

PART II

PART II

ACCOUNTS AND OPERATIONS OF THE CENTRAL BANK OF SRI LANKA

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1. ACCOUNTS AND FINANCE

Activity Report of the Monetary Board Advisory Audit Committee during and relating to the Financial Year 2021

1. Introduction

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

2. Composition of AAC

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

Composition of AAC during the year 2021 was as follows:

- | | | | |
|------|----------------------|---|----------------------------|
| i. | Dr. Ranees Jayamaha | - | Chairperson |
| ii. | Mr. H M A Jayasinghe | - | Member (till 30.09.2021) |
| iii. | Mrs. A I Mohotti | - | Member |
| iv. | Mr. A I Fernando | - | Member (w.e.f. 22.12.2021) |

Secretary to the Monetary Board is the Secretary to the AAC, and the Director of Internal Audit Department (IAD) is the Assistant Secretary to the AAC. IAD provides secretarial facilitation to AAC. Assistant Governor in-charge of Finance Department, Compliance Officer, Chief Accountant and Chief Risk Officer of CBSL, Audit Superintendent of the National Audit Office who is in-charge of the external audit of the CBSL attend AAC Meetings as Observers. As and when necessary, AAC invites CBSL 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 CBSL also attends AAC meetings by invitation when the financial statements of the CBSL are discussed.

AAC is required to meet at least six (06) times a year. Meetings of the Committee shall be called by the Secretary to the Committee with the approval of the Chairperson, at the request of the Monetary Board, External Auditors or Director of the Internal Audit Department. A quorum for a meeting is two (02) including the Chairperson.

3. Activities carried out during 2021 and those relating to the Financial Year 2021

AAC held fourteen (14) meetings in 2021. Major activities performed by AAC during and relating to the year are indicated below.

a) Financial Reporting and External Audit:

The 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 CBSL for the year ended 31.12.2020 and the management comments.
- ii. Financial Statements of the CBSL for the year ended 31.12.2020.
- iii. Report of the Auditor General on the affairs of the CBSL including the Financial Statements for the year ended 31.12.2020 in terms of Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka and management comments.
- iv. Financial Statements of EPF for the year ended 31.12.2020.
- v. Report of the Auditor General on the Financial Statements of the EPF for the year ended 31.12.2020.
- vi. Financial Statements of five (05) 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 CBSL as at 31.12.2020.
- vii. Financial Statements of the CBSL Provident Fund for the year ended 31.12.2020.
- viii. Audit Plan of M/s. KPMG with regard to the audit of the Financial Statements of the CBSL for the year 2021.

- ix. Interim Management Letter for the year ended 31.12.2021 issued by M/s. KPMG.
- x. Financial Statements of EPF for the year ended 31.12.2021.
- xi. Financial Statements of the CBSL for the year ended 31.12.2021

b) Internal Controls;

AAC,

- i. Reviewed and advised on internal controls and processes of the CBSL reported to AAC
- ii. Reviewed the progress of implementation of AAC recommendations by respective stakeholders.

c) Internal Audit;

AAC reviewed,

- i. Internal audit observations and recommendations.
- ii. Internal audit observations with regard to the implementation of New Reserve Management System.
- iii. Implementation status of audit recommendations by process owners.
- iv. Strategic Audit Plan for 2022 – 2024 and the Annual Audit Plan for 2022.

Activity Report of the Board Risk Oversight Committee during the Financial Year 2021

1. Introduction

The Board Risk Oversight Committee (BROC) is a sub-committee appointed by the Monetary Board (MB), overseeing the overall Risk Management and Compliance Functions of the Central Bank through a formal delegation from MB. 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 MB 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 2021 was as follows:

- i. Mr. Sanjeeva Jayawardena, President's Counsel - Appointed Member of MB (Chairman)
- ii. Mr. Naomal Goonewardena (Independent External Member)
- iii. Mr. Susantha Ratnayake (Independent External Member from 01.01.2021 to 09.08.2021)

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

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

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

3. Activities Carried Out During the Financial Year 2021

BROC held 04 meetings in 2021 and the major activities carried out are as follows:

- i. Reviewed the Departmental Risk Registers and made recommendations to MB in order to expedite the mitigation of operational risks highlighted.
- ii. Made recommendations to mitigate pandemic related risks including business continuity risk, health and safety risk confronted in order to ensure that the Central Bank operations are carried out in an uninterrupted manner.
- iii. Reviewed the revised Operational Risk Taxonomy and approved the same to be incorporated into the Operational Risk Management Guidelines of the Central Bank.
- iv. Reviewed the observations made by Internal Audit Department on the implementation of the Enterprise-wide Risk Management Framework and made relevant recommendations in this regard.
- v. Reviewed and assessed the risk management and compliance updates pertaining to the funds managed by the Central Bank (the International Reserves (IR), the Internal Investment Funds (IIF) and the Employees' Provident Fund (EPF)), to ensure that such funds are managed within the stipulated parameters.
- vi. Reviewed and recommended improvements to the Investment Guidelines for IIF and EPF and Investment Policy Statement of EPF, from a risk management perspective.
- vii. Reviewed the Strategic Asset Allocation for IR and recommended the same for approval of MB.

Central Bank of Sri Lanka

Management Statement

For the period ended 31 December 2021

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

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

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

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

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

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



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தேசிய கணக்காய்வு அலுவலகம்

NATIONAL AUDIT OFFICE



මගේ අංකය
எனது இல.
My No.

BAN/G/CBSL/1/21/1

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

29 March 2022

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 2021 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 2021, and the statement of income, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No.19 of 2018, Section 13(1) of the Finance Act, No. 38 of 1971 and Section 42(2) of the Monetary Law Act (Chapter 422). My report to Parliament in pursuance of provisions in Article 154(6) of the Constitution will be tabled in due course. To carry out this audit, I was assisted by a firm of Chartered Accountants in public practice.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

1.2 Basis for Opinion

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

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව.

இல. 306-72, பொல்தூவ வீதி, பத்தரமுல்லை, இலங்கை.

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

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

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

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Bank is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable 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 objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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



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

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

2. Report on Other Legal and Regulatory Requirements

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

2.1.1 I have obtained all the information and explanation that were required for the audit and as far as appears from my examination, proper accounting records have been kept by the Bank as per the requirement of section 12(a) of the National Audit Act, No. 19 of 2018.

2.1.2 The financial statements presented is consistent with the preceding year as per the requirement of the section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.

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

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

2.2.1 to state that any member of the governing body of the Bank has any direct or indirect interest in any contract entered in to by the Bank which are out of the normal course of business as per the requirement of section 12 (d) of the National audit Act, No. 19 of 2018;



2.2.2 to state that the Bank has not complied with any applicable written law, general and special directions issued by the governing body of the Bank as per the requirement of the section 12 (f) of the National Audit Act, No. 19 of 2018;

2.2.3 to state that the Bank has not performed according to its powers, functions and duties as per the requirement of section 12 (g) of the National Audit Act, No. 19 of 2018;

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

W. P.C. Wickramaratne

Auditor General

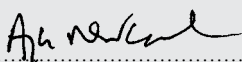
Central Bank of Sri Lanka Statement of Financial Position

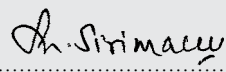
As at 31 December

Assets	Note	2021 Rs. 000	2020 Rs. 000
Foreign Currency Financial Assets			
Cash & Cash Equivalents	8	512,762,452	403,307,304
Securities at Fair Value through Profit or Loss	9	-	40,564,323
Securities at Fair Value through Other Comprehensive Income	9	8,818,244	703,435,463
Derivative Financial Instruments	10	54,022,836	3,370,353
IMF Related Assets	11	188,045,837	158,958,185
Other Receivables		-	1,702,247
Total Foreign Currency Financial Assets		763,649,369	1,311,337,875
Local Currency Financial Assets			
Sri Lanka Government Securities	12	1,377,820,347	714,531,527
Securities Purchased under Resale Agreements	13	567,532,312	2,728,412
Provisional Advances to Government	14	150,128,800	153,061,900
Equity Investments in Financial and Other Institutions	15	1,671,218	1,615,356
Loans to Banks	16	90,572,746	111,487,526
Other Assets	17	34,063,770	23,097,189
Total Local Currency Financial Assets		2,221,789,193	1,006,521,910
Total Financial Assets		2,985,438,562	2,317,859,785
Foreign Currency Non-Financial Assets			
Gold	18	35,151,981	76,220,055
Non-Financial Assets			
Inventories	19	4,928,533	6,301,819
Other Receivables and Prepayments		961,456	651,804
Property, Plant and Equipment	20	19,235,994	20,455,452
Intangible Assets	21	561,632	108,252
Total Non-Financial Assets		60,839,596	103,737,382
Total Assets		3,046,278,158	2,421,597,167
Liabilities and Equity			
Foreign Currency Financial Liabilities			
Banks and Financial Institutions	22	13,701	208,337,221
Derivative Financial Instruments	10	1,139,323	574,182
Asian Clearing Union	23	104,764,616	63,864,652
International Monetary Fund	24	670,065,243	509,925,278
Others	25	357,295,676	74,870,325
Total Foreign Currency Financial Liabilities		1,133,278,559	857,571,658
Local Currency Financial Liabilities			
Deposits of Banks and Financial Institutions	26	300,704,162	129,601,521
Deposits of Government and Governmental Entities	27	1,392,301	1,460,512
Securities Sold Under Repurchase Agreements	28	101,062,880	209,507,898
Currency in Circulation	29	1,005,099,066	834,807,859
Other Payables	30	19,163,882	14,742,792
Total Local Currency Financial Liabilities		1,427,422,291	1,190,120,582
Total Financial Liabilities		2,560,700,850	2,047,692,240
Other Liabilities			
Deferred Grants	31	1,178	789
Pension and Other Post - Employment Benefit Plans	32	17,929,737	25,385,193
Miscellaneous Liabilities and Accruals	33	4,027,349	1,353,373
Total Other Liabilities		21,958,264	26,739,355
Total Liabilities		2,582,659,114	2,074,431,595
Equity			
Capital Funds		50,000,000	50,000,000
Other Reserves	34	315,128,226	282,012,023
Retained Earnings		98,490,818	15,153,549
Total Equity		463,619,044	347,165,572
Total Liabilities and Equity		3,046,278,158	2,421,597,167

The accounting policies and notes on pages 13 to 76 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 23 March 2022 and signed on behalf of the Monetary Board.


Ajith Nivard Cabraal – Governor


D. S. L. Sirimanne - Chief Accountant

Central Bank of Sri Lanka Statement of Income

For the year ended 31 December		2021 Rs. 000	2020 Rs. 000
	Note		
Operating Income :			
Income from Foreign Currency Financial Assets			
Interest Income	36	11,815,701	26,254,216
Gain from Unrealized Price Revaluations	37	41,859,703	23,524,861
Gain from Realized Price Changes		14,855,788	6,524,368
Total Income from Foreign Currency Financial Assets		68,531,192	56,303,445
Expenses on Foreign Currency Financial Liabilities			
Interest Expense	38	(5,609,176)	(5,293,852)
Reversal/(Charge) of Expected Credit Losses on Foreign Currency Financial Assets	39	2,282,695	(2,046,205)
Total Expenses on Foreign Currency Financial Liabilities		(3,326,481)	(7,340,057)
Net Foreign Exchange Revaluation Gain		34,041,805	7,123,733
Foreign Currency Investment Income		99,246,516	56,087,121
Net Income from Local Currency Financial Assets			
Interest Income	36	68,612,928	25,342,029
Gain/(Loss) from Realised Price Changes		(387,202)	197,559
Interest Expense	38	(8,469,897)	(8,320,294)
Charge of Expected Credit Losses on Local Currency Financial Assets	39	(808,696)	(259,194)
Net Income from Local Currency Financial Assets		58,947,133	16,960,100
Other Income	40	16,280,370	1,589,329
Total Net Operating Income		174,474,019	74,636,550
Operating Expenses:			
Personnel Expenses:	41		
- Salaries and Wages		(7,116,223)	(5,298,938)
- Defined Contribution Plan Costs		(1,717,811)	(707,129)
- Post Employment Benefit Plan Costs		(1,891,272)	(851,435)
		(10,725,306)	(6,857,502)
Depreciation and Amortization		(526,675)	(452,353)
Cost of Inventory (Cost of New Currency Issue)		(2,780,250)	(2,396,894)
Administration and Other Expenses	42	(2,279,122)	(1,497,040)
Total Operating Expenses		(16,311,353)	(11,203,789)
Profit Before Tax		158,162,666	63,432,761
Tax	43	-	-
Profit for the Year		158,162,666	63,432,761

Figures in brackets indicate deductions

The accounting policies and notes on pages 13 to 76 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	2021 Rs. 000	2020 Rs. 000
Profit for the Year		158,162,666	63,432,761
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	(16,108,192)	9,910,943
Net Fair Value Gain/(Loss) on Government Securities at Fair Value through Other Comprehensive Income	34	(11,641,542)	3,547,766
		(27,749,734)	13,458,709
Items that will not be re-classified subsequently to Profit/(Loss)			
Gain on Revaluation of Property, Plant & Equipment		-	3,671,689
Post-Employment Benefit Plan (Cost)/Income Recognized in Other Comprehensive Income	32	1,293,721	(13,394,058)
Net Fair Value Gain on Equity Investments at Fair Value through Other Comprehensive Income	34	55,862	108,379
		1,349,583	(9,613,990)
Other Comprehensive Income/(Expense)		(26,400,151)	3,844,719
Total Comprehensive Income		131,762,515	67,277,480

Figures in brackets indicate deductions

The accounting policies and notes on pages 13 to 76 form an integral part of these Financial Statements.

Central Bank of Sri Lanka Statement of Changes In Equity

For the year ended 31 December

	Contributed Capital Rs.000	Other Reserves Rs.000	Retained Earnings Rs.000	Total Rs.000
Balance as at 1 January 2020	50,000,000	212,493,432	41,691,960	304,185,392
Net Profit for the year	-	-	63,432,761	63,432,761
Transfer to RTGS Sinking Fund	-	418,783	(422,163)	(3,380)
Post Employment Benefit Plans cost recognized in Other Comprehensive Income	-	-	(13,394,058)	(13,394,058)
Transfer of Net Foreign Exchange Revaluation Gain (IRR)	-	7,123,733	(7,123,733)	-
Transfer to CBSL Internal Funds	-	-	(284,802)	(284,802)
Net Fair Value Gain on Securities at Fair Value through Other Comprehensive Income	-	9,910,943	-	9,910,943
Transfer of Funds from Retained Earnings to Market Revaluation Reserve	-	43,356,467	(43,356,467)	-
Transfer of Funds to General Reserve	-	638,355	(638,355)	-
Profit appropriation for the year 2019 - Recovery of outstanding GOSL obligations from 2019 profit	-	-	(24,008,977)	(24,008,977)
Transfer of Funds to CBSL Employees and Pensioners Distress Relief Fund	-	-	(141)	(141)
Transfer to Reserve for funding purposes of Post-Employment Benefits	-	742,476	(742,476)	-
Gain on Market Valuation of Equity Investments Classified at Fair Value through Other Comprehensive Income	-	108,379	-	108,379
Gain on Market Valuation of Government Securities Classified at Fair Value through Other Comprehensive Income	-	3,547,766	-	3,547,766
Gain on Revaluation of Property, Plant and Equipment	-	3,671,689	-	3,671,689
Balance as at 31 December 2020	<u>50,000,000</u>	<u>282,012,023</u>	<u>15,153,549</u>	<u>347,165,572</u>
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 Loss 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
Loss on Market Valuation of Government Securities Classified at Fair Value through Other Comprehensive Income	-	(11,641,542)	-	(11,641,542)
Realized Revaluation Gains on Disposals	-	(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>

Figures in brackets indicate deductions

The accounting policies and notes on pages 13 to 76 form an integral part of these Financial Statements.

