security portfolio during the year			
Loans to Banks			
- Already Existed balances			
Decreased due to loan repayments during the year	-	(140,425)	-
Increased due to payment of credit guarantee claims to banks	-	-	13,016
- Absorbed balances			
Increased due to incorporation of RDD loan balances to CBSL financial statements	4,555	13,749	-
Internal Funds			
- Already Existed balances			
Decreased due to reduced exposure with non rated counterparties	-	(79,282)	-
- Absorbed balances			
Increased due to incorporation of RDD investment balances to CBSL financial statements	151	-	-
Credit Guarantees			
Increased due to the non performing ratios of sub borrowers being factored into expected credit loss assessment	1,011,732	-	-
	<u>942,620</u>	<u>(2,414,834)</u>	<u>13,016</u>

(i) Net carrying amount of credit impaired assets at amortized cost

The following table sets out a reconciliation of changes in the net carrying amount of credit impaired assets at amortized cost.

	2022 Rs. 000	2021 Rs. 000
Credit-impaired assets at amortized cost as at 1 January	-	-
Classified as credit-impaired during the year	73,291	13,016
Incorporation of credit impaired assets of schemes operated by RDD	-	2,043,610
Change in ECL allowance	(73,291)	(2,056,626)
Credit-impaired assets at amortized cost at 31 December	-	-

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 is measured by the potential gain or loss that could incur due to a change in interest rate by 10 basis points. Sensitivity of the risk exposure of the segmented Fixed Income Securities Portfolio is given below:

Portfolio Segment	Potential Loss (USD Mn)	
	2022	2021
Fair Value through Other Comprehensive Income	0.10	0.16

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	
	2022	2021
Capital Market (Fixed Income Securities)	3.36	3.69

- 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)	
	2022	2021
Fair Value through Other Comprehensive Income	0.145	0.180

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. VaR is calculated for a 10 day period at 99% confidence interval using Historical and Parametric methods.

Portfolio Segment	Value at Risk (VaR)		
	2022		2021
	Historical	Parametric	
Fair Value through Other Comprehensive Income	0.65	0.63	0.48

iv) Trading & Open Position Limits

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

(b) Local Currency Interest Rate Sensitivity

The 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 largely determined by its monetary policy operations. However, the portfolio may include Government Securities purchased under Section 112 of the Monetary Law Act. In addition, the basic interest rates in the rupee market, the Standing Deposit Rate and the Standing Lending 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 or monetary financing, 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 %	2022 Total Rs. 000	6 Months or Less Rs. 000	6 to 12 Months Rs. 000	1 to 2 Years Rs. 000	2 to 5 Years Rs. 000	Over 5 Years Rs. 000
Interest Sensitive Foreign Currency Financial Assets							
Cash & Cash equivalents	0.0000	651,687,864	651,687,864	-	-	-	-
Securities at Fair Value through Other Comprehensive Income	1.3005	10,867,425	34,125	1,076,988	-	9,756,312	-
IMF Related Assets	2.9160	2,006,502	2,006,502	-	-	-	-
Total Interest Sensitive Foreign Currency Financial Assets		664,561,791	653,728,491	1,076,988	-	9,756,312	-
Non Interest Sensitive Foreign Currency Financial Assets							
IMF Related Assets		279,414,572	29,523	-	-	377,081	279,007,968
Derivative Financial Instruments		401,580	401,580	-	-	-	-
Other Receivables		37,022,631	37,022,631	-	-	-	-
Total non Interest Sensitive Foreign Currency Financial Assets		316,838,783	37,453,734	-	-	377,081	279,007,968
Total Foreign Currency Financial Assets		981,400,574	691,182,225	1,076,988	-	10,133,393	279,007,968
Interest Sensitive Foreign Currency Financial Liabilities							
IMF	3.9160	385,639,212	28,807,533	33,580,393	-	308,932,705	14,318,581
Asian Clearing Union	0.0100	736,258,129	736,258,129	-	-	-	-
Total Interest Sensitive Foreign Currency Financial Liabilities		1,121,897,341	765,065,662	33,580,393	-	308,932,705	14,318,581
Non Interest Sensitive Foreign Currency Financial Liabilities							
Banks and Financial Institutions		146,408,028	146,408,028	-	-	-	-
Derivative Financial Instruments		71,697,994	5,537,140	5,238,797	11,469,456	40,991,347	8,461,254
IMF		742,285,880	-	-	-	-	742,285,880
Other Foreign Liabilities		594,383,451	73,060,874	521,322,577	-	-	-
Total non Interest Sensitive Foreign Currency Financial Liabilities		1,554,775,353	225,006,042	526,561,374	11,469,456	40,991,347	750,747,134
Total Foreign Currency Financial Liabilities		2,676,672,694	990,071,704	560,141,767	11,469,456	349,924,052	765,065,715
Foreign Currency Interest Rate Sensitivity Gap		(457,335,550)	(111,337,171)	(32,503,405)	-	(299,176,393)	(14,318,581)

Local Currency Interest Rate Sensitivity Gap :	Weighted Avg. Int. Rate %	2022 Total Rs. 000	6 Months or Less Rs. 000	6 to 12 Months Rs. 000	1 to 2 Years Rs. 000	2 to 5 Years Rs. 000	Over 5 Years Rs. 000
Interest Sensitive Local Currency Financial Assets							
Sri Lanka Government Securities	4.7333	2,498,995,015	2,481,264,384	-	15,768,874	1,961,757	-
Securities Purchased under Resale Agreements	15.5000	698,069,219	698,069,219	-	-	-	-
Loans to Banks	1.0000	28,257,902	26,398,994	196,759	1,561,865	100,284	-
Other Assets - Staff Loans	3.3688	8,053,421	261,770	226,096	461,704	1,469,430	5,634,421
- Others	9.0352	18,556,718	1,763,964	2,738,646	1,696,628	5,502,281	6,855,199
Total Interest Sensitive Local Currency Financial Assets		3,251,932,275	3,207,758,331	3,161,501	19,489,071	9,033,752	12,489,620
Non Interest Sensitive Local Currency Financial Assets							
Provisional Advances to Government		235,638,700	235,638,700	-	-	-	-
Other Assets - Others		3,572,421	3,572,421	-	-	-	-
Investment in Equity Securities - Fair Value through Other Comprehensive Income		1,817,132	-	-	-	-	1,817,132
Total Non Interest Sensitive Local Currency Financial Assets		241,028,253	239,211,121	-	-	-	1,817,132
Total Local Currency Financial Assets		3,492,960,528	3,446,969,452	3,161,501	19,489,071	9,033,752	14,306,752
Interest Sensitive Local Currency Financial Liabilities							
Standing Deposit Facility	14.5000	330,637,059	330,637,059	-	-	-	-
Total Interest Sensitive Local Currency Financial Liabilities		330,637,059	330,637,059	-	-	-	-
Non Interest Sensitive Local Currency Financial Liabilities							
Deposits of Banks and Financial Institutions		323,046,181	323,046,181	-	-	-	-
Deposits of Government and Governmental Entities		221,411	221,411	-	-	-	-
Currency in Circulation		1,026,567,252	1,026,567,252	-	-	-	-
Other Payables		68,320,347	68,320,347	-	-	-	-
Total Non Interest Sensitive Local Currency Financial Liabilities		1,418,155,191	1,418,155,191	-	-	-	-
Total Local Currency Financial Liabilities		1,748,792,250	1,748,792,250	-	-	-	-
Local Currency Interest Rate Sensitivity Gap		2,921,295,216	2,877,121,272	3,161,501	19,489,071	9,033,752	12,489,620

Comparative figures as at 31 December 2021 were as follows:

Foreign Currency Interest Rate Sensitivity Gap:	Weighted Avg. Int. Rate %	2021 Total Rs. 000	6 Months or Less Rs. 000	6 to 12 Months Rs. 000	1 to 2 Years Rs. 000	2 to 5 Years Rs. 000	Over 5 Years Rs. 000
Interest Sensitive Foreign Currency Financial Assets							
Cash & Cash equivalents	0.3942	512,762,452	512,762,452	-	-	-	-
Securities at Fair Value through Other Comprehensive Income	1.0799	8,818,244	44,216	-	2,798,126	5,975,902	-
IMF Related Assets	0.0770	38,244,608	38,244,608	-	-	-	-
Total Interest Sensitive Foreign Currency Financial Assets		559,825,304	551,051,276	-	2,798,126	5,975,902	-
Non Interest Sensitive Foreign Currency Financial Assets							
IMF Related Assets		149,801,229	549	-	-	216,785	149,583,895
Derivative Financial Instruments		54,022,836	396,731	981,508	1,980,676	33,823,817	16,840,104
Total Non Interest Sensitive Foreign Currency Financial Assets		203,824,065	397,280	981,508	1,980,676	34,040,602	166,423,999
Total Foreign Currency Financial Assets		763,649,369	551,448,556	981,508	4,778,802	40,016,504	166,423,999
Interest Sensitive Foreign Currency Financial Liabilities							
IMF	1.0770	253,476,994	12,582,348	16,744,203	-	200,569,216	23,581,227
Asian Clearing Union	0.0900	104,764,616	104,764,616	-	-	-	-
Total Interest Sensitive Foreign Currency Financial Liabilities		358,241,610	117,346,964	16,744,203	-	200,569,216	23,581,227
Non Interest Sensitive Foreign Currency Financial Liabilities							
Banks and Financial Institutions		13,701	13,701	-	-	-	-
Derivative Financial Instruments		1,139,323	909,548	229,775	-	-	-
IMF		416,588,249	-	-	-	-	416,588,249
Other Foreign Liabilities		357,295,676	40,161,167	317,134,509	-	-	-
Total Non Interest Sensitive Foreign Currency Financial Liabilities		775,036,949	41,084,416	317,364,284	-	-	416,588,249
Total Foreign Currency Financial Liabilities		1,133,278,559	158,431,380	334,108,487	-	200,569,216	440,169,476
Foreign Currency Interest Rate Sensitivity Gap		201,583,694	433,704,312	(16,744,203)	2,798,126	(194,593,314)	(23,581,227)

Local Currency Interest Rate Sensitivity Gap :	Weighted Avg. Int. Rate %	2021 Total Rs. 000	6 Months or Less Rs. 000	6 to 12 Months Rs. 000	1 to 2 Years Rs. 000	2 to 5 Years Rs. 000	Over 5 Years Rs. 000
Interest Sensitive Local Currency Financial Assets							
Sri Lanka Government Securities	5.1119	1,377,820,347	1,018,529,204	336,001,028	482,143	22,807,972	-
Securities Purchased under Resale Agreements	7.2022	567,532,312	567,532,312	-	-	-	-
Loans to Banks	1.0007	90,572,746	70,896,466	18,461,922	1,206,709	7,649	-
Other Assets - Staff Loans	3.3012	8,073,335	437,218	263,936	539,529	1,723,015	5,109,637
- Others	9.9582	21,870,406	6,509,990	488,099	3,196,792	5,483,148	6,192,377
Total Interest Sensitive Local Currency Financial Assets		2,065,869,146	1,663,905,190	355,214,985	5,425,173	30,021,784	11,302,014
Non Interest Sensitive Local Currency Financial Assets							
Provisional Advances to Government		150,128,800	150,128,800	-	-	-	-
Other Assets - Others		4,120,029	4,120,029	-	-	-	-
Investment in Equity Securities - Fair Value through Other Comprehensive Income		1,671,218	-	-	-	-	1,671,218
Total Non Interest Sensitive Local Currency Financial Assets		155,920,047	154,248,829	-	-	-	1,671,218
Total Local Currency Financial Assets		2,221,789,193	1,818,154,019	355,214,985	5,425,173	30,021,784	12,973,232
Interest Sensitive Local Currency Financial Liabilities							
Standing Deposit Facility	5.0000	101,062,880	101,062,880	-	-	-	-
Total Interest Sensitive Local Currency Financial Liabilities		101,062,880	101,062,880	-	-	-	-
Non Interest Sensitive Local Currency Financial Liabilities							
Deposits of Banks and Financial Institutions		300,704,162	300,704,162	-	-	-	-
Deposits of Government and Governmental Entities		1,392,301	1,392,301	-	-	-	-
Currency in Circulation		1,005,099,066	1,005,099,066	-	-	-	-
Other Payables		19,163,882	19,163,882	-	-	-	-
Total Non Interest Sensitive Local Currency Financial Liabilities		1,326,359,411	1,326,359,411	-	-	-	-
Total Local Currency Financial Liabilities		1,427,422,291	1,427,422,291	-	-	-	-
Local Currency Interest Rate Sensitivity Gap		1,964,806,266	1,562,842,310	355,214,985	5,425,173	30,021,784	11,302,014

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 Oversight Committee (IRIOC) have set percentage holdings of different currencies in its foreign 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, Chinese Yuan and New Zealand Dollars. Compliance with limits established for foreign currency positions are continuously monitored.

Net Exposure to Foreign Currencies

As at 31 December 2022, the net exposure of the Central Bank of Sri Lanka to major currencies were as follows:

As at 31 December 2022	Currency									Total All Currencies Rs. 000
	United States Dollars Rs. 000	Euro Rs. 000	Japanese Yen Rs. 000	Sterling Pound Rs. 000	SDR Rs. 000	Australian Dollars Rs. 000	Canadian Dollars Rs. 000	New Zealand Dollars Rs. 000	Other Currencies Rs. 000	
Foreign Currency Financial Assets										
Cash & Cash Equivalents	118,593,473	2,002,372	130,117	373,692	-	62,567	17,653	10,635	531,342,187	652,532,696
Securities at Fair Value through Other Comprehensive Income	10,867,425	-	-	-	-	-	-	-	-	10,867,425
Derivative Financial Instruments	-	-	-	-	-	-	-	-	401,580	401,580
IMF Related Assets	-	-	-	-	281,421,082	-	-	-	-	281,421,082
Other Receivables	63,061,108	-	-	-	-	-	-	-	-	63,061,108
Total Foreign Currency Financial Assets	192,522,006	2,002,372	130,117	373,692	281,421,082	62,567	17,653	10,635	531,743,767	1,008,283,891
Proportion	19.09%	0.20%	0.01%	0.04%	27.91%	0.01%	0.01%	0.00%	52.74%	100%
Foreign Currency Financial Liabilities										
Banks and Financial Institutions	146,407,286	-	-	687	-	55	-	-	-	146,408,028
Derivative Financial Instruments	-	-	-	-	-	-	-	-	71,697,994	71,697,994
Asian Clearing Union	736,258,128	-	-	-	-	-	-	-	-	736,258,128
IMF	-	-	-	-	1,127,925,092	-	-	-	-	1,127,925,092
Other	74,083,264	-	-	-	-	12	-	-	520,300,174	594,383,450
Total Foreign Currency Financial Liabilities	956,748,678	-	-	687	1,127,925,092	67	-	-	591,998,168	2,676,672,692
Proportion	35.74%	0.00%	0.00%	0.00%	42.14%	0.00%	0.00%	0.00%	22.12%	100%
Net Foreign Currency Exposure	(764,226,672)	2,002,372	130,117	373,005	(846,504,010)	62,500	17,653	10,635	(60,254,401)	(1,668,388,801)

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 2022	Sri Lanka Rupees Rs. 000	United States Dollars Rs. 000	Sterling Pound Rs. 000
Purchases	38,782,950	242,870,513	5,467,529
Sales	(186,160,301)	(38,126,550)	-
Forward Contra Account	-	-	-

As at 31 December 2021, the net exposure of the Central Bank of Sri Lanka to major currencies were as follows:

As at 31 December 2021	Currency									
	United States Dollars Rs. 000	Euro Rs. 000	Japanese Yen Rs. 000	Sterling Pound Rs. 000	SDR Rs. 000	Australian Dollars Rs. 000	Canadian Dollars Rs. 000	New Zealand Dollars Rs. 000	Other Currencies Rs. 000	Total All Currencies Rs. 000
Foreign Currency Financial Assets										
Cash & Cash Equivalents	138,000,677	568,045	9,461,477	1,996,158	-	650,773	31,353	11,271	362,128,066	512,847,820
Securities at Fair Value through Other Comprehensive Income	8,818,244	-	-	-	-	-	-	-	-	8,818,244
Derivative Financial Instruments	55,853	-	-	-	-	-	-	53,966,983	-	54,022,836
IMF Related Assets	-	-	-	-	188,045,840	-	-	-	-	188,045,840
Other Receivables	-	-	-	-	-	-	-	-	-	-
Total Foreign Currency Financial Assets	146,874,774	568,045	9,461,477	1,996,158	188,045,840	650,773	31,353	11,271	416,095,049	763,734,740
Proportion	19.23%	0.08%	1.24%	0.26%	24.62%	0.09%	0.00%	0.00%	54.48%	100.00%
Foreign Currency Financial Liabilities										
Banks and Financial Institutions	13,641	-	-	-	-	-	-	-	60	13,701
Derivative Financial Instruments	-	-	-	-	-	-	-	-	1,139,323	1,139,323
Asian Clearing Union	104,764,616	-	-	-	-	-	-	-	-	104,764,616
IMF	480,115	-	-	-	669,585,128	-	-	-	-	670,065,243
Other	41,662,689	-	-	-	-	-	-	-	315,632,987	357,295,676
Total Foreign Currency Financial Liabilities	146,921,061	-	-	-	669,585,128	-	-	-	316,772,370	1,133,278,559
Proportion	12.97%	0.00%	0.00%	0.00%	59.08%	0.00%	0.00%	0.00%	27.95%	100.00%
Net Foreign Currency Exposure	(46,287)	568,045	9,461,477	1,996,158	(481,539,288)	650,773	31,353	11,271	99,322,679	(369,543,819)

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 2021	Sri Lanka Rupees Rs. 000	United States Dollars Rs. 000	Japanese Yen Rs. 000
Purchases	145,161,075	50,073,176	-
Sales	(45,145,128)	(147,228,648)	(4,876,735)
Forward Contra Account	2,016,260	-	-

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

Currency	Average Rate		Year-end Spot Rate	
	2022	2021	2022	2021
	Rs	Rs	Rs	Rs
1 USD	328.1818	200.1553	363.1100	200.4338
1 EUR	343.2079	236.2532	388.3461	227.8832
1 JPY	2.4762	1.8137	2.7704	1.7417
1 GBP	400.7632	275.2172	437.4023	271.2270
1 SDR	436.4326	285.0534	483.3276	280.9312
1 AUD	226.3545	149.8331	247.0237	145.5851

Sensitivity Analysis

A reasonably possible strengthening (weakening) of the above currencies against the Sri Lanka Rupee as at 31 December 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
31 December 2022		
USD (5% movement)	(38,211,334)	38,211,334
EUR (5% movement)	100,119	(100,119)
JPY (5% movement)	6,506	(6,506)
GBP (5% movement)	18,650	(18,650)
SDR (5% movement)	(42,325,201)	42,325,201
AUD (5% movement)	3,125	(3,125)

	Profit or Loss	
	Strengthening	Weakening
	Rs. 000	Rs. 000
31 December 2021		
USD (5% movement)	(2,314)	2,314
EUR (5% movement)	28,402	(28,402)
JPY (5% movement)	473,074	(473,074)
GBP (5% movement)	99,808	(99,808)
SDR (5% movement)	(24,076,964)	24,076,964
AUD (5% movement)	32,539	(32,539)

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

As at 31 December 2022, Contractual maturities of un-discounted cash flows of Financial Assets and Liabilities are as follows,

As at 31 December 2022	Less than 6 months	6 Months -1 Year	1-2 Years	2-5 Years	Over 5 Years	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Foreign Currency Financial Assets						
Cash & Cash Equivalents	651,687,864	-	-	-	-	651,687,864
Securities at Fair Value through Other Comprehensive Income	76,939	1,166,269	122,550	11,138,399	-	12,504,157
IMF Related Assets	2,036,025	-	-	377,081	279,007,968	281,421,074
Other Receivables	37,022,631	-	-	-	-	37,022,631
Total un-discounted Foreign Financial Assets	690,823,459	1,166,269	122,550	11,515,480	279,007,968	982,635,726
Local Currency Financial Assets						
Sri Lanka Government Securities	2,576,853,759	1,110,750	1,648,793	162,211	-	2,579,775,513
Securities Purchased under Resale Agreements	698,069,219	-	-	-	-	698,069,219
Provisional Advances to Government	235,638,700	-	-	-	-	235,638,700
Equity Investments in Financial and Other Institutions	-	-	-	-	1,817,132	1,817,132
Loans to Bank	17,790,731	2,406,273	3,778,538	5,463,674	-	29,439,216
Other Assets	10,080,599	2,433,073	4,303,462	12,088,605	108,728,649	137,634,388
Total un-discounted Local Financial Assets	3,538,433,008	5,950,096	9,730,793	17,714,490	110,545,781	3,682,374,168
Total un-discounted Financial Assets	4,229,256,467	7,116,365	9,853,343	29,229,970	389,553,749	4,665,009,894
Foreign Financial Liabilities						
Banks and Financial Institutions	146,408,028	-	-	-	-	146,408,028
Asian Clearing Union	736,258,129	-	-	-	-	736,258,129
IMF	42,676,142	47,398,218	102,078,683	264,345,549	994,038,353	1,450,536,945
Others	73,060,873	521,322,578	-	-	-	594,383,451
Total un-discounted Foreign Financial Liabilities	998,403,172	568,720,796	102,078,683	264,345,549	994,038,353	2,927,586,553
Local Currency Financial Liabilities						
Deposits of Banks and Financial Institutions	323,046,181	-	-	-	-	323,046,181
Deposits of Government and Governmental Entities	221,411	-	-	-	-	221,411
Securities Sold Under Repurchase Agreements & Standing Deposits Facility	330,637,059	-	-	-	-	330,637,059
Currency in Circulation	1,026,567,252	-	-	-	-	1,026,567,252
Other Payables	68,320,347	-	-	-	-	68,320,347
Total un-discounted Local Financial Liabilities	1,748,792,250	-	-	-	-	1,748,792,250
Total un-discounted Financial Liabilities	2,747,195,422	568,720,796	102,078,683	264,345,549	994,038,353	4,676,378,803
Net un-discounted Financial Assets/ (Liabilities)	1,482,061,045	(561,604,431)	(92,225,340)	(235,115,579)	(604,484,604)	(11,368,909)
Foreign Currency Conversions						
As at 31 December 2022	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
Derivative Financial Assets	27,845,531	5,982,333	14,498,792	51,034,302	6,360,968	105,721,926
Derivative Financial Liabilities	31,340,783	10,620,241	25,779,358	89,890,059	10,076,303	167,706,744
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 2021, Contractual maturities of un-discounted cash flows of Financial Assets and Liabilities are as follows,

As at 31 December 2021	Less than 6 months Rs. 000	6 Months - 1 Year Rs. 000	1-2 Years Rs. 000	2-5 Years Rs. 000	Over 5 Years Rs. 000	Total Rs. 000
Foreign Currency Financial Assets						
Cash & Cash Equivalents	512,762,452	-	-	-	-	512,762,452
Securities at Fair Value through Other Comprehensive Income	72,720	72,720	2,851,296	6,215,953	-	9,212,689
IMF Related Assets	38,245,157	-	-	216,785	149,583,895	188,045,837
Total un-discounted Foreign Financial Assets	551,080,329	72,720	2,851,296	6,432,738	149,583,895	710,020,978
Local Currency Financial Assets						
Sri Lanka Government Securities	1,039,925,021	356,959,017	2,731,167	24,517,061	-	1,424,132,266
Securities Purchased under Resale Agreements	567,532,312	-	-	-	-	567,532,312
Provisional Advances to Government	150,128,800	-	-	-	-	150,128,800
Equity Investments in Financial and Other Institutions	-	-	-	-	1,671,218	1,671,218
Loans to Banks	79,700,303	4,111,486	4,107,462	3,432,763	-	91,352,014
Other Assets	13,862,510	1,675,011	5,311,071	10,164,003	15,569,723	46,582,318
Total un-discounted Local Financial Assets	1,851,148,946	362,745,514	12,149,700	38,113,827	17,240,941	2,281,398,928
Total un-discounted Financial Assets	2,402,229,275	362,818,234	15,000,996	44,546,565	166,824,836	2,991,419,906
Foreign Financial Liabilities						
Banks and Financial Institutions	13,701	-	-	-	-	13,701
Asian Clearing Union	104,764,616	-	-	-	-	104,764,616
IMF	16,817,583	15,339,852	38,786,708	135,825,841	475,810,517	682,580,501
Others	40,161,167	317,134,509	-	-	-	357,295,676
Total un-discounted Foreign Financial Liabilities	161,757,067	332,474,361	38,786,708	135,825,841	475,810,517	1,144,654,494
Local Currency Financial Liabilities						
Deposits of Banks and Financial Institutions	300,704,162	-	-	-	-	300,704,162
Deposits of Government and Governmental Entities	1,392,301	-	-	-	-	1,392,301
Securities Sold Under Repurchase Agreements & Standing Deposits Facility	101,062,880	-	-	-	-	101,062,880
Currency in Circulation	1,005,099,066	-	-	-	-	1,005,099,066
Other Payables	19,163,882	-	-	-	-	19,163,882
Total un-discounted Local Financial Liabilities	1,427,422,291	-	-	-	-	1,427,422,291
Total un-discounted Financial Liabilities	1,589,179,358	332,474,361	38,786,708	135,825,841	475,810,517	2,572,076,785
Net un-discounted Financial Assets/ (Liabilities)	813,049,917	30,343,873	(23,785,712)	(91,279,276)	(308,985,681)	419,343,121
As at 31 December 2021						
	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
Derivative Financial Assets	17,388,862	14,913,000	5,154,573	45,842,140	16,748,562	100,047,137
Derivative Financial Liabilities	16,884,671	15,032,535	5,260,986	46,097,369	16,698,942	99,974,503

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:

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 2022	Encumbered Pledged as collateral Rs. 000	Unencumbered Available as collateral Rs. 000	Total Rs. 000
Foreign Currency Financial Assets			
Cash and Cash Equivalents	-	651,687,864	651,687,864
Securities at Fair Value through Other Comprehensive Income	1,090,124	9,777,301	10,867,425
Derivative Financial Instruments	-	401,580	401,580
IMF Related Assets	-	281,421,074	281,421,074
Other Receivables	-	37,022,631	37,022,631
Local Currency Financial Assets			
Sri Lanka Government Securities	-	2,498,995,015	2,498,995,015
Securities Purchased under Resale Agreements	-	698,069,219	698,069,219
Provisional Advances to Government	-	235,638,700	235,638,700
Equity Investments in Financial and Other Institutions	-	1,817,132	1,817,132
Loans to Banks	-	28,257,902	28,257,902
Other Assets	-	30,182,645	30,182,645
Total Financial Assets	1,090,124	4,473,271,064	4,474,361,188
31 December 2021			
	Encumbered Pledged as collateral Rs. 000	Unencumbered Available as collateral Rs. 000	Total Rs. 000
Foreign Currency Financial Assets			
Cash and Cash Equivalents	-	512,762,452	512,762,452
Securities at Fair Value through Other Comprehensive Income	2,830,756	5,987,488	8,818,244
Derivative Financial Instruments	-	54,022,836	54,022,836
IMF Related Assets	-	188,045,837	188,045,837
Local Currency Financial Assets			
Sri Lanka Government Securities	-	1,377,820,347	1,377,820,347
Securities Purchased under Resale Agreements	-	567,532,312	567,532,312
Provisional Advances to Government	-	150,128,800	150,128,800
Equity Investments in Financial and Other Institutions	-	1,671,218	1,671,218
Loans to Banks	-	90,572,746	90,572,746
Other Assets	-	34,063,770	34,063,770
Total Financial Assets	2,830,756	2,982,607,806	2,985,438,562

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

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

49. 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 2022	FVTPL Rs. 000	FVOCI - Debt Instruments Rs. 000	FVOCI - Equity Instruments Rs. 000	Amortized Cost Rs. 000	Total Rs. 000
Foreign Currency Financial Assets					
Cash & Cash Equivalents	-	-	-	651,687,864	651,687,864
Securities at Fair Value through Other Comprehensive Income	-	10,867,425	-	-	10,867,425
Derivative Financial Instruments	401,580	-	-	-	401,580
IMF Related Assets	280,406,015	-	-	1,015,059	281,421,074
Other Receivables	-	-	-	37,022,631	37,022,631
Total Foreign Currency Financial Assets	280,807,595	10,867,425	-	689,725,554	981,400,574
Local Currency Financial Assets					
Sri Lanka Government Securities	-	2,498,995,015	-	-	2,498,995,015
Securities Purchased under Resale Agreements	-	-	-	698,069,219	698,069,219
Provisional Advances to Government	-	-	-	235,638,700	235,638,700
Equity Investments in Financial and Other Institutions	-	-	1,817,132	-	1,817,132
Loans to Banks	-	-	-	28,257,902	28,257,902
Other Assets	-	-	-	30,182,560	30,182,560
Total Local Currency Financial Assets	-	2,498,995,015	1,817,132	992,148,381	3,492,960,528
Foreign Currency Financial Liabilities					
Banks and Financial Institutions	-	-	-	146,408,028	146,408,028
Derivative Financial Instruments	71,697,994	-	-	-	71,697,994
Asian Clearing Union	-	-	-	736,258,129	736,258,129
IMF	-	-	-	1,127,925,092	1,127,925,092
Other	-	-	-	594,383,451	594,383,451
Total Foreign Currency Financial Liabilities	71,697,994	-	-	2,604,974,700	2,676,672,694
Local Currency Financial Liabilities					
Deposits of Banks and Financial Institutions	-	-	-	323,046,181	323,046,181
Deposits of Government and Governmental Entities	-	-	-	221,411	221,411
Securities Sold under Repurchase Agreements & Standing Deposit Facility	-	-	-	330,637,059	330,637,059
Currency in Circulation	-	-	-	1,026,567,252	1,026,567,252
Other Payables	-	-	-	68,320,347	68,320,347
Total Local Currency Financial Liabilities	-	-	-	1,748,792,250	1,748,792,250

31 December 2021	FVTPL	FVOCI - Debt Instruments	FVOCI - Equity Instruments	Amortized Cost	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Foreign Currency Financial Assets					
Cash & Cash Equivalents	-	-	-	512,762,452	512,762,452
Securities at Fair Value through Other Comprehensive Income	-	8,818,244	-	-	8,818,244
Derivative Financial Instruments	54,022,836	-	-	-	54,022,836
IMF Related Assets	187,404,111	-	-	641,726	188,045,837
Total Foreign Currency Financial Assets	216,626,384	8,818,244	-	538,204,741	763,649,369
Local Currency Financial Assets					
Sri Lanka Government Securities	-	1,377,820,347	-	-	1,377,820,347
Securities Purchased under Resale Agreements	-	-	-	567,532,312	567,532,312
Provisional Advances to Government	-	-	-	150,128,800	150,128,800
Equity Investments in Financial and Other Institutions	-	-	1,671,218	-	1,671,218
Loans to Banks	-	-	-	90,572,746	90,572,746
Other Assets	-	-	-	34,063,770	34,063,770
Total Local Currency Financial Assets	-	1,377,820,347	1,671,218	842,297,628	2,221,789,193
Foreign Currency Financial Liabilities					
Banks and Financial Institutions	-	-	-	13,701	13,701
Derivative Financial Instruments	1,139,323	-	-	-	1,139,323
Asian Clearing Union	-	-	-	104,764,616	104,764,616
IMF	-	-	-	670,065,243	670,065,243
Others	-	-	-	357,295,676	357,295,676
Total Foreign Currency Financial Liabilities	1,139,323	-	-	1,132,139,236	1,133,278,559
Local Currency Financial Liabilities					
Deposits of Banks and Financial Institutions	-	-	-	300,704,162	300,704,162
Deposits of Government and Governmental Entities	-	-	-	1,392,301	1,392,301
Securities Sold Under Repurchase Agreements & Standing Deposit Facility	-	-	-	101,062,880	101,062,880
Currency in Circulation	-	-	-	1,005,099,066	1,005,099,066
Other Payables	-	-	-	19,163,882	19,163,882
Total Local Currency Financial Liabilities	-	-	-	1,427,422,291	1,427,422,291

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 2022	Level 1 Rs. 000	Level 2 Rs. 000	Level 3 Rs. 000	Total Rs. 000
Financial Assets				
Securities at Fair Value through Other Comprehensive Income	10,867,425	-	-	10,867,425
Derivative Financial Instruments	-	401,580	-	401,580
IMF Related Assets	280,406,015	-	-	280,406,015
	<u>291,273,440</u>	<u>401,580</u>	<u>-</u>	<u>291,675,020</u>
Foreign Currency Non-Financial Assets				
Gold	10,031,610	-	-	10,031,610
	<u>10,031,610</u>	<u>-</u>	<u>-</u>	<u>10,031,610</u>
Local Currency Financial Assets				
Sri Lanka Government Securities	2,498,995,015	-	-	2,498,995,015
Equity Investments in Financial and Other Institutions	-	-	1,817,132	1,817,132
	<u>2,498,995,015</u>	<u>-</u>	<u>1,817,132</u>	<u>2,500,812,147</u>
Other Non-Financial Assets				
Land	-	-	10,855,725	10,855,725
Building	-	-	7,099,239	7,099,239
	<u>-</u>	<u>-</u>	<u>17,954,964</u>	<u>17,954,964</u>
Financial Liabilities				
Derivative Financial Instruments	-	71,697,994	-	71,697,994
	<u>-</u>	<u>71,697,994</u>	<u>-</u>	<u>71,697,994</u>
31 December 2021				
	Level 1 Rs. 000	Level 2 Rs. 000	Level 3 Rs. 000	Total Rs. 000
Financial Assets				
Securities at Fair Value through Other Comprehensive Income	8,818,244	-	-	8,818,244
Derivative Financial Instruments	-	54,022,836	-	54,022,836
IMF Related Assets	187,404,111	-	-	187,404,111
	<u>196,222,355</u>	<u>54,022,836</u>	<u>-</u>	<u>250,245,191</u>
Foreign Currency Non-Financial Assets				
Gold	35,151,981	-	-	35,151,981
	<u>35,151,981</u>	<u>-</u>	<u>-</u>	<u>35,151,981</u>
Local Currency Financial Assets				
Sri Lanka Government Securities	1,377,820,347	-	-	1,377,820,347
Equity Investments in Financial and Other Institutions	-	-	1,671,218	1,671,218
	<u>1,377,820,347</u>	<u>-</u>	<u>1,671,218</u>	<u>1,379,491,565</u>
Other Non-Financial Assets				
Land	-	-	10,855,725	10,855,725
Building	-	-	7,099,239	7,099,239
	<u>-</u>	<u>-</u>	<u>17,954,964</u>	<u>17,954,964</u>
Financial Liabilities				
Derivative Financial Instruments	-	1,139,323	-	1,139,323
	<u>-</u>	<u>1,139,323</u>	<u>-</u>	<u>1,139,323</u>

Equity Investments in Financial and Other Institutions

Fair value of the equity investments were calculated using the Net Assets per Share valuation technique.

Significant unobservable input used

Net Asset Value per Share (NAVPS)

Sensitivity Analysis

A 10% increase in the NAVPS would increase the fair value by 10%.

	2022 Rs. 000	2021 Rs. 000
Balance as at 1 January	1,671,218	1,615,356
Additions during the Year	-	-
Fair Value Gain Recognised in the Other Comprehensive Income	145,915	55,862
Balance as at 31 December	<u>1,817,133</u>	<u>1,671,218</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 and White Aways 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.

Gold

	2022 Rs. 000	2021 Rs. 000
Balance as at 1 January	35,151,981	76,220,055
Purchases/ (Sales) during the year	(26,108,952)	(38,743,707)
Foreign Exchange gains/ (losses)	4,094,758	5,151,566
Change in price of gold	(3,106,177)	(7,475,934)
Balance as at 31 December	10,031,610	35,151,981

50.2 Repurchase and Resale Agreements / Standing Deposit Facility

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 2022 was Rs. 330,637.06 Mn (2021 - Rs. 101,062.88 Mn) and the carrying value of Sri Lanka Government Securities purchased under resale agreements as at 31

December 2022 was Rs. 698,069.22 Mn (2021 – Rs. 567,532.31 Mn). There was no outstanding balance of Sri Lanka Government Securities sold under repurchase agreements as at 31 December 2022 (2021 – 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	
	2022 Rs. 000	2021 Rs. 000	2022 Rs. 000	2021 Rs. 000
Foreign Currency Financial Assets				
Cash and Cash Equivalents	651,687,864	512,762,452	651,687,864	512,762,452
IMF Related Assets	1,641,520	25,442,289	1,632,712	25,446,757
Other Receivables	37,022,631	-	37,022,631	-
Local Currency Financial Assets				
Securities Purchased under Resale Agreements	698,069,219	567,532,312	698,069,219	567,532,312
Provisional Advances to Government	235,638,700	150,128,800	235,638,700	150,128,800
Loans to Banks	28,257,902	90,572,746	26,399,963	88,468,648
Other Assets	30,182,560	34,063,770	25,686,027	33,614,096
Foreign Currency Financial Liabilities				
Banks and Financial Institutions	146,408,028	13,701	146,408,028	13,701
Asian Clearing Union	736,258,128	104,764,616	736,258,128	104,764,616
IMF	1,127,925,092	670,065,243	1,127,925,092	670,065,243
Others	594,383,451	357,295,676	594,383,451	357,295,676
Local Currency Financial Liabilities				
Deposits of Banks and Financial Institutions	323,046,181	300,704,162	323,046,181	300,704,162
Deposits of Government and Governmental Entities	221,411	1,392,301	221,411	1,392,301
Securities Sold Under Repurchase Agreements & Standing Deposit Facility	330,637,059	101,062,880	330,637,059	101,062,880
Currency in Circulation	1,026,567,252	1,005,099,066	1,026,567,252	1,005,099,066
Other Payables	68,320,347	19,163,882	68,320,347	19,163,882

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 Interest Income & Interest Expense on Derivatives to Gain from Realized Price Changes

Changes to Statement of Income

	2021		
	As reported previously Rs. 000	Adjustment Rs. 000	Reclassified Balance Rs. 000
Interest Income	11,815,701	(7,436,653)	4,379,048
Interest Expense	(5,609,176)	1,974,648	(3,634,528)
Gain from Realized Price Changes	14,855,788	(5,462,005)	20,317,793

Changes to Note 36 on Interest Income from Financial Assets

	2021		
	As reported previously Rs. 000	Adjustment Rs. 000	Reclassified Balance Rs. 000
Total Interest Income from Foreign Currency Financial Assets	11,815,701	(7,436,653)	4,379,048
Derivatives	7,436,653	(7,436,653)	-
Total Interest Income from Financial Assets	80,428,629	(7,436,653)	72,991,976

Changes to Note 38 on Interest Expenses on Financial Liabilities

	2021		
	As reported previously Rs. 000	Adjustment Rs. 000	Reclassified Balance Rs. 000
Total Interest Expense on Foreign Currency Financial Liabilities	(5,609,176)	1,974,648	(3,634,528)
Derivatives	1,974,648	(1,974,648)	-
Total Interest Expense on Financial Liabilities	14,079,073	(1,974,648)	12,104,425

Derivative gains of Rs. 7,436.65Mn disclosed under Interest Income & Derivative losses of Rs. 1,974.65Mn disclosed under Interest expenses in 2021 have now been disclosed under Gains from realized price changes for better presentation.

51.2 Reclassification of Interest Income from Internal Funds Investments from Interest Income on Other Loans and advances to Interest Income from Other Assets

Changes to Note 36 on Interest Income from Financial Assets

	2021		
	As reported previously Rs. 000	Adjustment Rs. 000	Reclassified Balance Rs. 000
Other Loans and Advances	2,770,062	1,317,449	1,452,613
Other Assets	1,317,449	1,317,449	2,634,898

Interest Income from Internal Funds Investment of Rs. 1,317.45 Mn disclosed under Other Loans and advances in Interest Income from Financial Assets note in 2021 has now been disclosed under Interest income from Other assets in the same note for better presentation.

51.3 Reclassification of Miscellaneous Income from Licensing Fees (Annual & New Products) from Other Income to Licensing fees of Financial Institutions

Changes to Note 40 on Other Income

	2021		
	As reported previously Rs. 000	Adjustment Rs. 000	Reclassified Balance Rs. 000
Miscellaneous Income	469,494	5,525	463,969
Licensing fees of Financial Institutions	614,575	5,525	620,100

Licensing Fees of Rs. 5.52 Mn received from the Licensed Service Providers of Payment Cards & Mobile Payment Systems disclosed under miscellaneous income in Other income note in 2021 has now been disclosed under Licensing fees of Financial Institutions 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	2022 Rs. 000	2021 Rs. 000
Transactions:		
Outright sales of Government Securities	242,099	980,906
CBSL and Government Securities Purchased/Sold under Agreement to Repurchase/Sales	143,913,767,948	68,218,243,292
Interest income/expenses on CBSL and Government Securities Purchased/Sold under Agreement to Repurchase/Sales	56,770,262	8,378,432
Funds received on behalf of Government	210,540,495	365,111,003
Funds disbursed on behalf of Government	211,034,101	362,223,823
Cost of Printing currency notes, for the year ended 31 December (Note 52.1.3)	1,856,465	1,086,655
Payments for Goods, Services and Taxes, during the year ended 31 December (Note 52.1.4)	5,147,957	1,129,790
Gross Foreign Exchange Transactions during the period (Note 52.1.6)		
Sales	872,421,407	225,597,381
Purchases	695,124,187	61,515,180
USD/LKR Derivatives	595,270,456	651,697,925
Funds Received in respect of Abandoned Property, during the year	365,405	914,309
Rent Income	207,763	282,173
Dividend Income	115,786	115,786
Other Transactions (Note 52.1.9)	794,842	1,088,948
Balances:		
Sri Lanka Government Securities held by CBSL (Note 52.1.7)	2,498,995,015	1,377,820,347
Provisional Advances to Government (Note 14)	235,638,700	150,128,800
Loans given under Covid - 19 Renaissance Refinance Scheme	1,821,749	11,817,950
Government Securities held for specific purposes	17,930,602	15,938,729
RTGS Balances with Banks and Financial Institutions (Note 26)	240,719,873	221,738,927
Nostro Balance with BOC London	43,888	243,388
Receivable from Treasury and other Ministries	3,540,670	4,087,983
Payable to Treasury and other Ministries (Note 25)	1,021,468	1,484,824
Current Account Balances with Government and Government Entities as at 31 December	(297)	(1,107,407)
Abandoned Property Balances	5,998,940	5,998,940
Other Balances (Note 52.1.9)	13,321,704	292,917

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 2021, 04 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 56.

52.1.6 In accordance with the provisions of the MLA, International Operations Department of the Bank monitors the developments in the domestic foreign exchange market and oversight net foreign exchange open positions of licensed commercial banks and National Savings Bank. 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. However, considering the adverse developments in the domestic foreign exchange market due to acute foreign exchange liquidity shortage during 2022 and the critically low level of foreign reserves, the Bank had to adopt extraordinary measures in terms of foreign exchange interventions such as purchasing foreign exchange based on the mandatory foreign exchange sales

requirement imposed on licensed commercial banks and National Savings Bank and selling foreign exchange to the market aiming at financing the importation of essential commodities such as fuel, gas, coal, pharmaceuticals, and food items to maintain economic activities in the country at least at a bare minimum level. The amounts of purchases and sales of foreign exchange represent results of such 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 2022 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 no 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

	2022 Rs. 000	2021 Rs. 000
Short Term Employee Benefits	261,043	180,218

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

	2022 Rs. 000	2021 Rs. 000
Outstanding Loans to Key Management Personnel	329,345	98,648
Loans granted during the year	203,018	6,699
Loans re-paid during the year	187,331	10,038

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

52.5 Transactions with Post-Employment Benefit Plans

	2022 Rs. 000	2021 Rs. 000
Contributions paid and payable	106,371	73,517

The Bank contributed various amounts to Pension and Other Post Retirement Plans as disclosed in Note 32 and paid Rs. 986.99 Mn (2021 – Rs. 717.59Mn) 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

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 2022.

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 refinance facilities under which the Bank provided guarantees against losses arising to a participating credit institution, which grants credit under this arrangement. This is not a guarantee on default by recipient of loans but against loss, which means that participating credit institutions should submit claims only in respect of amounts in loss after having pursued recovery action. The amount of contingent liabilities arising out of this arrangement are given below.

Local commercial banks - in respect of credit guarantees:

	Outstanding Guarantee Amount	
	2022 Rs. 000	2021 Rs. 000
Related Parties	1,989,471	21,742,330
Others	88,808	526,405
Total Credit Guarantees	2,078,279	22,268,735

The expected credit loss on credit guarantee is recognized for the year ended 31 December 2022 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 2022 and no provision has been made as the Bank is of the opinion that it is unlikely that any significant loss will arise.

54. COMMITMENTS

- a) Due to the shortage of foreign currency in the commercial banks in year 2022, as per the Section 106 (1) read with Section 108 (2) of MLA, CBSL has issued letters of commitments to supply foreign currency in exchange of Sri Lankan rupees to commercial banks on the basis of available liquid international reserves maintained at the CBSL to support the importation of essential items. The total outstanding of the commitments as at 31 December 2022 amounted to USD 174.50 Mn. The utilization of this commitment subsequent to the reporting date amounted to USD 40.00 Mn in exchange of LKR at the prevailed market rates.
- b) As at 31 December 2022, the Bank has capital commitments amounting to Rs. 657.37 Mn, in respect of the acquisition of Property, Plant and Equipment and production of currency.
- c) As at 31 December 2022, outstanding forward exchange transactions are as follows:

Forward exchange contracts	2022 '000	2021 '000
Forward Exchange Sales		
USD	559,112	734,550
GBP	12,500	-
JPY	-	2,800,000
Forward Exchange Purchases		
USD	4,750	225,145

55. TRANSFERS OF FINANCIAL ASSETS

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

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

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

55.1 Transferred Financial Assets that are not Derecognised 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, securities amounting to AUD 35.0 Mn were pledged by the Central Bank of Sri Lanka (CBSL) to Euroclear for a credit facility of USD 30.0 Mn until January 2017. At present, pledged securities held with Euroclear Bank amount to USD 3.0 Mn. The pledged securities are held in a separate account at Euroclear Bank.

	2022 Financial Assets at FVOCI Rs. 000	2021 Financial Assets at FVOCI Rs. 000
Assets		
Securities Lending	-	-
Securities Pledged with Euroclear	1,090,124	2,830,756
Securities Pledged with Federal Reserve Bank	-	-
Carrying Amount of Assets	1,090,124	2,830,756

56. TRUST AND CUSTODIAL ACTIVITIES

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

- 56.1** The Bank handles disbursements and repayments of various foreign loans and grants under foreign funded development projects and credit schemes on behalf of the GOSL. It also collects counterparty funds under various foreign loans and grants on behalf of the GOSL and invests such funds in treasury bills on requests made by donor agencies.
- 56.2** The Bank is the custodian of the Employees Provident Fund (EPF). In terms of the statute, the functions of the Monetary Board consist of receiving contributions, surcharges, income from investments, maintaining proper accounts of registered members of EPF, investing surplus funds and payment of benefits to the members.
- 56.3** The Bank administered the Deposit Insurance Scheme, which was a voluntary deposit insurance scheme opened to banking institutions licensed by the CBSL and cooperative societies registered under the Cooperative Societies Law No. 5 of 1972, which carry on banking business, and with effect from 1 October 2010 funds of this scheme have been transferred to the Sri Lanka Deposit Insurance Scheme, which was formed as per Gazette No: 1673/11 dated 28 September 2010.
- 56.4** As per the Gazette No:1673/11 dated 28 September 2010 (as amended), CBSL has established a Mandatory Deposit Insurance Scheme named Sri Lanka Deposit Insurance Scheme and Deposit Insurance Fund with effect from 1 October 2010 as an act of national interest to protect the funds of depositors.

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 (SLDILSF)".

Further, as per the Gazette No: 2239/52, new Regulations were issued as Sri Lanka Deposit Insurance and Liquidity Support Scheme No. 02 of 2021 dated 06 August 2021 (the Regulations) by repealing and replacing the initial Regulations No. 01 of 2010 dated 28 September 2010, as amended.

All Licensed Commercial Banks (LCBs), Licensed Specialized Banks (LSBs) and Licensed Finance Companies (LFCs) shall be the members of this Scheme. Accordingly, 67 institutions are members of this Scheme as at 31 December 2022. In terms of Regulation No. 5.1 of the Regulations, deposits to be insured include 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 debt instruments and deposit liabilities as stipulated in Regulation No. 5.2 of the Regulations.

The deposit insurance fund was established 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 of collections of abandoned property of LCBs. As at 31 December 2022, the fund size of SLDILSF is Rs. 86,424.05 Mn (unaudited, provisional) before considering the loss on re-measuring of financial instruments at fair value through other comprehensive income of Rs. 25,756.36 Mn. Accordingly, total equity balance of SLDILSF as of 31 December 2022 is Rs.60,667.69 Mn (unaudited, provisional). Currently, the amount of compensation payable per-depositor per-institution is limited to Rs. 1,100,000 or its equivalent in the case of foreign currency deposits. The payment of compensation shall not be a liability of the Monetary Board and shall be limited to funds available or raised in the SLDILSF including any borrowings permitted and contributions received. The Monetary Board shall not be responsible for any liability that exceeds the total amount lying to the credit of the SLDILSF.

The Deposit Insurance Unit (DIU) is currently established in the Resolution and Enforcement Department and is responsible for operation and 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 CBSL. The Auditor General shall be the Auditor of this Scheme.

- 56.5** The Bank carries out regulatory and supervisory functions in respect of LFCs and attends to related matters under the authority delegated to it by the Monetary Board. While carrying out such functions, with respect to failed LFCs, various actions are taken including the vesting of assets of persons responsible for the unviable and insolvent condition of such companies, with the Monetary Board as a form of security.
- 56.6** 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.

(i) Concluded Projects				
Name of the Project/ Loan Scheme	Total Allocation of the Fund (Mn.)		Objective/s	Refinance Granted to PFls (Rs. Mn.)
	USD	Other		
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
Second Perennial Crops Development Project - Revolving Fund	LKR	1,200.00	Develop the activities of Perennial Crops sector.	1,199.82
Matale Regional Economic Advancement Project - Revolving Fund	LKR	77.00	Expand the Income Level of Rural and Farm Families and provide funds for Medium scale Entrepreneurs to create Non-Farm Enterprises and expand existing projects in the Matale District.	77.00
Sabaragamuwa Province Integrated Rural Development Project - Revolving Fund	LKR	100.00	Enhance and create existing/ new income generating activities in the Sabaragamuwa Province.	100.00
Construction Sector Development Project	EUR	9.00	Strengthening the Financial and Technical capacities of private local Businesses to effectively participate in construction and Public works relating to post Tsunami reconstruction.	1,399.73
Sabaragamuwa Province Integrated Rural Development Project - Phase II	LKR	70.00	Further enhance and start new Income generating activities in the Sabaragamuwa Province.	70.00
Poverty Alleviation Micro-finance Project II (Probodini)	YEN	2381.00	Enhance the Living Standard of Households whose monthly income is less than Rs. 15,000.	3,213.20
Self Employment Promotion Initiative	LKR	250.00	Provide Financial Assistance to trained Youth who have completed the recognized Vocational Training to establish self employment income generating activities.	232.39
Dry Zone Livelihood Support & Partnership Programme	LKR	252.95	Provide opportunity to earn more income through Agriculture related activities in Anuradhapura, Moneragala, Kurunegala and Badulla Districts.	252.95
National Agribusiness Development Programme	USD	32.90	Assist Smallholder producers and the Landless Community, especially considering the Youth to increase the income level through the market/ value chain development and provide Finance and Training requirements for those people.	113.13
Small Plantation Entrepreneurship Development Project	SDR	2.60	Enhance the Living Standard of the Low Income Communities in Moneragala, Kandy, Kegalle and Nuwara-Eliya Districts.	487.66
National Agribusiness Development Programme (NADeP) - Microfinance	LKR	1,049.84	Improve Income Level and Social Conditions of Low Income Community	1,049.84
Value Chain Development Capital Agriculture Loan Scheme under the "Out Grower Farmers Loan Scheme" of the National Agribusiness Development Programme (NADeP)	LKR	135.69	Increase the Production, Productivity, Quality and Value addition of Agriculture 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 PFls (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.	4,448.50
"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.	5,518.79
Smallholder Agribusiness Partnership Programme (SAPP) 4P Agribusiness	USD 30.29	Increase the Production, Productivity, Quality and Value addition of agriculture produce.	458.29
Smallholder Agribusiness Partnership Programme (SAPP) 4P Youth			405.09
Smallholder Agribusiness Partnership Programme (SAPP) RF Youth			490.21
Smallholder Agribusiness Partnership Programme (SAPP) RF Agri Business			173.85
Smallholder Agribusiness Partnership Programme (SAPP) RF Income Generation			121.32
Smallholder Agribusiness Partnership Programme (SAPP) 4P FI Bulk Loan			237.69
Smallholder Agribusiness Partnership Programme (SAPP) RF FI Bulk Loan			59.36
Smallholder Agribusiness Partnership Programme (SAPP) RF Promoter Bulk Loan			31.16
Self Employment Promotion Initiative Phase II (SEPI II)			LKR 950.00
Supply Chain Re – Energizing Loan Scheme (SCREL)	LKR 500.00	To re energize the Tea supply chain by supporting existing tea manufactures to revamp their businesses.	213.75

57. EVENTS OCCURRING AFTER THE REPORTING DATE

There were no material events that had occurred subsequent to the reporting date that required adjustments to or disclosure in the financial statements except for the following.

- Receipt of funds amounting to SDR 254.00 Mn by the GOSL from IMF under the extended fund facility (EFF) on 22 March 2023.
- CBSL and Ministry of Finance, Economic Stabilization and National Policies, held a virtual investor presentation on 30 March 2023 and indicated a possible Domestic Debt Optimization (DDO) while suggesting that the authorities are exploring options on DDO.

2. BANK SUPERVISION

As per the provisions of the Monetary Law Act (MLA) No. 58 of 1949 and the Banking Act No. 30 of 1988, the Bank Supervision Department (BSD) is conferred with specific powers and duties to conduct continuous supervision and carry out periodical statutory examinations of Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs) in Sri Lanka (hereinafter referred to as licensed banks) and to issue Directions/guidelines to licensed banks. The main objectives of BSD are ensuring the safety and soundness of the banking sector and safeguarding the interests of depositors and other stakeholders of licensed banks in Sri Lanka.

In order to accomplish the aforementioned objectives, BSD carries out functions pertaining to regulation and supervision of licensed banks, such as issuing licences to conduct banking business, formulating and issuing prudential regulations, continuous supervision and performing periodic statutory examinations of licensed banks, assessing and approving the fitness and propriety of Directors, Chief Executive Officers (CEOs) and Key Management Personnel (KMP) 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.

The Sri Lankan banking sector comprised of 24 LCBs and 6 LSBs by end 2022. In addition, 4 Representative Offices (ROs) of foreign banks were in operation. A list of licensed banks and ROs is provided in Annex I.

A summary of the main functions and activities performed by BSD during 2022 is as follows:

2.1 Issuance of Prudential Regulations

BSD introduced proactive prudential regulations to ensure stability and resilience of the banking sector amidst the recovery from post COVID-19 shocks and the challenging economic environment, while continuing to extend concessions to affected borrowers of licensed banks.

Some of the key regulatory measures introduced during 2022 are summarised below. Details of the regulations are provided in Part III of this Report.

- (a) Regulatory requirements amidst prevailing extraordinary macroeconomic conditions
- (b) Sustainable finance activities of licensed banks
- (c) Guidelines on establishment of post COVID-19 revival units in licensed banks
- (d) Concessions to affected borrowers amidst the prevailing extraordinary macroeconomic circumstances

- (e) Regulatory requirements on liquidity ratios
- (f) Restrictions on discretionary payments of licensed banks
- (g) Addendum to Customer Charter - accessibility to banking services for customers with special needs
- (h) Margin requirements against imports
- (i) Banking (Off-shore Banking Business Scheme) Order on designated foreign currencies
- (j) Mandatory recording of the unique identification numbers of depositors of licensed banks
- (k) Maximum interest rates on lending and deposit products of licensed banks
- (l) Forward sales and purchases of foreign exchange by licensed commercial banks
- (m) Annual licence fee of licensed banks

Further, BSD commenced reviewing key prudential regulations such as the Banking Act Directions on Maximum Amount of Accommodation.

2.2 Drafting the New Banking Act

BSD continued the process of drafting a new Banking Act to further strengthen the legal and regulatory framework of licensed banks. The proposed new Banking Act includes provisions for a differentiated regulatory framework to facilitate proportionality, strengthening corporate governance, consolidated supervision, imposing monetary penalties/fines, ring-fencing of banks to mitigate contagion risk, and strengthening provisions for mergers, acquisitions, and consolidation. The Central Bank plans to enact the new Banking Act by end 2023.

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

(a) Branches and Other Banking Outlets of Licensed Banks

By end 2022, 220 requests were processed and 178 approvals were granted, while 31 requests were deferred/declined on prudential grounds (Table II-1). Accordingly, by December 2022, there were 3,630 bank branches, 3,794 Student Savings Units and 6,678 Self Service Machines (SSMs) in operation.

During 2022, the Monetary Board also granted concurrence to the issuance of licences by the Hon. Minister of Finance in terms of the Colombo Port City Economic Commission Act No. 11 of 2021 to carry on off-shore banking businesses in the Colombo Port City to 4 licensed banks.

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

Types of Approvals	No. of Approvals	
	Processed	Granted
Opening and Installation	114	85
Branches	29	23
Self Service Machines (SSMs)	51	48
Student Saving Units (SSUs)	4	3
Other Banking Outlets	3	2
Agents of Licensed Banks	27	9
Relocation	72	62
Branches	63	54
SSMs	5	4
Other	4	4
Closures and cancellation of approvals granted for branches and other service outlets	8	7
Discontinuation and cancellation of approvals granted for ATMs and Other Automated Machines	12	12
Discontinuation and cancellation of approvals granted for Agents of licensed banks	14	12
Total	220	178

(b) Other Regulatory Approvals

During 2022, a total of 283 other regulatory approvals were granted (Table II-2).

Table II-2
Other Regulatory Approvals Granted

Type of Approval	No. of Approvals
Assessing fitness and propriety for the appointment of new/continuing directors, CEOs & KMP and persons engaged in foreign exchange business	185
Outsourcing arrangements	19
Disposal of property below market value	20
Inclusion of debentures in Tier 2 capital	3
Exceeding maximum amount of accommodation	1
Abandoned property reimbursements	1
Requests for expatriate staff visa recommendations/renewals	17
Other Approvals	37
Total	283

(c) Regulatory Actions

During 2022 on 25 instances, licensed banks were required to initiate corrective measures regarding non-compliances with the Banking Act and Directions issued thereunder.

2.4 Conduct of Continuous Supervision

(a) Continuous supervision is an ongoing monitoring mechanism on the affairs of individual banks, which serves as an early warning system to ascertain the operational efficiency and long-term sustainability of the licensed banks and enables the implementation of corrective actions, where necessary, to ensure safety of depositors' funds. Continuous

supervision was intensified to make the banking sector safe and sound amidst strong challenges stemming from macroeconomic related concerns. 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.

- (b) Considering the liquidity and capital stresses resulting from the extraordinary circumstances that prevailed in 2022, special board papers were submitted to the Monetary Board. In addition, meetings were held with the members of the Monetary Board and representatives of the Board of Directors and KMP of licensed banks in order to discuss the current challenges faced by the banks on liquidity and capital and strategies adopted by the banks to overcome such constraints.
- (c) Further, during 2022, approximately 29 requests made under the Right to Information Act No. 12 of 2016 were handled by BSD while attending to approximately 177 customer complaints.
- (d) BSD continued to monitor the progress of addressing supervisory concerns identified during statutory examinations of banks within specified time targets on a quarterly basis.

2.5 Conduct of Periodic Examinations

- (a) During 2022, BSD conducted 22 Statutory Examinations of licensed banks on full scope basis, including Statutory Examinations of all 4 Domestic Systemically Important Banks (D-SIBs). Out of the 4 Statutory Examinations conducted on D-SIBs, 2 Statutory Examinations were focused on consolidated risk based supervision extending to group entities of such D-SIBs.
- (b) BSD submitted 22 Examination reports to the Monetary Board during 2022. This comprised 12 and 10 Examination reports of Statutory Examinations conducted in 2021 and 2022, respectively, which included 2 Interim Examination reports of 2 D-SIBs.
- (c) BSD conducted 17 Spot Examinations on several licensed banks, inter-alia, to verify matters relating to conversion and utilisation of export proceeds, workers' remittances, foreign currency transactions, data verifications on the Central Bank Fin-Net returns and customer complaints.
- (d) During 2022, BSD conducted joint supervision with Financial Intelligence Unit (FIU), Payments and Settlement Department (PSD), and Foreign Remittances Facilitation Department (FRFD) of the Central Bank. Accordingly, out of 22 Statutory Examinations conducted in 2022, 16, 1 and 2 Examinations were carried out with FIU, PSD and FRFD, respectively, focusing on different risk factors and compliance levels of the banking operations of licensed banks.

2.6 Crisis Preparedness Measures

BSD implemented measures to strengthen crisis preparedness of the Central Bank by establishing a framework for providing emergency loans and advances to licensed banks in collaboration with relevant departments. Further, BSD assisted in strengthening the regulatory framework on resolution and deposit insurance and in the establishment of the Crisis Management Committee.

2.7 Awareness, Capacity Building and Meetings Conducted during 2022

During 2022, BSD continued to provide resource persons for capacity building programmes of the banking sector and certain others and provided training and development opportunities for its staff in the areas of banking and finance, regulatory compliance, risk management, sustainable finance, etc. Further, officers of BSD continued to serve as committee members in various committees of the Central Bank during 2022.

BSD conducted 10 monthly meetings and 4 special meetings with Chief Executive Officers of licensed banks in 2022, to discuss matters relating to the developments of the economy, the banking sector, and the regulatory and supervisory frameworks amidst prevailing extraordinary economic conditions. In addition, 2 meetings were held with bank Chairpersons to apprise them on the banking sector performance, developments in the economy, and the expectations of the regulator during the current economic crisis.

During 2022, BSD coordinated/participated in several meetings with Missions of the World Bank, Asian Development Bank (ADB), and the International Monetary Fund (IMF) with respect to implementing Financial Sector Stabilisation measures.

Annex II - 1

List of Licensed Banks as 31.12.2022

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.
4. ICICI Bank Ltd.

3. CENTRE FOR BANKING STUDIES

Centre for Banking Studies (CBS) of Central Bank, has been leading capacity development initiatives for the financial sector professionals in Sri Lanka for more than four decades. In addition to these capacity building activities, CBS hosts various discussions on time relevant topics with economic interest, to create awareness among stakeholders. In 2022, CBS concentrated primarily on addressing the fast changing training needs of the financial sector fueled by developments in technology and assisted its stakeholders in achieving their professional goals by providing them with cutting edge skills and in depth knowledge needed to elevate the banking and finance sector to greater heights. Even though there were disruptions caused by the continuation of the COVID-19 pandemic, economic crisis, and social unrest, CBS continued to maintain its momentum throughout the year.

In order to address novel and emerging subject areas with high demand and to further enhance existing programmes to meet current needs, CBS introduced a number of new training interventions in 2022. These training interventions, which were offered not only to the Sri Lankan financial industry, but also to interested parties across the region, covered a diverse range of subject areas including banking and finance, risk management and compliance, treasury operations, accounting and financial management, law and regulations, research and data analysis, economics, human resources and general management, rural sector development and microfinance, information technology, and soft skills.

CBS conducted a total of 140 programmes which consisted of 65 prescheduled programmes (along with the newly introduced 10 programmes), 19 special programmes (tailor made based on requests by various institutions and developed considering the market demand), 4 certificate courses, and 4 international programmes during the year 2022. Establishing another milestone, CBS introduced a regional knowledge sharing

initiative in 2022 with the aim of establishing the footprint of CBS as a leading capacity building partner in the Asian region. This programme was focused on “Fintech Developments and Central Bank Digital Currency” and was attended by number of foreign participants from the Asian region. Further, CBS launched the quarterly Expert Panel Discussions (EPD) series in March 2022 with the objective of creating a platform to discuss current economic topics with the participation of experts representing different facets of such developments. Through these discussions, CBS expects policymakers to understand different perspectives on issues while a greater level of awareness is raised among the business community and the public, enabling a smooth policy implementation process. In addition to that, CBS successfully conducted an Annual High-Level Seminar on “Confronting the Current Foreign Exchange Crisis in Sri Lanka: Lessons from Global Experience” targeting senior level officials of both state and private sectors.

Furthermore, CBS continued to play the role of an active partner in capacity building efforts for the implementation of sustainable finance in Sri Lanka with the collaboration of International Finance Corporation (IFC). Apart from that, international institutes including the South East Asian Central Banks (SEACEN) Research and Training Centre and Deutsche Bundesbank collaborated with CBS to further enrich the programme line up of CBS by delivering programmes on “FinTech Regulation and Supervision”, “Recovery and Resolution on Credit Institutions”, and “Monetary Policy Implementation”. Further, CBS launched a new Certificate Course on “Macroeconomics for Journalists” designed specifically for media personnel with the intention of enhancing their knowledge on economic concepts and the financial system.

Honoring the social obligation of increasing financial and economic literacy of the nation, CBS hosted a number of knowledge sharing forums, including 20 public events covering various subject areas. Further, serving the educational fraternity of the country, 8 programmes were conducted for undergraduates and school students. Among these, there were 2 newly initiated programmes on financial literacy targeting middle school children.

Furthermore, in the year 2022, CBS continued to coordinate 2 television serials, namely “Thakshilawa” and “Ariwootroo” of which 20 episodes were aired in Sinhala and Tamil, targeting Advanced Level economics students. CBS also conducted a series of regional level programmes in collaboration with Regional Offices and the Regional Development Department of the Central Bank. Throughout the year 10,447 participants attended CBS programmes both in person and online.

Improving the efficiency and smoothness of CBS operations, an Institutional Management System (IMS) was introduced in parallel to the newly launched CBS interactive website in 2022.

CBS launched its course catalogue for the year 2023 at the end of 2022, expressing its continuous commitment to enrich financial professionals with the required knowledge and skills in order to pave the way for stable and resilient financial system.

4. COMMUNICATIONS

In 2022, amid many uncertainties, the Central Bank engaged in a tiered communication strategy to systematically reach out to its various target audiences, including the general public, through a range of communication channels, to share information, to provide greater clarity on policy decisions and their impact on the economy, and to influence expectations. The Communications Department (CMD) assisted the other departments to meet such internal and external communication requirements on a timely basis.

4.1 Internal Communications

CMD supported the Monetary Policy endeavors of the Central Bank through appropriate information management; in particular, its analysis of Market Sentiments and Policy Rate predictions as reported by the media at the beginning of the Monetary Policy Review Cycles and Monetary Policy Reach Report within a week after each press conference, to assess the effectiveness of the reach of the core messages of Monetary Policy Review (MPR) while identifying the reactions by the media to the Monetary Policy Decisions of the Central Bank. CMD was also instrumental in providing live coverage for its press conferences and other important events to the desktops of the staff to ensure they were well informed about the happenings at the Central Bank. An online Knowledge Sharing Platform was introduced in 2022 to break silos in the work environment and to share information pertaining to the policies and processes of respective departments among the staff, whereby 8 timely topics were discussed through the MS Teams platform. To ensure that all staff is well versed on developments in the local economy as well as the global financial markets, CMD shared all relevant online news among the staff via email, supplemented by the Library and Information Center (LIC) of CMD, which identifies all relevant newspaper articles, which are uploaded to the intranet platform. All critical news items are also brought to the attention of the Senior Management. Considering the increasing price of newsprint, LIC embarked on an electronic newspaper drive, to reduce costs. LIC also disseminated information by way of e-books, specific chapters of books, scholarly articles, etc. among the staff on a regular basis. In addition to that, LIC relaunched the book review competition for staff in October 2022, in celebration of National Reading Month, and 2 winners were selected. Similarly, the official internal newsletter “Kauluwa” containing news and articles featuring the creative skills of the Central Bank staff was digitally published and uploaded to the Mansala, on a quarterly basis.