Central Bank of Sri Lanka			
Statement of Cash Flows			
For the year ended 31 December			
	Note	2021	2020
		Rs. 000	Rs. 000
Cash Flows from Operating Activities			
Receipts:			
Interest Received - Foreign Currency		16,510,461	29,058,738
Interest Received - Local Currency - Others		2,433,655	1,448,144
Liquidity Management and Trading Income		14,468,586	6,721,927
Realised Exchange Loss		(13,003,097)	(10,303,437)
Other Income Received		1,572,512	1,445,544
		21,982,117	28,370,916
Disbursements:			
Interest Paid - Foreign Currency		5,841,243	5,574,007
Interest Paid - Local Currency		6,571,438	6,863,137
Payments to Employees		8,295,030	6,476,946
Payments to Suppliers		498,361	2,631,670
		21,206,072	21,545,760
Net Cash Flows generated from Operating Activities	44	776,045	6,825,156
Cash Flows from Investing Activities			
Receipts:			
Net Increase in Other Local Currency Financial Assets		(3,542,041)	(3,068,543)
Principal Recoveries from Loans and Advances to Other Institutions		5,534	5,767
Proceeds on disposal of Property, Plant and Equipment		338,246	134
Net Increase/(Decrease) in Securities Purchased under Resale Agreements		(108,445,017)	166,209,573
		(111,643,278)	163,146,931
Disbursements:			
Net Decrease in Foreign Currency Securities		(755,979,008)	(57,023,608)
Net Increase/(Decrease) in Other Foreign Currency Financial Assets		22,242,111	(901,434)
Net (Increase)/Decrease in Other Foreign Currency Financial Liabilities		218,313,967	(202,532,008)
Net (Increase)/Decrease in Other Local Deposits and Payables		489	(1,590)
Purchase of Property, Plant and Equipment, net of Grants		686,469	348,150
Purchase of Intangible Assets		72,928	126
Purchase of Leasehold Assets		9,113	4,838
Net Decrease in Gold Inventory		(38,743,707)	(121,876,566)
Investments in Financial and Other Institutions		-	6,489
Net Loans and Advances Granted to/(Recovered from) Other Institutions		(30,118,054)	111,353,276
		(583,515,692)	(270,622,327)
Net Cash Flows generated from Investing Activities		471,872,414	433,769,258
Cash Flows from Financing Activities			
Receipts :			
Issue of Circulating Currency		390,975,631	697,310,625
Withdrawal of Circulating Currency		(220,684,424)	(540,469,916)
Net Issue of Circulating Currency		170,291,207	156,840,709
Disbursements:			
Net Issues of Circulating Currency on Government Transactions	45	1,172,364,801	479,681,618
Net Issues/(Withdrawals) of Circulating Currency on Transactions with Banks and Financial Institutions	46	(171,102,641)	124,980,099
Net Issues of Circulating Currency		1,001,262,160	604,661,717
Net Decrease in Circulating Currency		(830,970,953)	(447,821,008)
Disbursements:			
Grant/(Repayment) of Foreign Currency Term Liabilities		(145,925,443)	2,658,806
Payments to Other Funds		72	141
Payments to Pension Fund		7,547,179	329,689
Transfer of Profits to Consolidated Fund		15,000,000	24,000,000
		(123,378,192)	26,988,636
Net Cash Flows used in Financing Activities		(707,592,761)	(474,809,644)
Net Increase/(Decrease) in Cash and Cash Equivalents		(234,944,302)	(34,215,230)
Exchange Rate Effect on Cash and Cash Equivalents		28,871,146	16,861,445
Cash and Cash Equivalents at the Beginning of the Year		403,577,642	420,931,427
Cash and Cash Equivalents as at 31 December	8	197,504,486	403,577,642

Figures in brackets indicate deductions

The accounting policies and notes on pages 13 to 76 form an integral part of these Financial Statements.

Central Bank of Sri Lanka Notes to the Financial Statements

For the year ended 31 December 2021

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 23 March 2022.

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 2021 have been prepared in accordance with International Financial Reporting Standards (IFRS).

2.2 Basis of Measurement

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

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

2.3 Reporting Format

The Bank presents financial assets and financial liabilities, and their associated income and expense streams, by distinguishing between foreign currency and local currency operations. In the Statement of Financial Position, assets and liabilities are presented broadly in order of liquidity within such distinguished categories. The Bank considers that this reporting approach provides appropriate reporting of the Bank's activities which are more fully described in Note 7.

2.4 Functional and Presentation Currency

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

2.5 Materiality and Aggregation

Each material class of similar item is presented separately in the Financial Statements. Items of dissimilar nature

or function are presented separately unless they are immaterial.

2.6 Offsetting

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

2.7 Comparative Information

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

3. USE OF ESTIMATES AND JUDGMENTS

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities.

Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

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

3.1 Classification and Impairment of Financial Assets

The Bank used judgements when assessing of the business model within which the assets are held and whether the contractual terms of the financial assets are solely-payment-of-principal-and-interest (SPPI) on the principal amount of the outstanding. The Bank also used judgements when establishing the criteria for determining whether credit risk on the financial assets has increased significantly since initial recognition, determining methodology for incorporating forward looking information into measurement of Expected Credit Losses (ECL) and selection and approval of models to measure ECL. The implications of COVID-19 on the use of estimates and judgments in the computation of Bank's expected credit losses are explained in Note 3.4.

3.2 Pensions and Other Post Employment Benefit Plans

The cost of defined benefit plans is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future

compensation increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Assumptions used in the actuarial valuation are disclosed in Note 32 to the Financial Statements.

3.3 Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded on the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer-dated derivatives. The implications of COVID-19 on the use of estimates and judgments in fair valuing the loan schemes granted to support the revival of the economy affected by the pandemic are explained in Note 3.4.

3.4 General Implications of COVID-19

The Bank considered the impact of COVID-19 in preparing the financial statements. While the specific areas of judgement have not changed, the impact of COVID-19 resulted in application of additional judgement and estimates mainly in relation to loans to bank 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. 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 COVID-19 through the expected credit loss model inputs, assumptions and forward-looking macroeconomic

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

However, for non-financial assets, the Bank's assessment is that COVID-19 related conditions had no impact on the carrying values and was appropriately assessed in the financial statements for the year ended 31 December 2021.

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	2021 Rs.	2020 Rs.
1 Australian Dollar	145.5851	143.4225
1 Canadian Dollar	158.6150	146.4840
1 Euro	227.8832	227.7256
1 Japanese Yen	1.7417	1.8055
1 Special Drawing Rights (SDR)	280.9312	272.6200
1 Sterling Pound	271.2270	254.8200
1 United States Dollar	200.4338	186.4082
1 Chinese Yuan (Offshore)	31.5294	28.6661

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

5.2 Fair Value Measurement

The Bank measures financial instruments, such as, foreign securities, derivatives, and non-financial assets such as gold, at fair value at each reporting date. The fair values of financial instruments measured at amortised cost are disclosed in Note 50.

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

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

The principal or the most advantageous market must be accessible by the Bank.

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

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

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

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

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

5.3 Financial Assets and Financial Liabilities

The Bank presents financial assets and liabilities, and the associated income and expense streams, by distinguishing between foreign currency and local currency activities.

Foreign currency activities mainly arise from the Bank's foreign reserves management function. Local currency activities mainly reflect the assets and liabilities associated with monetary policy implementation, issuing currency and banking activities.

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

5.3.1 Recognition and Initial Measurement

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

5.3.2 Classification

Financial Assets

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

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

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

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

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

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

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

Business Model Assessment

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

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

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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

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

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

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

Reclassifications

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

5.3.3 Derecognition

Financial Assets

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

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

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

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

Financial Liabilities

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

5.3.4 Impairment of Financial Assets

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

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

No impairment loss is recognized on equity investments.

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

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

Measurement of ECL

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

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

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

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

of Financial Assets based on their risk exposure to the Bank.

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

Assessing the Significant Increase in Credit Risk (SICR)

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

Credit-impaired financial assets

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

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

Presentation of allowance for ECL in the Statement of Financial Position

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

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

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank

determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level. Recoveries of amounts previously written off are included in "impairment losses on financial instruments" in the Statement of Income and OCI.

5.4 Financial Assets at Fair Value through Profit or Loss

Financial assets classified as held for trading are included in the category "securities at fair value through profit or loss". Upon initial recognition, attributable transaction cost are recognized in profit or loss as incurred. These securities are subsequently valued at quoted market prices. Changes in market values are recognised as an increase or decrease in the value of the securities in the Statement of Financial Position while resulting gains and losses are recognised in the Statement of Income.

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

5.5 Financial Assets at Fair Value through Other Comprehensive Income

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

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

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

Gains and losses arising from changes in the market value of Foreign and Local Currency debt securities and Equity Investments at Fair Value through Other Comprehensive Income are recognised directly in equity (Other Comprehensive Income) which is shown under Other Reserves in the Statement of Financial Position until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported as equity is included in Statement of Income with the exception of fair value changes in equity investments

which will not be recycled to Statement of Income upon derecognition. Interest income is recognised in Statement of Income using the effective interest method.

5.6 Instruments held at Amortized Cost

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

5.7 Derivative Instruments

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

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

5.8 International Monetary Fund (IMF) Related Balances

The Bank transacts with the International Monetary Fund (IMF) in its own right rather than as the depository of the Government of Sri Lanka. All transactions by the bank with the IMF have been included in these financial statements on that basis.

The Bank records the quota with the IMF as an asset and the amount payable to the IMF for quota is recorded as a liability of the Bank. The cumulative allocation of SDRs by the IMF is treated as a liability. The IMF quota asset and the SDR holding is classified as FVTPL while other IMF related assets and liabilities are recognized at amortised cost using the effective interest method. Exchange gains and losses arising on revaluation of IMF assets and liabilities at the exchange rate applying at reporting date as published by the IMF are recognised in the Statement of Income.

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

5.9 Cash and Cash Equivalents

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

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

As the sole statutory authority, CBSL issues currency to the public in line with Monetary Law Act. Currency issued by CBSL represents a claim on the bank in favor of the holder. This is a liability on the part of the CBSL while it is an item of cash in the hands of the holder.

Movement in circulation currency is included as part of financing activities in line with prevailing industry practices among those central banks which present cash flow statements.

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

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

5.10 Repurchase and Reverse-Repurchase Transactions

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

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

5.11 Standing Deposit and Lending Facilities

With effect from 1 February 2014, Standing Deposit Facility (former Standing Repurchase (Repo) Facility) was converted in to a 'clean deposit' with no allocation of collateral. Hence, participating institutions invest their excess funds in the Standing Deposit Facility as a clean deposit on daily basis at standing deposit facility rate.

The procedures of Standing Lending Facility (Formerly Standing Reverse Repurchase (Reverse Repo) Facility) are identical to the Standing Reverse Repurchase Facility and both are recognized at amortized cost in the Statement of Financial Position.

5.12 CBSL Securities

The Bank issues CBSL Securities from time to time under its Monetary Policy operations to absorb excess liquidity in the market. The securities issued are recorded as a liability.

5.13 Sri Lanka Government Securities

Sri Lanka Government Securities consists of Treasury Bills and Bonds purchased from GOSL. Investments in Sri Lanka Government Securities is recorded in the Statement of Financial Position at Fair Value through Other Comprehensive Income.

5.14 Provisional Advances to Government

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

5.15 Loans to Other Institutions

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

5.16 Securities Borrowings and Securities Lending

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

The securities borrowings is an unconditional blanket guarantee from the Bank for return of securities, payment of agreed fee and on compensation at market rate (as per the market rates communicated to the primary market

participants by the Public Debt Department of the Bank) in the events of any failure in delivery.

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

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

5.17 Staff Loans

Bank employees are entitled to loan facilities under concessionary interest rates. These loans which were granted from 2008 onwards are fair valued as per IFRS 9 "Financial Instruments" using discounted cash flows.

Discount rate - The rate compiled by the Economic Research Department of CBSL (ERD) based on the long term inflation target and the expected real interest rate over the respective time horizons plus 1 per cent added for the risk premium as agreed by the Advisory Audit Committee of the Bank is used as the discount rate and it varies with the period of the loans.

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

Assumptions used for computation of fair valuation

- The date of staff loan granted is considered as 1 January.
- There were no amendments or early settlements.

5.18 Gold

Section 67 (1) of the Monetary Law Act which specifies the composition of the International Reserve indicates that gold may be held by the CBSL as part of this Reserve. According to Section 67 (2), Monetary Board is required to endeavor to hold at least a nuclear reserve in gold or currencies freely convertible by the Central Bank, whether directly or indirectly, in to gold as per the MLA. As this gold is part of the International Reserve and not used as a commodity which is traded during the normal course of business, gold is fair valued and the gains or losses are transferred to the Statement of Income. Prior to appropriation of profits, the unrealised gains from gold are transferred to the relevant reserve account.

5.19 Currency Inventory

Inventories of the Bank include new currencies that are not yet issued to the circulation. Cost related to production and design of new currency notes and coins are initially

recognized at cost. Cost of new currency notes and coins which are issued to the circulation is determined on a weighted average basis and at the time of issue it is charged to Statement of Income. Allowance is made for slow moving inventories.

5.20 Other Inventories

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

5.21 Property, Plant and Equipment

Property, Plant and Equipment excluding land 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 post-employment benefit plan other than a defined contribution plan. Bank operates defined benefit schemes for Pension, Widowers' 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 and 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 and 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 No. 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. In terms of the Economic Service Charge (Amendment) Act No. 07 of 2017, the Bank is liable for ESC commencing from 01.04.2017. However, unrealized gain on exchange rate and unrealized marked to market gain on foreign currency financial assets are exempted from ESC with effect from October 2018 as per the ESC (Amendment) Act, No. 33 of 2018. Further, the Bank is exempted from Value Added Tax on supply of financial services as per Value Added Tax (Amendment) Act No.17 of 2013.

ESC was abolished with effect from 1 January 2020.

5.33 Events Occurring after the Reporting Date

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

STATEMENT OF CASH FLOWS

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

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

6. NEW ACCOUNTING STANDARD AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE AS AT REPORTING DATE

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2021 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 Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments clarify that the 'costs of fulfilling a contract' comprise both:

- the incremental costs – e.g. direct labour and materials; and
- an allocation of other direct costs – e.g. an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract.

This clarification is unlikely to affect companies that already apply the 'full cost' approach, but those that apply the 'incremental cost' approach will need to recognise bigger and potentially more provisions.

The amendments apply for annual reporting periods beginning on or after 1 January 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognised as an opening balance adjustment to retained earnings or other component of equity, as appropriate. The comparatives are not restated.

6.2 Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)

Under the amendments, proceeds from selling items before the related item of PPE is available for use should be recognised in profit or loss, together with the costs of producing those items. IAS 2 Inventories should be applied in identifying and measuring these production costs.

Companies will therefore need to distinguish between:

- costs associated with producing and selling items before the item of PPE is available for use; and
- costs associated with making the item of PPE available for its intended use.