4.2 External Communications

As in previous years, CMD continued to send SMS alerts on Policy Interest Rates and Exchange Rates (Telegraphic Transfer Rates) in collaboration with ERD & IOD respectively. Furthermore, CMD issued Middle Rate of USD/ LKR Spot Exchange Rate and Variation Margin in all three languages

to senior officials of all licensed commercial banks with the assistance of IOD. In addition, CMD collaborated with the Statistics Department (STD) to disseminate key economic indicators on daily, weekly and monthly bases during 2022.

CMD issued 1,860 press releases in all 3 languages highlighting the key decisions of the Monetary Board in relation to MPR, financial institutions, and financial markets. As envisaged in the beginning of the year, CMD organised 8 Press Conferences on the MPR which were live streamed via social media channels of the Central Bank to ensure that the messages were relayed to a larger audience. CMD also arranged 4 virtual awareness sessions at the Regional Offices of Nuwara Eliya, Trincomalee, Matale and Matara, in collaboration with the ERD, Regional Development Department (RDD) and Centre for Banking Studies (CBS), to explain the rationales for certain decisions of the Central Bank, in simple Sinhala and Tamil.

CMD also facilitated several additional press conferences on Foreign Remittances, the Current Economic Situation, and one press conference at the request of International Monetary Fund (IMF). Meanwhile, 12 Gazette notifications and 141 press notices, including advertisements, were also issued by CMD as per the requirements of other departments during 2022.

In order to inculcate good habits and enhance their knowledge of economics and financial literacy levels at a younger age, CMD organised a regional level awareness workshop for school children in Kekirawa and Rajanganaya in collaboration with the Regional Office in Anuradhapura. To coincide with this event, to propagate a financially literate society, art and essay competitions were arranged on the theme of "the need to save on a regular basis". A book donation drive was also organised with the assistance of Library and Information Centre (LIC) of the Central Bank for which employees contributed by donating books. This was in addition to the 52 awareness programmes on the Central Bank's objectives and functions and other selected topics related to the economy, banking, and finance organised by CMD at the Central Bank Head Office premises, that are arranged upon request, with a guided tour of the currency museum for school children and undergraduates. In addition, CMD organised programmes targeting Members of Parliament to update their knowledge on "The Current Economic Situation in Sri Lanka and the Way Forward" and another programme organised by CMD targeting officials of Divisional Secretariats of Balapitiya and Ambalangoda, to enhance their awareness of "Unauthorised / Illegal Financial Activities including Pyramid Schemes".

Further, CMD coordinated with six departments of the Central Bank and the National Institute of Education (NIE) as the lead department / secretary of the appointed committee to propose suggestions to the syllabus of the newly introduced subject "Entrepreneurship and Financial Literacy", particularly topics related to Central Bank functions in order to increase the financial literacy levels of school children.

With the support of relevant departments of the bank, CMD continued maintenance of the updated official website of Central Bank in all 3 languages in compliance with the National Language Policy throughout the year. In response to frequent public inquiries pertaining to the functions performed by the bank, all e-mails received via the Central Bank general mail were reviewed and sent to the relevant departments for direct response. CMD also responded to certain inquiries where information was available.

The Tamil Translations Unit, established at CMD to meet Tamil translation requirements of press releases, newspaper advertisements, Directions, and other publications including the Annual Report, engaged in 1,161 translations comprising 5,022 pages during the year.

Furthermore, two radio discussions and three TV programmes were arranged by CMD in collaboration with other departments to improve the financial literacy levels of the general public and provide useful information on related areas such as foreign remittances and Employee Provident Fund services.

LIC catered to requests from university undergraduates and other researchers who needed information for their research activities and facilitated access to the library for 36 university interns for their discussions, lectures, and studies.

As in the previous year, the CMD continued to publish these periodicals online: "Satahana", "News Survey" and "Vaippaham", providing a platform for authors at the Central Bank to contribute to the development of knowledge in their respective fields.

The photography coverage of all the major events conducted by the Central Bank was handled by the Photographic Unit of CMD. Overall, 160 events were covered, 64 of which comprised videographic coverage. CMD also engaged in a host of other related activities such as photo and video editing work and liaised closely with the Central Bank Awareness Team to develop new video content capturing moments from press conferences, highlighting the features of loans facilitated by the Regional Development Department (RDD), the benefits of the EPF Online Service, the dire consequences of exposure to scams, etc.

5. CURRENCY

The Central Bank has the sole right and authority to issue currency in Sri Lanka which includes both currency notes and coins as stipulated in the Monetary Law Act (MLA) No. 58 of 1949. The Currency Department (CRD) of the Central Bank handles functions relating to this statutory responsibility vested with Monetary Board. Despite the challenges of COVID-19, during 2022, CRD continuously engaged in building and maintaining public confidence in the currency by preserving its value and integrity and making available adequate stocks to meet the demand for currency, which is essential for smooth functioning of the economy.

5.1 Currency in Circulation

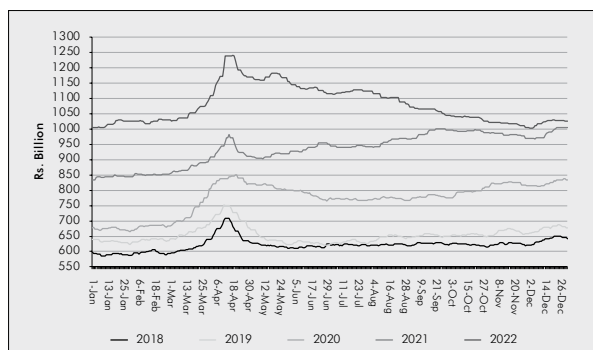
Unprecedented demand for currency in the first half of 2022 which increased to Rs. 1,240 billion in April, gradually decreased in the second half of 2022. The value of total currency in circulation increased by 2.1 per cent and reported at Rs. 1,026.0 billion as at 31 December 2022, over the previous year, as shown in Table II -3 and Chart II-1.

Table II-3
Currency in Circulation (as at 31 December 2022)

Item	Value (Rs. bn)					Change (%)				
	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
Notes	627.1	663.1	819.3	988.6	1,009.1	7.1	5.7	23.6	20.7	2.1
Coins(a)	13.2	14.2	14.9	15.9	16.9	9.0	7.6	4.9	6.7	6.1
Total	640.3	677.4	834.2	1,004.5	1,026.0	7.2	5.8	23.1	20.4	2.1

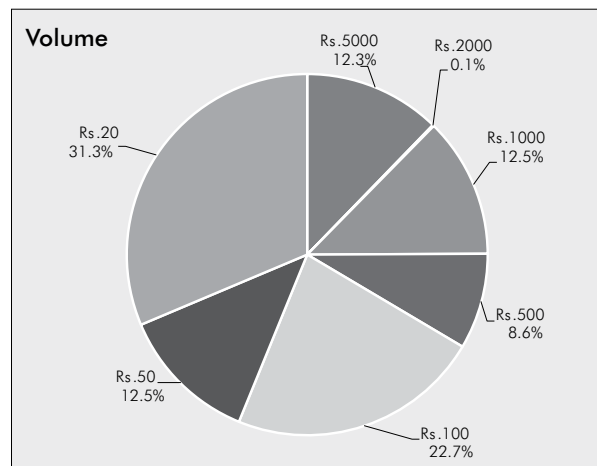
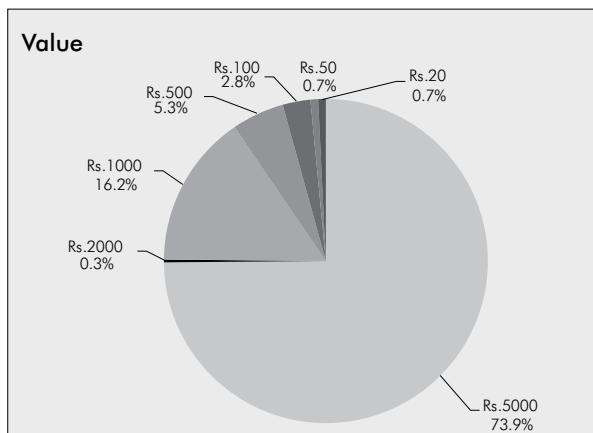
(a) Commemorative coins are excluded.

Chart II-1
Currency in Circulation 2018-2022



The value of currency notes in circulation increased by 2.1 per cent to Rs.1,009.1 billion in 2022. Among the currency notes, the denominations of Rs.5000 and Rs.1000 together accounted for a significantly high amount of 90.1 per cent of the total value of currency notes in circulation as at 31 December 2022 as given in Chart II-2. Additionally, the volume of denomination of Rs.20 and Rs.100 together accounted for approximately 54 per cent.

Chart II-2
Value and Volume of Currency Notes in Circulation (Rs.) as at end 2022



5.2 Currency Management

Issuance of good quality currency notes and coins into circulation, acceptance of currency deposits from Licensed Commercial Banks (LCBs), and withdrawal of unserviceable (unfit) currency notes and coins from circulation are the key functions of currency management. Following are the activities carried out during the year 2022 to ensure the effectiveness of currency management:

(a) Currency Printing and Minting

CRD placed an order for 495 million pieces of new currency notes for the year 2022 to ensure good quality notes in circulation and sufficient stocks to meet the public demand. There were no orders placed for circulation coins during the year as CRD had adequate coin stock to cater the public demand.

(b) Issuance of Currency

During 2022, CRD continued the facilitation of direct exchange of serviceable (fit) currency notes among LCBs which was initiated in 2020 due to the pandemic situation. This resulted in a reduction of currency notes issued by the Central Bank in 2022. Currency notes and coins issued by CRD for circulation in the country during the year 2022 amounted to Rs.384.5 billion and Rs.1.0 billion, respectively.

Table II-4
Issuance of Currency Notes and Coins

Item	Value (Rs. bn)				
	2018	2019	2020	2021	2022
Fit Notes	467.0	526.5	467.1	172.7	167.6
New Notes	328.4	248.7	229.5	217.3	216.9
Coins (a)	1.1	1.0	0.7	0.9	1.0
Total	796.5	776.2	697.3	390.9	385.5

(a) Commemorative coins are excluded from coin issuances

(c) Acceptance of Currency Deposits

As a part of currency operations, CRD accepts currency deposits from LCBs, primarily for the maintenance of the statutory reserve requirement imposed by the

Central Bank as a monetary policy tool. During 2022, CRD accepted both serviceable and unserviceable currency notes from LCBs, as given in Table II-5. Despite the increase in currency note deposits in 2022 in comparison to 2021, currency note deposits in 2022 remained low on average due to the facilitation of direct exchange of serviceable currency notes among LCBs.

Table II-5
Deposit of Currency Notes

Item	Value (Rs. bn)				
	2018	2019	2020	2021	2022
Fit Notes	524.1	606.9	445.0	144.6	272.5
Unfit Notes	229.6	132.1	95.4	76.1	91.6
Total	753.7	739.0	540.4	220.7	364.1

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

(d) Destruction of Unfit Currency Notes

With the objective of ensuring good quality currency notes in circulation in the country, CRD destructed 238.5 million pieces of unserviceable currency notes valued at Rs.207.3 billion (Table II-6) in 2022.

Table II-6
Destruction of Unfit Currency Notes

Notes	2018	2019	2020	2021	2022
Pieces (mn)	343.8	235.0	127.3	108.2	238.5
Value (Rs. bn)	252.2	139.8	62.2	44.3	207.3

5.3 Other Activities

(a) Operating Currency Counters

During the year 2022, CRD catered to the public through currency counters by exchanging damaged currency notes to the value of Rs.102 million. The special exchange counter for public established at the Bank of Ceylon, Pettah Branch issued currency notes and coins to the value of Rs.1,812.7 million and Rs.59.8 million, respectively.

(b) Operating Economic History Museum

Economic History Museum (EHM) was not operated at its fullest potential due to the pandemic situation in first half of 2022. However, EHM rendered its services to 4,415 individuals on numismatics, by sales of commemorative notes, coins and other collector items and conducting knowledge sharing presentations. Further, EHM started a process of preservation of obsolete artifacts in 2022.

(c) Preserving Public Confidence in Currency

CRD closely cooperated with the Counterfeit Currency Bureau of the Criminal Investigation Department (CID) of the Police and law enforcement authorities pertaining

to counterfeiting attempts. Counterfeit notes detected in 2022 amounted to 1,987 pieces. The ratio of counterfeit currency notes in circulation, which is measured by notes per million, was 1.4 in 2022.

CRD facilitated the issue of 98 certificates in terms of Section 59 of the MLA with the signature of the Governor, as conclusive evidence for the imitation of currency notes, to facilitate proceedings in courts and attended 6 court cases to provide evidence on currency counterfeiting.

(d) Issuance of Commemorative Coins

The Central Bank officially launched 2 circulation standard commemorative coins in the denomination of Rs.20 to mark the 150th Anniversary of Faculty of Medicine, University of Colombo and the 150th Anniversary of Census of Population and Housing (CPH) in Sri Lanka.

6. DOMESTIC OPERATIONS

6.1 Functions of DOD

The Domestic Operations Department (DOD) is entrusted with responsibilities relevant to both price and economic stability and financial system stability objectives of the Central Bank. Accordingly, the major functions of DOD include implementing monetary policy by way of conducting Open Market Operations (OMOs) with Participating Institutions (PIs), regulating statutory reserves of Licensed Commercial Banks (LCBs), performing actions related to the banker and the official depository of the Government, government agencies and other institutions, providing Intraday Liquidity Facility (ILF) to Dealer Direct Participants, and regulating and supervising of the Authorised Money Brokers (AMBs).

6.2 Implementation of Monetary Policy

6.2.1 Open Market Operations (OMOs)

DOD conducts OMOs in order to maintain the Average Weighted Call Money Rate (AWCMR), which is the operating target of the current Flexible Inflation Targeting framework, at desired levels with less volatility in line with the prevailing monetary policy stance. AWCMR, which recorded an upward adjustment in 2022 remained stagnant at the upper bound of the Standing Rate Corridor (SRC). Call money market activities remained low since April 2022 due to increased uncertainty in the markets, particularly on account of the speculation on fiscal sector developments.

(a) Estimating Money Market Liquidity

DOD estimates domestic money market liquidity on a daily basis based on a number of factors. This estimation is used to address liquidity needs of the market participants through appropriate market operations in consistence 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 changes in currency in circulation, foreign exchange related transactions of the Central Bank, changes in the reserve position of LCBs, and transactions of the Government with Central Bank are taken into consideration. During 2022, DOD performed liquidity estimation in a challenging environment. The money market liquidity deficit stood at Rs. 335.75 billion at the beginning of the year and remained at negative levels throughout the year. However, the liquidity deficit recorded a gradual decline since the second quarter of 2022 and recorded a deficit of Rs. 231.25 billion by end December 2022.

(b) Recommendations to the Market Operations Committee (MOC)

MOC is entrusted with the task of translating overall monetary policy considerations adopted by the Monetary Board into daily monetary operations. DOD provides inputs on money market developments and liquidity estimations on domestic money market to the MOC in the process of implementing the monetary policy stance adopted by the Monetary Board. Accordingly, upon reviewing the effects on rupee market liquidity due to developments in the domestic money market and the foreign exchange markets on a daily basis, DOD proposes actions for the consideration of the MOC in managing money market liquidity and short term interest rates. MOC considers the estimated liquidity conditions, desired level of the operating target, liquidity distribution among money market participants, and need for devising appropriate market signals, among others, and thereby decides on appropriate actions to be implemented. During 2022, DOD conducted monetary operations to address asymmetric liquidity distribution in the domestic money market and to reduce liquidity stress among certain Pls.

(c) Conducting Auctions

In 2022, DOD conducted auctions under OMOs to absorb and inject liquidity from and to the money market on a need basis in support of overall liquidity management operations. The following auctions were conducted in 2022, which were instrumental in minimising undue pressures in the domestic money market (Table II-7):

(i) Repurchase (Repo) Auctions

During early 2022, overnight and short term repo auctions were conducted to absorb excess liquidity from the domestic money market. Accordingly, overnight repo auctions were conducted to absorb liquidity on an overnight basis, while short term repo auctions were conducted to absorb liquidity for a period up to one week on the basis of same day settlement.

(ii) Reverse Repurchase (Reverse Repo) Auctions

Long term reverse repo auctions were also conducted in 2022 to inject liquidity to the domestic money market to reduce the liquidity stress among certain banks. Such long term reverse repo auctions were conducted by DOD, with the settlement on the next business day, in order to inject liquidity to address persistent liquidity needs of the market.

(iii) Outright Transactions

During 2022, outright sales of Treasury bill auctions were conducted by DOD to absorb liquidity injected through the primary purchase of Treasury bills by the Central Bank on a permanent basis from the money market. Further, attempts were made to conduct outright purchase of Treasury bill auctions towards end 2022 to inject permanent liquidity to the market though such auctions were not successful. Treasury bond outright auctions were not conducted during the year 2022.

Table II-7
Monetary Operations through Auctions in 2022

Type of Auction	No. of Auctions	(Rs. bn)	
		Total Amount offered	Total Amount Accepted
Repo Auctions			
Overnight	25	1,880.00	1,533.25
Short-term (up to 7 days)	08	100.00	22.00
Long-term (8 days to 90 days)	nil	nil	nil
Reverse Repo Auctions			
Overnight	nil	nil	nil
Short-term (up to 7 days)	03	235.00	235.00
Long-term (8 days to 90 days)	25	1,235.00	954.50
Outright Auctions			
Outright Sales of Treasury bills	11	150.00	23.53
Outright Purchases of Treasury bills	01	20.00	0.00
Outright Sales of Treasury bonds	nil	nil	nil
Outright Purchases of Treasury bonds	nil	nil	nil
Liquidity Support Facility*			
Overnight	nil	nil	nil
Short-term (up to 7 days)	nil	nil	nil
Long-term (8 days to 90 days)	nil	nil	nil

*A Reverse Repo auction available for Standalone Primary Dealers under OMOs.

(d) Provision of Standing Facilities

Standing facilities are provided to Pls that are unable to fulfill their short term liquidity requirements through the money market and the daily OMO auctions. The Standing Deposit Facility (SDF) is used to accept excess liquidity of Pls, while the Standing Lending Facility (SLF) is available to provide liquidity to Pls when they are unable to fulfill their short term liquidity requirements. During 2022, standing facilities were provided to Pls

at the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR). Accordingly, the total amount accepted under SDF was Rs. 54,528.34 billion and the total amount granted under SLF was Rs. 163,058.05 billion (Table II-8).

Table II-8
Provision of Standing Facilities in 2022

Standing Facility	(Rs. bn)			
	Daily Minimum	Daily Maximum	Daily Average	Total Volume
Standing Deposit Facility	51.37	378.67	227.20	54,528.34
Standing Lending Facility	424.16	850.60	679.41	163,058.05

6.2.2 Administering and Monitoring the Statutory Reserve Ratio (SRR)

The SRR determines the required reserves that each LCB should maintain, in proportion to the total average rupee deposit liabilities of the respective bank in the settlement account with the Central Bank, in terms of the provisions under Section 93 of the Monetary Law Act (MLA), No. 58 of 1949. DOD is responsible for monitoring the compliance of LCBs. During 2022, DOD continued to administer and monitor the compliance of LCBs with the SRR, which remained unchanged at 4 per cent throughout the year.

6.2.3 Administering the Bank Rate

The Bank rate, which is termed as the Lender of Last Resort (LOLR) rate, is used to provide emergency loans to banking institutions under the provisions of Sections 86 and 87 of the MLA. Since 16 April 2020, this rate was linked to the SLFR with +300 basis points and allowed to adjust automatically. However, with effect from the close of business on 03 November 2022, the Bank rate was linked to the Average Weighted New Deposits Rate (AWNDR) with a margin of +700 basis points so that it was adjusted based on market conditions. Further, taking into account the trends in the domestic money market, the margin of the Bank rate was reduced to +300 basis points with effect from the close of business on 02 January 2023. During 2022, no request was received by the Central Bank for soliciting emergency loans by the banking institutions, while the Central Bank has further strengthened the Emergency Loans and Advances (ELA) framework.

6.3 Functions Relating to Commercial Banks, Primary Dealers and the Government

6.3.1 Accounts of Financial Institutions

By offering settlement accounts to eligible participants of the Real Time Gross Settlements (RTGS) system, the Central Bank performs a vital role in the functioning of the economy through facilitating safe and efficient payments and settlements. This is performed through facilitating large value payments and supporting to the operations of the inter-bank money market.

The General Ledger (GL) accounts are maintained by DOD to facilitate the clearance of payments and settlements and for the settlement of payments of scripless security transactions among the RTGS participants. Further, LCBs use the same accounts for the purpose of maintaining their reserves as per the SRR. As at end 2022, DOD maintained GL accounts for 24 LCBs, National Savings Bank, and 8 Standalone Primary Dealers (SPDs).

6.3.2 Maintaining 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. Accordingly, DOD maintained 48 such accounts during 2022. Around 90 per cent of the transaction volume of such accounts was related 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 the Section 89 of the MLA, the Central Bank provides provisional advances to the Government, not exceeding 10 per cent of the estimated revenue of the Government for the financial year in which they are made. Such advances are used by the Government as a revolving credit facility and shall be repayable within a period not exceeding six months. At the beginning of 2022, the maximum available amount to be utilised under provisional advances was increased by Rs. 73.01 billion to Rs. 225.05 billion based on the government revenue estimate for the year 2022. However, with the revised interim government budget approved by the Parliament by end 2022, the maximum utilisable amount under provisional advances was increased by Rs. 12.32 billion. Accordingly, as at end of 2022, the provisional advances stood at Rs. 237.37 billion, compared to Rs. 152.04 billion reported as at end of 2021. Based on the approved government budget for the year 2023, the provisional advances to the Government increased by Rs. 107.58 billion to Rs. 344.95 billion at the beginning of 2023.

6.4 Provision of Intra-Day Liquidity Facility (ILF)

DOD ensures the smooth and efficient functioning of the RTGS system by providing ILF to the Dealer Direct Participants. This facility is provided free of charge against the collateral of Treasury bills and Treasury bonds, which are valued at their current market prices with a sufficient haircut to absorb any variations in market prices during the day. The total value and the average daily value of ILF drawn during the year amounted to Rs. 157,166.18 billion and Rs. 657.60 billion, respectively. This indicates a significant increase in ILF utilisation during 2022 compared to the previous year, which amounted to a total of Rs. 50,777.45 billion with a daily average of Rs. 215.16 billion.

6.5 Regulating and Supervising Authorised Money Brokers

Money brokers perform an intermediary role in the money, foreign exchange, and government securities markets. The Money Broking Regulations, No. 1 of 2018 issued (by repealing the Money Broking Regulations issued in 2013 and 2016) under the provisions of Section 10 (c) of the MLA, empowers the Director of DOD to examine the operations of Authorised Money Brokers (AMBs) operating in Sri Lanka to ensure their professional conduct in the process of efficient price discovery in the domestic money market. Accordingly, nine (9) companies were issued with a “Certificate of Authorisation” under the above regulations, and designated as “Authorised Money Brokers”, by end December 2022. During the year, DOD conducted annual on-site examinations for all AMBs.

List of Authorised Money Brokers as at 31 December 2022

1. BMR Money Brokers (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. Pigott Chapman & Company (Pvt) Ltd
7. SMB Money Brokers (Pvt) Ltd
8. Taprobane Investments (Pvt) Ltd
9. Vishwin Money & Exchange Brokers Ltd

7. ECONOMIC RESEARCH

As per Section 25 of the Monetary Law Act (MLA), No. 58 of 1949, the Economic Research Department (ERD) 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 in the subjects of money and banking and other economic subjects of general interest. ERD effectively discharged its responsibilities amidst an unprecedentedly challenging domestic and international environment in 2022. In discharging its responsibilities, ERD continued to provide comprehensive analyses of macroeconomic developments and made timely policy recommendations to the management and the Monetary Board in order to facilitate policy decisions towards achieving its core objective of economic and price stability. The research agenda of the department was focused on a multitude of macroeconomic challenges faced by the Sri Lankan economy throughout the year, extending to monetary policy, growth and inflation dynamics, fiscal sector, and external sector, among others. As the primary source of statistics on monetary aggregates and balance of payments, ERD continued its crucial role in disseminating statistics and other macroeconomic information to all stakeholders, including the general public, through printed and electronic media, in addition to numerous in-person engagements during the year. Contributing to its already established tradition of conducting policy-oriented

research and knowledge-sharing activities, the department strengthened its own capabilities during the year, while promoting the conduct of research within the Central Bank. In fulfilling its objective of sharing knowledge, the department conducted several awareness programmes to educate its stakeholders, including the general public, which provided an opportunity to explain the functioning of the economy and ongoing challenges in balancing policy tradeoffs. As the focal point of contact in maintaining international relations of the Central Bank in the capacity of the monetary authority of the country, ERD played a critical role in establishing and maintaining close cooperation with foreign counterparts, international agencies, and other stakeholders. Especially, ERD played the anchor role in facilitating negotiations with the International Monetary Fund (IMF) on the Extended Fund Facility (EFF) on matters relating to the Central Bank, prepared technical inputs for the meetings with the IMF, while responding to their technical level queries on numerous occasions. ERD provided inputs to facilitate the ongoing debt restructuring efforts of the Government, thereby closely coordinating with financial and legal advisors appointed for carrying out the debt restructuring process. Further, ERD coordinated several Missions from the IMF on EFF and technical assistance in multiple areas during 2022.

7.1 Maintaining Economic and Price Stability

ERD continued to compile, monitor, and analyse trends and developments in the monetary, external, real, and fiscal sectors of the economy as well as global economic trends, while producing projections and forecasts to facilitate proactive and data driven monetary policy decision making by the Monetary Board. As the Secretariat to the Monetary Policy Committee (MPC), ERD facilitated eight scheduled MPC meetings. Enabling the MPC to make informed policy recommendations to the Monetary Board on the appropriate monetary policy stance of the Central Bank, comprehensive reports were presented on developments in the economy, monetary conditions, external sector issues, and model based macroeconomic projections, such as inflation and growth forecasts. Further, ERD provided analyses and reports to the Senior Management of the Central Bank on various economic issues, highlighting appropriate policy measures required to ensure macroeconomic stability. Meanwhile, the Stakeholder Engagement Committee (SEC) was established in July 2022 by replacing the Monetary Policy Consultative Committee (MPCC) and the Financial System Stability Consultative Committee (FSSCC) of the Central Bank, which were in operation previously. The Committee consists of a cross section of stakeholders, including eminent professionals, academics, and private sector personnel. SEC generally meets on a quarterly basis and the meetings are facilitated by ERD along with secretarial assistance. ERD continued to improve inhouse modelling and forecasting capacity with technical assistance received from the IMF, as a part of continuous efforts in extending the analytical capacity that contributes to monetary policy decision making and communication. As

monetary policy communication plays a major role in the flexible inflation targeting framework, ERD initiated several measures to improve external communication and enhance awareness among the general public and other stakeholders with a view to anchoring inflation expectations in line with the envisaged inflation path over the medium term. ERD published eight press releases on Monetary Policy Review, informing the public of the monetary policy stance of the Monetary Board. ERD facilitated the Monetary Policy Review press conferences organised by the Communications Department (CMD) that were livestreamed via various online and social media platforms enabling a wide outreach of real time monetary policy communication. Contributing to the outreach efforts of the Central bank, ERD provided resource personnel to facilitate webinars coordinated by the Regional Offices of the Central Bank following monetary policy announcements. ERD also contributed to knowledge sharing sessions conducted by CMD to enhance the technical understanding of the Central Bank staff on selected areas related to the functions of the Central Bank. Meanwhile, measures were also taken by ERD to further improve the compilation and dissemination of monetary and interest rate statistics during the year. Accordingly, ERD streamlined the monetary and interest rate data collection process following the changes to financial reporting standards, while commencing the collection of more granular, high frequency data on interest rates statistics.

7.2 Maintaining External Sector Stability

With the aim of ensuring external sector stability of the economy, ERD continued to provide appropriate and timely policy advice and recommendations on the external sector to MPC and the Monetary Board by collecting, compiling, and analysing statistics related to international trade, external finance, exchange rates, and Gross Official Reserves (GOR), on a regular basis. Amidst the challenging and vulnerable economic conditions, ERD evaluated the pressures on the exchange rate regularly and continued to make presentations and submissions to the Senior Management and the Monetary Board on external sector developments and issues along with required policy measures to address external sector vulnerabilities. As per Section 114 of the MLA, ERD continued to assess the monetary implications of proposed foreign loans, as requested by the Government, prior to its expected borrowings. ERD continued the publication of external sector related statistics, such as the Balance of Payments (BOP) and the International Investment Position (IIP) published in line with the BPM6 format on a quarterly basis and the International Reserve Data Template (RDT) published on a monthly basis, while making timely submissions related to Quarterly External Debt Statistics (QEDS) to the World Bank and direct investment data for the Coordinated Direct Investment Survey (CDIS) on an annual basis. Further, ERD continued to conduct several surveys during the year to ensure the accuracy and timeliness of external sector data, which include monthly surveys on inward workers' remittances, the 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 the resident and non-resident airlines, shipping lines, telecommunication, construction, and insurance sectors. During the year, ERD implemented the International Transactions Reporting System (ITRS), a project to collect and compile granular level information about cross border foreign currency transactions that take place through the banking sector. Further, ERD facilitated engagements with foreign counterparts, particularly the correspondence with regard to the foreign debt restructuring process and reaching a staff level agreement in September 2022 for the IMF-EFF arrangement.

7.3 Proactive Policy Advice

ERD continued its crucial role in providing policy advice to the Monetary Board, Government, and other stakeholders on monetary policy, exchange rate policy, international trade, and fiscal sector related issues, among others, during 2022. Accordingly, ERD prepared and submitted confidential reports and delivered presentations to the Hon. Minister of Finance, Hon. Members of the Parliament, several Parliamentary Committees etc., in addition to the submissions made to the Senior Management and the Monetary Board. In accomplishing the department's statutory role, ERD submitted several confidential reports to the Hon. Minister of Finance under Sections 64 and 68 of the MLA, highlighting the current status and outlook of the monetary and external sectors, while recommending proactive measures in order to ensure economic and price stability and external sector stability. In line with Section 116(1) of the MLA, a confidential report known as the September 15th Report, which underlines the effect of the current fiscal policy on the ability of the Central Bank to achieve its objectives, was submitted to the Hon. Minister of Finance, along with a set of policy proposals to be included in the National Budget for 2023.

While attending Monetary Board meetings on a regular basis for the purpose of providing necessary policy inputs, the Director of Economic Research (DER) continued to serve as a member of several internal committees, including the MPC, Market Operations Committee (MOC), Financial System Stability Committee (FSSC), Domestic Debt Management Committee (DDMC), Tender Boards for the issuance of government securities, Training Committee, and Library Advisory Committee during 2022. Further, DER continued to serve as an observer in the Internal Investment Oversight Committee (IIOC) and International Reserve Investment Oversight Committee (IRIOC). In addition, DER also contributed to other regular and special forums and other internal committee meetings and meetings of Chairpersons and Chief Executive Officers of financial institutions, treasurers of licensed banks etc., by providing inputs on macroeconomic developments and subjects of topical interest. Moreover, DER and senior members of ERD represented numerous committees and boards of several external institutions, including the Committee on Fixing Benchmark Price for sale of Mineral Sands by the

Lanka Mineral Sands Limited, Committee to revise tariff rates on rooftop solar/ground mounted solar, Technical Committee to assist the Steering Committee on Implementation of the Road Map for Sustainable Finance in Sri Lanka, Committee on updating the standard tariff of electricity generated from renewable energy sources of 10MW or less, Committee on the Rehabilitation of the Kurunchathivu saltern project, Advisory Committee on Trade Promotion and Information of Export Development Board, Government Finance Statistics (GFS) coordination committee, Committee on Pricing Formula for LP Gas, Committee on introducing a pricing formula for petroleum products, Committee on Maintaining Cost of Living, Evaluation Committee to fix the economic value of carbonate rocks and minerals hosted by Geological Survey and Mines Bureau, Food Policy Committee, and Committee to formulate suitable methodology to adjust price variations in contracts in the construction field including highways. DER and senior members of ERD also facilitated the President appointed Committee on Economic Stabilisation, Recovery and Promotion of Growth, in numerous ways. Further, ERD officers represented the Central Bank in several programs during the year, including Marine Spatial Planning and the 30*30 campaign: Benefits for Sri Lanka, GGGI (Global Green Growth Institution) Sustainable Financing Programme in Sri Lanka, implementing the ESCAP macroeconomic model for sustainable development and Task Forces to Strengthen Foreign Exchange Inflows. In addition, ERD officers participated in meetings with various institutions, including the Department of Census and Statistics (DCS), Public Utilities Commission of Sri Lanka (PUCSL), Ceylon Electricity Board (CEB), and CHEC Port City Colombo (Pvt) Ltd. Meanwhile, ERD officers participated in the steering committee on Green Financing Taxonomy and were involved in organising the launch of the Green Financing Taxonomy. Officers of ERD continuously carried out analyses on topical interests, including the impact assessment on the X-Press Pearl incident, performance under the national fuel pass QR system, the need for urgent revision of domestic petroleum prices for demand management, reviving the agriculture sector for food security and economic recovery and industry sector issues and prospects. Contributing to the Government's efforts to revive the negotiations of free trade agreements, DER and officials of ERD participated in committees and subcommittees formed for such negotiations, such as the Investment subcommittee in the China-Sri Lanka Free Trade Agreement negotiations hosted by the Board of Investments of Sri Lanka.

7.4 Statutory Publications and Dissemination of Data and Information

As per the statutory requirements under the MLA, ERD prepared the *Annual Report* of the Central Bank for 2021, in all three languages with the assistance of other departments of the Central Bank. This annual flagship publication of the Central Bank was presented to the Hon. Minister of Finance and was made available to the public by the end of April 2022. In addition, *Recent Economic Developments - Highlights*

of 2022 and Prospects for 2023 was also published in October 2022 with the assistance from other departments providing a mid year assessment of the macroeconomic conditions that prevailed and the outlook for 2023. Further, ERD published the monthly *Statistical Bulletin* and the macroeconomic chart pack, while continuing to disseminate economic and financial information through daily, weekly, and monthly indicators and bulletins published in the media and the online data library available on the Central Bank website. Moreover, with the aim of enhancing the awareness of the general public, media statements and press statements on emerging matters were released in addition to the regular monetary policy review and external sector developments. ERD disseminated statistics covering all sectors of the economy in compliance with the Special Data Dissemination Standard (SDDS). DER appeared in several discussions in the electronic media on topical economic issues, while representing the Central Bank in external engagements. ERD also prepared talking points and presentations for the Governor for the speeches delivered at various fora, while sharing information with Hon. Ministers on various topics.

7.5 Engaging in Policy Research and Knowledge Sharing

ERD continued to inculcate a culture of research within the department and the Central Bank in order to stimulate research and analysis to facilitate the policy making of the Central Bank. The Research Advisory Committee (RAC), an internal committee formulated with the aim of fostering the research culture in the ERD, continued to provide guidance in research related tasks and knowledge sharing activities. Accordingly, RAC members served as the resource personnel to several training courses on research methodology, including 'Research in Economics' and 'Applied Econometrics - Practical Approach Using EViews Software', in collaboration with the Centre for Banking Studies (CBS), while actively contributing to research activities guiding researchers to enhance the research skills of officers of the Central Bank. For the third consecutive year, ERD organised a joint annual international research workshop in collaboration with the Asian Development Bank Institute (ADB) and Asia Pacific Applied Economic Association (APAEA) focusing on Emerging Issues for Macroeconomic Stability in September 2022. At this workshop, ERD staff presented three research papers prepared jointly with researchers from APAEA. In August 2022, ERD researchers presented a country paper at the SAARCFINANCE Virtual Seminar on the Dynamics of Inflation and its Control in South Asia. Further, ERD spearheaded the training of postgraduate aspirants of the Central Bank in the fields of macroeconomics, microeconomics, and mathematics for economics. The Central Bank's official research publication, *Staff Studies*, was published in 2022 under the guidance of the RAC, while members of RAC continued to evaluate research proposals and research papers of the postgraduate aspirants of the Central Bank and provided supervisory services to some postgraduate students in the university system. Moreover, RAC members reviewed articles written to be published in the

three periodicals of the Central Bank, namely, *News Survey*, *Satahana* and *Vaippaham*.

Meanwhile, ERD contributed to improving the economics knowledge among interested parties within and outside the Central Bank in collaboration with CMD, CBS, and the Regional Offices of the Central Bank, for the benefit of students in schools and universities, and officers of public and private sector institutions. Also, under the internship programme of the Central Bank, ERD mentored 45 university students by helping them develop research skills and educating them on the role of the ERD and the Central Bank in general, in the economic policy formulation of the country. A key public lecture, 'The State of the Sri Lankan Economy, Challenges and Outlook as Reflected in the Annual Report 2021' was conducted in all three languages by senior officers of ERD. Further, several virtual and in-person educational and awareness sessions were conducted on the areas of monetary policy, objectives and functions of the Central Bank, recent economic developments, and the current economic crisis. In addition, the television educational lecture series organised by CBS, *Thakshilawa* and *Arivootru*, conducted in Sinhala and Tamil languages, respectively, received the service of ERD officers during 2022.

7.6 International Relations

ERD further strengthened economic and financial relations with international organisations and multilateral bodies on behalf of the Government and the Central Bank during 2022. ERD facilitated several IMF missions, including Article IV and Article VIII consultations and technical assistance, while coordinating the virtual meetings with the IMF during the year. Further, ERD continued its active engagement with the regional central banks through the South East Asian Central Banks (SEACEN) Centre by coordinating the annual SEACEN Executive Committee meeting and Board of Governors (BOG) meetings and SAARCFINANCE meetings by coordinating activities with other coordinators of South Asian central banks. ERD hosted a visit by the former acting Governor of the Reserve Bank of New Zealand in collaboration with the High Commission of New Zealand in Colombo, where matters on Central Banking and related law were discussed and a public lecture was delivered. Moreover, ERD worked closely with three international sovereign rating agencies, namely, Fitch Ratings, S&P Ratings, and Moody's Ratings during the year, while providing inputs for inquiries made by the international sovereign rating agencies. ERD provided requested information for the 5th United Nations Conference on the Least Developed Countries, highlighting the areas of poverty eradication, technology and innovations, structural transformation, regional integration, climate changes and building resilience against future shocks, among others. Further, ERD assisted in providing economic updates to the

77th Session of the United Nations General Assembly - 2022, international investors and ambassadors, while maintaining continuous dialogue with the external stakeholders of the economy.

8. EMPLOYEES' PROVIDENT FUND

The Employees' Provident Fund Department (EPF Department) facilitates the Monetary Board to exercise its powers, perform its duties and discharge its functions as per the provisions of the Employees' Provident Fund Act (EPF Act), No.15 of 1958, which established the Employees' Provident Fund (EPF/Fund). In terms of the provisions of the EPF Act, the general administration of the Fund is vested with the Commissioner of Labour, while all the powers, duties and responsibilities of the fund management are vested with the Monetary Board of the Central Bank as the custodian of the Fund.

The EPF Department, on behalf of the Monetary Board of the Central Bank, is responsible for receiving all sums paid under the EPF Act as contributions, surcharges and fees and the income from the investment of moneys, having custody of the moneys of the Fund, maintaining separate accounts in respect of each member of the Fund, paying the persons certified by the Commissioner of Labour the benefits to which those persons are entitled under the Act, investing moneys of the Fund which are not immediately required for the purposes stipulated in the Act, maintaining books of accounts relating to the Fund, preparation of financial statements of the Fund and transmitting a copy to the Minister in charge of Labour, and submission of the same to the Auditor General.

During 2022, the 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 the EPF Department during the year under review is given below.

(a) Receiving Contributions and Payment of Benefits to those Entitled

In 2022, total member contributions increased by 17.4 per cent to Rs. 194.6 billion from Rs. 165.7 billion recorded in 2021, while the total refunds made to the members and their legal heirs also increased to Rs. 163.0 billion which was a 37.9 per cent increase compared to Rs. 118.2 billion in 2021. Accordingly, the net contribution (after deducting the amount of refunds from contributions) in 2022 decreased to Rs. 31.6 billion compared to Rs. 47.5 billion recorded in 2021 (Table II-9).

(b) Maintaining the General Accounts of the Fund and the Member Accounts

The total value of the Fund increased by 9.3 per cent to Rs. 3,459.9 billion as at end 2022 compared to

Rs. 3,166.1 billion as at end 2021, due to the income generated from investments and net contributions received. Total liability to the members (member balances) stood at Rs. 3,380.6 billion as at end 2022, recording a 10.2 per cent increase from Rs.3,066.9 billion recorded as at end 2021 (Table II-9).

Table II-9
Selected Key Information of the Fund

Item	2021	2022(a)	Change (%)
Total value of the Fund (Rs.bn)	3,166.1	3,459.9	9.3
Total liability to members (Rs.bn)	3,066.9	3,380.6	10.2
Total number of member accounts (mn)	20.3	20.4	0.5
Contributing member accounts (mn)	2.5	2.4	(4.0)
Non-contributing member accounts (mn)	17.8	18.0	1.1
Total contributions (Rs.bn)	165.7	194.6	17.4
Total refunds (Rs. bn)	118.2	163.0	37.9
Net contribution (Rs.bn)	47.5	31.6	(33.6)
Number of refunds	179,681	254,630	41.7

(a) Provisional

Source: EPF Department, Central Bank of Sri Lanka

(c) Investment Activities of the Fund

The decision-making function of the EPF fund management activities were carried out by the EPF Investment Committee (EIC), which meets on a daily basis to assess the cashflow position, market conditions, evaluate investment opportunities, and to take decisions on investments. The EPF Investment Oversight Committee (EIOC) oversees the investment activities and provides strategic and policy guidance in line with the Monetary Board approved Investment Policy and Guidelines. Further, transactions relating to investments of the Fund are informed to the senior management of the Central Bank on a daily and weekly basis while the Monetary Board is apprised of investments of the Fund and the portfolio position on a monthly basis, thereby strengthening the stringent monitoring process of investment activities.

During 2022, the investment activities of the Fund were carried out within an environment of heightened macroeconomic uncertainty with the Government announcing a standstill on external debt servicing of bilateral and commercial loans from 12th April 2022. The economy witnessed a sharp contraction, historically high inflation, sharp increase in interest rates, headwinds in the external sector, scarcity of essential items and social and political unrest. In line with the guidelines on Strategic Assets Allocation (SAA) of the Fund, the EPF Department invested a major portion of its funds in government securities. In view of substantial volatility observed in financial markets, EPF placed greater emphasis on investing in long term government securities. Moreover, in order to capitalise on increasing short term interest rates in the backdrop

of inflationary pressures which prevailed during second and third quarters, the EPF Department increased its investments in short term Treasury bills in 2022. In the backdrop of heightened volatility in the equity market, EPF took a more cautious approach to investment opportunities in the equity market. Investment opportunities in corporate debentures were limited due to adverse macroeconomic conditions, while the EPF Department was also conscious of the need to invest in corporates with better credit ratings to mitigate credit risk of the corporate debt portfolio of the Fund.

Accordingly, as at end 2022, the investment portfolio of Rs.3,466.5 billion consisted of 96.9 per cent in government securities, 2.3 per cent in equity, 0.7 per cent in corporate debentures, and the remaining 0.1 per cent in reverse repurchase agreements.

(d) Payment of Interest on Member Balances

EPF intends to pay a rate of interest to its members consistent with the past years.

(e) Provision of Member Services

(i) Issuing of Statements of Member Accounts

Statements of member accounts are distributed on a semiannual basis to active members through their employers registered with the Fund. Accordingly, the member account statements of the first half and second half of 2021 were distributed during 2022 (Table II-10).

Table II-10
Issue of Member Account Statements

Period	No. of Employers	No. of Statements (Active Members)
2021 1st half	64,257	2,001,329
2021 2nd half	70,257	2,498,231

Source : EPF Department, Central Bank of Sri Lanka

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

Under the housing loan guarantee scheme, during 2022, the EPF Department issued 9,443 certificates of guarantee, amounting to Rs. 6,127 million, against balances of EPF members, to the participating lending institutions, facilitating the respective members to obtain housing loans (Table II-11). Further, during 2022, nearly Rs. 3,669 million was deducted from the relevant member accounts and remitted to the participating lending institutions to settle the overdue loans of respective members for 2021.

Table II-11
Housing Loan Guarantee Facility

Year	Issued Certificates (No.)	Value of Certificates (Rs. mn)	Amount Remitted to Lending Institutions for overdue Loans (Rs. mn)
2018	10,036	4,974	2,759
2019	10,022	5,097	3,164
2020	8,537	4,497	3,321
2021	9,068	5,423	3,573
2022	9,443	6,127	3,669

Source: EPF Department, Central Bank of Sri Lanka

(iii) Pre-Retirement Refund Scheme

The Pre-retirement refund scheme was introduced in terms of the provisions in EPF (Amendment) Act, No. 02 of 2012 and the subsequent procedures passed by the Parliament. Accordingly, members who have contributed to the Fund for more than 10 years and having an account balance of more than Rs. 300,000 are entitled to withdraw up to 30 per cent of the member balance in their accounts, subject to a maximum of Rs. 2 million, for the purposes of construction of a house or medical treatment, with effect from 2015. The said scheme is in high demand among the members of EPF. During 2022, Rs. 16.4 billion was released to 27,278 members under this scheme. Accordingly, under the said scheme, a total of Rs. 123.5 billion had been refunded to 224,335 members by the end of 2022.

(iv) E-Collection of EPF Contributions

The EPF Department introduced a mechanism to expand the existing e-collection method via its official website. It enables the employers to submit e>Returns through the EPF website and make payments online, by linking with a participating Licensed Commercial Bank via the 'LankaPay Online Payment Platform (LPOPP)' or by a cheque or as a direct debit. By end 2022, Bank of Ceylon, People's Bank, Commercial Bank of Ceylon PLC, Sampath Bank PLC, and Nations Trust Bank joined with the EPF Department to provide the respective facility. One of the key features of the above system is that it enables to update the member accounts within a day, upon a successful payment. Furthermore, this system enables employers to verify the accuracy of member details in the EPF database.

By end 2022, e-Return submission increased to 12,815 employers, covering approximately 90 percent of the active member accounts and approximately 91 percent of the total monthly EPF contributions. During the year, further awareness was created among employers on benefits of e>Returns while emphasising the importance of taking actions to rectify the issues with regard to discrepancies in

the member details in relation to e>Returns. This will ensure that contributions are credited to the relevant member accounts in a timely manner.

(v) Re-registration of EPF Members

Considering the importance of maintaining a unique member identification system, the EPF Department continued the re-registration process of its active members under their National Identity Card (NIC) numbers and full names mentioned in their NICs. The verification of accuracy of NIC details at the above re-registration process is facilitated through the access provided to the database at the Department of Registration of Persons (DRP) under the Memorandum of Understanding with DRP. Further, several initiatives were taken by the EPF Department in 2022 with the intention of expediting the process of re-registration.

During the year, 26,959 active members were re-registered and the total number of active members re-registered by end 2022 was 1,682,978.

(vi) Other Member Services

The Public Relations and Inquiries Counter of the EPF Department faced a challenging year in 2022 with the sociopolitical unrest. However, the EPF Department provided its services to 129,454 members/employers who visited the Department and attended to 63,365 and 14,114 member inquiries through telephone calls and emails, respectively, during the year. Further, the Department responded to 1,630 letters from members, employers, and other stakeholders.

In 2022, Record Amendment Division (RAD) of the EPF Department attended to approximately 89,210 EPF record amendments related to EPF member accounts. Accordingly, 83,537 Name / NIC amendments comprising 12,944 requests for name / NIC amendments received through regional offices and 5,673 account amendments were attended to by the EPF Department in 2022.

(f) Process Improvement and Capacity Development

The Process Improvement and Capacity Development Division (PICDD) continued its coordination with the Consultant appointed for facilitating the design and implementation of an integrated information technology solution for Accounting, Investment, Member Liability Management, and a consolidated database for the EPF Department. Accordingly, the study on the existing business practices and processes related to EPF activities was completed successfully during the year.

Following the above study, the Consultant completed the Business Process Review (BPR) of EPF Department. Further, the Gap Analysis report was also completed

emphasising industrial best practices and benchmarking to regional provident funds. Based on the BPR and Gap Analysis, the drafting of Functional Design of the processes of the EPF Department is in progress.

9. FACILITIES MANAGEMENT

The Facilities Management Department (FMD) facilitated delivery of logistics and other support services related to buildings and equipment etc. to the staff and stakeholders of the Central Bank with necessary state-of-the-art arrangements amidst many challenges due to adverse social and economic conditions that prevailed in the country during the period under review. Although, certain import restrictions in place owing to the current situation of the country were detrimental to such refurbishment initiatives to Central Bank properties, FMD adopted every possible measure to ensure a safe, efficient, and effective working environment for the users.

FMD continued the replacement of obsolete equipment, fixtures, fittings, and accessories in the Central Bank Head Office building to create a more conducive environment for external and internal users. Upgrading of the two decades old audio visual system at the John Exter International Conference Hall (JEICH) was completed during the period under review. FMD replaced some of the electromechanical systems which were identified as obsolete during the building health test under the retrofit project of the Central Bank and continued the replacement of rest of the identified systems during the period. Provision of additional spaces with required facilities considering the requests made by the departments of the Central Bank were completed expeditiously ensuring their smooth functioning.

In par with the energy conservation measures initiated by FMD, the traditional lamp fittings with higher energy consumption were replaced with LED lamps. In addition, thermal insulation pertaining to the chill water system at the Extension Building was replaced due to the deteriorated condition of the several decades old existing insulation materials. Further, as a measure of preserving the structural soundness and preventing water seepage of the Central Bank Head Office building, FMD initiated a procurement process pertaining to the water proofing of its rooftop.

Further, Private Automatic Branch Exchanges (PABX) were installed at the Regional Office Matale and Whiteaways Building located at Sir Baron Jayathilake Mawatha, Colombo 1, due to the importance of a modern communication system for effective delivery of intended services.

The urgent requirement of relocating the Employees Provident Fund Department (EPFD) as a result of transferring of the ownership of the Lloyd's Building located at Sir Baron Jayathilake Mawatha, Colombo 1, to the Secretary to the Cabinet of Ministers was facilitated, enabling EPFD to move to the ground floor of the Whiteaways Building which was previously occupied by the Credit Information Bureau. Further,

necessary infrastructure arrangements are being made to the 2nd floor of the same building to complete the relocation of EPFD as early as possible.

FMD arranged special transport services by renting buses from the Sri Lanka Transport Board, facilitating employees of the Central Bank to report for work and return home during the transport disruptions that prevailed in the country. This was one of the major initiatives of FMD during the year under review which significantly contributed to the continuity of the operations of the Central Bank without any hindrance.

Further, FMD continued to facilitate the outsourcing of the services of drivers with vehicles to the Central Bank's Regional Offices during the period. In addition, the existing vehicle fleet of FMD was further strengthened with required maintenance, servicing, and repairs. Moreover, FMD continued providing transport facilities for the staff of the Central Bank amidst the severe difficulties in obtaining fuel for its vehicles during the period in which fuel availability was limited in the market.

In view of enhancing the appearance and the life span of the security fence in front of the Central Bank Head Office necessary repairs and application of paint with special coating were carried out.

FMD continued its maintenance of the critical services of the buildings and necessary support services in transport and telecommunication as part of its key responsibilities.

10. FINANCE

The Finance Department (FD) is responsible for the financial reporting function of the Central Bank in accordance with International Accounting Standards /International Financial Reporting Standards and the 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 the investment portfolios of 16 internal funds, maintaining the Fixed Assets Register for the Central Bank, maintaining the database of staff loans, and representing all Tender Boards and Technical Evaluation Committees for procurement of goods and services for the Central Bank.

10.1 Preparation of the Financial Statements

(a) Monthly Balance Sheet: As per the requirements of the MLA, the monthly Balance Sheets for December 2021 and January–November 2022 were prepared in order to be published in the Government Gazette.

- (b) **Quarterly Reports:** The financial performance and financial position were reported to the Monetary Board every quarter.
- (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 2022. Audited Financial Statements of the Central Bank for the year ending 31 December 2022 are presented in Part II of the Annual Report.

10.2 Preparation of the Annual Budget

The annual income and expenditure budget and capital budget of the Central Bank for the year 2023 were prepared according to the action plans formulated in line with 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 2023 of the Central Bank was obtained in December 2022 and the budget was made available to the departments on the first working day of 2023. Meanwhile, quarterly budgetary performance statements for the year 2022 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 2022 within the time targets.
- (b) All external payments to local and foreign suppliers were made as per the procedures laid down in the standing orders of the Central Bank. During the year 2022, a total of 6,876 payments were effected, out of which 6,746 were to local suppliers and 130 to foreign suppliers.
- (c) Nearly 2,631 disbursements amounting to Rs 665.41 billion to the General Treasury and relevant projects and 280 installments amounting to Rs 751.02 billion on repayment of foreign loans were made during the year 2022. In addition, 3 banking arrangement agreements were signed in 2022 with 2 foreign banks with respect to foreign loans.

10.4 Management of Internal Funds

- (a) The Centralised Investment Unit of FD managed 16 internal funds consisting of 8 superannuation funds of the Central Bank staff and pensioners and 4 other funds administered by FD, Deposit Insurance and Liquidity Support Fund administered by Resolution and Enforcement Department and 3 funds administered by the Staff Services Management Department. All funds were invested under a common Investment Policy by FD and the relevant owner departments were 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. This includes an independently operating front office and back office and the investment activities were overseen by the Internal Investment Oversight Committee (IIOC) chaired by a Deputy Governor, which met 12 times during the year 2022, to advise on and monitor the investments of funds. Performance of these investments were reported quarterly to the Monetary Board for information purposes.

- (b) The funds were invested mainly in government securities, fixed deposits, high rated corporate debentures, and short term reverse repos. The audited financial statements of the 6 superannuation funds for 2021 were submitted to the Monetary Board as per the rules of respective funds. As at end of 2022, the total fund base had increased to Rs. 173.98 billion.

Table II-12
Portfolio Position (Rs. bn.)

Department	Portfolio value as at 31 Dec 2022 (invested values)	Portfolio value as at 31 Dec 2021 (invested values)
Finance	84.52	75.27
Resolution and Enforcement	89.39	70.98
Regional Development	-	5.38
Staff Services Management	0.07	0.06
Total	173.98	151.69

10.5 Maintaining Fixed Assets Register - GL Division

FD maintains all records of the fixed assets of the Central Bank in the Fixed Assets Register in the fixed asset module of the General Ledger (GL) System. All changes such as new purchases, change of locations, depreciation, and disposals were recorded in this register during the year 2022. The register was updated during the year 2022 with 554 items procured and 232 disposals.

10.6 Maintaining the database of staff loans

During 2022, 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. A total of 1,631 loans amounting to Rs 2.20 billion were granted to the employees during 2022.

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 2022, officers of FD were represented in 81 Tender Boards and 56 Technical Evaluation Committees related to procurements.

11. FINANCIAL CONSUMER RELATIONS

The Financial Consumer Relations Department (FCRD) was established in August 2020 with a view to strengthen the financial consumer protection framework within the financial entities regulated by the Central Bank to promote the rights and interests of financial consumers and ensure fairness and transparency of financial products and services offered to financial consumers.

In 2022, FCRD functioned as the single point of contact for financial consumers of the entities regulated by the Central Bank to send their complaints and grievances on delivery of services or business conduct of such entities. During the year the department handled a total of 5,149 complaints and grievances, averaging to around 430 complaints per month. The main categories of the complaints/ grievances received were on requests for concessions on the financing facilities obtained from such entities, charging of high-interest rates, matters related to moratoria, non-provision of information/ documents by financial institutions on consumer requests, and charging of high fees and commissions. Around 75 per cent of complaints received by the department during 2022 were completed/ resolved within two months from the date of receipt of such complaints, even after allowing a reasonable period of time for the respective financial institutions to submit their responses to the complaints made.

As a part of its activities, FCRD oversees the Contact Centre operations of the Central Bank. During 2022, the Contact Centre answered more than 60,000 telephone inquiries and verbal complaints received by the Central Bank. Furthermore, as part of its campaign for creating consumer awareness, FCRD published a web poster on the Central Bank website explaining financial consumers about the avenues available and steps to be taken by them when seeking assistance from FCRD/ the Central Bank. In addition, the department also conducted several seminars and programs on financial consumer protection at the national and regional levels to reach a wider audience. FCRD, with the assistance of the International Finance Corporation, through a professional advertising firm, is developing a media campaign focusing on financial consumer awareness, to be launched in early 2023.

Furthermore, with a view of institutionalising consumer protection in the delivery of services/ conduct of businesses by financial institutions, a comprehensive set of new regulations was developed, enabling the introduction of an integrated financial consumer protection framework for entities regulated by the Central Bank. These regulations will define specific regulatory powers for supervisors to facilitate market conduct supervision while providing clarity to both service providers and recipients on the areas to be considered in delivering or obtaining financial services aimed at minimising the need for financial consumers to make subsequent complaints. The draft of the Regulations has been made available to the industry and public for stakeholder consultation and the final regulations will be issued in mid-2023.

12. FINANCIAL INTELLIGENCE UNIT

The Financial Intelligence Unit of Sri Lanka (FIU) was established in March 2006 with the objective of facilitating prevention of Money Laundering (ML) and countering Terrorist Financing (TF). Accordingly, FIU is responsible for facilitating and coordinating the establishment of an effective Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) framework in the country, primarily based on three main pieces of legislation, namely, the Convention on the Suppression of Terrorist Financing Act No. 25 of 2005 (CSTFA), Prevention of Money Laundering Act No. 5 of 2006 (PMLA), and Financial Transactions Reporting Act No. 6 of 2006 (FTRA).

12.1 Receiving, Analysing, and Disseminating Financial Intelligence

As per Section 15 of the FTRA, FIU performed its key role of receiving, analysing, and disseminating information on suspicious financial transactions relating to Money Laundering/ Terrorist Financing (ML/TF) and other unlawful activities during 2022. Further, Licensed Commercial Banks (LCBs), Licensed Specialised Banks (LSBs), Licensed Finance Companies (LFCs), insurance companies, stock brokers, and money or value transfer service providers continued to report cash transactions and Electronic Funds Transfers (EFTs) above Rs. 1 million, or its equivalent in foreign currencies, both domestic and international to FIU. During 2022, Reporting Institutions (RIs) reported 7.6 million (provisional) cash transactions and 10.8 million (provisional) EFTs (inwards and outwards) to FIU through the 'LankaFin' reporting system as well as the newly introduced 'goAML' reporting system. With effect from 01st January 2023, FIU discontinued the 'LankaFin' system for LCBs and LSBs for all types of reporting.

Furthermore, RIs submitted 1,481 Suspicious Transactions Reports (STRs) to FIU as per Section 7 of the FTRA. After analysing the STRs received, 419 STRs were disseminated to Law Enforcement Authorities (LEAs) and Regulatory Authorities (RAs) for further investigations. FIU kept 605 STRs under surveillance and 453 STRs for further studies and analysis. The remaining STRs were categorised as no further action required.

12.2 Legal Framework and Institutional Framework

During the year 2022, FIU took various actions to bring legislative amendments to the legal framework on AML/CFT with the objective of improving the effectiveness of the AML/CFT regime of the country in compliance with international AML/CFT standards. These amendments are expected to be finalised during 2023.

By virtue of the powers vested in terms of Section 15 (2) of the FTRA, during the year 2022, FIU took measures to suspend transactions of 136 accounts belonging to 38 individuals and 5 entities pertaining to 14 incidents/cases, based on the suspicions of ML/TF. Accordingly, a balance of

Rs. 96 million was suspended during the year. In addition, around 1,000 accounts relating to 78 cases, which were suspended in the previous years, were extended in two month intervals during the year as LEAs requested further time to conduct investigations. In order to strengthen the AML/CFT compliance of RIs, FIU issued 4 Circulars during 2022, which can be referenced in Part III of this Report.

Further, FIU took continuous measures to enhance compliance of FIs and Designated Non-Finance Businesses and Professions (DNFBPs) by effective monitoring and enforcement, onsite and offsite surveillance, and conducting compliance review meetings. Accordingly, in 2022, FIU conducted 22 joint risk based examinations, 3 risk based onsite examinations, and 22 spot examinations of FIs. In addition, 17 risk based onsite examinations were conducted on DNFBPs. Apart from the above examinations, 5 thematic reviews were also conducted on FIs and DNFBPs.

Based on the onsite examinations conducted in 2022, financial penalties amounting to Rs. 11.75 million were imposed on 6 Licensed Banks on violations of the FTRA and CDD Rules. Also, 8 show cause letters and 9 warning letters were issued during the year to FIs on instances of non-compliance with the provisions of the FTRA and the CDD Rules and Regulations issued there under. Moreover, FIU took measures to inform identified deficiencies to 17 DNFBP institutions during 2022. The AML/CFT supervision of DNFBPs was further strengthened by implementing continuous measures to enhance the number of DNFBP institutions for AML/CFT compliance.

12.3 Strengthening the Domestic Coordination and International Cooperation on AML/CFT Related Matters

The FTRA empowers FIU to enter into Memoranda of Understanding (MOUs) to exchange information with any institution or agency domestically or in a foreign state. During 2022, FIU initiated signing MOUs with the Financial Intelligence Unit of the Kingdom of Lesotho, the Unidade de Informação Financeira de Timor-Leste (FIU of Timor-Leste) and the Financial Intelligence Authority of Uganda.

The Annual Plenary of the Asia Pacific Group on Money Laundering (APG), the regional monitoring body of the Financial Action Task Force was held as a hybrid plenary in July 2022, and the officers of FIU participated in the plenary meetings virtually. Further, the officers of 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 (FURs). The 7th FUR of Sri Lanka was endorsed at the virtual MEC held in July 2022, where Sri Lanka did not request for upgrades to any recommendation. Accordingly, by the end of 2022, out of 40 Financial Action Task Force (FATF) recommendations, Sri Lanka's compliance status stood as 7 Compliant, 25 Largely Compliant, 7 Partially Compliant and 1 Non-Compliant. During the Plenary,

FIU Sri Lanka was elected as the South Asia Sub-Regional representative of the APG Governance Committee for a one year period.

FIU obtains assistance from members of the Egmont Group, i.e., the Association of global FIUs consisting of 166 members, through the Egmont Secure Web to carry out investigations and to collaborate with member countries to gather intelligence on their investigations. During 2022, FIU responded to 27 requests from counterpart FIUs and made 35 requests to counterpart FIUs to share information related to ongoing investigations. The Egmont Plenary for 2022 was held as an in-person meeting. However, the officials of FIU were unable to participate in the plenary meetings due to external circumstances.

12.4 National Risk Assessment (NRA) on Money Laundering and Terrorist Financing

FIU continued the conduct of National Risk Assessment (NRA) on ML/TF with technical assistance from the World Bank, in compliance with Recommendation 1 of the FATF Recommendations. The outcome of the NRA is expected to be published in the first half of 2023 and the next National AML/CFT Policy will be formulated in line with the NRA outcome.

12.5 Conducting Awareness Programs for Stakeholders

Continuing the efforts to enhance the awareness on AML/CFT, FIU organised and provided resource assistance for altogether 24 awareness/training programs during the year 2022, accommodating nearly 2,250 participants from FIs, DNFBPs, LEAs, and RAs. These programs were conducted face-to-face as well as through online platforms.

13. FOREIGN EXCHANGE

The 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 the Foreign Exchange Act No. 12 of 2017 (FEA) to ensure proper promotion and regulation of foreign exchange in Sri Lanka. DFE consists of four Divisions, namely, Policy, Capital Transactions, Investigations and Statistics, and Monitoring and Corporate Services, to execute the assigned duties.

The main functions of DFE are as follows:

- a) Facilitating the issuance of Regulations and Orders by the Minister under the provisions of the FEA.
- b) Appointing Restricted Dealers (RDs) and other persons to deal in foreign exchange as prescribed by the Hon. Minister of Finance (the Minister) in terms of the FEA.
- c) Issuing Directions under the FEA to Authorised Dealers (ADs) and monitoring their compliance in terms of the Regulations, Orders and Directions issued under the FEA.

- d) Implementing provisions of the FEA by formulating Regulations and Orders and issuing Directions for carrying out foreign exchange activities and transactions.
- e) Monitoring the export proceeds repatriation into Sri Lanka in compliance with the Rules issued under the MLA using the information obtained through the Export Proceeds Monitoring System (EPMS) and initiating regulatory actions against non-compliances.
- f) Considering requests for specific purposes not covered by the general permissions granted under the FEA.
- g) Reviewing the effectiveness of existing policies and identifying the necessity for new policies in line with the developments in the foreign exchange market and implementing such new policies appropriately.
- h) Conducting investigations on non-compliances with the provisions of the FEA.
- i) 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.

A summary of the key activities performed by DFE during 2022 is given below.

13.1 Facilitating Issuance of New Regulations, Orders, and Directions

During the year, DFE, in conjunction with several other measures introduced by the Central Bank to ease the pressure on the exchange rate and to support foreign currency liquidity in the domestic foreign exchange market, issued Regulations, Orders and Directions, where necessary, in terms of the provisions of the FEA. Some of the key Regulations, Orders and Directions are highlighted below with the details given in Part III of this Report.

- i. The Order issued under Section 22 of the FEA, which was initially issued suspending and imposing limits on outward remittances for certain capital transactions, was further extended during the year to support exchange rate stability.
- ii. The Regulations on opening Special Deposit Accounts (SDAs) were extended for a period of 12 months up to 07 April 2023 considering the potential to attract foreign exchange inflows to the country, while allowing already opened SDAs to roll over for a maximum of 36 months from the date of opening the SDAs to encourage retention of such funds within the country.
- iii. An Order was issued under Section 8 of the FEA reducing the maximum limit for possession of foreign currency from USD 15,000 to USD 10,000 with the aim of attracting foreign currency in the possession of persons in or resident in Sri Lanka into the banking system.
- iv. Directions were issued in early November 2022, facilitating

the foreign currency transactions under the Golden Paradise Visa program implemented by the Department of Immigration and Emigration for persons resident outside Sri Lanka seeking long term resident visas.

- v. Regulations and Directions were issued granting permission to companies incorporated under the Companies Act, No. 7 of 2007 to obtain short term loans from their overseas parent companies or companies within the same group of companies incorporated outside Sri Lanka for facilitating payments for the import of raw materials for manufacturing goods.
- vi. Regulations and Directions were issued granting permission to the investors and investees in the Colombo Port City Special Economic Zone (CPC) to open bank accounts for making investments in the CPC, while also allowing employees of the companies in the CPC to open foreign currency accounts and enabling residents to receive payments from companies in the CPC in respect of providing goods and services.
- vii. Directions were issued to RDs (i.e., Money Changers) prohibiting the offering of higher exchange rates (considering non-compliances by RDs by way of offering higher buying rates for foreign currencies) to customers.

Further, during the year, DFE engaged in proposing amendments to the FEA with regard to several issues and concerns identified in respect of implementing the provisions of the Act, including obtaining an appropriate regulatory empowerment to curb unauthorised foreign exchange transactions.

13.2 Granting of Permission for Foreign Exchange Transactions

- (a) Special Permissions were granted under the FEA as illustrated in Table II-13 below.

Table II-13

Purpose	No. of approvals	Value in USD mn
Resident Companies to issue bank/corporate guarantees in favour of residents outside Sri Lanka	2	29.1
Opening of Special Foreign Currency Accounts	29	N/A*
Authorised Dealers/Resident Companies to process certain miscellaneous foreign exchange transactions that are not covered by the general permissions granted under the FEA	101	N/A*

* N/A – Not Applicable

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

- i. 11 new money changing permits were issued during the year 2022 to hotels for buying and exchanging foreign currency notes.

- ii. 1 Money Changing permit was revoked and 1 was temporarily suspended. Further, two Licensed Financial Companies Ceased their money changing operations during the year.
- iii. The categories of institutions and types of permits that were issued to RDs to engage in money changing are provided in Table II-14.

Table II-14
RDs Permitted to Engage in Money Changing Business as at 31 December 2022

Category of Institution	Permitted business	No. of permits issued
Limited Liability Companies that are solely engaged in the money changing business (money changers)	Buying and exchanging foreign currency	59*
	Buying, selling and exchanging foreign currency	
Licensed Finance Companies (LFCs)	Buying, selling and exchanging foreign currency	06
Tourist Hotels	Buying foreign currency	14
Total		79

* Permits were issued to 59 companies which include 69 money changing outlets/branches. Out of these 69 outlets, 58 were permitted to buy and exchange foreign currency, while the remaining 11 were permitted to buy, sell, and exchange foreign currency.