The amendments apply for annual reporting periods beginning on or after 1 January 2022, with earlier application permitted. The amendments apply retrospectively, but only to items of PPE made available for use on or after the beginning of the earliest period presented in the financial statements in which the Bank first applies the amendments.

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

The key amendments to IAS 1 include:

- requiring companies to disclose their material accounting policies rather than their significant accounting policies;
- clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
- clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

The amendments are effective from 1 January 2023 but may be applied earlier.

6.4 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 1 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.

6.5 Annual Improvements to IFRS Standards 2018–2020

6.6 COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)

7. NATURE AND EXTENT OF ACTIVITIES

7.1 Foreign Currency Activities

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

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

The Bank also holds, from time-to-time, foreign currency assets and liabilities that arise from international market operations.

7.2 Local Currency Activities

Local currency activities arise as follows:

- (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

	2021 Rs. 000	2020 Rs. 000
Cash Balances with Banks	23,385,534	93,379,318
Time Deposits with Banks	49,430,045	270,722,623
Overnight Placements	124,669,823	39,462,616
Interest Receivable on Cash and Cash Equivalents	19,084	13,085
Cash and Cash Equivalents for Cash Flow Purpose	197,504,486	403,577,642
Cash and Cash Equivalents available for Restricted Use (Note 8.1)	315,343,334	-
Less: Expected Credit Losses on Cash and Cash Equivalents (Note 8.2)	(85,368)	(270,338)
Total	512,762,452	403,307,304

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 25.6. The amount received under this agreement 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

	2021			2020		
	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	90,277	180,061	270,338	219,331	2,627	221,958
Charge/(Reversal) during the year	(38,268)	(146,702)	(184,970)	(129,054)	177,434	48,380
Balance as at 31 December	52,009	33,359	85,368	90,277	180,061	270,338

9. INVESTMENTS IN FOREIGN SECURITIES

	2021 Rs. 000	2020 Rs. 000
Securities at Fair Value through Profit or Loss		
- Investment in Foreign Securities (Note 9.1)	-	40,564,323
		<u>40,564,323</u>
Securities at Fair Value through Other Comprehensive Income		
- Investment in Foreign Securities	8,818,244	703,435,463
	<u>8,818,244</u>	<u>703,435,463</u>
Total Investment in Foreign Securities	8,818,244	743,999,786
Expected Credit Loss on Securities at Fair Value through Other Comprehensive Income (Note 9.2)	995	2,098,721

9.1 Investment in foreign securities classified as securities at fair value through profit or loss includes the investments made by the Bank in the Reserve Advisory Management Program (RAMP) managed by the World Bank.

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

	2021			2020		
	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	36,546	2,062,175	2,098,721	81,259	19,635	100,894
Charge/(Reversal) during the Year	(35,551)	(2,062,175)	(2,097,726)	(44,713)	2,042,540	1,997,827
Balance as at 31 December	995	-	995	36,546	2,062,175	2,098,721

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.

	2021			2020		
	Assets	Liabilities	Notional Amount	Assets	Liabilities	Notional Amount
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Currency SWAPS	54,022,803	1,130,519	197,002,554	3,368,784	573,774	281,690,071
Forex Forward	33	8,804	229,487	1,569	408	1,025,245
Total	54,022,836	1,139,323	197,232,041	3,370,353	574,182	282,715,316

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 crystalized to the Bank.

11. IMF RELATED ASSETS**Measured at Fair Value through Profit or Loss**

	2021 Rs. 000	2020 Rs. 000
IMF Quota (Note 11.1)	162,603,548	157,793,346
	162,603,548	157,793,346

Measured at Amortized Cost

Holding of Special Drawing Rights (Note 11.2)	24,800,563	491,874
Deposits with IMF (Note 11.3)	216,785	208,077
Prepaid Charges - IMF Loans	424,944	464,890
Less: Expected Credit Losses on IMF Related Assets (Note 11.4)	(3)	(2)
	25,442,289	1,164,839
	188,045,837	158,958,185

11.1 IMF Quota

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

The IMF, based on the General Quota Review Agreement, decided to increase the quotas of each of the IMF's 189 members in January 2016 (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:

(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 per cent 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 554.8 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.

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

	2021 Rs. 000	2020 Rs. 000
Stage 1		
Balance as at 1 January	2	4
Charge/(Reversal) for the Year	1	(2)
Balance as at 31 December	3	2

12. SRI LANKA GOVERNMENT SECURITIES

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

	2021 Rs. 000	2020 Rs. 000
Treasury Bills	1,351,378,149	637,959,075
Treasury Bonds	25,876,232	74,904,469
Interest Receivable	565,966	1,667,983
	1,377,820,347	714,531,527

13. SECURITIES PURCHASED UNDER REALE AGREEMENTS

	2021 Rs. 000	2020 Rs. 000
Securities Purchased under Resale Agreements	567,297,000	2,728,000
Interest Receivable on Securities Purchased under Resale Agreements	235,312	412
	567,532,312	2,728,412

14. PROVISIONAL ADVANCES TO GOVERNMENT

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

15. EQUITY INVESTMENTS IN FINANCIAL AND OTHER INSTITUTIONS

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

15.1 Investment position		2021		2020		2021 Rs. 000	2020 Rs. 000
		No. of Shares	Fair Value Rs. 000	No. of Shares	Fair Value Rs. 000		
Lanka Clear (Private) Limited	Automated Clearing	2,986,824	653,414	2,986,824	597,246		
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	1,017,804	48,244	1,018,110		
			<u>1,671,218</u>		<u>1,615,356</u>		
15.2		The equity investments were carried at fair value as at 31 December 2021 based on Net Assets per share basis as per the latest available unaudited financial statements of those Companies at the time of preparation of the Bank's financial statements. Accordingly, the Net Asset per share as at the following dates were used.					
Lanka Clear (Private) Limited - 31 December 2021 - Net Asset Value per Share Rs. 218.77							
Lanka Financial Services Bureau Limited - 30 November 2021 - Net Asset Value per Share Rs. -4.82							
Credit Information Bureau of Sri Lanka Limited - 31 December 2021 - Net Asset Value per Share Rs. 21,097.00							
16. LOANS TO BANKS		2021 Rs. 000		2020 Rs. 000			
Loans to Banks (Note 16.1)		90,621,674		111,641,894			
Less: Expected Credit Loss on Loans to Banks (Note 16.2)		(48,928)		(154,368)			
		<u>90,572,746</u>		<u>111,487,526</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.							
						Medium & Long Term Credit Scheme	
						- Related Parties	20,368
						Repair of Damaged Houses North & East (Note 16.1.1)	
						- Related Parties	89,707
						Liquidity Facility to the Construction Sector (Note 16.1.2)	
						- Related Parties	-
						- Others	4,934,335
						- Others	11,185
						Saubagya COVID-19 Renaissance Facility (Note 16.1.3)	
						- Related Parties	60,373,446
						- Others	9,245,265
						Saubagya COVID-19 Renaissance Refinance Facility (Note 16.1.4)	
						- Related Parties	8,644,208
						- Others	3,173,742
						Saubagya Loan Scheme (Note 16.1.1)	
						- Related Parties	6,850,588
						- Others	2,211,334
						Loans Recognized under Credit Guarantee Scheme of CBSL	
						- Related Parties	13,016
							<u>90,621,674</u>
							<u>111,641,894</u>
16.1.1		Loan balances amounting to Rs. 82.05 Mn from Repair of Damaged Houses North & East and Rs. 9,061.92 Mn from Saubagya Loan Scheme was recorded in the financial statements of the Bank from the incorporation of schemes operated by the Regional Development Department.					
16.1.2		Liquidity facility to the construction sector: In order to provide funds to commercial banks in satisfying funding needs of the contractors/suppliers who had outstanding dues from government this facility was introduced by the Central bank as a dedicated credit scheme under the Section 83 of the Monetary Law Act No.58 of 1949. This loan facility has been completed as of 31 December 2021.					
16.1.3		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.					

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

16.2 Movement in Expected Credit Losses on Loans to Banks

	2021				2020		
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Balance as at 1 January	6,215	148,153	-	154,368	-	35	35
Charge/(Reversal) during the year	8,220	(126,676)	13,016	(105,440)	6,215	148,118	154,333
Balance as at 31 December	14,435	21,477	13,016	48,928	6,215	148,153	154,368

17. OTHER ASSETS

	2021 Rs. 000	2020 Rs. 000
Financial Assets		
Investments by Internal Funds	16,490,667	13,319,452
Less: Expected Credit Loss on Investments by Internal Funds (Note 17.1)	(280)	(79,572)
Net Investment by Internal Funds	16,490,387	13,239,880
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	5,592,375	5,569,225
Receivable from Treasury and Other Ministries	4,087,983	597,774
Other Receivables	2,258,932	1,649,540
Less: Expected Credit Loss on Other Receivables (Note 17.3)	(2,226,887)	(183,276)
	9,712,403	7,633,263
	31,582,809	20,873,143
Non Financial Assets		
Deffered Asset on Staff Loan	2,480,961	2,224,046
	34,063,770	23,097,189

17.1 Movement in Expected Credit Loss on Investments by Internal Funds

	2021			2020		
	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	48	79,524	79,572	15,617	16	15,633
Charge/(Reversal) during the Year	(9)	(79,283)	(79,292)	(15,569)	79,508	63,939
Balance as at 31 December	39	241	280	48	79,524	79,572

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

	2021 Stage 1 Rs. 000	2020 Stage 1 Rs. 000
Balance as at 1 January	-	-
Charge during the year	150	-
Balance as at 31 December	150	-

17.3 Movement in Expected Credit Losses on Other Receivables

	2021 Stage 3 Rs. 000	2020 Stage 3 Rs. 000
Balance as at 1 January	183,276	175,275
Charge during the year	-	8,001
Transferred from schemes operated by RDD	2,043,611	-
Balance as at 31 December	2,226,887	183,276

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

	2021 Rs. 000	2020 Rs. 000
Notes for Circulation	1,788,014	2,294,967
Coins for Circulation	2,821,514	3,519,159
Coins in Transit from the Supplier	-	31,876
Notes in Transit from the Supplier	253,168	440,203
	4,862,696	6,286,205
Less: Provision for Slow Moving Items	(2,446)	(45,000)
	4,860,250	6,241,205
Stationery and Sundry Inventory	68,124	60,306
Medical Center Stock	159	308
Total Inventories	4,928,533	6,301,819

In 2021, inventories of Rs. 2,780.25 Mn (2020 Rs. 2,396.89 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	Land and Buildings	Plant & Plant Integrals	Furniture & Equipment	Vehicles	Computers	Right of use Assets	Others	Construction In progress	2021 Total	2020 Total
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
As at 1 January	19,166,963	1,584,031	1,383,500	561,293	1,073,355	71,125	57,490	129,010	24,026,767	20,698,837
Additions during the Year	-	51,196	25,984	50,500	74,548	9,114	247	82,234	293,823	264,225
Disposals during the Year	(992,900)	(58,508)	(31,985)	-	(6,363)	-	(320)	(1,262)	(1,091,338)	(641)
Transfers during the Year	-	38,759	17,181	-	-	-	-	(55,940)	-	-
Transfer of accumulated depreciation on revalued assets	-	-	-	-	-	-	-	-	-	(754,570)
Revaluation gain during the Year	-	-	-	-	-	-	-	-	-	3,814,078
Remeasurement of Right of Use Asset	-	-	-	-	-	-	-	-	-	4,838
Retirement of Right of Use Asset	-	-	-	-	-	(11,190)	-	-	(11,190)	-
As at 31 December	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
Accumulated Depreciation	Land and Buildings	Plant & Plant Integrals	Furniture & Equipment	Vehicles	Computers	Right of use Assets	Others	Construction In progress	2021 Total	2020 Total
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
As at 1 January	-	1,095,846	1,085,491	434,939	902,948	12,883	39,208	-	3,571,315	3,888,146
Depreciation for the Year	230,320	81,044	79,412	28,447	77,745	6,501	376	-	503,845	438,256
Disposals during the Year	(11,221)	(33,291)	(31,443)	-	(5,947)	-	-	-	(81,902)	(517)
Transfer of accumulated depreciation on revalued assets	-	-	-	-	-	-	-	-	-	(754,570)
Retirement of Right of Use Asset	-	-	-	-	-	(11,190)	-	-	(11,190)	-
As at 31 December	219,099	1,143,599	1,133,460	463,386	974,746	8,194	39,584	-	3,982,068	3,571,315
Net Book Value	17,954,964	471,879	261,220	148,407	166,794	60,855	17,833	154,042	19,235,994	20,455,452

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 2021 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. 680.89 Mn (2020 - Rs. 348.15 Mn).

The value of the fully depreciated assets which are still in use as at 31 December 2021 was Rs. 1,929.55 Mn. (2020 - Rs. 1,753.86 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 2021 Rs. 000	Carrying Value 2020 Rs. 000
Freehold Land	10,855,725	11,334,725
Buildings on Freehold Land	6,798,976	7,520,445
Buildings on Leasehold Land	300,263	311,793
	<u>17,954,964</u>	<u>19,166,963</u>

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. 7,273.50 Mn (2020 - Rs. 7,607.42 Mn).

21. INTANGIBLE ASSETS

	2021			2020 Rs. 000
	Intangible Assets Rs. 000	Intangible Assets - WIP Rs. 000	Total Rs. 000	
Computer Software:				
Cost:				
As at 1 January	1,005,040	83,925	1,088,965	1,004,915
Additions during the Year	72,928	403,023	475,951	84,050
Transfers during the Year	5,573	(5,573)	-	-
As at 31 December	<u>1,083,541</u>	<u>481,375</u>	<u>1,564,916</u>	<u>1,088,965</u>
Amortization:				
As at 1 January	980,713	-	980,713	966,869
Amortization Charge for the Year	22,571	-	22,571	13,844
As at 31 December	<u>1,003,284</u>	<u>-</u>	<u>1,003,284</u>	<u>980,713</u>
Net Book Value:				
As at 31 December	<u>80,257</u>	<u>481,375</u>	<u>561,632</u>	<u>108,252</u>

The Bank has acquired intangible assets by means of cash with an aggregated cost of Rs. 78.50 Mn during the year (2020 - Rs. 0.13 Mn).

The value of fully amortized intangible assets which are still in use as at 31 December 2021 was Rs. 957.20 Mn. (2020 - Rs. 952.13 Mn).

22. BANKS AND FINANCIAL INSTITUTIONS

	2021 Rs. 000	2020 Rs. 000
Payable to Foreign Banks	7,380	208,322,721
Payable to Other Foreign Financial Institutions	6,321	14,500
	<u>13,701</u>	<u>208,337,221</u>

23. ASIAN CLEARING UNION

The Asian Clearing Union (ACU) was established in 1974 at the initiative of the United Nations Economic and Social Commission for Asian and the Pacific (ESCAP) as a mechanism to settle, on a multilateral basis of payments for intra-regional transactions among participating Central Banks. The participants of ACU are Sri Lanka, Bangladesh, Bhutan, India, Iran, Maldives, Myanmar, Nepal and Pakistan. Net settlement position of each ACU participant is calculated based on the daily outstanding balance held over the two months period and settlement will take place within four working days of the following month. Interest rate was spread between 0.09% and 0.15% during the year 2021, (2020 - 0.15% and 1.62%).

24. INTERNATIONAL MONETARY FUND

	2021 Rs. 000	2020 Rs. 000
Interest bearing Loans (Note 24.1)	253,476,993	256,873,113
Allocation of Special Drawing Rights (Note 24.2)	266,944,782	107,810,345
Quota Liability (Note 24.3)	75,425,522	73,194,079
Other Amounts Payable to IMF (Note 24.4)	74,217,946	72,047,741
	<u>670,065,243</u>	<u>509,925,278</u>

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 comprise of the basic rate of charge, which is equivalent to the SDR interest rate (currently stands at 0.05 per cent per annum) plus 100 basis points.

	Effective interest rate %	Maturity	2021 Rs. 000	2020 Rs. 000
Extended Fund Facility	0.077	2029	253,476,993	256,873,113
Total Interest bearing Loans			<u>253,476,993</u>	<u>256,873,113</u>

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

	2021 Rs. 000	2020 Rs. 000
DST - PRP III under Escrow Agreement (Note 25.1)	99	92
DST - PRP III Phase II under Escrow Agreement (Note 25.2)	16,599	15,437
Amount due to Reserve Bank of India (RBI) under SAARC swap facility (Note 25.3)	-	74,803,653
DST Special Dollar A/C 2 (Note 25.4)	1,484,824	-
Amount due to Bangladesh Bank (BB) under swap facility (Note 25.5)	40,161,167	-
Amount due to People's Bank of China (PBoC) under swap facility (Note 25.6)	315,452,000	-
Other Foreign Liabilities	180,987	51,143
	<u>357,295,676</u>	<u>74,870,325</u>

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 thus, the balance remains as USD 0.0004 Mn as at 31 December 2021.

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 the balance as at 31 December 2021 is USD 0.082 Mn.

25.3 Amount settled to the Reserve Bank of India (RBI) under SAARC swap facility

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

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

This swap facility was fully settled on 2 February 2021.

25.4 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 2021, the proceeds of SLDB, and Foreign Currency Term Financing Facility (FTFF) provided CDB have been credited and utilized for repayment of loans on behalf of Government. The balance as at 31 December 2021 is USD 1.48 Bn.

25.5 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 on 3 August 2021. Under this swap agreement, the total amount of USD 200 million was received in three tranches during the months of August 2021 and September 2021 in exchange of an equivalent amount of LKR, initially for a period of three months with the possibility of rolling-over twice for similar tenors. Accordingly, after the first 3-months period, the first roll-over was performed in November 2021 and December 2021, with the mutual consent of the two central banks under the terms agreed upon at the

signing of the BCSA. The interest rates applicable for the drawings and rolling-over are at 6 months USD LIBOR rate prevailing on the date of each drawal/roll-over plus 200 basis points.

Outstanding balance as at 31 December 2021 represents the rolled-over of USD 200 million on November and December 2021 and the second roll-over is due in February and March 2022, subject to the mutual consent of the two central banks.

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

The CBSL and the PBoC entered into a BCSA on 19 March 2021. Under this agreement, in December 2021, CNY 10 billion (equivalent to USD 1.5 billion) was received from the PBoC, which can be utilized for restricted use (Note 8.1) in exchange of an equivalent amount of LKR for a period of one year.

Outstanding balance as of 31 December 2021 represents CNY 10 billion swap in December 2021 for a period of one year, and the first roll-over is due in December 2022, 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.

	2021 Rs. 000	2020 Rs. 000
Deposits by Banks :		
- Related Parties	221,738,927	81,586,946
- Others	67,657,247	37,099,649
	<u>289,396,174</u>	<u>118,686,595</u>
Deposits by Financial Institutions :		
- Related Parties	21	27
- Others	11,307,967	10,914,899
	<u>11,307,988</u>	<u>10,914,926</u>
Total Deposits by Banks and Other Financial Institutions	<u>300,704,162</u>	<u>129,601,521</u>

27. DEPOSITS OF GOVERNMENT AND GOVERNMENTAL ENTITIES

	2021 Rs. 000	2020 Rs. 000
Government Deposits	160,511	160,469
Government Agencies and Funds	1,231,790	1,300,043
	<u>1,392,301</u>	<u>1,460,512</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

	2021 Rs. 000	2020 Rs. 000
Standing Deposit Facility	101,062,880	209,507,898
	<u>101,062,880</u>	<u>209,507,898</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.

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

29. CURRENCY IN CIRCULATION

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

Denomination Coins:	2021 Rs. 000	2020 Rs. 000
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	121,246	121,246
50 cent	185,147	185,147
1 rupee	1,023,087	989,834
2 rupee	1,587,838	1,524,255
5 rupee	5,168,455	4,902,340
10 rupee	7,673,980	7,122,933
20 rupee	40,955	-
Commemorative coins	598,953	591,807
	<u>16,471,504</u>	<u>15,509,405</u>

Notes:

1 rupee	4,981	4,981
2 rupee	26,694	26,694
5 rupee	37,191	37,191
10 rupee	1,249,128	1,253,137
20 rupee	7,235,137	6,264,415
50 rupee	7,086,604	5,954,707
100 rupee	27,472,139	24,351,138
200 rupee	126,412	127,051
500 rupee	52,284,157	45,522,962
1000 rupee	160,770,610	150,266,367
2000 rupee	2,950,509	3,327,026
5000 rupee	729,384,000	582,162,785
	<u>988,627,562</u>	<u>819,298,454</u>

Total Currency in Circulation 1,005,099,066 834,807,859

30. OTHER PAYABLES

	2021 Rs. 000	2020 Rs. 000
Provision and Charges	3,791,015	1,230,135
Deposits by RDD	-	2,905,314
Payable to Commercial Banks	431,145	-
Liability against Abandoned Property Transfers Received (Note 30.1)	11,592,360	9,852,650
Payable to Contributory Banks under Viskam Scheme	1,683,468	-
Balances of Employee Benefit Plans (Note 30.2)	8,701	9,189
Other Payables	1,657,193	745,504
	<u>19,163,882</u>	<u>14,742,792</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:

	2021 Rs. 000	2020 Rs. 000
Balances in CBSL Provident fund, Pension schemes and Widowers' / Orphans' & Orphans' Pension Schemes	8,701	9,189
	<u>8,701</u>	<u>9,189</u>
31. DEFERRED GRANTS		
	2021 Rs. 000	2020 Rs. 000
As at 1 January	789	5
Additions during the Year	3,089	785
Amortization during the Year	(2,700)	(1)
As at 31 December	<u>1,178</u>	<u>789</u>
<p>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.</p> <p>This includes two research grants received from the Knowledge Partnership Programme of the Bank of Korea amounting to Rs. 0.66 Mn (2020 – Rs. 0.78 Mn) which will be utilized to cover the cost of local training programmes of CBSL staff and from the United Nations Development Programme amounting to Rs. 2.32 Mn which has been utilized for awareness programmes on sustainable finance.</p>		
32. PENSION AND OTHER POST EMPLOYMENT BENEFIT PLANS		
<p>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 Widowers' 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 Widowers' and</p>		
<p>Orphans and Widowers' and Orphans' Pension Scheme is open for employees of the Bank who joined after 1 January 1998. Eligible Employees under the Widowers' and Orphans Pension Scheme (old) and Widowers' and Orphans' Pension Scheme (old) plans who were recruited before 1 August 1994 contribute 5% of the monthly basic salary & employees who were recruited on or after 01 August 1994 contribute 10% of the monthly basic salary whereas the eligible employees under the new Widowers' and Orphans and Widowers' and Orphans' Pension Scheme contribute 5.5% of the monthly basic salary.</p> <p>The Bank also provides gratuity benefits to employees who have completed five years of service in the Bank and who are not eligible for a monthly pension payment under the Employees' Retirement Pension 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.</p> <p>The Bank has a Post-Employment Medical Benefit Scheme which provides reimbursement of certain medical expenses incurred by retired employees on account of themselves, their spouses, their parents and by widows/widowers.</p> <p>The Bank employed an Independent Actuary M/s K. A. Pandit, Consultant & Actuary (Mumbai) to re-assess the defined benefit obligations and the current service costs attributable to the Employees' Retirement Pension Schemes, Widowers' and Orphans' Pension Scheme, Widowers' and Orphans' Pension Scheme, new Widowers' and Orphans' and Widowers' and Orphans' Pension scheme, Gratuity Scheme and Medical Benefit Scheme during the year.</p> <p>Funds of the Employee Retirement Pension Schemes, Widowers' and Orphans' Pension Scheme, Widowers' and Orphans' Pension Scheme are managed separately and separate books are maintained. However, Gratuity Scheme and Medical Benefit Scheme are not separated from the books of accounts of the Bank. Further, investments and investment income are recorded separately for these funds in the Bank books and the income earned from the investments are transferred back to these funds and reinvested without being distributed.</p> <p>The total present value of all benefit obligations of Rs. 66,279.21 Mn (2020 – Rs. 70,241.23 Mn) exceeds the total fair value of plan assets/investments of Rs. 53,334.41 Mn (2020 – Rs. 48,961.82 Mn) at the end of the reporting period resulting in a deficit of Rs. 12,944.80 Mn (2020 – Rs. 21,279.42 Mn).</p>		

As at 31 December 2021								
Benefit (Asset)/Liability	Employee Retirement Pension Scheme	Employee Retirement Pension Scheme - New	Widows' and Orphans' Pension Scheme	Widowers' and Orphans' Pension Scheme	Widows' and Orphans' and Widowers' and Orphans' Pension Scheme - New	Gratuity Scheme	Medical Benefit Scheme	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Present Value of Benefit Obligation	47,559,244	2,047,071	10,151,236	1,537,384	801,139	379,276	3,803,864	66,279,214
Fair Value of Plan Assets/ Investments	(32,417,106)	(5,636,082)	(7,502,019)	(2,685,027)	(1,256,886)	(325,318)	(3,511,976)	(53,334,414)
Net Benefit Liability/ (Asset)	15,142,138	(3,589,011)	2,649,217	(1,147,643)	(455,747)	53,958	291,888	12,944,800

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).

	2021 Rs. 000	2020 Rs. 000
Employee Retirement Pension Scheme	15,142,138	16,989,328
Employee Retirement Pension Scheme-New	(3,589,011)	(2,464,375)
Widows' and Orphans' Pension Scheme	2,649,217	4,660,286
Widows' and Orphans' and Widowers' and Orphans' Pension Scheme - New	(455,747)	825,451
Gratuity Scheme (Gross)	379,276	353,689
Medical Benefit Scheme (Gross)	3,803,864	5,020,814
	17,929,737	25,385,193

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/(Income) Recognised in Other Comprehensive Income (OCI) for the Year Ended 31 December 2021	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	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	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

As at 31 December 2020								
Movement in the Benefit Liability/(Asset)	Employee Retirement Pension Scheme	Employee Retirement Pension Scheme-New	Widows' and Orphans' Pension Scheme	Widowers' and Orphans' Pension Scheme	Widows' and Orphans' and Widowers' and Orphans' Pension Scheme - New	Gratuity Scheme	Medical Benefit Scheme	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
As at 1 January 2020	8,658,454	(3,074,018)	2,289,861	(1,123,204)	26,102	88,240	1,664,172	8,529,607
Net Benefit Expense/(Income)	995,723	(287,906)	227,944	(138,085)	(58,021)	43,858	247,702	1,031,215
Amount recognized in Other Comprehensive Income	7,646,862	1,196,748	2,472,171	365,773	857,370	(113,604)	968,738	13,394,058
Contribution Paid	(311,710)	(299,199)	(329,690)	-	-	-	(734,864)	(1,675,463)
As at 31 December 2020	16,989,329	(2,464,375)	4,660,286	(895,516)	825,451	18,494	2,145,748	21,279,417
Movement in the Present Value of Projected Benefit Obligations								
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
As at 1 January 2020	37,116,752	1,376,825	7,840,685	1,343,408	693,189	373,017	3,717,231	52,461,107
Interest Cost	4,268,426	158,335	901,679	154,492	79,717	42,897	427,482	6,033,028
Current Service Cost	-	65,606	-	-	-	33,710	66,341	165,657
Benefit Paid From the Fund	(2,846,507)	(2,137)	(532,769)	(36,170)	-	(9,064)	(228,521)	(3,655,168)
Actuarial (Gains)/Losses on Obligations	8,632,160	1,624,437	2,617,616	470,387	940,600	(86,871)	1,038,281	15,236,610
As at 31 December 2020	47,170,831	3,223,066	10,827,211	1,932,117	1,713,506	353,689	5,020,814	70,241,234
Movement in Fair Value of Plan Assets/Investments								
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
As at 1 January 2020	28,458,297	4,450,843	5,550,824	2,466,612	667,087	284,777	2,053,059	43,931,499
Interest Income	3,272,704	511,847	638,345	283,660	76,715	32,749	236,102	5,052,122
Contributions by the Employer	311,710	299,199	329,690	-	-	-	734,864	1,675,463
Contributions by the Employees	-	-	35,390	8,917	61,023	-	10,019	115,349
Benefit Paid from the Fund	(2,846,507)	(2,137)	(532,769)	(36,170)	-	(9,064)	(228,521)	(3,655,168)
Return on Plan Assets/Investments, Excluding Interest Income	985,298	427,689	145,445	104,614	83,230	26,733	69,543	1,842,552
As at 31 December 2020	30,181,502	5,687,441	6,166,925	2,827,633	888,055	335,195	2,875,066	48,961,817
Expenses Recognised in Other Comprehensive Income (OCI) for the Year Ended 31 December 2020								
	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	10,262,386	1,575,451	2,877,812	567,559	913,185	(44,406)	1,248,800	17,400,787
Due to Experience	(1,630,226)	48,986	(260,196)	(97,172)	27,415	(42,465)	(210,519)	(2,164,177)
Return on Plan Assets/Investments, excluding Interest Income	(985,298)	(427,689)	(145,445)	(104,614)	(83,230)	(26,733)	(69,543)	(1,842,552)
Net (Income)/Expense For the Year Recognized in OCI	7,646,862	1,196,748	2,472,171	365,773	857,370	(113,604)	968,738	13,394,058

Benefit Expense for the Year Ended 31 December 2020	Employee Retirement Pension Scheme	Employee Retirement Pension Scheme-New	Widows' and Orphans' Pension Scheme	Widowers' and Orphans' Pension Scheme	Widows' and Orphans' and Widowers' and Orphans' Pension Scheme - New	Gratuity Scheme	Medical Benefit Scheme	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Interest Cost on Benefit Obligation	4,268,427	158,335	901,679	154,492	79,717	42,897	427,482	6,033,029
Interest Income on Plan Assets/Investments	(3,272,704)	(511,847)	(638,345)	(283,660)	(76,715)	(32,749)	(236,102)	(5,052,122)
Current Service Cost	-	65,606	-	-	-	33,710	66,341	165,657
Contributions by the Employees	-	-	(35,390)	(8,917)	(61,023)	-	(10,019)	(115,349)
Benefit Expense	995,723	(287,906)	227,944	(138,085)	(58,021)	43,858	247,702	1,031,215
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	24,899,275	5,414,590	4,265,463	2,541,197	878,643	315,612	2,141,467	40,456,247
Investment in Reverse Repo	2,217,485	51,523	821,410	93,156	7,464	2,046	465,653	3,658,737
Investment in Debentures	569,632	146,980	448,058	42,375	-	8,509	-	1,215,554
Investment in Fixed Deposits	2,491,432	73,598	630,977	150,320	780	9,028	267,946	3,624,081
Balances Remaining in Current Accounts	3,678	750	1,017	585	1,168	-	-	7,198
Total Plan Assets/Investments as at 31 December 2020	30,181,502	5,687,441	6,166,925	2,827,633	888,055	335,195	2,875,066	48,961,817
The principal assumptions used in determining Employee Benefit Obligations for all the plans are shown below:								
					2021	2020		
Discount Rate					11.58%	8.50%		
Expected Rate of Return on Assets					11.58%	8.50%		
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					7.50%	7.50%		
Attrition Rate					2.00%	2.00%		
Medical Cost Inflation Rate					4.50%	4.50%		
Average Remaining years of Service								
CBSL Pension					26 Years	26 Years		
CBSL Pension - New					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 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' 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	47,559,244	2,047,071	10,151,236	1,537,384	801,139	379,275	3,803,864
Effect of "+" change in discount rate	(1,895,341)	(365,442)	(462,605)	(84,141)	(85,944)	(11,692)	(158,213)
Effect of "-" change in discount rate	2,040,626	470,084	503,536	91,884	99,465	12,404	172,488
Effect of "+" change in attrition rate	-	-	-	-	-	78,113	-
Effect of "-" change in attrition rate	-	-	-	-	-	(84,788)	-
Effect of "+" change in salary escalation rate	103,400	148,414	7,419	2,619	53,383	12,890	-
Effect of "-" change in salary escalation rate	(101,255)	(136,699)	(7,271)	(2,565)	(49,275)	(12,233)	-
Effect of "+" change in Medical Cost Inflation	-	-	-	-	-	-	183,813
Effect of "-" change in Medical Cost Inflation	-	-	-	-	-	-	(168,811)
Effect of "+" change in Rate of Pension Escalation	2,002,827	-	512,871	92,252	-	-	-
Effect of "-" change in Rate of Pension Escalation	(1,877,358)	-	(474,960)	(85,220)	-	-	-

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.