Accordingly, as at 31 December 2022, 26 ADs and 81 RDs including MMBL Money Transfer (Pvt) Ltd (engaging in money transfer service) and Sri Lanka Export Credit Insurance Corporation (engaging in issuing credit guarantees in foreign exchange) were in operation. The list of ADs [i.e., Licensed Commercial Banks (LCBs) that are authorised to deal in foreign exchange for permitted transactions and Licensed Specialised Banks (LSBs) that are permitted to deal in foreign exchange for the purposes specified in the respective authorisation] and RDs including branches are in **Annex II-2** and **Annex II-3**, respectively.

(c) Transfer of Migrants' funds

ADs were permitted to open 215 Capital Transaction Rupee Accounts (CTRAs) during the year for the purpose of remitting the migration allowance to Sri Lankan emigrants and to facilitate outward remittances of inherited funds to non-nationals. However, the amounts transferred through these CTRAs amounted to only USD 1.26 million due to suspensions introduced under the Order issued under Section 22 of the FEA.

13.3 Issuing Clearance Letters to Resident Investors

DFE issued 12 clearance letters during the year to resident investors confirming that there are no pending investigations under the FEA against such investors, thus enabling them to make outward investments as permitted by the Regulations issued by the Minister.

13.4 Monitoring and Investigation of Foreign Exchange Transactions

- i. All ADs are required to submit the information on foreign currency accounts maintained by them to DFE as per the reporting requirements imposed by the Directions issued under the FEA on such foreign currency accounts. Further, in terms of the Repatriation of Export Proceeds into Sri Lanka Rules No. 1 of 2022, as amended (Rules), issued under the MLA, all ADs are required to submit information in relation to repatriation of export proceeds into Sri Lanka and conversion of such proceeds into Sri Lanka Rupees as stipulated. This information is analysed by DFE and used for monitoring, regulatory and policy making purposes.
- ii. In addition, DFE conducted several on-site inspections at ADs to identify whether the ADs and exporters complied with the Rules and to initiate remedial measures or regulatory action, if necessary.
- iii. 47 new investigations were initiated in respect of ADs, RDs and other persons in terms of the provisions of the FEA, with regard to non-compliances with the Regulations, Directions, and Orders issued under the FEA.
- iv. Further, 40 investigations, which comprise 17 initiated before 2022 and 23 initiated during 2022, were concluded during the year by taking appropriate actions.
- v. Additionally, law enforcement authorities were assisted in litigation and judicial proceedings by providing expert evidence/testimonies by the DFE in respect of matters pertaining to the provisions of the FEA.

13.5 Export Proceeds Monitoring System (EPMS)

In 2021, a Working Group was appointed to implement an IT based system to monitor export proceeds repatriations into the country. As a result, an automated EPMS was developed and implemented in June 2022, in collaboration with the Information Technology Department of the Central Bank and the Sri Lanka Customs (SLC). The main objective of the EPMS is to ensure all exports of goods from the country are captured into a database and to monitor the repatriation of export proceeds as per the Rules on Repatriation of Export Proceeds into Sri Lanka. The EPMS captures export information through a web service provided by SLC and export proceeds repatriation details are submitted by ADs to the system. Accordingly, the EPMS is expected to strengthen the monitoring of export proceeds repatriation into the country.

13.6 Enhancing Awareness on Foreign Exchange Regulations

Nine awareness programmes were conducted during the year for ADs and other stakeholders on the prevailing Regulations and the provisions of the FEA. Moreover, ten

press releases were issued to enhance awareness on the foreign exchange Regulations, Orders and Directions. The official website of DFE (www.dfe.lk) was duly updated to enhance public awareness on the FEA regulations while the department continued to provide clarifications for inquiries on foreign exchange transactions.

Annex II-2

List of Authorised Dealers (ADs) as at 31 December 2022

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 2022

RDs permitted to buy and exchange foreign currency	
Money Changing Outlets	
1	Abdeen Money Changers (Pvt) Ltd
2	Abilash Money Exchange (Pvt) Ltd
3	Ariyawansa Enterprises (Pvt) Ltd
4	Aruna Forexc (Pvt) Ltd*
5	Asian Money Exchange (Pvt) Ltd
6	Brescia Grameen (Pvt) Ltd*
7	Bullion Money Exchange (Pvt) Ltd
8	Capital Exchange (Pvt) Ltd
9	Central Money Exchange (Pvt) Ltd
10	Colombo Money Exchange (Pvt) Ltd - Colombo 01
11	Colombo Money Exchange (Pvt) Ltd - Colombo 06
12	Dadigama Group (Pvt) Ltd
13	Data Exchange International (Pvt) Ltd
14	Daya Authorized Money Changer (Pvt) Ltd
15	Galle Money Exchange (Pvt) Ltd - Galle

16	Galle Money Exchange (Pvt) Ltd - Galle Fort
17	George Michael Holdings (Pvt) Ltd
18	Global Village Exchange (Pvt) Ltd
19	Golden Money Changers (Pvt) Ltd
20	Gold Lanka Jewellery (Pvt) Ltd
21	Haifa Travels and Tours (Pvt) Ltd
22	International Exchange (Pvt) Ltd
23	Jayes Investments Ltd
24	Jeya Forex Exchange (Pvt) Ltd*
25	Kamal Enterprises (Pvt) Ltd*
26	Keyser Exchange (Pvt) Ltd
27	Kudamadu Money Exchange (Pvt) Ltd*
28	M.P. Money Changer (Pvt) Ltd
29	Maruthi Money Exchange (Pvt) Ltd - Jaffna
30	Mayurie Money Changers (Pvt) Ltd
31	Midna Mini Market (Pvt) Ltd*
32	Milano Money Exchange (Pvt) Ltd
33	Narmatha Gold Centre (Pvt) Ltd - Jaffna
34	Narmatha Gold Centre (Pvt) Ltd - Kilinochchi
35	New Lanka Gold House (Pvt) Ltd*
36	New Natasha (Pvt) Ltd
37	New Regal's Money Changer (Pvt) Ltd
38	Rafeek's Gems (Pvt) Ltd*
39	Rimha Jewellery (Pvt) Ltd*
40	Rivindu Enterprises (Pvt) Ltd
41	Royal Money Exchange (Pvt) Ltd - Colombo 01
42	Royal Money Exchange (Pvt) Ltd - Colombo 06
43	Royal Money Mart (Pvt) Ltd - Aluthgama
44	Royal Money Mart (Pvt) Ltd - Colombo 01
45	Salaka Trust Investment (Pvt) Ltd*
46	Sharanga Money Exchange (Pvt) Ltd*
47	Shifaz Money Exchange (Pvt) Ltd
48	Sornam Forex (Pvt) Ltd*
49	Swiss Money Exchange (Pvt) Ltd - Colombo 01
50	Swiss Money Exchange (Pvt) Ltd - Colombo 06
51	Thamasha Forex (Pvt) Ltd*
52	Thomas Cook Lanka (Pvt) Ltd - Colombo 02 - Colombo City Center
53	Thomas Cook Lanka (Pvt) Ltd - Colombo 02 - One Galle Face Mall
54	Thomas Cook Lanka (Pvt) Ltd - Kandy
55	Unic Forex (Pvt) Ltd
56	Vasanthas International Money Exchange (Pvt) Ltd*
57	Western Money Exchange (Pvt) Ltd
58	Windsor Money Exchange (Pvt) Ltd
RDs permitted to buy, sell and exchange foreign currency	
59	Arrujina Jewellery (Pvt) Ltd
60	City Exchange (Pvt) Ltd
61	Crown Money Exchange (Pvt) Ltd
62	Devi Forex (Pvt) Ltd
63	Jewel Lanka Money Exchange (Pvt) Ltd
64	Maruthi Money Exchange (Pvt) Ltd - Colombo 06
65	Metro Forex (Pvt) Ltd
66	Pushpa Money Changer (Pvt) Ltd
67	Ravi Forexae (Pvt) Ltd
68	Thomas Cook Lanka (Pvt) Ltd - Bandaranaike International Airport
69	Universal Money Changers (Pvt) Ltd*

Licensed Finance Companies	
70	Asia Asset Finance PLC
71	Citizens Development Business Finance PLC
72	Lanka Credit and Business Finance Ltd
73	L B Finance PLC
74	Senkadagala Finance PLC
75	Singer Finance (Lanka) PLC
RDs permitted to buy foreign currency	
Tourist Hotels	
76	Pearl City Hotel
77	Shangri-La's Hambantota Resort & Spa
78	Shangri-La Hotel Colombo
79	Cinnamon Red Colombo
80	Cinnamon Citadel Kandy
81	Cinnamon Lodge Habarana
82	Habarana Village by Cinnamon
83	Trinco Blu by Cinnamon
84	Cinnamon Bentota Beach
85	Hikka Tranz by Cinnamon
86	Cinnamon Bey Beruwala
87	Cinnamon Grand
88	Cinnamon Lakeside
89	Cinnamon Wild Yala
Other Entities	
90	MMBL Money Transfer (Pvt) Ltd (Permitted only to channel inward remittances in foreign currency to distribute in Sri Lanka Rupees to local beneficiaries)
91	Sri Lanka Export Credit Insurance Corporation (Permitted to issue pre/post shipment credit guarantees in foreign currency to ADs on account of exporters)

* These entities have not been permitted to engage in money changing businesses for the year 2023

14. FOREIGN REMITTANCES FACILITATION

The Foreign Remittances Facilitation Department (FRFD) was established to facilitate and streamline workers' remittance inflows to the country while working towards realising the full potential of labour migration and workers' remittances. In achieving set goals, the FRFD engaged in the following activities during 2022 and early 2023 by liaising with other relevant authorities in the foreign remittance sector.

14.1 Cash Based and Non-cash Based Incentives for Migrant Workers

- Implemented an incentive scheme for reimbursing transaction costs borne by migrant workers up to Rs. 1,000 per transaction equivalent to Rs. 20,000 or above when remitting money to rupee accounts maintained by licensed banks and over the counter cash receipts. In this regard, FRFD held discussions with the State Bank of Pakistan, Migrant Workers Associations abroad, Exchange House Associations abroad and licensed banks in Sri Lanka prior to designing and implementing the scheme. This scheme has been in operation since 01 February 2022.
- Designed a scheme to introduce an additional duty-free allowance for migrant workers. This scheme would

encourage migrant workers to send their earnings through formal channels, facilitating sustainability and medium term growth of the non-debt forex inflows to the country. The scheme was approved by the Cabinet of Ministers and is expected to be implemented in the near future.

- Included in designing a scheme to grant permission to import Electric Vehicles for Migrant Workers. The scheme was implemented by the Ministry of Labour and Foreign Employment. The scheme encourages migrant workers to remit their forex earnings through legal channels by granting them permission to import electric vehicles of Cost, Insurance, and Freight (CIF) values equal to or less than the 50 per cent of the forex remitted from 01 May to 31 December 2022.

14.2 Public Awareness on Workers' Remittances and Migration

- Public awareness programmes on incentives schemes focused on migrant workers and the importance of formal money transferring channels were conducted through various modes, such as newspapers, radio programmes, seminars, social media platforms and news websites.
- A list of Remitting Agents (RAs) and Other Remitting Channels (ORCs) directly tied up with licensed banks in Sri Lanka was published on the Central Bank website and updated on a regular basis. This list is to improve the awareness of Sri Lankan expatriates on RAs and ORCs directly tied up with licensed banks, enabling them to identify the formal channels for sending their remittances to Sri Lanka.
- FRFD engaged in handling clarifications, complaints, and grievances in relation to remitting foreign currency to the country while addressing the difficulties and limitations faced by migrant workers by liaising with relevant authorities and other departments of the Central Bank.

14.3 Sharing Information on Remittances and Migration

- Disseminated data on labour migration and workers' remittances by publishing the respective information on the Central Bank website.
- Conducted research on workers' remittances and migration and published them in Journals and Central Bank publications.

In order to address the information asymmetries on methods used by migrant workers to remit their earnings to Sri Lanka and to provide the required information for effective policy formulation, currently FRFD is conducting a baseline survey on Sri Lankan migrant workers and their remittance patterns by carrying out face-to-face interviews based on a structured questionnaire. Going forward, FRFD expects to get extensively involved in the process of introducing new

schemes such as concessionary loan schemes to enhance remittances and migrant workers' welfare in collaboration with other relevant authorities. Further, FRFD is planning to study the transaction cost currently prevailing in the market by using a Cross Country Study on inward remittance flows.

15. HUMAN RESOURCES

The Human Resources Department (HRD) carries out the Human Resource Management (HRM) functions with the objective of ensuring the availability of a productive, motivated, and contented team of employees, who could contribute to achieve the overall objectives of the Central Bank amidst various challenges such as the COVID-19 outbreak, traveling difficulties due to fuel shortages, etc. In line with Strategic Action Plan 2022 of the Central Bank, operations of HRD included activities related to recruitment of new staff, promotions, job rotations, employee remunerations, training and skills development, performance evaluation, staff motivation, grievances handling, and outsourcing of selected services of the Central Bank as necessary, during the year 2022. HRD convened meetings of the senior management of the Central Bank, i.e., the Corporate Management Committee, Training Committee, and Training Sub Committee, facilitating discussions on proposals and decision making regarding all HRM related matters and matters related to other corporate functions. Further, HRD convened regular meetings of the Heads of Department for discussions and decision making on operational as well as policy matters related to the Central Bank's core activities and, strategic and operational functions.

HRD contributed towards maintaining the industrial harmony in the Central Bank by facilitating continuous dialogue between the Central Bank management, employees at all levels as well as the Trade Unions. Moreover, HRD provided a necessary platform for the Bank's pensioners and the Pensioners' Associations to have a dialogue with the Central Bank management and their concerns/requests were considered. HRD also facilitated discussions between the Central Bank management and all Trade Unions to finalise the 2021-2023 Triennial Salary Revision at the beginning of the year 2022.

Further, HRD facilitated the smooth functioning of operations of the Central Bank during the outbreak of COVID-19 in

the early part of 2022 as well as when travelling difficulties prevailed due to fuel shortages in the country, while maintaining uninterrupted operations by facilitating Work From Home arrangements.

15.1 Human Resources Structure

The total number of staff of the Central Bank at the end of year 2022 was 1,260 which consisted of 661 Staff Class (SC) Officers, 463 Management Assistant Class (MAC) Officers, and 136 Office Assistant Class (OAC) employees. The total staff of the Central Bank consisted of 656 male and 604 female officers representing 52 per cent and 48 per cent of the total staff, respectively. The average age of an employee of the Central Bank was 40 years at the end of 2022.

15.2 Educational and Professional Qualifications of Employees

As indicated in Table II-15, the Central Bank has a diverse and talented pool of human resources with a high level of academic and professional qualifications.

15.3 Human Resources Management

(a) Recruitments

In 2022, HRD followed the General Recruitment procedure to recruit Junior Personal Assistants (English and Sinhala) to the Central Bank. Candidates were assessed based on a Skill Test conducted on 29 October 2022 and interviews held on 22 December 2022. Appointment of the selected candidates are to be effective in January 2023. Further, discussions were held with the Department of Examinations for arrangements in relation to conducting a competitive examination for the recruitment of Banking Assistants (Trainee) to the Central Bank.

Additionally, HRD filled the position of Director/Security Services Department of the Central Bank on contract basis for a period of one year from 02 January 2023.

(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 employee performance.

Table II-15
Educational Qualifications/Professional Memberships of Employees of the Central Bank
as at 31.12.2022

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	26	123	169	71	44	3	171	10	617
MAC	-	11	30	16	20	38	42	24	181
Total	26	134	199	87	64	41	213	34	798

Under the performance evaluation process, the level of performance of each employee is evaluated by assigning ratings for the performance achieved, generic and technical competencies as specified in the evaluation criteria. The final performance marks of employees up to SC Gr 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. Further, HRD introduced a quarterly performance review process from 2022. This process is aimed at giving an opportunity for the supervisors to closely monitor the performance of employees in a progressive manner, aligning employees' performance towards achieving departmental strategic objectives, and for employees, to use as a direction to achieve their annual individual goals.

(c) Promotions

HRD facilitated promotions under the employee promotion scheme of the Central Bank to ensure career progression of employees. Accordingly, a total of 272 staff members were granted their Class and Grade promotions during the year 2022. On this basis, 1 Assistant Governor was promoted to Deputy Governor, 1 Head of Department was promoted to Senior Head of Department, 7 Deputy Heads of Department were promoted to Additional Heads of Department, 11 Staff Class Grade III (1) officers were promoted to Deputy Heads of Department, and 252 employees were granted their Class and Grade promotions.

(d) Training and Skills Development

The Central Bank provides opportunities for its staff to upgrade skills and knowledge for the purpose of fulfilling the objectives of the Central Bank effectively and to have a diverse and talented staff. Accordingly, the Central Bank encourages its officers to read for postgraduate studies in internationally recognised universities under the Central Bank Sponsorship Scheme for postgraduate studies. Further, the Central Bank facilitates officers to attend training programs locally and internationally, to support the continuous enhancement of knowledge,

expertise, and skills within the Central Bank and to meet the emerging needs of its human capital development. However, considering the prevailing economic condition of the country, the Central Bank decided not to bear any foreign currency expenses on facilitating training opportunities including postgraduate studies during the year 2022. However, the Central Bank allowed officers to participate in foreign trainings for which the total costs were sponsored by the organising institution and to proceed for postgraduate studies if the officer obtained a full scholarship from external sources acceptable to the Central Bank.

In 2022, HRD facilitated two officers to embark on postgraduate studies in economics in top ranked universities in Australia under scholarships offered by the Australian Government. The number of officers who commenced and returned after completion of postgraduate studies under the Central Bank Sponsorship Scheme during the period from the year 2018 to end of the year 2022 are given in Table II-16 below.

As an alternative to the above, the Central Bank facilitated officers to attend online training programs in 2022 conducted by the other Central Banks and international organisations such as IMF, SEACEN, World Bank etc., and local institutions. Accordingly, HRD facilitated 621 officers to participate in 402 foreign training programs conducted virtually and 65 officers to participate in 36 foreign training programs held abroad which were fully funded by the training organiser.

In the meantime, HRD facilitated 479 officers to participate in 93 local training programs conducted by the external local training institutions and 1,716 officers to participate in 85 local training programs conducted by the Central Bank's Centre for Banking Studies (CBS). In addition, HRD facilitated the Central Bank employees to follow long term local (part time) training programs and continued its Sponsorship Scheme for the Chartered Financial Analyst (CFA) qualification, while facilitating other Certificate

Table II – 16
Postgraduate Studies under the Central Bank Sponsorship Scheme

Year	Postgraduate Studies				Total	
	PhD		Master's Degree		Commenced	Completed*
	Commenced	Completed*	Commenced	Completed*		
2018	8	1	8	14	16	15
2019	4	1	7	7	11	8
2020	2	5	6	8	8	13
2021	1	4	1	6	2	10
2022	-	1	2	1	2	2
Total	15	12	24	36	39	48

* Returned after completion of postgraduate studies

Courses and Diploma Programs offered by local institutions. HRD also conducted knowledge sharing sessions among the staff of the Central Bank and other central banks. Accordingly, HRD conducted knowledge sharing programs with the Bank of Korea (BOK) in 2022 under the topic of “FX Transaction Monitoring and Market Stabilisation Measures”. Further, HRD facilitated several other knowledge sharing sessions conducted by BOK.

(e) Job Rotation

HRD continued the implementation of the annual job rotation policy in 2022 in order to achieve its overall objectives of developing multi skilled Human Resources within the Central Bank while enhancing its productivity. Accordingly, HRD executed transfers of 23 officers in SC and, 50 employees in OAC under the annual job rotation scheme with effect from 03 January 2022. Further, 12 employees in OAC were transferred based on the roster plan formulated under the Annual Job Rotation Scheme.

(f) Industrial Harmony

HRD continued to perform its role as the facilitator for maintaining a closer dialogue between the Central Bank management and Trade Unions. Accordingly, 9 discussions were arranged in 2022 giving the opportunity to the management and Trade Unions to resolve issues related to remuneration, promotions, training, welfare, recruitment, and general administration of the Central Bank.

(g) Outsourcing of Services

HRD has been given the authority to outsource manpower services required to the Central Bank which are not related to its core functions. Accordingly, HRD follows the tender procedure for outsourcing services to the Central Bank, upon the request of the respective departments. In 2022, HRD outsourced services in 5 areas as per the requirements of the Bank, i.e., Security Services, Service of Software Engineers, Service Providers for Managing Holiday Bungalows, Service of Audit Firms, and Service of Medical Officers etc.

15.4 Closing of Departments

In accordance with the provisions of Section 33 of the Monetary Law Act, No. 58 of 1949, the Monetary Board at its Meeting No. 11/2022 held on 08 April 2022 granted approval to assign functions of Governor’s Secretariat Department (GSD) to the Governor’s Secretariat attached to the Secretariat Department and to close GSD with effect from 08 April 2022.

15.5 Meetings Attended by the Governor during 2022

- (a) Foreign Visits undertaken by the Governor:
- i. Meeting with H. E. Sheikh Bandar Bin Mohammed Bin Saoud Al-Thani, Governor of the Qatar Central Bank on 04 January 2022.
 - ii. Doha Forum in Doha, Qatar during the period of 25 – 27 March 2022.
 - iii. International Monetary Fund (IMF)/World Bank Spring Meetings, Washington DC, USA during the period of 17 – 24 April 2022.
 - iv. IMF/World Bank Annual Meetings, Washington DC, USA during the period of 10 – 16 October 2022.
- (b) Special Events (Local) attended by the Governor:
- i. Chief Guest at the 32nd Anniversary Convention organised by the Association of Professional Bankers-Sri Lanka, held at the Cinnamon Grand Hotel on 18 January 2022.
 - ii. Keynote address at the National Defence College seminar on “Economic Security as an integral part of National Security” on 14 February 2022.
 - iii. Guest Speech at the Monthly Meeting of Ceylon Chamber of Commerce on 28 April 2022.
 - iv. Keynote Speech for Webinar on South-South Sharing of Policy Experiences: Debt Sustainability in Developing Countries on 11 May 2022.
 - v. Chief Guest and Keynote Speaker at Chamber of Young Lankan Entrepreneurs (COYLE) General Meeting on 25 May 2022.
 - vi. Guest Speaker at the Webinar organised by the Cochin Chamber of Commerce & Industry on 28 May 2022.
 - vii. Chief Guest at the Annual General Meeting of the Sri Lanka Institute of Agriculture on 03 June 2022.
 - viii. Keynote Speech of Dinner Meeting organised by the Colombo Golf Club on 24 June 2022.
 - ix. Guest Speaker at Colombo Club Luncheon Meeting on 19 July 2022.
 - x. Chief Guest for Inauguration Ceremony for the 7th Intake of the Doctor of Business Administration Degree of University of Kelaniya on 29 July 2022.
 - xi. Keynote Speech at the Webinar on “Crisis on Sri Lanka and Pathway to Recovery” to Japanese Audience (Virtual) on 31 August 2022.
 - xii. Guest Speaker at the Dinners Club of Corps of Sri Lanka Electrical & Mechanical Engineers on 15 September 2022.
 - xiii. Keynote Speech at Postgraduate Institute of Management (PIM) Alumni’s Strategic Forum 2022 on 20 September 2022.

- xiv. Chief Guest/ Keynote Speech at 128th Annual General Meeting of the Colombo Tea Traders' Association on 30 September 2022.
- xv. Chief Guest at the annual get together of Alumni Reunion of University of Kelaniya on 22 October 2022.
- xvi. Keynote Address at the Event on 'Sri Lanka: State of the Economy-Driving Policy Action from Crisis to Recovery' on 25 October 2022.
- xvii. Keynote Speech at the Budget Forum organised by the Centre for Banking Studies on 15 November 2022.
- xviii. Keynote Speech at Seminar for Resolving Industry Issues & Boosting the Economy via the Construction Industry on 15 November 2022.
- xix. Chief Guest at Olcott Night organised by Rahula College, Matara on 19 November 2022.
- xx. Panelist at Sri Lanka Internet Day 2022 organised by Federation of Information Technology (IT) Industry in Sri Lanka on 22 November 2022.
- xxi. Panelist at the Post Budget Seminar organised by National Chamber of Exporters of Sri Lanka on 22 November 2022.
- xxii. Keynote Speech at the event organised by Business Economics Students' Association of University of Colombo on 24 November 2022.
- xxiii. Keynote Speech at the Induction of the President & Inauguration of 29th Annual Scientific Sessions of the College of Medical Administrators of Sri Lanka on 25 November 2022.
- xxiv. Keynote Speaker at the Annual Convocation of the PIM on 26 November 2022.
- xxv. Keynote Speech at the CT CLSA Securities (Pvt) Ltd Annual Investor Forum for Foreign Institutional Investors on 28 November 2022.
- xxvi. Guest of Honour/ Keynote Speech at International Conference on 'The Road Map for Economic Recovery of Sri Lanka' organised by Institution of Engineering and Technology on 30 November 2022.
- xxvii. Chief Guest of International Conference on Sustainable and Digital Business 2022 of Sri Lankan Institute of Information Technology (SLIIT) on 02 December 2022.
- xxviii. Keynote Speech at Chartered Public Finance Accountant (CPFA) and Association of Public Finance Accountants of Sri Lanka (APFASL) Annual Conference 2022 on 02 December 2022.
- xxix. Chief Guest for the 125th Anniversary Celebration of Trade Finance Association of Bankers on 03 December 2022.
- xxx. Speech at the 58th South East Asian Central Banks (SEACEN) Governors' Conference (Virtual) on 05 December 2022.
- xxxi. Keynote Speech at the Sri Lanka Economic Summit 2022 on 06 December 2022.
- xxxii. High Level Round Table Discussion on Structural Reforms for Economic Recovery and Sustainable Growth on 06 December 2022.
- xxxiii. Chief Guest/ Keynote Speech at The Inaugural Session of the Sri Lanka Economic Association Annual International Conference on 09 December 2022.

15.6 Promotions/Appointments

- i. Mrs. T M J Y P Fernando was designated as the Senior Deputy Governor of the Central Bank with effect from 01 December 2022.
- ii. Mrs. K M A N Daulagala was promoted as a Deputy Governor of the Central Bank with effect from 07 October 2022.
- iii. Mr. B L J S Balasooriya was promoted to Staff Class Special Grade as a Senior Head of Department with effect from 03 February 2022.
- iv. Dr. R A A Perera, Director of the Domestic Operations Department, was appointed as Director of the Economic Research Department with effect from 01 January 2022, and subsequently he was appointed as Director of the Domestic Operations Department with effect from 12 April 2022.
- v. Dr. P K G Harischandra, Additional Director of the Economic Research Department, was appointed as Director of the Domestic Operations Department with effect from 01 January 2022 and subsequently he was appointed as Director of the Economic Research Department with effect from 12 April 2022.
- vi. Mrs. R M C H K Jayasinghe, Additional Director of the Department of Supervision of Non-Bank Financial Institutions, was appointed as Director of the Department of Supervision of Non-Bank Financial Institutions with effect from 03 January 2022.
- vii. Mr. W R M K Fernando, Director of the Governor's Secretariat Department, was appointed as Director (Special Projects) of the Secretariat Department with effect from 08 April 2022 and subsequently he was appointed as Director of the Risk Management Department with effect from 12 April 2022.
- viii. Mr. G D P D Jayathilake, Director of the Statistics Department, was appointed as Director of the Communications Department with effect from 12 April 2022.
- ix. Mrs. D R Karunaratne, Director of the Financial Intelligence Unit, was appointed as Director of the Department of Foreign Exchange with effect from 12 April 2022.
- x. Mrs. E H Mohotty, Director of the Communications Department, was appointed as Director of the Financial Intelligence Unit with effect from 12 April 2022.

- xi. Dr. (Mrs.) H K J Ekanayake, Director of the Risk Management Department, was appointed as Director of the Statistics Department with effect from 12 April 2022.
- xii. Dr. (Mrs.) A A I N Wickramasinghe, Director of the Department of Foreign Exchange, was appointed as Director of the Legal and Compliance Department with effect from 12 April 2022.
- xiii. Mr. P D R Dayananda, Additional Superintendent of the Currency Department, was appointed as Superintendent of the Currency Department with effect from 17 April 2022.
- xiv. Dr. (Mrs.) W G S S J Keerthiratne, Additional Director of the Legal and Compliance Department, was appointed as Additional Director of the Financial Intelligence Unit with effect from 06 May 2022.
- xv. Mr. W M Priyankara, Additional Director of the Financial Intelligence Unit, was appointed as Additional Secretary of the Secretariat Department with effect from 06 May 2022.
- xvi. Mr. G C A Ariyadasa, Additional Director of Department of Foreign Exchange, was appointed as Additional Director of the Regional Development Department with effect from 06 May 2022.
- xvii. Mr. N D Y C Weerasinghe, Additional Director of the Regional Development Department, was appointed as Additional Superintendent of the Public Debt Department with effect from 06 May 2022 and subsequently he was appointed as Superintendent of the Public Debt Department with effect from 06 December 2022.
- xviii. Mrs. D K Mayadunna, Additional Director of the International Operations Department, was appointed as Additional Director of the Risk Management Department with effect from 06 May 2022 and subsequently she was appointed as Additional Director of the Internal Audit Department with effect from 15 June 2022. Thereafter, she was appointed as Director of the Internal Audit Department with effect from 01 July 2022.
- xix. Dr. E W K J B Ehelepola, Additional Superintendent of the Public Debt Department, was appointed as Additional Director of the Economic Research Department with effect from 16 June 2022.
- xx. Mr. M R Wijewardane, Director of the Payments and Settlements Department, was appointed as Additional Director of the Information Technology Department with effect from 14 July 2022.
- xxi. Mr. K V K Alwis, Director of the Information Technology Department, was appointed as Director of the Payments and Settlements Department with effect from 14 July 2022.
- xxii. Mr. D L Nihal, Additional Superintendent of the Public Debt Department, was appointed as Additional Superintendent of the Employees' Provident Fund Department with effect from 14 July 2022.

xxiii. Mrs. W L S W Jayasundera, Additional Superintendent of the Employees' Provident Fund Department, was appointed as Additional Superintendent of the Public Debt Department with effect from 14 July 2022.

xxiv. Mr. H M P B Herath, Additional Director of the Information Technology Department, was appointed as Director of the Information Technology Department with effect from 14 July 2022.

15.7 Employees on Release

- (a) Dr. C Amarasekara, Staff Class Grade IV officer, to the International Monetary Fund as an Alternative Executive Director with effect from 01 January 2022.
- (b) Mr. K M M Siriwardana, Deputy Governor, to the Ministry of Finance as Secretary to the Treasury with effect from 08 April 2022.
- (c) Mrs. F R Bangsajayah, Staff Class Grade II officer in the Corporate Services, to the office of the Secretary of the Ministry of Finance with effect from 11 April 2022.
- (d) Mr. M G Ashoka, Management Assistant Class Grade II (Regraded) officer, to the office of the Secretary of the Ministry of Finance with effect from 11 April 2022, and subsequently he was reverted to the Bank with effect from 01 June 2022.
- (e) Mrs. M Z N Hanifa, Staff Class Grade I officer in the Corporate Services, to the International Monetary Fund as an Administrative Assistant with effect from 12 September 2022.

15.8 Retirements/Resignations

A total of 42 officers retired from the Bank Service, including one Deputy Governor, one Assistant Governor, one Senior Head of Department, three Heads of Department, two Additional Heads of Department, and two Deputy Heads of Department in 2022. A total of 51 officers resigned from the Central Bank service including one Head of Department, one Deputy Head of Department, and 3 contract employees during the year of 2022.

16. INFORMATION TECHNOLOGY

The Information Technology Department (ITD) continued to fulfill its dynamic role of contributing towards accomplishing the core objectives of the Central Bank. ITD provided enterprise level integrated Information Technology (IT) solutions and corporate services, while continuously enhancing the security of facilitating infrastructure.

During the year, services were provided under the major areas of (a) delivery of cost effective application software solutions; (b) continuous enhancement of IT infrastructure; (c) contribution to establishment of state-of-the-art financial market infrastructure; (d) strengthening of IT security and

resilience; and (e) IT helpdesk support and enhancement of competencies of the staff.

(a) Delivery of Cost-effective Application Software Solutions

ITD developed an Export Proceeds Monitoring System (EPMS) to facilitate the Department of Foreign Exchange (DFE) to monitor the repatriation of export proceeds and conversion of such export proceeds into Sri Lanka Rupees. EPMS captures data related to export of goods from Sri Lanka Customs on a daily basis and matches with data provided by the Licensed Commercial Banks (LCBs) on repatriation of export proceeds from the same, on a weekly basis. Further, the system captures data related to repatriation of proceeds for export of services reported by LCBs. The system compiles data and generates required reports to facilitate DFE implementing well informed and data driven regulatory measures.

ITD further enhanced the International Transaction Reporting System (ITRS) developed for the collection of granular data on cross border foreign currency transactions of customers of LCBs and Licensed Specialised Banks (LSBs), by introducing new features to improve continuous monitoring and cleansing of data. In addition, dashboards to analyse cross border transaction data were developed to enhance the operational and policy decision making process of the Central Bank. Furthermore, ITD continued to provide technical assistance to LCBs and LSBs to ensure smooth functioning of the ITRS.

To strengthen the continuous supervision and examination process of financial institutions, the FinNet system (the regulatory data collection system from LCBs, LSBs and Licensed Finance Companies) was further enhanced enabling reporting of financial information in line with Sri Lanka Financial Reporting Standards (SLFRS-9).

A Depositor Wise Data Collection System was implemented for the Resolution and Enforcement Department (RED) to collect data from all banks and finance companies at regular time intervals. This system consists of three modules: the Deposit Data Validator tool which enables the financial institutions to validate and submit the required information to the Central Bank, the web interface for the RED to get summarised information of the submitted data, and the module for submission of regulatory returns at regular time intervals through the FinNet.

ITD further facilitated the automation of several manual operations of the Employees' Provident Fund Department (EPFD). Reconciliation of employer payments made through online channels as well as through respective bank counters, checking trial balance relevant to the refund payments before

releasing such payments, processing payments made via respective banks, and issuing e-documents for visa purposes were some of the manual processes which were automated during the year.

The currency counter function of the Currency Department (CRD) was fully integrated to the Currency Management System (CMS) along with all required reports, reducing the usage of paper. Further, a new Counterfeit Notes Identification System was developed for the CRD. This system records all information provided by the Central Bank to court cases, enabling easy reference for future court cases.

ITD progressed with the development of a system to manage Refinance, Interest Subsidy and Credit Guarantee scheme loan facilities granted by Regional Development Department (RDD) through banks to micro, small and medium sector enterprises. This system is expected to streamline loan processing, increase productivity and efficiency, while reducing manual work. The Refinance module of the above system was implemented and is in live operation while development of the other modules is in progress.

The Treasury Bond Auction System was modified to facilitate the implementation of a Direct Issuance Window by the Public Debt Department (PDD) for Treasury Bonds that are fully allocated at Phase I, accommodating the funding requirements of the Treasury.

An Inventory Management System for IT Fixed Assets was implemented to manage the lifecycle of IT assets within the Central Bank in an efficient and effective manner.

To increase the efficiency of staff loan processing carried out by the Staff Services Management Department (SSMD), ITD developed a new and improved web based loan granting system for the Staff Benefit Scheme (SBS) while initiating the development of a new and improved system for Staff Housing Loans (SHL).

The Task Tracker system that automates internal workflows was revamped to include a new workflow that follows up recommendations from the Audit Advisory Committee (AAC).

In addition to the completed projects mentioned above, ITD initiated and progressed with several other new systems and enhancements vital for the operations of the Central Bank.

In order to comply with the SWIFT roadmap for ISO 20022 SWIFT MX migration, conversion of existing SWIFT MT message formats to ISO 20022 MX message formats was successfully tested for outward messages of iGLAS, the Central Bank's General Ledger System.

ITD catered to special data requirements of departments of the Central Bank and facilitated audits carried out on software systems and related processes.

Further, ITD continued to expand the use of the Document Management System (DMS) by completing physical document digitisation processes in several departments, increasing personnel productivity related to document handling.

(b) Continuous Enhancement of IT Infrastructure

IT infrastructure of the Central Bank was maintained during the year to ensure all information systems are resilient and on par with latest technology advancements.

ITD completed the construction of the new Head Office Data Centre to comply with the Telecommunications Industry Association (TIA) 942 Rated-3 standard. This is a data centre which has redundant capacity components and multiple independent distribution paths serving the computer equipment.

Along with the above new data centre, ITD designed and planned to upgrade the Local Area Network (LAN) of the head office building by widening the backbone bandwidth through high speed fibre and Gigabit Ethernet up to the end user.

(c) Contribution to the Establishment of State-of-the-art Financial Market Infrastructure

Technical expertise was provided by ITD to several national level IT projects during the year.

ITD contributed to the national payments and settlements system modernisation project through active involvement in the scoping, designing, and testing phases of system implementation.

(d) Strengthening IT Security and Resilience

ITD took measures to secure all IT assets of the Central Bank, while facilitating a secure Work from Home (WFH) environment for employees on a needs basis. The Information Security Policy which is the key document on implementing information security of the Central Bank was updated with the inclusion of a WFH policy and a laptop usage policy.

In addition to frequent vulnerability assessments performed internally on software applications, an assessment was also performed on the financial messaging network related IT infrastructure to ensure that the systems are well prepared for any cyber security threat. An external information security assessment was also carried out targeting the financial messaging network and other mission critical systems to ensure a high level of security.

Virtual user awareness programs were carried out to provide employees of the Central Bank with knowledge

and guidance on newly introduced security policies, data classification, and data backup methods. Phishing simulations were carried out to enhance user awareness of identifying phishing emails.

(e) IT Support and Enhancement of Competencies of the Staff

WFH arrangements were supported by ITD in order to continue daily operations of the Central Bank, while ensuring secure access to systems, adopting industry best practices. ITD was able to simultaneously provide assistance to all help desk queries and maintain a high level of availability of critical infrastructure (above 99.5%), on par with the industry standards, amidst diverse challenges.

In order to uplift the IT competencies of the staff and to nurture a more technologically savvy and threat ready workforce within the Central Bank, ITD continued to publish awareness banners on the intranet and circulated security advisory alerts through email to all staff.

In addition, the staff of ITD actively participated in local and international webinars, virtual workshops, and conferences to enhance their skills and knowledge on IT advancements required to uplift the quality of IT systems and related infrastructure of the Central Bank.

17. INTERNAL AUDIT

The Internal Audit function has been in operation in the Central Bank since 1951. The purpose and mission, scope of work, authority, responsibility, independence, and objectivity of the Internal Audit Department (IAD) are included in the Internal Audit Charter approved by the Monetary Board. IAD follows the International Professional Practices Framework of the Institute of Internal Auditors (IPPF of IIA) in conducting audits. A summary of the activities carried out by the department during 2022 is given below.

17.1 Internal Audit Plans

Strategic Audit Plan for 2023–2026 and the Annual Audit Plan for 2023 were compiled during the year and approved by the Monetary Board at the end of December 2022.

17.2 Conduct of Audit Assignments

(a) Process Audits and Information Systems Audits

In 2022, Process and Information Systems (IS) audits were conducted. Each audit engagement was carried out in four sequential steps, i.e., planning, performing, communicating audit results, and following up on the implementation of audit recommendations. 47 Audit Reports were issued and accordingly, audit observations with recommendations were communicated to the relevant departments during the year, covering the policy, compliance, operational, legal, and other related risk areas.

(b) Progress Reporting

Progress of the conduct of audit assignments was reported to the Monetary Board and the Monetary Board Advisory Audit Committee (AAC). Audit reports were submitted to the Superintendent of National Audit Office through the AAC. Further, contents of the Internal Audit Reports were submitted to Director General of the Management Audit Department of the Ministry of Finance as requested and in line with the National Audit Act, No. 19 of 2018.

17.3 Quality Assessment and Improvement Program

During the year, ongoing monitoring of the performance and periodic self-assessment of internal audit activity were conducted and the results were communicated to the Monetary Board through the AAC.

17.4 Capacity Building and Awareness

Capacity building programs for the officers of IAD were conducted in different related disciplines during the year. Further, IAD conducted an awareness program for the Audit Coordinating Officers of the Bank on the "Internal Audit Facilitation Guidelines" in the first quarter of 2022. A guest presentation was conducted by an IS audit professional for the benefit of IAD staff.

17.5 Facilitation to the Monetary Board Advisory Audit Committee

The AAC is a subcommittee of 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 where IAD provides secretarial facilitation to the AAC. Further, follow up of the implementation of the AAC recommendations was also carried out periodically during the year.

18. INTERNATIONAL OPERATIONS

The International Operations Department (IOD) is entrusted with the responsibility of managing official foreign reserves and monitoring the domestic foreign exchange (FX) market activities to ensure the orderly and smooth operations of the domestic FX market, as empowered by the provisions of the Monetary Law Act (MLA), No. 58 of 1949.

18.1 International Reserves Management

Foreign reserves management activities of the Central Bank of Sri Lanka are carried-out by IOD, as per the Investment Policy Statement and the Investment Guidelines prepared under the broader guidance of the International Reserves Investment Oversight Committee (IRIOC) and approved by the Monetary Board. Since 2016, a model based scientific framework stemming from the asset and liability structure

was followed by the Central Bank in managing its foreign reserves, where the model has been built up considering liquidity requirements, capital preservation, and income generation objectives subject to the risk tolerance level of the Central Bank.

Year 2022 marked the most inordinately challenging year in the history, where the standard reserve management operations were restrained and IOD was compelled to adopt a pathway with time and context specific approaches. The unprecedented foreign exchange liquidity crisis emerged in 2020 led the traditional reserve management objectives turn to a different dimension since mid-2021, amidst several stressed scenarios becoming simple realities on the global front. Sri Lanka also confronted with severe challenges with the acute shortage of foreign currency liquidity being the most prominent issue.

This FX liquidity shortage become extremely chaotic with severe shortages in essential needs, primarily fuel, cooking gas and coal since 2021, and the situation aggravated to an unprecedented level by end of the first quarter of 2022. This warranted, the Central Bank to deploy various crisis specific measures in combating the FX crisis, and had to optimally allocate the scarcely available foreign reserves in meeting the pressing FX needs for essentials to maintain economic activities of the country at least at bare minimum levels. Whilst there was enormous pressure and overwhelming public outcry rising up for necessities, demand management of foreign currency with an extremely limited and fast diminishing foreign reserves was indisputably a daunting task for the reserve management team of the Central Bank, and the focus was purely on liquidity management. With the announcement of debt restructuring initiatives in April 2022, the FX debt service was limited to the settlement of debts to multilateral organisations.

Nevertheless, the Central Bank had to adopt time and context specific measures, deviating from the standard reserve management practices. As a result, a gradual easing down in the intense demand for foreign currency was observed with a noticeable improvement in the foreign currency liquidity in the domestic market, towards the very end of the year.

18.2 Performance Analysis and Facilitation Activities

As usual, IOD compiled Central Bank reserves and gross official reserves on a daily basis, while assessing the performance of reserve management activities on a realised return approach despite the sharp decline in foreign reserve levels. As required, the performance of reserves management was presented to the IRIOC and the Monetary Board, on a monthly and quarterly basis, respectively, where the constraints on reserve management were deliberated.

With a view to provide a buffer even with short-term FX liquidity until a buildup of official reserves is in place, the external funding arrangements were done through the

Bilateral Currency Swap Agreements (BCSAs) with fellow Central Bank fraternity, namely, the Reserve Bank of India (RBI), the Bangladesh Bank (BB), and the People's Bank of China (PBoC). The second drawal of the RBI SARRC swap facility was executed in January 2022, while the swap facility obtained from the BB in August/September 2021, which was initially rolled-over twice, was rolled-over further in 2022. The swap facility obtained from the PBoC was also rolled-over for a further period of twelve months.

Meanwhile, the annual review to evaluate the adherence/compliance with Anti Money Laundering / Combating the Financing of Terrorism (AML/CFT) requirements of foreign counterparties was carried-out for existing active counterparties in 2022, despite the extremely challenging global and local FX market conditions.

In 2022, the Central Bank implemented a new Reserve Management System (RMS) upon the expiration of the license of the Treasury Management System (TMS). As the main user of the RMS, IOD is vested with the responsibility of system administration function of the RMS, while ensuring proper coordination with other user departments and the software provider.

18.3 Domestic Foreign Exchange Market Developments

IOD actively engaged in monitoring and guiding the domestic FX market, which faced an acute liquidity shortage during the year. As per the guidance provided by the Central Bank in September 2021, the USD/LKR rupee exchange rate ranged between Rs. 200 and Rs. 203 until early March 2022. However, subsequent to the Central Bank's decision to allow a measured adjustment in the exchange rate on 07 March 2022 due to the sharp depletion of gross official reserves of the country and the significant pressures in the domestic FX market, the USD/LKR exchange rate started to overshoot. As a measure in managing the intraday volatility of the exchange rate, amidst the challenging liquidity position and the absence of an active interbank FX market, the Central Bank commenced announcing exchange rate guidance with a variation margin since 13 May 2022. Consequently, the exchange rate stabilised gradually, and the weighted average spot exchange rate in the interbank FX market hovered between Rs. 360 - Rs. 363 per US dollar during the period from mid May to end December 2022. Since mid May 2022, IOD commenced publishing the USD/LKR middle spot exchange rate with a prescribed variation margin along with middle exchange rates for 56 other world currencies, on the Central Bank website, on a daily basis. In addition, the average Telegraphic Transfer (TT) buying and selling exchange rates against the Sri Lankan rupee for nine major currencies were also published on the Central Bank website on a daily basis.

During 2022, the Central Bank continued to purchase a portion of mandatorily converted export proceeds in

goods, converted workers' remittances, and converted service export proceeds from Licensed Commercial Banks (LCBs) and National Savings Bank (NSB). In addition, LCBs and NSB voluntarily surrendered another portion of such proceeds to finance the importation of coal and fuel. Moreover, in order to address FX liquidity issues in the domestic FX market, the Central Bank was compelled to implement several new measures, such as availing its FX in financing an extended range of essential imports, while instructing all banks to prioritise essential imports and encouraging them to manage FX outflows with the available FX inflows. A remarkable feature of the domestic FX market activities was the Central Bank's presence as a net seller, facilitating a significant number of requests for foreign exchange essentials such as fuel, gas, coal, pharmaceuticals and food commodities, among several others, due to the national importance of such requests in maintaining economic activities amidst public unrest. In this endeavour, IOD had to extensively engage with different stakeholders, including the Government, State Owned Business Enterprises, private sector players, and customers, devoting a considerable time to address their queries/concerns.

Meanwhile, to ensure a high standard of market conduct whilst preventing excessive volatility of the exchange rate and avoiding building up FX positions, IOD took measures to temporarily revise the Net Foreign Exchange Open Position (NOP) limits applicable to respective LCBs/NSB on a case-by-case basis in 2022, to facilitate smooth functioning of the domestic FX market. In line with market sentiments, IOD, as per its entrusted responsibility of ensuring the orderly conduct of the domestic FX market, provided its own recommendations to curb undue volatility in the exchange rate, while continuing to provide its views, observations, and recommendations on possible implications of various policy proposals and regulations, related to matters forwarded by other departments of the Central Bank as well as external organisations throughout the year.

IOD continued to be the Secretariat of the Market Operations Committee (MOC) and provided the same with all relevant information to make effective recommendations. IOD also provided its insights on the developments in terms of the domestic FX market and gross official reserves to the Monetary Policy Committee (MPC). Further, the Monetary Board was continuously apprised and provided appropriate recommendations, highlighting concerns and the way forward on the developments in the domestic FX market in a timely manner.

Meanwhile, IOD continued to provide its contributions and inputs to the Capital Market Development Project (CMP), which is to be implemented by the Central Bank, aimed at developing the domestic FX market and improving the market monitoring activities.

19. LEGAL AND COMPLIANCE

Legal Department (LD) actively contributed to achieving all strategic priorities of the Central Bank despite the challenging environment caused by the macroeconomic turmoil in the country. Some of the key activities performed by LD during the year 2022 are summarised below.

With the assistance of various stakeholders including the Ministry of Finance, Attorney General's Department, Legal Draftsman's Department, International Monetary Fund (IMF), and the World Bank, LD engaged in the enactment of the Central Bank of Sri Lanka Act, which was published in the Gazette on 01.11.2019, which was also a prior action of the IMF program. The said Bill has been further developed to capture new areas in central banking in association with such stakeholders. The Bill *inter alia* provides for the autonomy of the Central Bank with enhanced governance standards, an advanced Board structure to secure the objects thereof, and enhanced regulatory and supervisory powers, etc. It will replace the Monetary Law Act, No. 58 of 1949 once enacted.

In addition, during 2022, LD engaged in the drafting of a few other new laws which enhance the authority of the Central Bank in several regulatory arenas. The said new laws include the Trading, Clearing and Netting Act, the Banking (Special Provisions) Act, and Microfinance and Credit Regulatory Authority Act to enhance the regulatory, supervisory, and resolution framework of the Central Bank. Further, LD acted in collaboration with other supervisory departments to introduce further amendments to the Finance Business Act, No. 42 of 2011, Finance Leasing Act, No. 56 of 2000, Foreign Exchange Act, No. 12 of 2017, and Payment and Settlement Systems Act, No. 28 of 2005 with a view to enhancing the regulatory and supervisory authority of the Central Bank in order to address various challenges arising from market developments in the country.

During 2022, there was a considerable increase in litigation filed against the Central Bank pursuant to the economic downturn of the country, and LD, with the assistance of the relevant departments made submissions to secure the interests of the Bank. In collaboration with law enforcement authorities of the country, LD continued to institute action against unauthorised finance companies, prohibited schemes, and instituted actions to wind up finance companies of which licenses were cancelled by the Monetary Board, with a view to safeguarding the interests of the depositors and creditors of such entities.

LD actively collaborated with the other departments of the Central Bank in developing and amending subsidiary legislations issued by the Monetary Board under the statutes administered by the Central Bank, with a view to enhancing its regulatory authority and thereby, ensuring the soundness of the banking and financial sector. LD also reviewed the statutes developed outside the Central Bank by giving observations to

the provisions thereof, including the Personal Data Protection Act No. 09 of 2022 and Colombo Port City Economic Commission Act, No. 11 of 2021.

Moreover, in 2022, LD handled the compliance function of the Central Bank to facilitate compliance requirements of foreign counterparties, conducting annual counterparty reviews from an anti-money laundering perspective. In order to ensure the Central Bank's compliance with provisions of the Right to Information Act, No. 12 of 2016 (RTI Act), the RTI Unit established within LD handled 188 information requests and 23 appeals relating to the Central Bank during 2022. It actively engaged in enhancing public awareness on financial sector issues namely, prohibited schemes, unauthorised finance businesses, and evolving issues in the finance and leasing sector. Officers of LD represented the Central Bank in many fora as resource persons and served on several internal/external committees including reviewing of the Payment and Settlement Systems Act, Debt Restructuring Exercise of Sri Lankan Airlines Limited, the case filed by the Hamilton Reserve Bank in New York Federal Courts, developing a Financial Asset Management Agency framework, and the National Financial Inclusion Strategy of the country.

20. MACROPRUDENTIAL SURVEILLANCE

The Macroprudential Surveillance Department (MSD), with the objective of maintaining financial system stability in the country, a core statutory objective of the Central Bank, conducts a wide range of analysis to assess the buildup of systemic risk affecting the financial system. For this purpose, MSD gathers data from regulated financial institutions, listed corporates, and various other sources to conduct analyses. The findings of these assessments facilitate the policy formulation process of the Central Bank and support the introduction of macroprudential policy measures to mitigate systemic risks in order to maintain financial system stability. Accordingly, such analyses complement microprudential regulation and supervision in ensuring financial system stability.

The macroprudential surveillance framework covers 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. Further, MSD carries out stress testing exercises to assess vulnerabilities in financial institutions and analysis on household and corporate sector developments to assess the impact on financial system stability. Moreover, MSD continued to compile a number of composite financial system stability indicators to assess the stability and soundness of different subsectors of the domestic financial system, while taking steps to improve the reliability of these indices. Following such analyses, board papers including quarterly risk assessments were submitted by MSD to the Monetary Board highlighting possible risks to the stability of the financial system and other contemporary concerns over financial system stability during

the year 2022. Furthermore, MSD continued to facilitate sustainable finance related activities and a separate unit for the same was established within the department. A summary of the main activities undertaken by MSD during 2022 is given below.

(a) Stress Testing Framework

MSD conducted its biannual dynamic solvency stress testing on the banking sector which was developed with the Technical Assistance (TA) received from the International Monetary Fund (IMF). The dynamic solvency stress test model provides a macroprudential perspective by assessing resilience of the financial system under hypothetical yet plausible scenarios. MSD was involved in formulating macroeconomic scenarios and granular level data collection on the banking sector and subsequently evaluated the impact of envisaged shocks on the banks' resilience through the execution of the quantitative toolkit which embodies risk modules that stretch across the stress testing horizon. MSD continued the biannual static solvency stress testing of the Licensed Finance Companies (LFCs) sector based on hypothetical macroeconomic scenarios.

MSD enriched its systemic risk analysis through the liquidity stress testing conducted on the data collected from the banking sector through maturity ladder templates, which identifies cash inflow-outflow mismatches, that was developed with the assistance of IMF TA. The liquidity stress testing framework assesses the resilience of the banking sector to systemic liquidity shocks.

A new framework for interconnectedness and contagion analysis of the banking sector was developed with the assistance from IMF TA during the year. Interconnectedness and contagion analysis primarily focuses on the risks towards the banking system through interbank exposures and extends to assess the contagion risks emanating from the State Owned Entities and LFCs while factoring solvency and liquidity channels in the model. MSD conducted pilot interconnectedness and contagion analysis during the year.

(b) Surveys, Indices and Data Collection

MSD continued to conduct the Systemic Risk Survey (SRS) on a biannual basis, which is a forward looking survey that quantifies and tracks market participants' perceptions on the potential risks to financial system stability signaling any buildup of systemic vulnerabilities and perceived probability of a high impact event. Materialisation of these risks could potentially disrupt the financial intermediation process and affect public confidence in the financial system. Further, SRS helps to validate the internal assessments of MSD on vulnerabilities of the financial system.

Further, MSD compiled several indices on a quarterly basis, namely, Banking Soundness Index (BSI), Licensed

Finance Companies Sector Soundness Index (LFCSI), Financial Market Stability Index (FMSI), and the composite Financial System Stability Index (FSSI) using FMSI, BSI and LFCSI.

With a view of enriching the database, MSD continued to gather granular level data from several external institutions, such as regulated financial institutions, Colombo Stock Exchange, Insurance Regulatory Commission of Sri Lanka, Securities and Exchange Commission, Department of Census and Statistics, and Credit Information Bureau, among several other data sources.

(c) Contributing to Statutory Reports and Other Publications of the Central Bank

The Financial System Stability Review (FSSR): MSD published the FSSR which evaluates risks and vulnerabilities faced by the Sri Lankan financial sector, and discusses the risk mitigation measures adopted during the period under consideration.

Statutory Publications: MSD continued to contribute to key publications of the Central Bank by coordinating and compiling the Chapter on "Financial Sector Performance and System Stability" of the Central Bank Annual Report 2021 and "Recent Economic Developments 2022". Further, MSD contributed to the formulation on the section related to the financial system of the September 15th Report, which is a confidential report submitted to the Minister of Finance. In addition, MSD also contributed to other publications of the Central Bank by compiling financial sector data and providing analyses of subsectors of the financial system.

(d) Conducting Corporate Sector and Household Sector Analysis

MSD conducts analyses of Corporate Sector and Household Sector to assess financial vulnerabilities emanating from the two sectors. Thus, vulnerabilities of the corporate sector are analysed to assess risks emanating from Non-Financial Corporates (NFCs) to the financial system on a quarterly basis, using information on listed NFCs in the Colombo Stock Exchange, which serves as a proxy for the NFCs. In addition, MSD analyses the indebtedness of the Household and Institutional sectors to assess the financial vulnerabilities emanating from such borrowers and identify possible buildup of systemic risks. The analysis is carried out based on the quarterly aggregate credit data of the banks and LFCs/SLCs sector received from the Credit Information Bureau (CRIB).

(e) Coordination of Committees on Financial System Stability

Financial System Stability Committee (FSSC): MSD functioned as the Secretariat of the FSSC, which is an interdepartmental forum of the Central Bank established

for the identification of risks affecting the financial sector and facilitation of discussion of measures to mitigate risks and strengthen interdepartmental coordination efforts to promote financial system stability. During 2022, 11 FSSC meetings including seven restricted FSSC meetings for specific matters were conducted. Quarterly Risk Assessments (QRAs) and FSSR 2022 were presented to the FSSC to obtain the views of the members before submitting them to the Monetary Board.

Financial System Oversight Council (FSOC): MSD also functioned as the Secretariat of the 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. Accordingly, two FSOC meetings were conducted during the year 2022 to discuss and deliberate on the risks coming under the purview of the respective financial sector regulators.

Stakeholder Engagement Committee (SEC): Considering the interconnectedness of the monetary and financial sectors of the economy and the implications of changes in policy stance and responses of one sector to the other, SEC was established in 2022, comprising members from a diverse group of sectors. Accordingly, MSD participates in SEC meetings, conducts presentations as and when needed to apprise SEC on the macrofinancial developments, involves in the relevant discussions at the Committee meetings, and follows up on related actions proposed by the Committee.

(f) Coordinating and Facilitating Sustainable Finance Activities in Sri Lanka

In line with the Road Map for Sustainable Finance in Sri Lanka, MSD coordinated with domestic and international stakeholders engaged in sustainable financing and facilitated the implementation of the Road Map. Further, MSD also functioned as the Secretariat for the internal committees established in this regard.

(g) Coordination with International Agencies

MSD, as the coordinating department of the Financial System Stability cluster, engaged with the IMF in responding to the Macprudential Survey. Further, as the relevant authority facilitating Sustainable Finance activities in line with the Road Map for Sustainable Finance in Sri Lanka, MSD coordinated with multilateral agencies including the International Finance Corporation (IFC), United Nations Development Programme (UNDP), Asian Development Bank (ADB), and United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP).

(h) Establishment of a Crisis Management Committee (CMC)

Financial crises are usually low probability, high impact events, for which most countries are unprepared. Hence,

the need to strengthen crisis preparedness and manage a financial crisis if one transpires was recognised by international agencies and the Central Bank. This requires buildup of legal, regulatory, and institutional architecture, in order to respond in a timely and effective way. As such, the World Bank highlighted the importance of the formation of a Financial Sector CMC as a forum for policy coordination. Accordingly, MSD took the initiative to develop the framework for the establishment of CMC, which will be a permanent forum to work during crisis times for effective financial crisis management and during non-crisis times to strengthen the financial crisis preparedness framework in the country.

21. PAYMENTS AND SETTLEMENTS

The Central Bank is the authority responsible for the administration, supervision, and regulation of the monetary, financial and payments system of Sri Lanka, as stated in Section 5 of the Monetary Law Act (MLA), No. 58 of 1949. The statutory mandate entrusted to the Central Bank under the Payment and Settlement Systems Act, No. 28 of 2005, is carried out by the Payments and Settlements Department (PSD) which regulates and oversees the payment and settlement systems and implements national payment system policy with the objective of ensuring safety, efficiency, competitiveness, and stability of the payment and settlement systems in Sri Lanka.

The main functions carried out by PSD are operations of the Real Time Gross Settlement (RTGS) System, carrying out back office functions relating to the management of the international reserves, management of the Society for Worldwide Interbank Financial Telecommunication (SWIFT) System on behalf of the Central Bank of Sri Lanka, carrying out transactions routed through the Asian Clearing Union (ACU) mechanism, regulation and oversight of payment and settlement systems, and the regulation and supervision of payment service providers.

21.1 Operations of the Real Time Gross Settlement System

Section 62A of the MLA gives the authority to the Central Bank to establish and operate systems for transfer of funds, settle payment obligations, and issue system rules to participating institutions. Accordingly, PSD operates the RTGS System which settles time critical large value inter-participant payments such as the settlement of transactions with Licensed Commercial Banks (LCBs) and Primary Dealers (PDs) in relation to open market operations, standing Deposit Facility (SDF) and the Standing Lending Facility (SLF) as well as customer payments on real time gross basis.

Adhering to international best practices, the availability of the LankaSettle System, which includes the RTGS System and the scripless government securities settlement system, was maintained at a level of 99.75 per cent on average during the year. In order to ensure smooth functioning

of the RTGS System PSD monitored the provisioning of intraday liquidity through the Intraday Liquidity Facility (ILF) to the Participating Institutions (PIs) which requested extra funds. PIs of the RTGS System are the Central Bank, LCBs, one Licensed Specialised Bank (LSB), standalone PDs, Employees' Provident Fund, and the Central Depository System of the Colombo Stock Exchange.

As at end 2022, the number of PIs of the RTGS System was 35. During the year, the RTGS System settled 638,733 transactions with a total value of Rs. 827 trillion. The average volume and value of RTGS transactions settled per day were 2,661 and Rs. 3,446 billion, respectively. With regard to ILF operations, on average, Rs. 658.5 billion per day was released to PIs.

(a) Back-Office Functions Related to the Management of the International Reserves

Back office functions were carried out to facilitate the management of the international reserves of the country. A total of 3,495 transactions including foreign exchange trading and funding, money market transactions, and overnight repo/reverse repo transactions were carried out during the year 2022.

(b) Settlement of Transactions Related to Open Market Operations, the Standing Deposit Facility, and the Standing Lending Facility

For the purpose of facilitating the management of market liquidity, PSD engaged in the settlement of Repo and Reverse Repo transactions carried out under Open Market Operations, in addition to the settlement of transactions related to the SLF and the SDF. During the period under review, PSD facilitated and effected 232 Repo transactions amounting to Rs. 1,550.3 billion, 78 Reverse Repo transactions amounting to Rs. 1,189.5 billion, 4,966 SDF transactions amounting to Rs. 54,183.1 billion, 9563 SLF transactions amounting to Rs. 163,073.8 billion, and 43 Outright Sale transactions amounting to Rs. 27.7 billion.

21.2 Management of the SWIFT Communication Network

PSD managed the SWIFT system on behalf of all users of the Central Bank in accordance with the procedures laid out by the SWIFT Headquarters, such as governance arrangements, processes, risk management procedures, and controls.

Mandatory updates provided by SWIFT during the year 2022 were applied to strengthen the SWIFT system and to provide a highly secure and more efficient service for the SWIFT users in line with international standards.

SWIFT has embarked on a global project to migrate financial messages to ISO 20022 standard. It is an open standard which has a rich format and facilitates a better flow of information. PSD is also working towards adopting the ISO 20022 messaging standard.

21.3 Facilitating Transactions under the Asian Clearing Union (ACU)

PSD continued to facilitate the settlement of eligible trade related transactions between Sri Lanka and other member countries of the ACU. However, with effect from 14 October 2022, until further notice, commercial banks were instructed to settle their trade related transactions directly with banks in ACU member countries using a mechanism outside the ACU.

The total number of transactions, relating to both imports and exports, effected through the ACU mechanism from January to October 2022 was 3,301, and the values of these transactions were USD 1741.8 million and USD 181.9 million respectively.

The Central Bank participated in the special Standing Technical Committee (STC) meeting of the ACU that was organised by the Reserve Bank of India in April 2022 in addition to attending the 50th meeting of the Board of Directors of the ACU and the STC meeting of the ACU organised by the State Bank of Pakistan in May 2022.

21.4 Regulation and Oversight of Payment and Settlement Systems and Regulation and Supervision of Payment Service Providers

PSD facilitated the promotion of digital payment technologies and continued its regulatory, oversight, and supervision activities to ensure safety and efficiency of the electronic payment systems. Accordingly, the following major activities were carried out by PSD during 2022.

- (a) National Savings Bank (NSB) was conferred the participant status of the LankaSettle System after fulfilling the eligibility requirements. NSB is the first LSB to obtain the participant status of the LankaSettle System.
- (b) The General Directions on Sri Lanka Interbank Payment System (SLIPS), Common ATM Switch (CAS), Common Electronic Fund Transfer Switch (CEFTS), and Common Point-of-Sales (CPS) Switch were revised and issued under the Payment and Settlement Systems, Act No. 28 of 2005 to enable LSBs to obtain Primary Membership of SLIPS, CAS, CEFTS, and CPS after NSB becoming a participant in the RTGS System.
- (c) With the aim of promoting inward foreign remittances, the National Remittance Mobile Application, 'Lanka Remit' was launched in February 2022, which enables Sri Lankans working abroad to send money to Sri Lanka and to pay utility bills using payment cards issued overseas. Further, the Central Bank and the Sri Lanka Bureau of Foreign Employment (SLBFE) conducted an awareness programme in August 2022 to popularise the LankaRemit mobile application among migrant workers.
- (d) A three member Technical Assistance mission from the International Monetary Fund (IMF) to review the Payment and Settlement Systems Act, No. 28 of 2005 visited the

Central Bank in October 2022. The meetings of the mission were held with the participation of Central Bank officers including the Internal Committee appointed by the Central Bank to review the Payment and Settlement Systems Act, No. 28 of 2005 and several other external stakeholders.

- (e) Following the successful completion of the Blockchain Based Shared Know Your Customer (KYC) Proof of Concept in October 2021, necessary steps were taken to commence the purchase of a suitable Shared KYC Facility for Sri Lanka.
- (f) 'A Guide to Payment Services in Sri Lanka', a booklet which illustrates the payment instruments/methods and the infrastructures in Sri Lanka was published in printed and electronic form. Its electronic version was made available on the Central Bank's website.
- (g) In order to promote digital payments among citizens in the country, the National Institute of Education was provided with a recommended syllabus to educate school children on the use of digital payments.
- (h) A study on the feasibility of introducing Central Bank Digital Currency (CBDC) in Sri Lanka was conducted.
- (i) Approval was granted to several financial institutions which submitted proposals requesting permission to introduce new payment instruments, which would enhance customer convenience and efficiency of settlement for merchants.
- (j) Onsite supervision and offsite surveillance of licensed service providers of payment cards and mobile payment systems were continued to ensure the reliability and safety of such systems.
- (k) Business Continuity Plans of the LankaSettle participants and LankaPay (Pvt.) Limited (LPPL) were evaluated and monitored in order to ensure their ability to continue business operations in a contingency situation.

21.5 National Payment Council

PSD functions as the secretariat of the National Payments Council (NPC). The NPC has representation of all stakeholders of the country's payment systems. The responsibilities of the NPC include facilitating the development of new methods and technologies for payments, promoting safety and efficiency of payment systems, and facilitating the stability of the financial system. In 2022, NPC monitored the progress of implementing the Payment System Road Map 2022-2024 focusing on new payment technologies, secure digital transactions and increasing customer awareness on digital payment methods.

21.6 Public Awareness

PSD continued to publish the quarterly "Payments Bulletin" on the Central Bank website to disseminate information and

statistics on payment and settlement systems operating in the country. In addition, PSD issued press releases and conducted awareness programs to educate the general public about digital payments, payments related frauds and scams, risk of virtual currencies and other timely payments related topics.

22. POLICY REVIEW AND MONITORING

The Policy Review and Monitoring Department (PRMD) was established in 2007 with the objectives of reviewing and assessing the impact of policies implemented by the Central Bank and monitoring the implementation of the strategic and action plans of the Central Bank. Further, PRMD facilitates the Central Bank's strategic planning process.

22.1 Strategic and Action Plan of the Central Bank

The Strategic Planning Retreat (SPR) 2022 was held in February 2022 under the theme of "Balancing Basics" to discuss strategies and actions to be implemented in 2022 by individual departments aligned with the objectives of the Bank. Accordingly, the Strategic and Action Plan 2022 of the Central Bank for the period from April - December 2022 was finalised.

The SPR 2023 was held in November 2022 under the theme of "Regaining Stability". At the SPR, PRMD presented the overall progress of the Departmental Action Plans 2022, including its observations and recommendations, while each department presented their contribution to the achievement of the objectives of the Central Bank during 2022 along with the challenges they had to face during the year. Action Plans of individual departments for 2023 were also presented. The Strategic and Action Plan 2023 was finalised considering the matters discussed at the SPR.

The above two SPRs were conducted with the participation of the Members of the Monetary Board and the Senior Management of the Central Bank.