	2021 Rs. 000	2020 Rs. 000
Lease Liability (Note 33.1.4)	61,144	52,038
Provision for Credit Guarantees (Note 33.2)	1,117,492	162,628
Other Liabilities	2,848,713	1,138,707
	4,027,349	1,353,373

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

	2021 Rs. 000	2020 Rs. 000
Interest on lease liability	5,482	6,311
Amortisation of right-of-use assets	6,501	6,643

33.1.3 Amounts Recognised in the Statement of Cash Flows

	2021 Rs. 000	2020 Rs. 000
Total cash outflow for leases	5,489	8,049

33.1.4 Lease Liability

	2021 Rs. 000	2020 Rs. 000
Balance as at 1 January	52,038	48,938
Additions during the year	9,114	-
Remeasurement during the year	-	4,838
Interest charges during the year	5,481	6,311
Lease payments during the year	(5,489)	(8,049)
Balance as at 31 December	61,144	52,038

33.1.5 Maturity Analysis of Lease Liability

	2021 Rs. 000	2020 Rs. 000
Non-current	58,815	49,460
Current	2,329	2,578
Balance as at 31 December	61,144	52,038

33.1.6 Maturity Analysis based on Contractual Undiscounted Cash Flows

	2021 Rs. 000	2020 Rs. 000
Less than one year	8,359	7,990
One to five years	20,836	14,580
More than five years	130,157	135,219
Total undiscounted lease liabilities	159,352	157,789

33.2 Provision for Credit Guarantees		
	2021 Rs. 000	2020 Rs. 000
Deferred Income on Credit Guarantee Schemes operated by RDD	105,760	162,628
Expected Credit Loss on Credit Guarantees (Note 33.2.1)	1,011,732	-
Balance as at 31 December	1,117,492	162,628
33.2.1 Movement in Expected Credit Losses on Credit Guarantees		
	2021 Stage 1 Rs. 000	2020 Stage 1 Rs. 000
Balance as at 1 January	-	-
Charge during the Year	1,011,732	-
Balance as at 31 December	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 2019, an amount of Rs. 43.36 Bn was transferred to MRR from Retained Earnings in 2020 as per the Monetary Board decision BP MB/F/6/28/2020 dated 26 February 2020.		
iii) Other Reserves - Other reserves include General Reserve, Building Reserve and Credit Guarantee Reserve. General Reserve includes the amounts set a side 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) Provincial Development Credit Scheme - During 2010, the Bank has commenced a refinance credit scheme for medium & long term development purposes by creating a fund from the profits, amounting to Rs.2.90 Bn. Such loans are granted through Bank of Ceylon & People's Bank. During April 2019, due to the completion of Provincial Development Credit Scheme the balance of Rs.2.90 Bn has been transferred to Medium & Long term Credit Reserve.		
ix) Special Credit Guarantee Scheme Reserve - This reserve was set up in the year 2014 by transferring Rs.2.00 Bn from Medium and Long Term Credit Fund, of which Rs.1.00 Bn is allocated to support restructure of Saubaghya Loan Scheme, Awakening North Loan Scheme (phase II), Resumption of Economic Activities in the East (phase II) and Repair of Damaged Houses in North and East operated by Regional Development Department of the Bank. The		

balance of Rs.1.00 Bn is allocated to implement a special credit guarantee scheme to support lending to Small and Medium Enterprises by Commercial Banks.

- x) **Reserve for Funding purpose of Post Employment Benefit Plans** - As per Monetary Board decision MB/F/39/20/2016 dated 16 December 2016, it is proposed to allocate 50 per cent of the benefit expenses of the actuary of a given year (starting from 2016) to a separate reserve, if there are adequate distributable profits with a view to compensate the possible negative impact to the equity attributed to actuarial losses and benefit expenses. An allocation of Rs.757.61 Mn was made to this fund in March

2021, from the distributable profits of year 2020.

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

The movements in the other reserves are as follows:

	Medium and Long Term Credit Reserve	Market Revaluation Reserve	Other Reserves	Special Credit Guarantee Scheme Reserve	RTGS Sinking Fund	IRR	Revaluation Reserve	Net Fair Value Gain/(Loss) on FVOCI Securities	Pension Fund Reserve	Technical Advancement 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	Rs. 000
Balance as at												
1 January 2021	29,577,739	63,463,145	1,142,018	40,000	2,870,918	147,994,227	12,694,596	21,483,407	2,000,000	-	745,973	282,012,023
Transfer to RTGS Sinking Fund	-	-	-	-	369,008	-	-	-	-	-	-	369,008
Transfer of Profits to General Reserve	-	-	2,859,208	-	-	-	-	-	-	-	-	2,859,208
Transfer of Net Foreign Exchange Revaluation Gain	-	-	-	-	-	34,041,805	-	-	-	-	-	34,041,805
Net Fair Value Loss on Securities at Fair Value through Other Comprehensive Income	-	-	-	-	-	-	-	(16,108,192)	-	-	-	(16,108,192)
Transfer of Funds to Market Revaluation Reserve	-	23,574,367	-	-	-	-	-	-	-	-	-	23,574,367
Transfer to Reserve for funding purposes of Post-Employment Benefit Plans	-	-	-	-	-	-	-	-	-	-	757,613	757,613
Market Valuation Reserve - Government Securities Classified at Fair Value through Other Comprehensive Income	-	-	-	-	-	-	-	(11,641,542)	-	-	-	(11,641,542)
Market Valuation Reserve - Equity Investments Classified at Fair Value through Other Comprehensive Income	-	-	-	-	-	-	-	55,862	-	-	-	55,862
Realized Revaluation gain on Disposals	-	-	-	-	-	-	(791,926)	-	-	-	-	(791,926)
Balance as at 31 December 2021	29,577,739	87,037,512	4,001,226	40,000	3,239,926	182,036,032	11,902,670	(6,210,465)	2,000,000	-	1,503,586	315,128,226

35. PROFIT DISTRIBUTION

In terms of the Monetary Law Act and Monetary Board approved Profit Distribution Policy of CBSL (effective from 2018), the following adjustments are made to the net profit for the year in order to arrive at the distributable profit.

- a) Fully remove the exchange gains and remove the

exchange losses until the accumulated exchange gains are sufficient to absorb the losses. Charge any additional exchange losses (As per the Profit Distribution Policy of CBSL).

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

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

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

Based on the above adjustments, the distributable profit for the year ended 31 December 2021 is as follows:

Item	2021 Rs. 000
Profit for the year	158,162,666
Add:	
Realized revaluation gain on disposals	791,570
Less:	
Transfer of exchange gains to IRR in accordance with the MLA	34,041,805
Transfer of "marked to market" gain on foreign assets to Market Revaluation Reserve (MRR)	49,638,590
Other accounting adjustments	660,938
Distributable Profit as per MLA, Profit Distribution Policy of the Bank and other adjustments - Realised Profit	74,612,903
Less : Transfer to Reserves (Sec. 38 of MLA)	
- Transfer to MLTCF for the RDD operations	15,000,000
- Transfer to Reserve for funding purpose of Post Employment Benefit Plans	1,051,039
- Transfer to General Reserve	27,526,076
- Recovery of outstanding GOSL obligations (Sec. 39 of MLA)	1,035,788
Amount Credited to the Consolidated Fund (Sec. 39 of MLA)	30,000,000

36. INTEREST INCOME FROM FINANCIAL ASSETS

	2021 Rs. 000	2020 Rs. 000
Interest Income from Foreign Currency Financial Assets		
Cash and Short Term Deposits	274,786	454,878
Financial Assets	4,104,262	13,771,910
Derivatives	7,436,653	12,027,428
Total Interest Income from Foreign Currency Financial Assets	11,815,701	26,254,216
Interest Income from Local Currency Financial Assets		
Sri Lanka Government Securities	55,718,603	20,969,883
Securities Purchased under Resale Agreements	8,806,814	1,685,965
Other Loans and Advances	4,087,511	2,686,181
Total Interest Income from Local Currency Financial Assets	68,612,928	25,342,029
Total Interest Income from Financial Assets	80,428,629	51,596,245

Total Interest Income calculated using the effective interest method during 2021 was Rs. 58,662.72 Mn (2020 - Rs. 34,714.14 Mn).

37. GAIN FROM UNREALIZED PRICE REVALUATIONS

	2021 Rs. 000	2020 Rs. 000
Foreign Securities	(302,953)	(30,440)
Gold	(7,475,934)	21,785,511
Forex & Currency SWAPS	49,638,590	1,725,932
Currency Options	-	43,858
Total Gain from Unrealized Price Revaluations	41,859,703	23,524,861

38. INTEREST EXPENSES ON FINANCIAL LIABILITIES

	2021 Rs. 000	2020 Rs. 000
Interest Expense on Foreign Currency Financial Liabilities		
Asian Clearing Union	78,207	269,910
IMF Related Liabilities	2,946,797	3,245,651
Derivatives	1,974,648	912,259
Other Foreign Payables	609,524	866,032
Total Interest Expense on Foreign Currency Financial Liabilities	5,609,176	5,293,852
Interest Expense on Local Currency Financial Liabilities		
Securities Sold Under Repurchase Agreements	890,946	114,379
Standing Deposit Facility	5,668,475	6,766,330
Abandoned Property	623,593	600,757
Miscellaneous Interest Expenses	1,286,883	838,828
Total Interest Expense on Local Currency Financial Liabilities	8,469,897	8,320,294
Total Interest Expense on Financial Liabilities	14,079,073	13,614,146

The Bank has a net sterilization gain of Rs. 3,050.59 Mn (2020 - cost of Rs. 1,126.15 Mn) in its activities to absorb the liquidity from the market due to the excess liquidity position. The sterilization cost is comprised of the interest expenses incurred on securities sold under agreement to repurchase, interest expense on bond borrowing and interest expense on Standing Deposit Facility netted off with interest income earned on the securities purchased under agreement to resale (Reverse Repurchase) included under interest income from Sri Lanka Government Securities and USD/LKR Derivative gain included in the Derivative gain under interest income from foreign currency financial assets and in gain/ (loss) from realized price changes, as discussed below:

	2021 Rs. 000	2020 Rs. 000
Interest expenses incurred on securities sold under agreement to repurchase	890,946	114,379
Interest expense on Standing Deposit Facility	5,668,475	6,766,330
Less:		
Interest income earned on the securities purchased under agreement to resale	8,806,814	1,685,965
USD/LKR Derivative Gain	803,202	4,068,592
	<u>3,050,595</u>	<u>(1,126,152)</u>
39. REVERSAL/(CHARGE) OF EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS		
	2021 Rs. 000	2020 Rs. 000
Foreign Currency Financial Assets		
Financial Assets at Amortized Cost		
Cash & Cash Equivalents (Note 8.2)	184,970	(48,380)
IMF Related Assets (Note 11.4)	(1)	2
Securities at Fair Value through Other Comprehensive Income (Note 9.2)	2,097,726	(1,997,827)
Total Expected Credit Loss		
Reversal/(Charge) on Foreign Currency Financial Assets	<u>2,282,695</u>	<u>(2,046,205)</u>
Local Currency Financial Assets		
Financial Assets at Amortized Cost		
Loans to Banks (Note 16.2)	123,745	(154,333)
Investments by Internal Funds (Note 17.1)	79,291	(63,939)
Other Receivables (Note 17.2)	-	(8,001)
Credit Guarantee Provision (Note 33.2)	(1,011,732)	-
Other Receivables and Prepayments	-	(32,921)
Total Expected Credit Loss Charge on Local Currency Financial Assets	<u>(808,696)</u>	<u>(259,194)</u>
Total Expected Credit Loss Reversal/(Charge) on Financial Assets	<u>1,473,999</u>	<u>(2,305,399)</u>
The expected credit loss balances related to the loans to Banks and Investments by Internal Funds differs from their respective values in the Statement of Financial Position due to the impact of the RDD net assets incorporation as explained in Note 40.		
40. OTHER INCOME		
	2021 Rs. 000	2020 Rs. 000
Dividend Income - Related Party	153,987	154,381
Amortization of Assets received from Grants	28	1
Licensing Fees of Financial Institutions	609,050	620,902
Rent Income	282,174	321,821
Charges collected from RTGS Participants	54,237	99,585
Other income from the RDD net asset incorporation (Note 40.1)	14,705,875	-
Miscellaneous Income	475,019	250,249
Net Gains on Revaluation of Property, Plant and Equipment	-	142,390
Total Other Income	<u>16,280,370</u>	<u>1,589,329</u>
40.1 Incorporation of net assets of schemes operated by Regional Development Department		
The Monetary Board of the Central Bank of Sri Lanka has approved to incorporate the balances related to the refinance and credit guarantee schemes operated by Regional Development Department (RDD) in the financial statement of the Bank for the year ended 31 December 2021 with the consent received from Department of Treasury Operations of the General Treasury, Ministry of Finance. These balances were recorded in the financial statements of the Bank for the year ended 31 December 2021 only after the completion of the process leading to the establishment of the ownership of these balances. Further to the deliberations between the Bank and the the Department of Treasury operations. The Department of Treasury operations provided its consent to the Bank to recognize the assets and liabilities of these schemes operated by Regional Development Department in the financial statements of the Bank for the year ended 31 December 2021.		
41. PERSONNEL EXPENSES		
	2021 Rs. 000	2020 Rs. 000
Wages and Salaries	7,116,223	5,298,938
Defined Contribution Plan Costs	1,717,811	707,129
Post Employee Defined Benefit Plan Costs	1,891,272	851,435
Total Personnel Expenses	<u>10,725,306</u>	<u>6,857,502</u>
42. ADMINISTRATION AND OTHER EXPENSES		
	2021 Rs. 000	2020 Rs. 000
Repairs and Maintenance	879,065	823,229
Loss on Disposal of Property, Plant and Equipment	669,923	-
Operating Expenses for Reuters, Bloomberg, SWIFT etc.	205,041	213,666
Travelling	22,008	9,581
Printing	41,699	59,306
Statutory Audit Fees	9,225	9,225
Remuneration to Members of the Monetary Board/Sub Committees	3,975	4,325
Advertising Cost	48,796	28,248
Consultancy, Communication, Advisory and Professional Fees	210,337	118,744
Interest Expense on Lease Liability	5,482	6,311
Miscellaneous Expenses	183,571	224,405
Total Administration and Other Expenses	<u>2,279,122</u>	<u>1,497,040</u>
43. TAX		
The Bank is not liable for the income tax 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.		
During the year 2021, the Bank did not pay any taxes (2020 - Nil).		