22.2 Progress Monitoring

PRMD monitored the progress of implementation of individual Departmental Action Plans against the identified quarterly outputs under each Key Performance Indicator (KPI) to assess their levels of progress. For this purpose, one-on-one meetings were conducted with each department on a quarterly basis.

Progress of the implementation of the action plans, reasons for the delay in completing certain activities along with PRMD's observations and recommendations were reported to the Corporate Management Committee (CMC) and the Monetary Board.

22.3 Key Focus Areas

Towards regaining macroeconomic stability, the Central Bank identified five key focus areas for 2023. Accordingly, a lead department and other responsible departments were identified to develop strategies to overcome the current and anticipated challenges in these five areas, giving due

consideration to both external and internal factors and with a direction for the medium term. The five key focus areas are as follows:

- Regaining price and economic stability via the implementation of the macroeconomic stabilisation framework
- Preserving financial system stability with enhanced crisis preparedness and management
- Clear and concise communication to improve public and other stakeholder understanding
- Availability of a highly productive, motivated, engaged, and contended team of human resources
- Availability of improved independence and authority while ensuring Central Bank accountability

22.4 Policy Review

Three policy studies were conducted during the year on the Effectiveness of Procurement Process of the Central Bank, the Central Bank's Role on Regional Development, and Optimising Resource Allocation of the Central Bank via Restructuring.

23. PUBLIC DEBT

The Public Debt Department (PDD), established on 28th August 1950 at the inception of the Central Bank, is responsible for discharging statutory obligations of the Central Bank as the agent of the Government for management of public debt in terms of Section 113 of the Monetary Law Act (MLA), No. 58 of 1949. In this endeavour, the key functions performed by PDD include, among others, developing and maintaining an efficient government securities market, ensuring availability of required information for market participants and the general public, ensuring that the Government's financing needs are met at the lowest possible cost at a prudent level of risk while adhering to best standards and practices, and servicing government debt on time in line with relevant policies. In this context, activities carried out by the PDD in 2022 are summarised below.

23.1 Raising of Funds to Meet the Government's Gross Borrowing Requirement

- Amidst the extremely challenging environment arising from deteriorating macroeconomic fundamentals, uncertainties emanating from socio-political instability, and speculations on the debt restructuring perimeter, the Government's substantive domestic funding requirement on maturing debt was aggressively pursued mainly through market subscription to Treasury bills and Treasury bonds, while adhering to prudent debt management measures.
- Investor preference was skewed towards short term Treasury bill maturities while greater investor preference was observed for longer tenure Treasury bonds.
- Funds to meet a part of the foreign currency debt requirement of the General Treasury was raised through the issuance of Sri Lanka Development Bonds (SLDBs) through both auction and Direct Issuance Window arrangements during the first half of 2022.
- An abridged table of activities under each of the source of funds is given below.

23.2 Servicing of Government Debt

In line with its interim policy regarding the servicing of external public debt dated 12 April 2022, the Government halted servicing outstanding foreign currency denominated external public debt, except for debt owed to multilateral agencies. Meanwhile, the Government appointed Lazard Frères SAS and Clifford Chance LLP as financial and legal advisors, respectively, in May 2022 to initiate the restructuring process of the Government's external debt.

SLDBs were excluded from the "Affected Debts" identified under interim policy regarding the servicing of external public debt dated 12 April 2022. An alternative mechanism for settlement of SLDBs was introduced based on constraints on availability of liquid foreign currency resources and following options were extended to investors.

- Settlement in Sri Lanka rupees subject to monetary policy considerations.

Table II-17
Instruments and Issuance Performance 2021 and 2022

Instrument	2021				2022			
	Issuances Rs. billion	WAYR (%)	ATM (Years)	No. of Auctions	Issuances Rs. billion	WAYR (%)	ATM (Years)	No. of Auctions
Treasury bills (a)	3,821.4	6.09	0.48	53	9,942.8	25.21	0.33	52
Treasury bonds	1,762.0	8.70	5.12	22	2,373.0	21.24	5.15	24
	Issuances USD million	WAYR (%) (b)	ATM (Years)	No. of Auctions	Issuances USD million	WAYR (%)	ATM (Years)	No. of Auctions
Sri Lanka Development Bonds	1,041.3	7.34	1.47	5	622.3	7.76 [3.40]	0.53	2

WAYR: Weighted Average Yield Rate/ Cost; ATM: Average Time to Maturity
(a) Gross Treasury bill issuance including Treasury bills issued to the Central Bank.
(b) Values in [] indicate the WAYR of Spreads above the 6-month LIBOR for Floating Rate SLDBs. No floating rate SLDBs were issued in 2021.
(c) SLDB issuances are based on investor confirmations up to 30.12.2022 and include maturity extensions under the alternative settlement mechanism.

- (b) Maturity extension of respective SLDB investments (including the interest payment) up to a minimum of six months with original terms and conditions, i.e., interest rates applicable to each individual bid of original issuance.
- (c) Facilitation of government securities (Treasury bonds) at the immediately preceding primary market weighted average yield rate, preferably within seven business days from the corresponding primary auction. For any other government security, with remaining maturity other than the maturities offered at the immediately preceding primary auction, primary market weighted average yields will be interpolated or extrapolated, as necessary.

Total debt service payments amounting to Rs. 2,997,645 million were facilitated during 2022 which included domestic and foreign debt service payments amounting to Rs. 2,510,281 million and Rs. 487,364 million, respectively. Therein, external debt servicing was executed in line with the Government's interim policy on servicing of external public debt dated 12 April 2022. In servicing domestic currency debt, 218 International Securities Identification Numbers (ISINs) were processed during 2022 as coupon and maturity payments viz-a-viz 224 ISINs processed during 2021. Similarly, in servicing foreign currency debt, 1,249 service payments were processed in 2022 compared to 1,836 payments processed in 2021.

23.3 Maintenance of the Title Registry in Government Securities

The Title Registry of scripless government securities is recorded in the Central Depository System (CDS). The total holdings in scripless securities as at end December 2022 amounted to Rs. 12,848.5 billion in face value comprising Rs. 4,126.3 billion in Treasury bills and Rs. 8,722.1 billion in Treasury bonds. The number of registered CDS accounts holders as at end December 2022 was recorded at 129,627.

Periodic statements to CDS account holders on their holdings, transactions and payments have been sent continuously throughout the year. PDD has sent 13,424 statements in electronic form and 48,530 semi-annual statements of holdings, 105,863 monthly statements of transactions and 40,089 payment statements by post to CDS account holders during 2022.

The real-time notification facility introduced for consenting CDS account holders in 2019, delivering real-time notifications for each and every debit and credit record of scripless securities by way of an SMS or/and email alert to such CDS account holders facilitated 260,028 emails and 121,634 SMS alerts as real-time notifications compared to 147,744 and 47,561 respectively, in 2021.

In addition, CDS account holders were provided with the facility to view account details online, among other facilities

introduced to enhance the safety features of government securities investments.

23.4 Facilitation of the Settlement of Government Securities

CDS together with the Scripless Security Settlement System (SSSS) constitute the LankaSecure system, operated and maintained by PDD. SSSS provides the settlement services for the primary and secondary market transactions in government securities. PDD plays a main role in facilitating settlement of transactions in government securities by ensuring uninterrupted real-time operation of the LankaSecure system.

By end 2022, the LankaSecure system consisted of 32 Dealer Direct Participants (24 Licensed Commercial Banks, 1 Licensed Specialised Bank, and 7 Primary Dealer Companies) maintaining accounts on their own behalf and on behalf of their customers who are investors of government securities and 3 Direct Participants (the Central Bank, Colombo Stock Exchange, and Employees' Provident Fund) who hold accounts on their own behalf only.

23.5 Debt Management Initiatives and Market Developments

In order to enhance the efficiency, effectiveness, and transparency while meeting the required resources through appropriate sources, with the purpose of developing the government securities market, the following initiatives were undertaken during 2022:

(a) Introduction of Phase II for Treasury bill Auctions

Phase II for Treasury bill auctions was introduced for further subscription following the respective Treasury bill auction. The maximum amount offered for Phase II is limited to the auction shortfall (if any) plus 25 per cent of the aggregate amount offered at the auction for subscription by auction participants at the WAYRs determined for respective maturities at the auction. In the event of oversubscription, the allocation is made based on aggregate successful participation of auction participants at the auction.

(b) Introduction of an Incentive Scheme for Promotion of Investments in SLDBs via the Direct Issuance Window (DIW)

An incentive scheme for the arrangers of investments in SLDBs via DIW was introduced in February 2022 with the objective of encouraging investments in SLDBs particularly by recipients of export proceeds and other foreign currency holders. A promotional or handling fees equivalent to 0.5 per cent (50 basis points) on the SLDB investments brought in through the DIW was provided as an incentive to Arrangers through Designated Agents (DAs) in Sri Lanka rupees by the Central Bank.

(c) Introduced a Non-Reserve Management System to replace the Treasury Management System.

Initiated the process for the establishment of a new external debt payment system under the Non-Reserve Management System to replace the current Treasury Management System. The main purpose of the system is to increase the efficiency of the foreign debt service payment process. This has been effective from 01 January 2022.

(d) Capital Market Infrastructure Development Project

Proposed implementation of the state-of-the-art infrastructure under the ongoing Capital Market Development Project (CMDP) is expected to develop the Sri Lankan government securities market in par with international best practices by upgrading its landscape in trading and settlement. BTA Consulting Limited of the United Kingdom has been providing consultancy services for the project. CMDP is envisaged to implement an Electronic Trading Platform (ETP), a Central Clearing House (CCH), an upgraded Central Securities Depository (CSD) and a market surveillance system. However, the procurement did not take place during 2022 due to the country's economic woes and is planned to be recommended in 2023.

(e) Initiation of the Digitalization Programme of LankaSecure Services

Arrangements have been made since mid 2022 to promote the electronic services provided by the LankaSecure system, envisaging full conversion of its services to electronic mode from existing physical and paper based services in the year 2023. Through digitalisation of its services, LankaSecure is expected to be on par with world's technological advancements, thereby reducing the costs and delays in communication, as well as broadening investor information.

(f) Assisting the Authorities for the Establishment of the Envisaged Public Debt Management Agency (PDMA)

The Government announced in its Interim Budget 2022 presented to Parliament in August 2022 of setting up a National Debt Management Agency (NDMA) in lieu of current arrangement in this respect. PDD provided the technical assistance in this regard, as and when required.

23.6 Coordinating Sovereign Rating Review Missions

In 2022, PDD facilitated international rating agencies (Fitch Ratings, Moody's Investors Services, S & P Global Ratings) for their rating reviews in line with rating engagements.

24. REGIONAL DEVELOPMENT

In 2022, the Regional Development Department (RDD) embarked on developing and implementing new policy strategies to increase financial inclusiveness of the country and explored the means of increasing the efficiency of the credit operations by partially automating the manual processes involved with such operations. RDD also focused on agriculture value chain financing initiatives, recognising the fundamental necessities of the farmers and other value chain participants and their potential to contribute to the national economy.

Against this backdrop, RDD continued to coordinate, facilitate, and implement various Refinance, Interest Subsidy and Credit Guarantee Schemes while providing a range of credit supplementary services during the year. These schemes were funded by the Central Bank, Government, Donor Agencies, and Participating Financial Institutions (PFIs).

On the financial inclusion front, RDD housed the National Financial Inclusion Secretariat established to coordinate, monitor, and evaluate the activities of Sri Lanka's first ever National Financial Inclusion Strategy (NFIS) launched in 2021. By the end of 2022, NFIS had achieved a significant progress with the support of key implementing agencies led by the Central Bank and the Ministry of Finance.

The Pilot Phase of the Domestic Agriculture Development program (DAD-PP) has been reviewed by a team of consultants from PricewaterhouseCoopers (PWC) on behalf of the Asian Development Bank (ADB) to explore the possibilities in funding the main DAD programme, which is expected to be implemented in 2024.

During the year, several measures were taken in respect of the schemes implemented by RDD including changing applicable interest rates, extending operational periods, providing debt moratoria etc., and identifying the requirements of the market and beneficiaries, in order to provide better tailored products to the underserved segments. In doing so, RDD, considering the credit risk borne by the PFIs, continued to share the credit risk through the guarantee schemes against loans granted to Micro, Small and Medium Enterprises (MSMEs).

With the social distancing practices and regulations discontinued, RDD together with the Regional Offices which represent Central Bank at the regional level, reintroduced in-person financial literacy, entrepreneurship development, and other programs to cater to the needy segments of the economy and also to increase financial inclusion in the country.

24.1 Expansion of Concessionary Credit Facilities

During 2022, RDD continued to broaden the financial outreach by implementing 22 refinance, interest subsidy and/or credit guarantee schemes and details of the schemes are given in Table II-18.

During 2022, loans totaling Rs. 17,244.4 million were disbursed to 63,202 beneficiaries by PFIs through loan schemes implemented by RDD. The Central Bank funded loan schemes contributed to 50.7 per cent of the total loans, while the Government and International Fund for Agriculture Development (IFAD) funded schemes contributed to 47.8 per cent (including the disbursements made by PFIs for government funded interest subsidy schemes) and 1.5 per cent, respectively. Out of total loan disbursements 57.6 per cent was released through the refinance schemes and the remaining 42.4 per cent was released under interest subsidy and/or credit guarantee schemes.

24.1.1 Implementation of Government Funded Schemes

In 2022, RDD, as an agent of the government, implemented 12 government funded schemes which consisted of 9 refinance schemes and 3 interest subsidy and credit guarantee schemes. The loans disbursed through these schemes amounted to Rs. 8,240.8 million or 47.8 per cent of the total loan disbursements in 2022 catering to 54,046 beneficiaries.

(a) Interest Subsidy and Credit Guarantee Schemes funded by the Government

Being the most sought out credit option of the farmers, the New Comprehensive Rural Credit Scheme (NCRCS) namely 'Sarasarā', which is an interest subsidy and a credit guarantee scheme continued its operations in 2022 as well, supporting island wide farmers to meet their short term working capital requirements. Through NCRCS, Rs 7,251.7 million was released in 2022 for 48,762 farmers who cultivated 34 short term crop varieties. The amount of loans released by PFIs under this scheme represented 88.0 per cent of the disbursements made under government funded schemes.

The applicable interest rates and scale of finance of NCRCS were amended in 2022 by issuing amendments to the NCRCS Operating Instructions. The purpose of these amendments was to encourage agricultural activities in the country to ensure food security, reduce the foreign exchange outflow on food imports, make people more inclined towards agricultural products, and to uplift the socio-economic conditions of the small-scale farmers. Prevailing economic conditions in the country and the relevant government policy measures were also considered when introducing these amendments. While loan funds for NCRCS is provided by the PFIs, the Government provided interest subsidy at a rate of 7 per cent per annum. Interest cost to the end borrower stands at 8 per cent per annum. The Government paid Rs.78.6 million during 2022 as interest subsidy under NCRCS.

The implementation period of the Smallholder Tea and Rubber Revitalization (STaRR) Interest Subsidy Scheme

scheduled to end on 31.12.2022 was extended up to 30.06.2023 in line with the extension of the STaRR Project implemented by the Project Management Unit (PMU) of STaRR. Moreover, in line with the developments of the market, Operating Instructions of the STaRR Interest Subsidy Scheme to change the interest rates of the scheme appropriately. Accordingly, Operating Instructions of the STaRR Interest Subsidy Scheme were amended to increase the rate for end borrower from 6.5 per cent to 9 per cent for the period from 08 July 2022 to 31 December 2022. In the financial front, RDD in collaboration with the PMU of STaRR Project disbursed Rs. 37.8 million among 180 beneficiaries in 2022.

(b) Refinance Schemes Funded by the Government

In 2022, RDD disbursed Rs. 951.3 million among 5,104 beneficiaries through 9 government funded refinance schemes. The Government, as a part of its counterpart financing of the SAPP, funded RF Agribusiness Loan Scheme, RF Youth Loan Scheme, RF FI Bulk Loan Scheme, RF Income Generation Loan Scheme and RF Promoter Bulk Loan Scheme in 2022.

Moreover, the Administrative Agreement signed with the Government was amended to extend the operational period of the Self-Employment Promotion Initiative Loan Scheme-Phase II (SEPI Phase II) which is intended to provide financial assistance to youth trained by recognised vocational training institutions for establishment of their own self-employment projects for five years commencing from 01.01.2023.

24.1.2 Implementation of Central Bank Funded Schemes

With a view to broadening the financial outreach of the MSMEs in Sri Lanka, the Central Bank continued to fund 7 major credit schemes during 2022 and Rs. 8,740.2 million was disbursed among 8,559 beneficiaries under these 7 schemes.

The credit operations of Saubagya (Prosperity) Loan Scheme, the flagship loan scheme operated by the Central Bank, was also continued successfully in 2022 disbursing Rs. 7,706.63 million among 8,062 beneficiaries. Moreover, Operating Instructions of the Scheme were amended to increase the interest rate to 9 per cent, while instructing PFIs to ensure that a minimum of 80 per cent of the new loans are granted for agriculture, livestock, fisheries, and related activities given the importance of accelerating fund disbursements to agriculture sector.

The DAD-PP program was established as a refinance scheme with the intention of introducing a comprehensive development package for the benefit of the smallholder farming community by offering them with a range of technical and financial assistance to enhance production

Table II-18
Summary of the Credit Schemes Implemented by RDD

Source of Funds	Name	Objective	Type of the Scheme	Release of funds in 2022 (Rs. million)	Interest Rate to the end borrower (% p.a.)
Government Funded	PAMP-RF	Poverty alleviation through promotion of income generating activities and organising low income groups to link them with formal banking system.	Refinance	69.30	12.00
	Swashakthi Loan Scheme	Generate employment opportunities for new young entrepreneurs engaged in income generating activities MSME Sectors.	Refinance	175.00	5.50
	SEPI II	Provide financial assistance to youth trained by recognised vocational training institutions for establishment of their own self-employment projects.	Refinance	2.00	7.00
	SAPP - RF Income Generation Loan Scheme	Increase the production, productivity, quality, and value addition of agriculture produce.	Refinance	83.10	6.50
	SAPP - RF Agribusiness Loan Scheme		Refinance	161.70	6.50
	SAPP - RF Youth Loan Scheme		Refinance	357.80	6.50
	SAPP - RF FI Bulk Loan Scheme		Refinance	59.36	6.50
	SAPP - RF Promoter Bulk Loan Scheme		Refinance	31.16	6.50
	SCREL	Re-energise the Tea supply chain by supporting existing tea manufactures to revamp their businesses.	Refinance	12.00	3.50
	NCRCS ¹	Uplift the socioeconomic conditions of micro and small scale farmers who engage in cultivation of paddy and short term crops including home gardening.	Interest Subsidy	5,034.60	4.00 until 15.06.2022 thereafter 8.00
	Interest Subsidy Scheme for Intensification of Shrimp Farms in Sri Lanka ¹	Assist Shrimp farmers to upgrade their farms	Interest Subsidy		1st 18 months-4.50 Next 6 months-8.50
STaRR ¹	Provide concessionary credit facilities for the smallholder farmers involved in STaRR Project, who experienced 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	37.80	9.0	
Central Bank Funded	Saubagya Loan Scheme	Start up or expand any MSME or any MSME affected by a disaster.	Refinance	7,706.6	9.00
	Refinance Scheme for COVID19 affected SOEs – SCRF Ph IV	Fulfill the working capital requirements and setting the statutory obligations of State Owned Enterprises (SOEs)	Refinance	-	4.00
	DAD-PP	Develop the domestic agriculture sector and to promote agriculture exports	Refinance	337.11	<Rs. 1mn - 4.00 >Rs. 1mn to Rs. 25 mn - 5.00
	Saubagya COVID-19 Renaissance Facility (SCRF) Phase I	Support the economic recovery efforts of the businesses and individuals negatively affected by the COVID-19 pandemic	Refinance	677.5	4.00
	SCRF-Phase II		Refinance	-	4.00
	SCRF-Phase III		Interest Subsidy & Credit Guarantee	-	4.00
	Credit Guarantee Scheme for the MSME Rice Mill Owners in Sri Lanka ²	Provide credit guarantee to the Participating Financial Institutions (PFIs) who provide loans to the eligible borrowers under the Scheme for the purpose of purchasing paddy	Credit Guarantee	-	Prevailing market rate
Donor Funded	SAPP - 4P Agribusiness Loan Scheme ³	Increase the production, productivity, quality, and value addition of agriculture produce	Refinance	38.78	6.50
	SAPP - 4P Youth Loan Scheme ³			45.79	6.50
	SAPP - FI Bulk Loan ³			178.84	6.50

Notes
¹ PFIs own funds and Interest Subsidy by the Government
² Central Bank - Credit Guarantee PFIs - Loan Financing
³ International Fund for Agriculture Development (IFAD)

and product quality and promote market opportunities through well connected agriculture value chains. The prominent feature of this scheme is the involvement of Lead Players selected by the PFIs who are expected to take lead in streamlining the identified value chain and confirm the participation of the players in the relevant agriculture value chain. They could be private sector organisations involved in the value chain or any other value chain participant that

has agreed to play the role of the lead player. This scheme is expected to be introduced as a comprehensive program in 2024 with ADB funding.

In this regard, ADB has expressed willingness to provide financial assistance to continue the DAD program in full scale by providing USD 100 million given the importance of establishing a well coordinated agriculture value chain program in the current context. Accordingly, a team of PWC

Consultants representing ADB has reviewed the DAD-PP in late 2022 and learning outcomes of the review are to be incorporated to the DAD program.

24.1.3 Implementation of Donor Funded Schemes

In 2022, RDD continued to implement Public-Private-Producer-Partnership (4P) Agribusiness, 4P Youth Loan Scheme and 4P FI Bulk Loan Scheme under the donor funded component of the SAPP funded by the IFAD. The loans disbursed through these schemes amounted to Rs. 263.4 million and such loans were provided for 597 beneficiaries in the agriculture sector.

The main objectives of the SAPP are to contribute to the poverty reduction and to increase competitiveness in the Sri Lankan smallholder community. It also intends to increase the income and quality of nutrition of smallholder farmer households involved in commercially oriented agriculture production and marketing systems linked to SAPP.

24.2. Implementation of National Financial Inclusion Strategy (NFIS) in Sri Lanka

NFIS is implemented in collaboration with key implementing entities and with the continues support of the International Finance Corporation (IFC) since its launch in March 2021. The NFIS Secretariat established in RDD coordinated the stakeholder efforts, monitored, and evaluated the progress of the action plan of the NFIS, while facilitating implementing entities to ensure smooth functioning of the project. During 2022, NFIS Secretariat conducted 2 National Financial Inclusion Council Meetings, 3 Management Committee Meetings and more than 25 Working Group Meetings. By the end of year 2022, 24 per cent of the actions were fully completed, while more than 60 per cent of the actions were in progress and on time.

24.3 Financial Literacy

RDD, having identified the need to improve financial literacy, skills, and capacity of the general public, designed and delivered 490 programs during 2022.

These programs were intended to create awareness on the drawbacks caused by financial exclusion and efforts were taken to reach vulnerable social segments in both rural and urban areas. RDD and the Regional Offices customised the programs to cater to the requirements of the target audiences, fundamentally highlighting the rewards of entering and linking with the formal financial sector. Moreover, RDD together with the Regional Offices conducted 799 field visits during 2022 to identify needs of entrepreneurs and scale them up to generate higher economic output.

Details of the programs conducted by RDD are given in Table II-19.

Table II-19
Awareness and Special Programmes Conducted during 2022

Type of Programme	No. of Programmes
Financial Literacy, Entrepreneurship, Capacity Building and Skill Development	476
Training of Trainers (TOT) Programmes	11
TV and Radio	02
Knowledge Sharing	01
Field Visits	799
Total	1,289

24.4. Regional Level Representation

RDD ensures the regional level representation of the Central Bank through the six Regional Offices located in Anuraphapura, Kilinochchi, Matale, Matara, Nuwara Eliya and Trincomalee. While encouraging and promoting regional economic development, the Regional Offices coordinate implementation of key activities of the Central Bank regionally such as handling Employees' Provident Fund (EPF) related matters, data collection initiatives, survey related activities, selling Central Bank publications and commemorative coins and notes.

The Regional Offices also make tangible efforts to enhance financial inclusion and financial literacy among general public at the regional level in line with the objectives of NFIS and shoulder special projects of RDD at the regional level. They also take measures to improve awareness of the general public, law enforcement agencies, and public and private institutions at the regional level, by conducting awareness sessions, seminars and workshops on services and functions of Central Bank, such as formal banking, financial services provided by authorised/licensed financial institutions, loan schemes implemented by those institutions and identification of counterfeit notes.

During 2022, the six Regional Offices directly handled 143,882 queries/requests related to EPF and 1,658 public grievances on various aspects. With regard to the survey related activities, all Regional Offices covered 1,262 samples in different districts while conducting 184 awareness programs on Foreign Remittance, Unauthorised Deposit Taking, Prohibited Financial Schemes, Counterfeit Notes, and Forge Notes Identification.

24.5. Other Initiatives

24.5.1 Green Village Programme

The Green Village Programme, which was introduced by RDD in 2020 as a pilot project, continued in 2022 as well. RDD in collaboration with the Regional Offices conducted several initiatives in selected villages during 2022. These programs included Home Gardening Trainings, Eco Friendly Projects such as Rainwater Conservation, Garbage

Recycling, Renewable Energy, Tree Planting, Eco-Tourism, Green Income Generation Activities etc. Moreover, villagers benefitted from several capacity building programs targeted to equip them with new skills to reach their income generation potentials, and also from Credit Camps, Entrepreneurship Development Programs, and Financial Literacy Programs conducted by RDD and the Regional Offices.

24.5.2 International Affiliations

During 2022, RDD continued its relationships with strategically important international bodies such as Alliance for Financial Inclusion (AFI), Asian Credit Supplementation Institution Confederation (ACSIC) and Asia-Pacific Rural and Agricultural Credit Association (APRACA). During the year, the Central Bank joined the South Asia Region Financial Inclusion Initiative (SARFII), the South Asian arm of AFI, by signing the Charter to drive the financial inclusion in the country.

25. RESOLUTION AND ENFORCEMENT

The Resolution and Enforcement Department (RED) contributed towards preserving the financial system stability of Sri Lanka, which is one of the core objectives of the Central Bank, by effectively managing the main financial safety net mechanism of Sri Lanka Deposit Insurance and Liquidity Support Scheme (SLDILSS). Further, RED contributed to financial system stability by conducting investigations on prohibited schemes based on the provisions of Section 83C of the Banking Act, No.30 of 1988 and drafting the legal framework for resolution of licensed banks and non-bank financial institutions, regulated and supervised by the Central Bank.

A summary of activities carried out by the department during the year 2022 is given below.

25.1. Administration of the Sri Lanka Deposit Insurance and Liquidity Support Scheme (SLDILSS)

RED continued carrying out of all operational and management arrangements of SLDILSS during the year in terms of Regulations and Policies approved by the Monetary Board. Further, in order to strengthen the legal framework of SLDILSS, provisions related to the Sri Lanka Deposit Insurance Scheme were included in the draft Banking (Special Provisions) Act to be enacted during the year 2023. With the enactment of the Banking (Special Provisions) Act, the Sri Lanka Deposit Insurance Scheme would be able to contribute to certain resolution measures and accordingly the existing mandate of SLDILSS would be enhanced from its existing mandate of "Pay Box".

As at end 2022, the Scheme comprised of 67 Member Institutions with a total fund size approximately Rs. 86,107.9 million (audited). Financial highlights of SLDILSS are given in Table II-20 below.

Table II - 20
Financial Highlights of SLDILSS

Item	Amount (Rs. Mn)	
	As at 31.12.2021	As at 31.12.2022
Size of the fund	67,877.3	86,107.9
Other Comprehensive Income Reserve	(2,103.0)	(25,931.5)
Total Equity of SLDILSS	65,784.4	60,176.4
Total Income	19,298.9	24,882.9
Total Expenditure	(96.6)	(226.3)
Surplus for the year (before tax)	19,202.4	24,656.6
Income Tax	(2,647.1)	(6,436.1)
Surplus for the year (after tax)	16,555.2	18,220.6
Total Assets	74,443.9	69,017.6
Investment in Government Securities	69,529.2	63,596.0
Loans and Receivables (net of provisions)	381.9	192.7

25.2. Compensation payments to the depositors of distressed finance companies

RED continued compensation payments to the depositors of 6 license cancelled/suspended finance companies in accordance with SLDILSS Regulations during the year 2022. Accordingly, SLDILSS was able to pay compensation totaling to Rs.30,499.24 million to 72,641 depositors of all 6 license cancelled/suspended companies as at 31.12.2022 of which details are given in Table II-21 below.

Table II - 21
Total Compensation Paid by SLDILSS as at 31.12.2022

Name of the Company	Total Insured Value (Rs. Mn)	No. of Depositors paid	Compensation paid (Rs. Mn)	Compensation Paid as a percentage of Total Insured Value
Central Investments and Finance PLC	2,465.66	3,497	1,982.76	80.41%
The Standard Credit Finance Limited	1,667.84	2,536	1,311.24	78.62%
TKS Finance Limited	1,190.74	1,876	1,017.37	85.44%
The Finance Company PLC	14,735.82	35,343	12,573.62	85.33%
ETI Finance Ltd	13,915.89	26,782	12,565.68	90.30%
Swarnamahala Financial Services PLC	1,253.27	2,607	1,048.57	83.67%
Total	35,229.22	72,641	30,499.24	86.57%

25.3 Investigation Activities

RED receives public complaints in different forms over operation of prohibited schemes and other financial scams. During the year, several onsite and offsite investigations were conducted over prohibited financial schemes, which were alleged to contravene the provisions of Section 83C

of the Banking Act, in conjunction with other departments of the Central Bank and law enforcement authorities. RED completed two investigations and reports were submitted to the Attorney General's (AGs) Department. In addition, 16 fact finding investigations were conducted based on public complaints received during the year.

Further, in order to prevent the general public from investing in prohibited schemes, a large number of public awareness programs were conducted targeting different groups of the community including government officials, police officers, bank staff, schoolteachers and children, and university students.

Table II-22
Details of Awareness Programs Conducted in 2022

Description	Conducted
Press releases/Gazettes	02
Newspaper advertisements/Press notices	04
Facebook inquires related to Pyramid Schemes	42
Posters/Leaflets distributed	11,508
Discussions	01
Webinars/Seminars conducted	29

25.4 Development of a Resolution Framework for Licensed Financial Institutions of the Central Bank

In order to strengthen the resolution framework for licensed financial institutions of the Central Bank, RED contributed towards drafting Banking (Special Provisions) Act while obtaining technical support of the International Monetary Fund (IMF) and the World Bank (WB) thereto.

The draft Banking (Special Provisions) Act includes provisions for establishing the Central Bank as the resolution authority in respect of licensed banks and it enables the application of such authority to non-bank financial institutions licensed, regulated, and supervised by the Central Bank. The proposed Act sets out resolution measures that can be exercised by the Central Bank and the Government of Sri Lanka as the case may be, to resolve a financial institution covered under the Act in a timely manner, to revive such financial institution as a going concern to ensure the interest of the depositors and creditors and thereby ensure financial system stability. In addition, it includes enhanced provisions related to the Sri Lanka Deposit Insurance Scheme and winding up procedures related to said financial institutions.

The approval of the Cabinet of Ministers for the draft Banking (Special Provisions) Act has been communicated to the Legal Draftsman Department for drafting the Act. This Act is expected to be enacted in early 2023.

26. RISK MANAGEMENT

In pursuing its policy objectives, the Central Bank faces various risks, both financial and non-financial in nature. Since the materialisation of any such risks could have an adverse impact on the achievement of objectives, financial position, and reputation of the Central Bank, having a properly designed risk management framework in place is vital.

The Risk Management Department (RMD) sets out the policies for 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.

26.1 Operational Risk

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 and incorporated amendments as required during 2022.

Continuing the facilitation provided for departmental risk assessments, RMD worked closely with other departments in assisting the development of Departmental Risk Registers.

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.

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 and areas of vulnerabilities and improving related risk treatment measures.

26.2 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 monitors compliance with Investment Policy Statements (IPS), Strategic Asset Allocations (SAA) and Investment Guidelines (IG) developed in line with the RMPS, relating to International Reserves (IR), Internal Investment Funds (IIF) of the Central Bank and Employees' Provident Fund (EPF), which is carried out as an agency function for the Government.

RMD revised IPS for IIF and IR, SAA for IIF, EPF and IR, IG for IIF and IR, incorporating amendments as required. RMD assessed market and credit risks by frequent analysis of the relevant risk indicators and monitored adherence to the limit framework given in IPS, SAA, and IG for EPF, IIF and IR. Risk assessments and non-compliances were presented at relevant

monthly Investment Oversight Committee (IOC) meetings.

RMD reviewed and revised the Risk Management Policy Statement (RMPS) with the view of further improving the risk management mechanism currently in use.

In addition, RMD commenced developing a Risk Appetite Framework (RAF) for the Central Bank and completed a study report on RAF which was circulated and discussed at the Non-Financial Risk Management Committee (NFRMC) and with the two external members of the Board Risk Oversight Committee (BROC).

Operational risks were reported to the NFRMC, and both operational and financial risks were reported to the Monetary Board through the BROC on a quarterly basis, to effectively manage risks related to operations and fund management activities of the Central Bank.

27. SECRETARIAT

The Secretariat Department (SD) is one of the few Departments that were 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 provision of secretarial assistance to the Monetary Board, Governor, Deputy Governors and Assistant Governors and protocol assistance to the Governor.

(a) Overall Corporate Administration

During the year 2022, overall corporate administration was performed in line with the governing regulations, ensuring accountability, risk management and other key attributes of good governance. In doing so, SD conducted a survey on properties of the Central Bank 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 outsourced 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 2022, SD carried out the procurement of goods and services required for the bank in accordance with the procurement plan that was prepared based on the Monetary Board approved Annual Budget 2022 of the Central Bank. Procurements were done through tender procedures and other relevant procurement procedures set out in the Central Bank Manual, which are broadly consistent with the National Procurement Guidelines. In addition, SD promptly attended to a number of time critical ad-hoc procurements.

(c) Administration of Superannuation Funds

SD continued to administer payments related to the Superannuation Funds of the Central Bank which involved 2,307 beneficiaries. Accordingly, SD engaged in making payments related to gratuity, commuted pension, release of provident fund balances and making monthly payments of pensions, Widows' and Orphans' Pensions (W&OP), and Widowers' and Orphans' Pensions (WR&OP). Further, SD attended to a number of correspondences with the beneficiaries in order to fulfill their requirements including collection of life certificates in line with Pension Rules specified in the Central Bank Manual.