44. RECONCILIATION OF OPERATING PROFIT WITH CASH FLOWS FROM OPERATING ACTIVITIES			45. NET ISSUES/(WITHDRAWALS) OF CIRCULATION CURRENCY ON GOVERNMENT TRANSACTIONS		
	2021 Rs. 000	2020 Rs. 000		2021 Rs. 000	2020 Rs. 000
Reported Profit from Operating Activities	158,162,666	63,432,761	Purchase of Sri Lanka Government Securities	1,218,291,655	581,555,020
Add/(Less) : Non-Cash Items			Interest Received – Local Currency – Sri Lanka Government Securities	(43,061,965)	(17,365,458)
Depreciation & Amortization	526,675	452,353	Decrease in Advances to GOSL	(2,933,100)	(83,547,071)
Interest Receivable – Local Currency – Investment Portfolio	(64,504,574)	(22,657,914)	(Increase)/Decrease in Balances with Government and Government Entities	68,211	(960,873)
Net Provision for Defined Employee Benefit Plans	2,290,446	211,855		1,172,364,801	479,681,618
Gross Unrealised Foreign Exchange Gain	(43,638,970)	(16,414,833)			
Loss/(Profit) on Sale of Property, Plant and Equipment	669,924	(5)			
Provisions and Accruals	3,144,366	1,862,265			
Expected Credit Loss Provision on Financial Assets	(1,473,999)	2,272,478			
Deferred Grants	389	785			
Gains on Revaluation	-	(142,390)			
Amortization of PRGF Deposit	(2,372)	(2,174)			
Write off of Construction in Progress	(356)	-			
Amortization Expense of Fixed Income Securities	877,761	2,246,629			
Other Income from the RDD Net Asset Incorporation	(14,705,875)	-			
Add/(Less) : Movements in Other Working Capital Items					
Decrease in Inventories	1,373,286	996,573			
Decrease in Interest Receivable	3,593,983	338,516			
Increase in Miscellaneous Liabilities	1,539,342	811,504			
Increase in Interest Payable	425,395	392,801			
Increase in Other Receivables	(2,236,407)	(2,438,850)			
Add/(Less) : Investing and Financing Activities					
Net Unrealised Market Value Changes	(45,265,635)	(24,537,198)			
Net Cash Flows from Operating Activities	776,045	6,825,156			
			46. NET ISSUES/(WITHDRAWALS) OF CIRCULATION CURRENCY ON BANK AND FINANCIAL INSTITUTIONS TRANSACTIONS		
				2021 Rs. 000	2020 Rs. 000
			(Increase)/Decrease in Deposits by Banks and Financial Institutions	(171,102,641)	124,980,099
				(171,102,641)	124,980,099

47. CONCENTRATIONS OF FUNDING						
The Bank's concentrations of funding as at reporting date were as follows:						
47.1 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 Liabilities						
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	-	-	99,426,206	-	1,636,674	101,062,880
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
47.2 Balance as at 31 December 2020						
	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	-	-	-	-	208,337,221	208,337,221
Derivative Financial Instruments	-	-	124,237	-	449,945	574,182
Asian Clearing Union	-	-	-	63,864,652	-	63,864,652
IMF	-	-	-	509,925,278	-	509,925,278
Other	15,529	-	-	48,468	74,806,328	74,870,325
Total Foreign Currency Financial Liabilities	15,529	-	124,237	573,838,398	283,593,494	857,571,658
Local Currency Financial Liabilities						
Deposits of Banks and Financial Institutions	-	-	118,686,595	-	10,914,926	129,601,521
Deposits of Government and Government Entities	1,460,338	174	-	-	-	1,460,512
Securities Sold Under Repurchase Agreements	-	-	196,901,340	-	12,606,558	209,507,898
Currency in Circulation	-	834,807,859	-	-	-	834,807,859
Other Payable	25,474	-	2,905,314	-	11,812,004	14,742,792
Total Local Currency Financial Liabilities	1,485,812	834,808,033	318,493,249	-	35,333,488	1,190,120,582
Total Financial Liabilities	1,501,341	834,808,033	318,617,486	573,838,398	318,926,982	2,047,692,240
Other Liabilities						
Deferred Grants	-	-	-	-	789	789
Pension and Other Post Employment Benefit Plans	-	-	-	-	25,385,193	25,385,193
Miscellaneous Liabilities and Accruals	-	-	-	-	1,353,373	1,353,373
Total Other Liabilities	-	-	-	-	26,739,355	26,739,355
Total Liabilities	1,501,341	834,808,033	318,617,486	573,838,398	345,666,337	2,074,431,595

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

RMD 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:

	2021 Rs. 000	2020 Rs. 000
Sri Lanka	2,275,756,176	1,009,892,263
USA	130,712,211	457,822,320
Japan	9,457,390	85,262,633
Britain	1,008,405	6,492,727
Europe	1,582,664	110,462,895
Supranational	190,963,416	477,101,616
Other	375,958,300	170,825,331
Total Financial Assets	2,985,438,562	2,317,859,785

(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:

	2021 Rs. 000	2020 Rs. 000
Governments	2,014,470,178	1,554,039,564
Supranational Financial Institutions	227,180,460	477,101,616
Foreign Banks and Financial Institutions	15,187,326	147,194,059
Sri Lanka Banks & Financial Institutions	718,635,801	118,372,002
Other	9,964,797	21,152,544
Total Financial Assets	2,985,438,562	2,317,859,785

(c) Credit Exposure by Credit Rating

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

Credit Exposure by Credit Rating	Credit Rating	2021 Rs.000	%	2020 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		497,630,980	16.67%	320,842,614	13.84%
Other Counterparties	AAA	4,009,562	0.13%	17,985,741	0.78%
	AA-	2,004,771	0.07%	31,186,235	1.34%
	A+	8,094,146	0.27%	29,920,960	1.29%
	A	-	0.00%	2,789,210	0.12%
	A-	768,180	0.03%	140,847	0.01%
	BBB+	-	0.00%	172,614	0.01%
	BBB	40,255	0.00%	40,470	0.00%
	NR	214,558	0.01%	228,613	0.01%
		512,762,452	17.18%	403,307,304	17.40%
Securities at Fair Value through Other Comprehensive Income					
	AAA	2,830,756	0.09%	189,785,053	8.19%
	AA+	5,987,488	0.20%	437,986,572	18.90%
	AA	-	0.00%	15,360,081	0.66%
	AA-	-	0.00%	27,998,253	1.21%
	A+	-	0.00%	32,305,504	1.39%
		8,818,244	0.29%	703,435,463	30.35%
Securities at Fair Value through Profit or Loss					
	AAA	-	0.00%	30,034,475	1.29%
	AA+	-	0.00%	4,785,108	0.21%
	AA	-	0.00%	5,140,913	0.22%
	AA-	-	0.00%	603,827	0.03%
		-	0.00%	40,564,323	1.75%
Derivative Financial Instruments					
Locally Rated	A	55,853	0.00%	-	0.00%
	AA+	-	0.00%	1,423,629	0.06%
	AA-	34,088,798	1.14%	1,360,976	0.06%
	A+	19,788,494	0.67%	46,825	0.00%
	A	33,378	0.00%	62,960	0.00%
	BBB-	2	0.00%	33	0.00%
	BB+	56,311	0.00%	65,189	0.01%
	NR	-	0.00%	410,741	0.02%
		54,022,836	1.81%	3,370,353	0.15%
IMF Related Assets					
		188,045,837	6.30%	158,958,185	6.86%
		188,045,837	6.30%	158,958,185	6.86%
Other Receivables					
	AAA	-	0.00%	1,702,247	0.07%
		-	0.00%	1,702,247	0.07%
Total Foreign Currency Financial Assets					
		763,649,369	25.58%	1,311,337,875	56.58%

	Credit Rating	2021 Rs.000	%	2020 Rs.000	%
Local Currency Financial Assets					
Sri Lanka Government Securities	CCC+	1,377,820,347	46.15%	714,531,527	30.83%
Securities Purchased under Resale Agreements	AA-	557,856,718	18.69%	-	0.00%
	A+	-	0.00%	318,047	0.01%
	A	5,656,932	0.19%	-	0.00%
	BBB-	-	0.00%	2,410,364	0.11%
	NR	4,018,662	0.14%	-	0.00%
Provisional Advances to Government	CCC+	150,128,800	5.03%	153,061,900	6.60%
Equity Investments in Financial and Other Institutions	NR	1,671,218	0.06%	1,615,356	0.07%
Loans to Banks	AAA	24,917	0.00%	147,319	0.01%
	AA+	-	0.00%	61,475,682	2.65%
	AA-	51,999,491	1.74%	9,094,883	0.39%
	A+	16,372,930	0.55%	19,966,369	0.86%
	A	9,977,843	0.33%	13,458,641	0.58%
	A-	-	0.00%	937,978	0.05%
	BBB+	6,201,554	0.21%	105,757	0.00%
	BBB-	2,933,926	0.10%	3,092,924	0.13%
	BB+	2,688,669	0.09%	2,599,883	0.11%
	NR	373,416	0.01%	608,090	0.03%
Other Assets	AAA	325,579	0.01%	137,785	0.00%
	AA+	-	0.00%	709,281	0.03%
	AA-	5,699,123	0.19%	-	0.00%
	A+	727,308	0.02%	190,126	0.01%
	A	-	0.00%	19,752	0.00%
	A-	-	0.00%	98,293	0.00%
	CCC+	19,206,430	0.64%	12,680,416	0.55%
	NR	8,105,330	0.27%	9,261,536	0.40%
Total Local Currency Financial Assets		2,221,789,193	74.42%	1,006,521,910	43.42%
Total Financial Assets		2,985,438,562	100.00%	2,317,859,785	100.00%

(d) Summary by Major Credit Category

	Credit Rating	2021 Rs.000	%	2020 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 Riksbank/ Bank of Canada/ Reserve Bank of New Zealand/ Reserve Bank of India/ People's Bank of China		497,630,980	16.67%	320,842,614	13.84%
IMF Related Assets		188,045,837	6.30%	158,958,185	6.86%
	AAA	6,840,318	0.22%	239,507,516	10.33%
	AA+/-	7,992,259	0.27%	523,060,989	22.57%
	A+/-	8,918,179	0.30%	65,156,521	2.81%
	BBB+/-	40,255	0.00%	213,084	0.01%
	NR	214,558	0.01%	228,613	0.01%
Locally Rated	AA+/-	34,088,798	1.14%	2,784,605	0.12%
	A+/-	19,821,872	0.67%	109,785	0.01%
	BBB+	2	0.00%	33	0.00%
	BB+	56,311	0.00%	65,189	0.00%
	NR	-	0.00%	410,741	0.02%
Total Foreign Currency Financial Assets		763,649,369	25.58%	1,311,337,875	56.58%
Local Currency Financial Assets					
	AAA	350,496	0.01%	285,104	0.01%
	AA+/-	615,555,332	20.62%	71,279,846	3.07%
	A+/-	32,735,013	1.09%	34,989,207	1.51%
	BBB+/-	9,135,480	0.31%	5,609,045	0.24%
	BB+/-	2,688,669	0.09%	2,599,883	0.11%
	CCC+	1,547,155,577	51.82%	880,273,843	37.99%
	NR	14,168,626	0.48%	11,484,982	0.49%
Total Local Currency Financial Assets		2,221,789,193	74.42%	1,006,521,910	43.42%
Total Financial Assets		2,985,438,562	100.00%	2,317,859,785	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		2021 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						
		-	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-	-	768,194	-	-	768,194
	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
		-	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
Loans to Banks						
	AAA	-	24,917	-	-	24,917
	AA+	-	-	-	-	-
	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
	BBB+	-	6,205,432	-	-	6,205,432
	BBB-	-	2,939,496	-	-	2,939,496
	BB+	-	390,018	2,320,747	-	2,710,765
	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

	Credit Rating	Not Subject to ECL Rs.000	12 - Month ECL			2021 Total Rs.000
			Stage 1 Rs.000	Stage 2 Rs.000	Stage 3 Rs.000	
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
	AA-	-	5,681,858	17,393	-	5,699,251
	A+	-	600,404	127,206	-	727,610
	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
Comparative figures as at 31 December 2020 were as follows:						
	Credit Rating	Not Subject to ECL Rs.000	12 - Month ECL			2020 Total Rs.000
			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	-	229,314,631	91,779,044	-	321,093,675
	AAA	-	17,985,875	-	-	17,985,875
	AA-	-	31,190,936	-	-	31,190,936
	A+	-	29,928,070	-	-	29,928,070
	A	-	2,796,148	-	-	2,796,148
	A-	-	-	140,916	-	140,916
	BBB+	-	172,614	-	-	172,614
	BBB	-	766	39,977	-	40,743
	NR	-	228,665	-	-	228,665
Gross Carrying Amount		-	311,617,705	91,959,937	-	403,577,642
Loss Allowance		-	(90,277)	(180,061)	-	(270,338)
Carrying Amount		-	311,527,428	91,779,876	-	403,307,304
Securities at Fair Value through Other Comprehensive Income						
	AAA	-	142,264,212	47,520,841	-	189,785,053
	AA+	-	49,760,356	388,226,216	-	437,986,572
	AA	-	1,118,782	14,241,299	-	15,360,081
	AA-	-	6,112,997	21,885,256	-	27,998,253
	A+	-	27,284,633	5,020,871	-	32,305,504
		-	226,540,980	476,894,483	-	703,435,463
IMF Related Assets						
	NR	-	158,958,187	-	-	158,958,187
Gross Carrying Amount		-	158,958,187	-	-	158,958,187
Loss Allowance		-	(2)	-	-	(2)
Carrying Amount		-	158,958,185	-	-	158,958,185
Local Currency Financial Assets						
Sri Lanka Government Securities						
	Government Securities (Risk Free Investment)	714,531,527	-	-	-	714,531,527
		714,531,527	-	-	-	714,531,527
Securities Purchased under Resale Agreements						
	Other Risk Free Investment	2,728,412	-	-	-	2,728,412
		2,728,412	-	-	-	2,728,412
Provisional Advances to Government						
	Receivable from the Government (Risk Free Investment)	153,061,900	-	-	-	153,061,900
		153,061,900	-	-	-	153,061,900

	Credit Rating	Not Subject to ECL Rs.000	12 - Month ECL		Life Time ECL		2020
			Stage 1 Rs.000	Stage 2 Rs.000	Stage 3 Rs.000	Total Rs.000	
Loans to Banks	AAA	-	147,319	-	-	-	147,319
	AA+	-	61,475,776	-	-	-	61,475,776
	AA-	-	9,094,989	-	-	-	9,094,989
	A+	-	19,967,361	-	-	-	19,967,361
	A	-	13,459,930	-	-	-	13,459,930
	A-	-	938,151	-	-	-	938,151
	BBB+	-	94,935	10,864	-	-	105,799
	BBB-	-	3,096,013	-	-	-	3,096,013
	BB+	-	-	2,612,025	-	-	2,612,025
	NR	-	608,531	136,000	-	-	744,531
Gross Carrying Amount		-	108,883,005	2,758,889	-	-	111,641,894
Loss Allowance		-	(6,215)	(148,153)	-	-	(154,368)
Carrying Amount		-	108,876,790	2,610,736	-	-	111,487,526
Other Assets							
	Government Securities (Risk Free Investment)	12,082,642	-	-	-	-	12,082,642
	Receivable from the Government (Risk Free Investment)	597,774	-	-	-	-	597,774
	Other Risk Free Receivable	9,259,535	-	-	-	-	9,259,535
Locally Rated	AAA	-	137,785	-	-	-	137,785
	AA+	-	709,287	-	-	-	709,287
	A+	-	190,146	-	-	-	190,146
	A	-	19,756	-	-	-	19,756
	A-	-	98,311	-	-	-	98,311
	NR	-	-	81,525	183,276	-	264,801
Gross Carrying Amount		21,939,951	1,155,285	81,525	183,276	-	23,360,037
Loss Allowance		-	(48)	(79,524)	(183,276)	-	(262,848)
Carrying Amount		21,939,951	1,155,237	2,001	-	-	23,097,189

(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.