(d) Facilitating overseas studies and Training

During 2022, SD provided support services to officers who embarked on postgraduate studies or travelled abroad on duty. In this regard, SD facilitated payments to universities and payments to the employees who travelled abroad for the aforesaid purposes. In addition, SD issued visa letters and Provident Fund balance confirmation letters for visa purposes and facilitated purchasing of air tickets and obtaining travel insurance. However, compared to previous years, foreign travel was subdued due to the COVID-19 pandemic and the economic crisis.

(e) Conducting Board of Survey

A Board of Survey to identify obsolete, damaged, unserviceable and irreparable fixed assets was completed during the year and such items were disposed of in accordance with the applicable provisions in the Central Bank Manual.

(f) Provision of Secretarial and Protocol Assistance to the Governor

With effect from 08 April 2022, the Governor's Secretariat Department ceased to be in operation, and as a division of SD, the Governor's Secretariat Division provided secretarial and protocol assistance to the Governor during the year, which included scheduling of appointments and meetings, preparation and compilation of presentations and speeches for the Governor, coordinating and arranging Governor's local and foreign travels, arranging official functions hosted by the Governor, and protocol services provided to VIP visitors of the Governor and the Central Bank.

28. SECURITY SERVICES

The Security Services Department (SSD) continued its operations to protect employees, visitors and properties of the Central Bank including the Regional Offices and other establishments despite the various challenges encountered during the year due to the COVID-19 pandemic and prolong protests conducted by various parties in close proximity. Special security arrangements were provided for currency

consignments in transit coordinating with the Sri Lankan Police as organisational priorities. SSD actively contributed to all business continuity drills of the Central Bank.

(a) System Improvements

Operational fitness of all firefighting equipment located at the Head Office and other premises was inspected, maintained, and upgraded on a regular basis during the year. Maintenance services of all other security equipment including baggage scanners and cargo scanners were carried out as per the service agreements with the respective service providers. Steps were taken to introduce two explosive detectors to enhance the security system. SSD continuously updated itself with intelligence information and maintained relationship with relevant authorities.

(b) Surveillance Activities

SSD screened and facilitated 85,299 visitors to the Head Office of the Central Bank and all visitors to its Regional Offices. 30,514 currency boxes in transit were screened throughout the year.

(c) Prevention of COVID-19

SSD conducted prevention measures such as monitoring the temperature of the staff and visitors and screened and registered all the visitors through the visitor management system before entering the premises according to the guidelines issued by the health authorities. SSD supported documentation and mail management systems of all the departments who could not receive services of the staff due to the pandemic. SSD introduced a new duty roster system for its staff to reduce human contact inside the Central Bank premises.

(d) Assessment of Security Controls

The security plan was updated based on the findings of the security control assessment and two handheld explosive detectors were procured and scheduled to be operated in the near future.

(e) Strengthening Human Capital and Competency Building

A training program was conducted for security officers on handling newly purchased explosive detectors to enhance their skills related to modern technology. SSD was able to conduct annual scheduled training programs for security officers successfully.

29. STAFF SERVICES MANAGEMENT

The role of the Staff Services Management Department (SSMD) is to facilitate the wellbeing of the staff of the Central Bank, ensuring an efficient, healthy, and satisfied labour force. Hence the welfare facilities of SSMD are designed to foster good physical and mental health of Central Bank employees and to promote a healthy working environment. Key services rendered

by the department include disbursement of loans under the Staff Housing (mortgage) Loan Scheme; Provident Fund Loan Scheme, and Staff Benefit Scheme (SBS) including the Staff Vehicle Loan Scheme, reimbursement of medical expenses under the Employer Contributory Medical Benefit Scheme (MBS), provision of medical facilities to the staff, provision of restaurant facilities, and other staff welfare services. These services covering housing, vehicle, medical, and other welfare needs of staff help in raising employees' standard of living, facilitating a contented and motivated workforce that can work with a high level of efficiency and integrity. Moreover, medical needs of dependents of Central Bank staff as well as pensioners are also looked after under the MBS scheme.

Amidst the challenging environment caused by the COVID-19 pandemic, SSMD continued to extend welfare facilities to all beneficiaries during the year 2022. Special measures were taken to comply with the guidelines issued by the health authorities regarding the COVID-19 pandemic and SSMD facilitated additional services required by staff including vaccination programs for the employees at the Central Bank Head Office premises in 2022. SSMD continued the disbursement of housing, vehicle, and other welfare loans to the staff and reimbursement of 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 around 9,842 approximately as at end 2022. Further, SSMD provided medical facilities to the staff through the Medical Center during office hours with medical tests and laboratory services provided at a reasonable charge. In January 2022, SSMD made arrangements to open a pharmacy operated by an outsourced supplier at the Central Bank premises. In 2022, SSMD also conducted awareness programs for the staff via MS teams to enhance their knowledge and awareness of peaceful mind, post COVID-19 cardiac diseases, healthy childbirths, and home gardening.

Restaurant services were provided to members of staff during working hours through an outsourced service provider. SSMD supervised the operations of the restaurant and pastry shop to ensure provision of quality food and beverages to the staff at reasonable prices.

SSMD, in collaboration with the Information Technology Department, was in the process of developing new IT systems for the Staff Housing (mortgage) Loan Scheme, Provident Fund Loan Scheme, SBS, Medical Benefit Scheme, and Railway Warrant Issuing System to increase efficiency of its services.

30. STATISTICS

The Statistics Department (STD) completed its activities in 2022 as planned despite many challenges in the forms of disruptions to data collection and mobility restrictions that persisted during certain months.

The major activities of the department during 2022 included forecasting near term inflation and GDP to be used in the policy formulation process, collecting data and compiling indices to provide timely information for the data driven decision making process, and disseminating information through publications.

30.1 Forecasting Near Term Inflation and GDP to be Used in the Policy Formulation Process

STD continuously engaged in forecasting near term inflation and GDP growth, contributing to the Forecasting and Policy Analysis System (FPAS) of the Central Bank. Accordingly, the model based and indicator based forecasts were produced using relevant inputs from various sources. These forecasts were detailed and discussed at regular monetary policy cycles and submitted to the Monetary Board (MB) to facilitate policy decision making.

30.1.1 Forecasting Near Term Inflation

The latest price trends and expected price movements associated with market developments and econometric techniques were used to forecast near term inflation based on both the Colombo Consumer Price Index (CCPI) and National Consumer Price Index (NCPI). In line with continuous efforts to improve inflation forecasting, STD explored new variables and data sources that reflected both supply and demand side impact on inflation and novel forecasting models using time series and machine learning techniques.

30.1.2 Forecasting Near Term GDP

Near term GDP growth forecasts were prepared on a quarterly basis using both indicator and model based techniques. Primary and secondary leading economic indicators and survey findings related to economic activities were combined with expert judgments in indicator based forecasting, while model based forecasts were prepared using econometrics techniques.

30.2 Collecting Data and Compiling Indices to Provide Timely Information for Data Driven Decision Making Process

STD continuously engaged in collecting data through surveys, Country Wide Data Collection System (CWDCS), and other several institutions to compile indicators/indices. The analytical outcomes of these and relevant analyses were utilised in forecasting GDP/inflation and provided to the management to be considered in decision making process. Meanwhile, some information was published on the Central Bank website.

30.2.1 Survey Based Data Collection and Compilation of Indices

30.2.1.1 Purchasing Managers' Index Surveys

The Purchasing Managers' Index (PMI) surveys were conducted on a monthly basis to gather timely information

about the economy. The PMI surveys target large companies predominantly concentrating on the Western province, covering manufacturing, construction and services activities. The results were used as high frequency leading indicators to evaluate the recent developments in the respective economic activities in the indicator based GDP forecasting process. Further, the evaluations that were made based on the survey findings were reported to the management for policymaking purposes. The results of Manufacturing and Services PMI surveys were released as monthly press notices for the use of analysts and the general public.

30.2.1.2 Business Outlook Survey

The Business Outlook Survey (BOS), which provides a snapshot of business sentiments regarding the existing and expected developments of the economy, was continued as a quarterly survey during 2022. The target population of this survey was large scale enterprises covering agriculture, industry and services activities of the economy. The aggregate results and key insights were submitted to MPC and MB, while economic growth forecasts were made based on the survey findings using statistical methodologies. Further, an executive summary, along with key indices, was published quarterly on the Central Bank website for the information of external users.

30.2.1.3 Condominium Market Survey

The quarterly Condominium Market Survey (CMS) was conducted covering major condominium developers to collect data on condominium sector developments including information on actual sales, reasons for price changes, actual and anticipated demand, funding structure, number of current and upcoming housing units, project occupancy levels and buyer portfolio information. The information gathered through the survey was reported to the management through a quarterly report adding insights to Central Bank's policymaking process in terms of the financial system stability. In addition, a quarterly price index for new condominiums, which facilitates identifying the overall changes in the price level of new condominiums, was compiled based on the sales data collected through the survey. Survey findings in summary form were published on the Central Bank website on a quarterly basis.

30.2.1.4 Inflation Expectations Survey

Inflation Expectations Survey (IES) was continued on a monthly basis to collect data and information on inflation expectations of two main categories of economic agents, namely, the Corporate Sector and the Household Sector. During 2022, the Corporate Sector surveys were continued as email-based surveys, while the Household Sector surveys were conducted in virtual mode. These virtual surveys were conducted in collaboration with Regional Offices at

Matale, Anuradhapura, Kilinochchi, Trincomalee and Nuwara Eliya for the employees of selected public sector institutions, during which the participants were briefed on the purpose and importance of the survey and the theoretical aspects on inflation. In addition, Household Sector survey responses were also collected continuously from the Teacher Investigators (TIs) of the CWDCS on a monthly basis. Meanwhile, IES was expanded to capture the inflation expectations of the Research Institutes during the fourth quarter of 2022. The survey findings of the IES were reported to the MPC for consideration in the policymaking process.

30.2.1.5 Other Surveys

Two surveys to assess the Credit Conditions in the economy, namely, the Credit Demand Survey (CDS) and Credit Supply Survey (CSS), which capture the demand and supply side developments of the credit market activities, respectively, were continued during the year 2022. CDS, targeting Small and Medium Enterprises (SMEs) of the economy, was carried out as an annual survey in association with the Regional Offices of the Central Bank to identify credit related developments and issues experienced by SMEs, particularly during this unprecedented time. Meanwhile, CSS was conducted on a quarterly basis in 2022 covering all LCBs and LSBs to capture the recent developments and the outlook of the credit supply related activities in Sri Lanka. The results of both CDS and CSS were used in the policy formulation process of the Central Bank, while the results of CSS were also published on the Central Bank website for the benefit of the general public.

Further, the monthly Retail Sales Volume Survey (RSVS) and the quarterly Supermarket Retail Trade Survey (SRTS), were continued during the year to understand the developments in the general and modern trade segments of the retail sector, respectively. The findings were used in the indicator based GDP forecasting process.

The Survey on Transportation Services, which covers land transportation, air transportation, port and logistic services, was continued as a monthly survey during 2022 to capture the developments in the transportation sector. Further, a survey was carried out to identify the developments related to the Information Technology and Business Process Management (IT & BPM) sector during 2022 and the prospects for 2023. The findings of these surveys were used for internal economic analyses, particularly in the economic growth forecasting process.

The Annual Public Sector Employment Survey was continued in 2022, covering all public sector institutions, i.e. institutions under the central government and provincial councils to assess the developments in public sector employment.

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 that might have a significant impact on the economy and/or central banking activities. During 2022, several such surveys were conducted, namely, Survey on Other Personal Services, Survey on Labour Demand, and Survey on the Effectiveness of COVID-19 Concessionary Loans Provided by the Regional Development Department of the Central Bank.

30.2.2 Country Wide Data Collection System

Operations of CWDCS continued in 2022 with the engagement of 53 TIs in order to collect retail prices of an identical basket of goods to that of 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 providing timely inputs for inhouse policymaking processes. With the view to enhancing the quality of the data collected through CWDCS, on-site and off-site supervisions were carried out in collaboration with the Regional Offices of the Central Bank. Further, the annual seminar was conducted at CBS with the participation of all TIs in order to improve the quality of data and to discuss the issues faced by the TIs during the data collection process. Reports were generated continuously from data of CWDCS through Tableau software and the data/information collected on a weekly, monthly and quarterly basis during the year was used in forecasting price movements and inflation. In addition, as per the request of the Consumer Affairs Authority, selected data from CWDCS was continually shared with them on a weekly basis.

STD continued to obtain the services of non-teacher data investigators to collect data/information on wholesale and retail prices from the Pettah market, Marandagamula rice market, Dambulla and Narahenpita Special Economic Centres, and Negombo and Peliyagoda Fish markets on a daily basis in order to strengthen the management information system. Furthermore, a summary of these price data was published on the Central Bank website on a daily basis. In addition, as per the request of the Presidential Secretariat, prices of the selected food items were shared with them on a daily basis during the year.

Further, STD continued to compile leading indicators using food prices available on the websites of two leading supermarkets on a daily basis.

30.2.3 Data Collection through Other Sources and Compilation of Indices

30.2.3.1 Wage Rate Indices

STD compiled wage rate indices for public, formal and informal private sectors to assess the movements of

salaries and wages of the economy. Accordingly, nominal and real Wage Rate Indices for the Public Sector were compiled monthly based on the public administration salary circulars. In terms of the formal private sector, Real Wage Rate Indices were compiled monthly, based on the nominal wage rate indices for employees whose wages are governed by the wage boards provided by the Department of Labour.

Meanwhile, the real and nominal Informal Private Sector Wage Rate Indices, which were used to analyse the movements of the informal private sector wages were compiled based on wage information collected through CWDCS. As an ongoing improvement to the index, in 2022, base year of this series was revised to 2018 from 2012. In addition, these wage rate indices were continued to submit to the Special Data Dissemination System (SDDS), FPAS, MPC and MB in 2022 for consideration in the policymaking process.

30.2.3.2 Property Market Indices

The price indices for residential property (condominiums, lands and houses) in the Colombo district were compiled by STD on a monthly basis using publicly available web based property advertisement data. The Department commenced publishing the Real Estate Market Analysis report on the Central Bank website since the first quarter of 2022, which includes the condominium market information gathered through the CMS and the above price indices.

STD continued to compile the Land Valuation Indicator (LVI) on a semi-annual basis to capture the developments in the real estate property market. The LVI comprises Residential, Commercial, and Industrial land values, which is based on per perch bare land price assessments collected from the Government Valuation Department under these three land categories. Two press releases on LVI were published in 2022 for public information.

30.2.4 Compiling Regional Statistics

30.2.4.1 Sri Lanka Prosperity Index

Sri Lanka Prosperity Index (SLPI) is a multidimensional indicator compiled by the Central Bank to measure the progress of the country specifically referring to socio economic aspects moving beyond the aspects considered in GDP. The index encompasses three sub-indices: Economic and Business Climate, Wellbeing of the People, and Socio Economic Infrastructure, which are compiled annually using appropriate provincial indicators. In 2022, STD compiled and published SLPI for the year 2021 using 41 representative variables.

30.2.4.2 Provincial Gross Domestic Product

Provincial Gross Domestic Product (PGDP) for the year 2021 was compiled by disaggregating the National Accounts estimates of the Department of Census and

Statistics (DCS) into the provinces using appropriate indicators/variables related to agriculture, industry and services activities. The relevant press release was issued by STD in December 2022. These estimates provide an approximation on the contribution of each province to the national GDP, which is useful for public authorities to decide on the allocation of resources among provinces.

30.2.5 Analysing Labour Market Information

Overall labour market data analyses with respect to the labour force, employment, unemployment, foreign employment, labour relations, and labour market reforms were done by STD, based on the statistics/information obtained from the DCS, Sri Lanka Bureau of Foreign Employment, Department of Labour, and other reliable data sources. Based on this analysis, a report was submitted to the management on a quarterly basis to support the policymaking process.

30.3 Disseminating Information

Regular dissemination of official statistics was continued by STD in 2022 in electronic modes amidst challenges faced in data collection. Accordingly, annual statistical publications, "Economic and Social Statistics of Sri Lanka 2022 – Volume XLIV" and "Sri Lanka Socio Economic Data 2022 – Volume XLV" were released. Further, high frequency data dissemination was done through the release of Daily Economic Indicators, which consist of data on exchange rates, money market rates, stock market, and energy sector statistics, and the release of a Daily Price Report of selected consumer items. Weekly and Monthly Economic Indicators were also published on the Central Bank website throughout the year in a timely manner.

The department contributed to two chapters of the Central Bank's Annual Report and Recent Economic Developments report, while continuing to provide data for the Monthly Bulletin of the Central Bank.

STD carried out the administrative functions of the Data Library which is the Central Bank's online database, updating and maintaining it to meet the data needs of researchers and other stakeholders.

31. SUPERVISION OF NON-BANK FINANCIAL INSTITUTIONS

The Department of Supervision of Non-Bank Financial Institutions (DSNBFI) is entrusted with the mandate to regulate and supervise Licensed Finance Companies (LFCs), Specialised Leasing Companies (SLCs) and Licensed Microfinance Companies (LMFCs) under the provisions of the Finance Business Act (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 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 (onsite supervision) and continuous surveillance (offsite supervision) of licensed/registered institutions, while the regulatory function involves issuance of licenses/registrations, prudential regulations, granting regulatory approvals, and investigating companies conducting finance business without authority. Apart from these major functions, DSNBFI also engages in several other activities such as capacity building of the sector, facilitating court proceedings, and attending to public complaints.

By end 2022, the Non-Bank Financial Institutions (NBFIs) sector comprised 37 LFCs, 1 SLC, 4 LMFCs, and 7 PDCs. Further, there were 54 Registered Finance Leasing Establishments (RFLEs) that possess registration under the FLA, including Licensed Banks, LFCs, and SLC. The names of these LFCs, SLC, RFLEs, LMFCs, and PDCs are provided at the end of this section.

The main functions and activities performed by DSNBFI during 2022 are summarised below.

31.1 Policy Measures

(a) Issuance of Prudential Regulations

During 2022, several prudential regulations were issued to streamline the existing regulatory framework of NBFIs in line with the current market conditions and international best practices in consultation with NBFIs and relevant other stakeholders of the sector. Such regulations issued to LFCs, SLCs, LMFCs, and PDCs during the year including extraordinary measures taken due to prevailing macroeconomic conditions are provided in Part III of this report. A summary of the major prudential measures introduced during 2022 is below:

- i. Regulatory Framework on Technology Risk Management and Resilience
- ii. Incentive for Sri Lankans working abroad on inward workers' remittances
- iii. Mobile phone based E-money Services
- iv. Revision on maximum interest rates on deposits and debt instruments
- v. Removal of maximum interest rate on microfinance loans
- vi. Concessions to borrowers whose income or businesses have been adversely affected due to the current macroeconomic conditions
- vii. Mandatory recording of the Unique Identification Numbers of the depositors of LFCs
- viii. Guidelines on sustainable finance activities

(b) Amendments to the Finance Business Act and the Finance Leasing Act

DSNBFI is in the process of making necessary amendments to the FBA to enhance the supervision, regulation and resolution of LFCs and necessary amendments to the FLA to address irregularities in the finance leasing business.

(c) Implementation of Masterplan on Consolidation of NBFIs sector (the Masterplan)

- i. In order to address the weaknesses and risk exposure in the LFCs/SLCs sector, the Masterplan was introduced in 2020.
- ii. Under Phase I of the Masterplan, 5 transactions were fully completed during the year. Amalgamation of Sinhaputhra Finance PLC with Commercial Leasing and Finance PLC, Commercial Leasing and Finance PLC with LOLC Finance PLC and Prime Finance PLC with HNB Finance PLC were completed during the year. New finance business licenses were issued to Assetline Finance Ltd (previously known as Assetline Leasing Co. Ltd) and SMB Finance PLC (previously known as SMB Leasing PLC). Further, 3 proposed amalgamations under the Masterplan which were approved by the Monetary Board in 2022 are currently in progress.¹
- iii. Further, companies who were unable to find a merger partner under the Masterplan were directed to exit from the market upon cancellation of the license. Accordingly, the finance business license issued to Swarnamahar Financial Services PLC was cancelled in terms of Section 37 (3) of the FBA, and the Monetary Board of the Central Bank in terms of the section 25 (1) (m) of the FBA, decided to direct Kanrich Finance Ltd to settle its public liabilities in full.

31.2 Supervision of Licensed Institutions

(a) Conducting Statutory (On-Site) Examinations

- (i) DSNBFI conducted statutory examinations of 13 LFCs and 4 PDCs during 2022. The main findings of the examinations included the deterioration in earnings and assets quality, risks of highly concentrated loan portfolios, weaknesses in the governance framework including related party transactions, lapses in the risk management, internal audit and compliance functions including lack of adequate resources to perform such functions effectively, and non-compliances with regulatory requirements.
- (ii) The Monetary Board approved the recommendations for key supervisory concerns and the Time Bound Action Plans to rectify supervisory concerns identified during the examinations of LFCs/PDCs, which were communicated to the respective companies for necessary corrective actions.

¹ Subsequently, LOLC Development Finance PLC was amalgamated with LOLC Finance PLC, w.e.f. 31.01.2023.

- (iii) Further, DSNBFI conducted 25 spot examinations including spot examinations of 12 LFCs to assess the impairment model and spot examinations of 10 LFCs to assess the process of submission of regulatory information.

(b) Conducting Continuous (Off-Site) Surveillance

- (i) All LFCs, SLCs, LMFCs and PDCs were continuously supervised based on the periodic financial information submitted to the Central Bank by LFCs/SLCs/LMFCs and PDCs through the web based fin-net system. The department also reviewed the other financial information including auditors' reports, management letters, external ratings, and press reports. These reviews identified the potential risks of LFCs, SLCs, LMFCs, and PDCs through early warning indicators and an internal rating system on the areas of capital, liquidity and impairment, and the necessary recommendations were made when required.
- (ii) DSNBFI took prompt corrective actions to rectify the supervisory concerns of the sector within a stipulated time frame, based on the assessments and severity of the findings. Further, the sector's 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.
- (iii) DSNBFI granted 1,180 regulatory approvals to LFCs and SLCs to issue debt instruments, increase share capital, ownership transfers, capital infusions by new investors, amend the Articles of Association, formation of subsidiaries, annual branch expansion plans, advertisements and deposit incentive schemes, and appointment of new directors and key management personnel.
- (iv) Follow up of the progress of actions taken by LFCs and PDCs to rectify the key supervisory concerns identified during onsite examinations.
- (v) DSNBFI mediated to resolve 258 complaints received from the general public with regard to the operations of LFCs and SLCs that were largely related to policy matters and LFCs whose licenses have been cancelled.

31.3 Regulatory and Resolution Actions

The key focus of DSNBFI during 2022 was to implement regulatory measures in an expeditious manner on companies non-compliant with prudential directions and facilitate measures on companies whose licenses have been cancelled or suspended. Accordingly, the following steps were taken in this regard.

- i. Several regulatory actions were initiated including imposing restrictions on deposits, lending and

borrowings on LFCs that were non-compliant with capital requirements in line with prompt corrective action framework.

- ii. During 2022, the suspension of business of Perpetual Treasuries Ltd. was extended twice on 05.01.2022 and 05.07.2022 and continues to remain in force for a further period of six months from 05.01.2023 in order to continue the investigations being conducted by the Central Bank.
- iii. Meetings were held with the Senior Management and appointed Management Panels of LFCs related to the issues prevailing in the companies whose licences were cancelled or suspended.

31.4 Public Awareness and Capacity Building

i. Public Disclosure

The names of LFCs and SLCs indicating non-compliances with prudential capital requirements and regulatory restrictions were published on the Central Bank website.

ii. Capacity Building

The senior officers of the Department continued to serve as resource persons at the training sessions, including the programmes conducted at the Centre for Banking Studies of the Central Bank.

iii. Meeting with LFCs/SLCs and Other Stakeholders

DSNBFI conducted meetings with the Chairpersons and Chief Executive Officers of LFCs/SLCs chaired by the Governor with the objective of sharing views between the Central Bank and LFCs/SLCs sector on matters related to the economy and regulatory developments. In addition, the department held continuous meetings with LFCs/SLCs, the Finance House Association Leasing Association, external auditors, and international agencies to discuss issues relating to individual licensed institutions /sector as a whole and to implement corrective actions.

iv. Public Awareness Programmes

DSNBFI provided assistance to conduct awareness programs upon requests of other departments such as the Resolution and Enforcement Department, Communication Department and Regional Development Department, as and when required. The department published a newspaper article on the topic of 'Beware of unauthorised deposit taking institutions and individuals' and conducted 6 public awareness programs at regional level while participating in 5 TV/ radio programs to enhance public awareness of the risks of unauthorised finance businesses.

31.5 Investigation of Unauthorised Finance Businesses

The department was handling 125 investigations on unauthorised deposit taking and finance businesses as at end 2022 based on complaints and information received by the Central Bank. Further, during 2022, the Director of DSNBFI obtained extensions from the High Court of Colombo for freezing orders issued under Section 44 of FBA with respect to 4 investigations. Moreover, the Director of DSNBFI obtained orders from the relevant Magistrate Courts to suspend overseas travel of concerning parties of four entities subject to investigations.

Table II-23
Details of work performed by DSNBFI during 2022

Type of work	No.
Regulatory approvals	1,180
Customer complaints handled	258
Meetings conducted with external parties	103
Off-site surveillance reports	542
Investigation of unauthorised finance business	125
Statutory (On-site) examinations	17
Spot examinations	25
Board papers submitted to the monetary board	97
RTI requests handled	35

Annex II - 4

Authorised Financial Institutions (As at end 2022)	
Licensed Finance Companies	
1. Abans Finance PLC	20. LOLC Finance PLC (h)
2. Alliance Finance Co. PLC	21. Mahindra Ideal Finance Ltd. (i)
3. AMW Capital Leasing and Finance PLC	22. Mercantile Investments & Finance PLC
4. Asia Asset Finance PLC	23. Merchant Bank of Sri Lanka & Finance PLC (j)
5. Assetline Finance Ltd. (a)	24. Multi Finance PLC (k)
6. Associated Motor Finance Co. PLC	25. Nation Lanka Finance PLC (l)
7. Bimpuh Finance PLC (b)	26. Orient Finance PLC
8. CBC Finance Ltd.	27. People's Leasing & Finance PLC
9. Central Finance Co. PLC	28. PMF Finance PLC(m)
10. Citizens Development Business Finance PLC	29. Richard Peiris Finance Ltd(n)
11. Commercial Credit & Finance PLC	30. Sarvodaya Development Finance PLC (o)
12. Dialog Finance PLC	31. Senkadagala Finance PLC
13. ETI Finance Ltd. (c)	32. Singer Finance (Lanka) PLC
14. Fintrex Finance Ltd.	33. Siyapatha Finance PLC
15. HNB Finance PLC (d)	34. SMB Finance PLC (p)
16. Kanrich Finance Ltd. (e)	35. Softlogic Finance PLC (q)
17. Lanka Credit and Business Finance PLC(f)	36. U B Finance Co. Ltd.
18. L B Finance PLC	37. Vallibel Finance PLC
19. LOLC Development Finance PLC (g)	
Registered Finance Leasing Establishments	
(A) Licensed Commercial Banks	(B) Licensed Specialised Banks
1. Amana Bank PLC	1. Housing Development Finance Corporation Bank of Sri Lanka
2. Bank of Ceylon	2. Pradeshiya Sanwardana Bank
3. Commercial Bank of Ceylon PLC	3. Sanasa Development Bank PLC
4. DFCC Bank PLC	4. Sri Lanka Savings Bank Ltd.
5. Hatton National Bank PLC	
6. MCB Bank Ltd.	
7. National Development Bank PLC	
8. Nations Trust Bank PLC	
9. Pan Asia Banking Corporation PLC	
10. Sampath Bank PLC	
11. Seylan Bank PLC	
12. Union Bank of Colombo PLC	

(C) Licensed Finance Companies	
1. Abans Finance PLC	22. Mercantile Investments & Finance PLC
2. Alliance Finance Co. PLC	23. Merchant Bank of Sri Lanka & Finance PLC (j)
3. AMW Capital Leasing and Finance PLC	24. Multi Finance PLC (k)
4. Asia Asset Finance PLC	25. Nation Lanka Finance PLC (l)
5. Assetline Finance Ltd. (a)	26. Orient Finance PLC
6. Associated Motor Finance Co. PLC	27. People's Leasing & Finance PLC
7. Bimpuh Finance PLC (b)	28. PMF Finance PLC (m)
8. CBC Finance Ltd.	29. Richard Peiris Finance Ltd. (n)
9. Central Finance Co. PLC	30. Sarvodaya Development Finance PLC (o)
10. Citizens Development Business Finance PLC	31. Senkadagala Finance PLC
11. Commercial Credit & Finance PLC	32. Singer Finance (Lanka) PLC
12. Dialog Finance PLC	33. Siyapatha Finance PLC
13. ETI Finance Ltd. (c)	34. SMB Finance PLC (p)
14. Fintrex Finance Ltd.	35. Softlogic Finance PLC (q)
15. HNB Finance PLC (d)	36. Swarnamahar Financial Services PLC (r)
16. Kanrich Finance Ltd. (e)	37. U B Finance Co. Ltd.
17. Lanka Credit and Business Finance PLC (f)	38. Vallibel Finance PLC
18. L B Finance PLC	
19. LOLC Development Finance PLC (g)	(D) Specialised Leasing Companies
20. LOLC Finance PLC (h)	1. Co-operative Leasing Co. Ltd.
21. Mahindra Ideal Finance Ltd. (i)	
Licensed Microfinance Companies	
1. Berendina Micro Investments Company Ltd.	3. Dumbara Micro Credit Ltd.
2. Lak Jaya Micro Finance Ltd.	4. Sejaya Micro Credit Ltd.
Primary Dealer Companies	
1. Acuity Securities Ltd.	5. NSB Fund Management Co. Ltd.
2. Capital Alliance PLC	6. Perpetual Treasuries Ltd. (t)
3. Entrust Securities PLC (s)	7. Wealth Trust Securities Ltd.
4. First Capital Treasuries PLC	
(a) Assetline Leasing Co Ltd, was licensed under the Finance Business Act, No. 42 of 2011 as an LFC w.e.f. 29.08.2022 under the Masterplan and accordingly name was changed to Assetline Finance Ltd.	
(b) Due to inability of the company to comply with regulatory capital requirements and/or adhere to the Masterplan, granting of new loans and acceptance of new deposits were frozen. The company was required to repay its deposit base w.e.f. 03.06.2022.	
(c) The Monetary Board decided to cause the Director, Department of Supervision of Non-Bank Financial Institutions to make an application to a competent court for the winding up of ETI Finance Ltd., in terms of Section 31(5)(b) of the Finance Business Act, No. 42 of 2011.	
(d) Prime Finance PLC amalgamated with HNB Finance PLC w.e.f.12.05.2022.	
(e) Due to inability of the company to comply with regulatory capital requirements, restrictions were imposed on lending and deposits. Further, approval was granted for the proposed merger between Kanrich Finance Ltd. (KFL) and Nation Lanka Finance PLC (NLFP) under the Masterplan to comply with regulatory capital requirements subject to fulfilment of several conditions and upon successful completion of the proposed merger NLFP will be the remaining entity. Moreover, KFL was directed to settle its public liabilities in full within the period from 26.12.2022 to 28.02.2023.	
(f) The name of Lanka Credit and Business Finance Ltd. was changed to Lanka Credit and Business Finance PLC w.e.f. 21.01.2022 due to the listing requirement under the Masterplan.	
(g) LOLC Development Finance PLC amalgamated with LOLC Finance PLC w.e.f. 31.01.2023.	
(h) Commercial Leasing and Finance PLC amalgamated with LOLC Finance PLC w.e.f. 31.03.2022. and LOLC Development Finance PLC amalgamated with LOLC Finance PLC w.e.f. 31.01.2023.	
(i) Name of Ideal Finance Ltd was changed to Mahindra Ideal Finance Ltd w.e.f. 28.01.2022.	
(j) Due to inability of the company to comply with regulatory capital requirements and/or adhere to the Masterplan, restrictions were imposed on lending, deposits and offering of maximum interest rate.	
(k) Due to inability of the company to comply with regulatory capital requirements and/or adhere to the Masterplan, restrictions were imposed on lending and deposits. Further, the company is in the process of a merger with LB Finance PLC under the Masterplan.	
(l) Due to inability of the company to comply with regulatory capital requirements and/or adhere to the Masterplan, granting of certain types of loans and acceptance of new deposits were frozen. The Monetary Board granted approval for the proposed merger between KFL and NLFP under the Masterplan to comply with regulatory capital requirements subject to fulfilment of several conditions. Upon successful completion of the proposed merger, NLFP will be the remaining entity.	
(m) Name of People's Merchant Finance PLC was changed to PMF Finance PLC w.e.f. 21.10.2022.	
(n) Non-compliance with the Finance Business Act Direction No. 2 of 2017 on Minimum Core Capital and No. 3 of 2018 on Capital Adequacy Requirements since 31.10.2022. Subsequently on 31.01.2023, the company complied with the cited directions.	
(o) The name of Sarvodaya Development Finance Ltd. was changed to Sarvodaya Development Finance PLC w.e.f.06.01.2022 due to the listing requirement under the Masterplan.	
(p) SMB Leasing PLC was licensed under the Finance Business Act, No. 42 of 2011 as an LFC w.e.f. 01.12.2022 under the Masterplan and accordingly its name was changed to SMB Finance PLC.	
(q) Due to inability of the company to comply with regulatory capital requirements and/or adhere to the Masterplan, restrictions were imposed on lending, deposits and offering of maximum interest rate. Acceptance of new deposits was frozen w.e.f.12.08.2022.	
(r) Finance business licence issued to Swarnamahar Financial Services PLC was cancelled w.e.f. 28.12.2022 and registration as a registered finance leasing establishment was cancelled w.e.f.18.01.2023.	
(s) Participation in government securities primary auction was refrained w.e.f. 24.07.2017.	
(t) Suspended from carrying on the business and activities of a Primary Dealer since 06.07.2017 and current suspension is effective until 05.07.2023.	