	2021				2020			
	Stage 1 Rs. 000	Stage 2 Rs. 000	Stage 3 Rs. 000	Total Rs. 000	Stage 1 Rs. 000	Stage 2 Rs. 000	Stage 3 Rs. 000	Total Rs. 000
Cash & Cash Equivalents								
Balance as at 1 January	90,277	180,061	-	270,338	219,331	2,627	-	221,958
Transfer to Stage 1	1,164	(1,164)	-	-	-	-	-	-
Transfer to Stage 2	(52)	52	-	-	(182,822)	182,822	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
Amount charged to the Income Statement	(39,380)	(145,590)	-	(184,970)	53,768	(5,388)	-	48,380
Balance as at 31 December	52,009	33,359	-	85,368	90,277	180,061	-	270,338
Securities at Fair Value through Other Comprehensive Income								
Balance as at 1 January	36,546	2,062,175	-	2,098,721	81,259	19,635	-	100,894
Transfer to Stage 1	-	-	-	-	6,380	(6,380)	-	-
Transfer to Stage 2	-	-	-	-	(24,507)	24,507	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
Amount charged to the Income Statement	(35,551)	(2,062,175)	-	(2,097,726)	(26,586)	2,024,413	-	1,997,827
Balance as at 31 December	995	-	-	995	36,546	2,062,175	-	2,098,721
IMF Related Assets								
Balance as at 1 January	2	-	-	2	4	-	-	4
Transfer to Stage 1	-	-	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
Amount charged to the Income Statement	1	-	-	1	(2)	-	-	(2)
Balance as at 31 December	3	-	-	3	2	-	-	2
Loans to Banks								
Balance as at 1 January	6,215	148,153	-	154,368	-	35	-	35
Transfer to Stage 1	140,773	(140,773)	-	-	-	-	-	-
Transfer to Stage 2	(37)	37	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
Amount charged to the Income Statement	(132,516)	14,060	-	(118,456)	6,215	148,118	-	154,333
Balance as at 31 December	14,435	21,477	-	35,912	6,215	148,153	-	154,368
Claims paid under Credit Guarantee Scheme								
Balance as at 1 January	-	-	-	-	-	-	-	-
Transfer to Stage 1	-	-	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
Amount charged to the Income Statement	-	-	13,016	13,016	-	-	-	-
Balance as at 31 December	-	-	13,016	13,016	-	-	-	-

	2021				2020			
	Stage 1 Rs. 000	Stage 2 Rs. 000	Stage 3 Rs. 000	Total Rs. 000	Stage 1 Rs. 000	Stage 2 Rs. 000	Stage 3 Rs. 000	Total Rs. 000
Other Assets								
Balance as at 1 January	48	79,524	183,276	262,848	15,618	15	175,275	190,908
Transfer to Stage 1	-	-	-	-	15	(15)	-	-
Transfer to Stage 2	(1)	1	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
Amount charged to the Income Statement	142	(79,284)	2,043,611	1,964,469	(15,585)	79,524	8,001	71,940
Balance as at 31 December	189	241	2,226,887	2,227,317	48	79,524	183,276	262,848
Credit Guarantees								
Balance as at 1 January	-	-	-	-	-	-	-	-
Transfer to Stage 1	-	-	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
Amount charged to the Income Statement	1,011,732	-	-	1,011,732	-	-	-	-
Balance as at 31 December	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
	2021	2020		
Securities Purchased under Resale Agreements	100	100		Marketable Government Securities
Loans to Banks				
Liquidity Facility to the Construction Sector	-	100		Marketable Government Securities
Saubagya Covid Renaissance Facility	100	100		Marketable Government Securities and Loan Receivables
Saubagya Loan Scheme	100	-		The underlying loans granted
Repair of Damaged Houses North and East	100	-		The underlying loans granted

(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.

	2021		
	Impact: Increase/ (Decrease)		
	Stage 1 Rs. 000	Stage 2 Rs. 000	Stage 3 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			
Disposal of part of the Fixed Income Security Portfolio during the year	(35,551)	(2,062,174)	-
Loans to Banks			
- Already Existed balances			
Declined due to the loan repayments during the year	-	(140,425)	-
Increased due to the 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 the reduced exposure with non rated counterparties	-	(79,282)	-
- Absorbed balances			
Increased due 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	-	-
	942,620	(2,414,834)	13,016

	2020		
	Impact: Increase/ (Decrease)		
	Stage 1	Stage 2	Stage 3
	Rs. 000	Rs. 000	Rs. 000
Securities at Fair Value through Other Comprehensive Income			
The exposure has slightly decreased with a substantially reduced credit quality as a result of Covid-19 impact	-	2,042,540	-
Loans to Banks			
Increased exposure due to granting of new loan facilities	-	148,119	-
Internal Funds			
Increased exposure with unrated counterparties	-	79,508	-
	-	2,270,166	-
(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.			
	2021	2020	
	Rs. 000	Rs. 000	
Credit-impaired assets at amortized cost as at 1 January	-	-	
Classified as credit-impaired during the year	13,016	183,277	
Incorporation of credit impaired assets of schemes operated by RDD	2,043,610	-	
Change in ECL allowance	(2,056,626)	(183,277)	
Credit-impaired assets at amortized cost at 31 December	-	-	
(j) Covid-19 impact on Credit Risk			
The bank has adopted a higher weightage for the worst case scenario in the probability weighted default probability computation to better reflect the impact of Covid-19 in the computation of Expected Credit Losses.			
48.2 Interest Rate Risk			
(a) Foreign Currency Interest Rate Sensitivity			
Interest rate risk is the risk of loss arising from the changes in interest rates.			
The interest rate sensitivity of the Fixed Income Securities portfolio, except the investment in Reserve Advisory Management Program (RAMP), is measured by the potential gain or loss that could incur due to a change in interest rate by 10 basis points. The interest rate sensitivity of the Fixed Income Securities portfolio held under RAMP is measured by the potential gain or loss that could incur due to a change in interest rate by 1 basis point. Sensitivity of the risk exposure of the segmented Fixed Income Securities Portfolio is given below:			
	Potential Loss (USD Mn)		
Portfolio Segment	2021	2020	
Fair Value through Other Comprehensive Income	0.16	7.94	
RAMP	-	0.03	
RMD manages the interest rate risk of the foreign assets portfolio by employing the following strategies:			
i) While the interest rate sensitivity measures the effect of a change in interest rates on the foreign assets portfolio, the Bank uses Modified Duration (MD) as a measurement of interest rate risk which considers interest rates as well as the duration of an investment. The MD measures the change in price of a security for a 1% change in the interest rates (yield). A higher MD indicates a higher risk. Hence, the Bank sets an appropriate MD from time to time considering the developments in the financial markets, portfolio characteristics and the risk appetite of the bond portfolio. The MDs of the foreign assets portfolio are tabulated below:			
	Investment Segment		Modified Duration
		2021	2020
Capital Market (Fixed Income Securities)		3.69	2.11
RAMP		-	1.46
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)
		2021	2020
Fair Value through Other Comprehensive Income		0.18	0.08
RAMP		-	0.04
iii) Value at Risk (VaR)			
VaR summarizes in a single number the downside risk of the portfolio, under normal market conditions, from financial market movements. Therefore, VaR is the maximum loss over a target horizon such that there is a low, pre-specified probability that the actual loss will be larger. VaR gives a number, in terms of money, which can be aggregated across risks and positions. The Bank uses Monte Carlo method to			

calculate VaR number for 10 days period at 99% confidence interval for its fixed income securities portfolio except for the investment in RAMP. The VaR of the fixed income securities portfolio held under RAMP is measured using the Monte Carlo method for one month period at 99 % confidence interval.

Portfolio Segment	Value at Risk (VaR)	
	2021	2020
Fair Value through Other Comprehensive Income	0.48	26.72
RAMP	-	1.04

iv) Trading & Open Position Limits

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

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

(b) Local Currency Interest Rate Sensitivity

The Government Securities portfolio is recorded in the Statement of Financial Position of the Bank at Fair Value

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

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)

through Other Comprehensive Income as per the Business Model assessment under IFRS 9. This portfolio is not an investment portfolio, as the Bank does not purchase Government Securities with the intention of earning an interest income. The Bank purchases or sells Government Securities to inject rupee liquidity into the domestic market or to absorb liquidity from the market in the course of carrying out its monetary policy operations in relation to one of its core objectives, maintaining economic and price stability. Hence, the volume of Government Securities in the Bank's portfolio is determined by its monetary policy operations. In addition, the basic interest rates in the rupee market, the Repo rate and the Reverse Repo rate are policy rates determined by the Bank in the course of implementing its monetary policy. Moreover, the Bank's actions in injecting rupee liquidity or absorbing liquidity from the market have a significant impact on general rupee market interest rates. Thus, changes in the interest income earned from the Government Securities portfolio, which arise from changes in the volume of the Bank's Government Securities portfolio, as well as changes in interest rates, are primarily a consequence of the Bank's monetary policy actions, rather than due to investment decisions. Therefore, the Bank does not consider interest rate sensitivities arising from local currency assets.

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

Comparative figures as at 31 December 2020 were as follows:

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

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

(d) Cash Flow Sensitivity Analysis for Variable Rate Instruments

A reasonably possible change of 100 basis points in interest rates at the reporting date would have increased/ (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

	Profit or Loss		Equity, net of tax	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2021				
Variable Rate Instruments	-	-	-	-
Cash flow sensitivity (net)	-	-	-	-
31 December 2020				
Variable Rate Instruments	94,371	(92,502)	94,371	(92,502)
Cash flow sensitivity (net)	94,371	(92,502)	94,371	(92,502)

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 Foreign Reserves Management Committee (FRMC) have set percentage holdings of different currencies in its International Reserves. In

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

Net Exposure to Foreign Currencies

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									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	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 Profit or Loss and 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
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	-	-

As at 31 December 2020, the net exposure of the Central Bank of Sri Lanka to major currencies were as follows:

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

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

As at 31 December 2020	Sri Lanka Rupees Rs. 000	United States Dollars Rs. 000	Japanese Yen Rs. 000
Purchases	185,933,135	98,373,989	-
Sales	(38,620,260)	(183,891,689)	(60,050,721)
Forward Contra Account	(1,744,454)	-	-

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

Currency	Average Rate		Year-end Spot Rate	
	2021	2020	2021	2020
	Rs	Rs	Rs	Rs
1 USD	200.1553	185.8584	200.4338	186.4082
1 EUR	236.2532	213.1154	227.8832	227.7256
1 JPY	1.8137	1.7488	1.7417	1.8055
1 GBP	275.2172	239.9567	271.2270	254.8200
1 SDR	285.0534	259.7846	280.9312	272.6200
1 AUD	149.8331	128.8643	145.5851	143.4225

Sensitivity Analysis

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

	Profit or Loss	
	Strengthening	Weakening
	Rs. 000	Rs. 000
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)

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

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

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	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	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 Bank	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	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	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	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

Foreign Currency Conversions

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

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

As at 31 December 2020	Less than 6 months	6 Months -1 Year	1-2 Years	2-5 Years	Over 5 Years	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Foreign Currency Financial Assets						
Cash & Cash Equivalents	403,307,304	-	-	-	-	403,307,304
Securities at Fair Value through Profit or Loss	7,669,197	7,624,371	20,303,019	11,393,477	-	46,990,064
Securities at Fair Value through Other Comprehensive Income	73,114,024	90,062,578	201,465,928	338,787,647	4,807,787	708,237,964
IMF Related Assets	13,539,094	-	-	208,076	145,211,015	158,958,185
Other Receivables	1,702,247	-	-	-	-	1,702,247
Total un-discounted Foreign Financial Assets	499,331,866	97,686,949	221,768,947	350,389,200	150,018,802	1,319,195,764
Local Currency Financial Assets						
Sri Lanka Government Securities	463,313,921	405,150,819	5,524,792	26,202,317	317,849	900,509,698
Securities Purchased under Resale Agreements	2,728,412	-	-	-	-	2,728,412
Provisional Advances to Government	153,061,900	-	-	-	-	153,061,900
Equity Investments in Financial and Other Institutions	-	-	-	-	1,615,356	1,615,356
Loans to Banks	96,083,289	7,331,102	8,150,872	-	-	111,565,263
Other Assets	4,948,189	1,395,674	2,255,604	9,040,665	14,669,924	32,310,056
Total un-discounted Local Financial Assets	720,135,711	413,877,595	15,931,268	35,242,982	16,603,129	1,201,790,685
Total un-discounted Financial Assets	1,219,467,577	511,564,544	237,700,215	385,632,182	166,621,931	2,520,986,449
Foreign Financial Liabilities						
Banks and Financial Institutions	208,337,221	-	-	-	-	208,337,221
Asian Clearing Union	63,864,652	-	-	-	-	63,864,652
IMF	6,883,538	6,864,314	31,133,271	127,514,224	350,966,277	523,361,624
Others	74,870,325	-	-	-	-	74,870,325
Total un-discounted Foreign Financial Liabilities	353,955,736	6,864,314	31,133,271	127,514,224	350,966,277	870,433,822
Local Currency Financial Liabilities						
Deposits of Banks and Financial Institutions	129,601,521	-	-	-	-	129,601,521
Deposits of Government and Governmental Entities	1,460,512	-	-	-	-	1,460,512
Securities Sold Under Repurchase Agreements	209,507,898	-	-	-	-	209,507,898
Currency in Circulation	834,807,859	-	-	-	-	834,807,859
Other Payables	14,742,792	-	-	-	-	14,742,792
Total un-discounted Local Financial Liabilities	1,190,120,582	-	-	-	-	1,190,120,582
Total un-discounted Financial Liabilities	1,544,076,318	6,864,314	31,133,271	127,514,224	350,966,277	2,060,554,404
Net un-discounted Financial Assets/ (Liabilities)	(324,608,741)	504,700,230	206,566,944	258,117,958	(184,344,346)	460,432,045
As at 31 December 2020						
	Less than 6 months	6 Months -1 Year				
	Rs. 000	Rs. 000				
Derivative Financial Assets	117,285,065	30,027,810				
Derivative Financial Liabilities	115,556,701	30,011,720				

48.5 Liquidity Risk

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

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

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

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

c) Financial assets available to support future funding

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

31 December 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
31 December 2020			
	Encumbered Pledged as collateral Rs. 000	Unencumbered Available as collateral Rs. 000	Total Rs. 000
Foreign Currency Financial Assets			
Cash and Cash Equivalents	-	403,307,304	403,307,304
Securities at Fair Value through Profit or Loss	-	40,564,323	40,564,323
Securities at Fair Value through Other Comprehensive Income	201,461,348	501,974,115	703,435,463
Derivative Financial Instruments	-	3,370,353	3,370,353
IMF Related Assets	-	158,958,185	158,958,185
Other Receivables	-	1,702,247	1,702,247
Local Currency Financial Assets			
Sri Lanka Government Securities	-	714,531,527	714,531,527
Securities Purchased under Resale Agreements	-	2,728,412	2,728,412
Provisional Advances to Government	-	153,061,900	153,061,900
Equity Investments in Financial and Other Institutions	-	1,615,356	1,615,356
Loans to Banks	-	111,487,526	111,487,526
Other Assets	-	23,097,189	23,097,189
Total Financial Assets	201,461,348	2,116,398,437	2,317,859,785

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 2021	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	-	-	-	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	162,603,548	-	-	188,045,837	350,649,385
Total Foreign Currency Financial Assets	216,626,384	8,818,244	-	700,808,289	926,252,917
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
Other	-	-	-	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	-	-	-	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

31 December 2020	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	-	-	-	403,307,304	403,307,304
Securities at Fair Value through Profit or Loss	40,564,323	-	-	-	40,564,323
Securities at Fair Value through Other Comprehensive Income	-	703,435,463	-	-	703,435,463
Derivative Financial Instruments	3,370,353	-	-	-	3,370,353
IMF Related Assets	157,793,346	-	-	1,164,839	158,958,185
Other Receivables	-	-	-	1,702,247	1,702,247
Total Foreign Currency Financial Assets	201,728,022	703,435,463	-	406,174,390	1,311,337,875
Local Currency Financial Assets					
Sri Lanka Government Securities	-	714,531,527	-	-	714,531,527
Securities Purchased under Resale Agreements	-	-	-	2,728,412	2,728,412
Provisional Advances to Government	-	-	-	153,061,900	153,061,900
Equity Investments in Financial and Other Institutions	-	-	1,615,356	-	1,615,356
Loans to Banks	-	-	-	111,487,526	111,487,526
Other Assets	-	-	-	23,097,189	23,097,189
Total Local Currency Financial Assets	-	714,531,527	1,615,356	290,375,027	1,006,521,910
Foreign Currency Financial Liabilities					
Banks and Financial Institutions	-	-	-	208,337,221	208,337,221
Derivative Financial Instruments	574,182	-	-	-	574,182
Asian Clearing Union	-	-	-	63,864,652	63,864,652
IMF	-	-	-	509,925,278	509,925,278
Others	-	-	-	74,870,325	74,870,325
Total Foreign Currency Financial Liabilities	574,182	-	-	856,997,476	857,571,658
Local Currency Financial Liabilities					
Deposits of Banks and Financial Institutions	-	-	-	129,601,521	129,601,521
Deposits of Government and Governmental Entities	-	-	-	1,460,512	1,460,512
Securities Sold under Repurchase Agreements	-	-	-	209,507,898	209,507,898
Currency in Circulation	-	-	-	834,807,859	834,807,859
Other Payables	-	-	-	14,742,792	14,742,792
Total Local Currency Financial Liabilities	-	-	-	1,190,120,582	1,190,120,582
50. FAIR VALUE DISCLOSURES					
50.1 Fair Value of Assets and Liabilities					
<p>'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.</p> <p>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</p>					
<p>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:</p> <p>Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities;</p> <p>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</p> <p>Level 3: Fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).</p>					

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

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	162,603,548	-	-	162,603,548
	<u>171,421,792</u>	<u>54,022,836</u>	-	<u>225,444,628</u>
Foreign Currency Non-Financial Assets				
Gold	35,151,981	-	-	35,151,981
	<u>35,151,981</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>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>17,954,964</u>	<u>17,954,964</u>
Financial Liabilities				
Derivative Financial Instruments	-	1,139,323	-	1,139,323
	-	<u>1,139,323</u>	-	<u>1,139,323</u>
31 December 2020	Level 1 Rs. 000	Level 2 Rs. 000	Level 3 Rs. 000	Total Rs. 000
Financial Assets				
Securities at Fair Value through Profit or Loss	40,564,323	-	-	40,564,323
Securities at Fair Value through Other Comprehensive Income	703,435,463	-	-	703,435,463
Derivative Financial Instruments	-	3,370,353	-	3,370,353
IMF Related Assets	157,793,346	-	-	157,793,346
	<u>901,793,132</u>	<u>3,370,353</u>	-	<u>905,163,485</u>
Foreign Currency Non-Financial Assets				
Gold	76,220,055	-	-	76,220,055
	<u>76,220,055</u>	-	-	<u>76,220,055</u>
Local Currency Financial Assets				
Sri Lanka Government Securities	714,531,527	-	-	714,531,527
Equity Investments in Financial and Other Institutions	-	-	1,615,356	1,615,356
	<u>714,531,527</u>	-	<u>1,615,356</u>	<u>716,146,883</u>
Other Non-Financial Assets				
Land	-	-	11,334,725	11,334,725
Building	-	-	7,832,238	7,832,238
	-	-	<u>19,166,963</u>	<u>19,166,963</u>
Financial Liabilities				
Derivative Financial Instruments	-	574,182	-	574,182
	-	<u>574,182</u>	-	<u>574,182</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%.

	2021 Rs. 000	2020 Rs. 000
Balance as at 1 January	1,615,356	1,500,487
Additions during the Year	-	6,490
Fair Value Gain Recognised in the Other Comprehensive Income	55,862	108,379
Balance as at 31 December	<u>1,671,218</u>	<u>1,615,356</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 services 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.

50.2 Repurchase and Resale Agreements

The reported value of repurchase and resale agreements is considered to approximate their fair value due to short term nature of the agreements. The carrying value of the provided Standing Deposit Facility as at 31 December 2021 was Rs. 101,062.88 Mn (2020 - Rs. 209,507.90 Mn) and the carrying value of Sri Lanka Government Securities purchased under resale agreements as at 31 December 2021 was Rs.567,532.31 Mn (2020 – Rs. 2,728.41 Mn). There was no outstanding balance of Sri Lanka Government Securities sold under repurchase agreements as at 31 December 2021 (2020 – 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	
	2021 Rs. 000	2020 Rs. 000	2021 Rs. 000	2020 Rs. 000
Foreign Currency Financial Assets				
Cash and Cash Equivalents	512,762,452	403,307,304	512,762,452	403,307,304
IMF Related Assets	188,045,837	1,164,839	188,050,305	1,171,285
Other Receivables	-	1,702,247	-	1,702,247
Local Currency Financial Assets				
Securities Purchased under Resale Agreements	567,532,312	2,728,412	567,532,312	2,728,412
Provisional Advances to Government	150,128,800	153,061,900	150,128,800	153,061,900
Loans to Banks	90,572,746	111,487,525	88,468,648	108,722,785
Other Assets	34,063,770	23,097,190	33,614,096	21,334,664
Foreign Currency Financial Liabilities				
Banks and Financial Institutions	13,701	208,337,221	13,701	208,337,221
Asian Clearing Union	104,764,616	63,864,652	104,764,616	63,864,652
IMF	670,065,243	509,925,278	670,065,243	509,925,278
Others	357,295,676	74,870,325	357,295,676	74,870,325
Local Currency Financial Liabilities				
Deposits of Banks and Financial Institutions	300,704,162	129,601,521	300,704,162	129,601,521
Deposits of Government and Governmental Entities	1,392,301	1,460,512	1,392,301	1,460,512
Securities Sold under Repurchase Agreements	101,062,880	209,507,898	101,062,880	209,507,898
Currency in Circulation	1,005,099,066	834,807,859	1,005,099,066	834,807,859
Other Payables	19,163,882	14,742,792	19,163,882	14,742,792

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 Software to be capitalized from Property, Plant and Equipment to Intangible Assets

	2020		
	As reported previously Rs. 000	Adjustment Rs. 000	Reclassified Balance Rs. 000
Non Financial Assets			
Property, Plant & Equipment	20,539,377	(83,925)	20,455,452
Intangible Assets	24,327	83,925	108,252

Work in progress of Software amounting to Rs. 83.93 Mn disclosed under Property, Plant and Equipment in the Statement of Financial Position in 2020 have now been disclosed under Intangible Assets for better presentation.

Nature of the Transaction**Transactions:**

	2021 Rs. 000	2020 Rs. 000
Outright purchases of Government Securities	-	14,044,912
Outright sales of Government Securities	980,906	-
CBSL and Government Securities Purchased/Sold under Agreement to Repurchase/Sales	68,218,243,292	19,598,940,269
Interest income/expenses on CBSL and Government Securities Purchased/Sold under Agreement to Repurchase/Sales	8,378,432	4,569,328
Funds received on behalf of Government	365,111,003	441,954,041
Funds disbursed on behalf of Government	362,223,823	35,987,068
Cost of Printing currency notes, for the year ended 31 December (Note 52.1.3)	1,086,655	1,195,295
Payments for Goods, Services and Taxes, during the year ended 31 December (Note 52.1.4)	1,129,790	270,783
Gross Foreign Exchange Transactions during the period (Note 52.1.6)		
Sales	225,597,381	17,749,013
Purchases	61,515,180	57,158,110
USD/LKR Derivatives	651,697,925	448,596,460
Funds Received in respect of Abandoned Property, during the year	914,309	1,073,398
Rent Income	282,173	321,821
Dividend Income	115,786	154,381
Other Transactions (Note 52.1.9)	1,088,948	1,076,897

Balances:

Sri Lanka Government Securities held by CBSL (Note 52.1.7)	1,377,820,347	714,531,527
Provisional Advances to Government (Note 14)	150,128,800	153,061,900
Loans given under Covid - 19 Renaissance Refinance Scheme	11,817,950	23,059,946
Government Securities held for specific purposes	15,938,729	12,914,495
RTGS Balances with Banks and Financial Institutions (Note 26)	221,738,927	81,586,946
Nostro Balance with BOC London	243,388	228,665
Receivable from Treasury and other Ministries	4,087,983	597,774
Payable to Treasury and other Ministries (Note 25)	1,484,824	-
Current Account Balances with Government and Government Entities as at 31 December	(1,107,407)	(1,215,313)
Abandoned Property Balances	5,998,940	5,057,128
Other Balances (Note 52.1.9)	292,917	175,813

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, 07

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:

Licensed Commercial Banks and 01 Licensed Specialised Bank which had been funded by the Government or has a significant influence which are classified as related parties of the Central Bank of Sri Lanka.

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

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

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

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

52.1.5 The Bank commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets and liabilities on behalf of Government, trusts, retirement benefit plans and other institutions, as explained in Note 55.

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

52.1.7 The Domestic Operations Department of the Bank performs its direct functions of implementing the Bank's monetary policy mainly through open market operations as per sections 90-92 of the MLANo 58 of 1949 (amended) and enforcing Statutory Reserve Requirement as per sections 93-98 of MLA and functions as the banker to both commercial banks where Government has shareholdings and certain other financial institutions and Governmental entities. The aggregate balances arising from this function as at 31 December 2021 is given in Note 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.

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

	2021 Rs. 000	2020 Rs. 000
Short Term Employee Benefits	180,218	204,508

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

	2021 Rs. 000	2020 Rs. 000
Outstanding Loans to Key Management Personnel	98,648	90,847
Loans granted during the year	6,699	10,000
Loans re-paid during the year	10,038	31,758

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

	2021 Rs. 000	2020 Rs. 000
Contributions paid and payable	73,517	73,173

The Bank contributed various amounts to Pension and Other Post Retirement Plans as disclosed in Note 32 and paid Rs. 717.59 Mn (2020 – Rs. 709.46 Mn) to Employees Provident Fund. In the normal course of business, the Bank provides banking and financial services to its post employment plans. Amounts of balances with such plans are given in Note 30.2.

53. CONTINGENT LIABILITIES AND COMMITMENTS

53.1 Financial Guarantee Contracts

The Bank acting as an agent of the Government or its agencies and institutions, provides guarantees to various parties on the strength of counter guarantees issued

to Bank by the General Treasury. There were no such outstanding guarantees as at 31 December 2021.

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	
	2021 Rs. 000	2020 Rs. 000
Related Parties	21,742,330	20,898,328
Others	526,405	539,315
Total Credit Guarantees	22,268,735	21,437,643

The expected credit loss on credit guarantee is recognized for the year ended 31 December 2021 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 2021 and no provision has been made as the Bank is of the opinion that it is unlikely that any significant loss will arise.

53.5 Commitments

- As at 31 December 2021, the Bank has capital commitments amounting to Rs. 309.17 Mn, in respect of the acquisition of Property, Plant and Equipment and production of currency.
- As at 31 December 2021, outstanding forward exchange transactions are as follows:

Forward exchange contracts	2021 '000	2020 '000
Forward Exchange Sales		
USD	734,550	986,500
JPY	2,800,000	33,260,000
Forward Exchange Purchases		
USD	225,145	208,000

54. TRANSFERS OF FINANCIAL ASSETS

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

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

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

54.1 Transferred Financial Assets that are not Derecognized in their Entirety

a. Securities Sold under Agreements to Repurchase

Securities sold under agreements to repurchase transactions are performed as part of the Monetary Policy operations of the bank and continues to be recognised in their entirety under "Sri Lanka Government Securities" in the statement of financial position because it retains substantially all of the risks and rewards of ownership. The cash consideration to be paid and the interest accrued there on are recognized under Securities sold under repurchase agreements in the local financial liabilities of the Statement of Financial Position.

b. Securities Lending

Securities lending describes the established market practice by which, for a fee, securities are transferred temporarily from one party (the lender, i.e. CBSL), to another (the borrower); the borrower is obliged to return them either on demand or at the end of any agreed term. Currently a selected Clearing House (CH) functions as the custodian for the supranational bonds and bonds issued by different issuers. CBSL has signed an agreement which enable CH to lend at their wish depending on the demand for those bonds. Since the lending does not involve CBSL and CH lends them directly to the borrowers, the process is called auto bond lending. At the end of each month, custodian will send fee income for auto bond lending, if any for the bonds

which they lent under auto bond lending programme. The Bank continues to recognize the securities in their entirety in the Statement of Financial Position because it retains substantially all of the risks and rewards of ownership. These securities are presented in the Statement of Financial Position as "Securities at Fair value through other Comprehensive Income".

c. Securities Pledged

In order to facilitate the securities settlement process, were the Central Bank of Sri Lanka (CBSL) pledged securities amounting to AUD 35.0 Mn to Euroclear Bank and obtained a credit facility of USD 30.0 Mn. At present, pledged securities held with Euroclear Bank amount to USD 13.5 Mn. The pledged securities are held in a separate account at Euroclear Bank.

With reference to the General Conditions Governing the Extension of Credit Facilities to participants in the Euroclear System, CBSL's credit facility was reduced USD 20.0 Mn with effect from 31 January 2017, following a review of the transaction related activity in respect of CBSL's accounts with Euroclear Bank.

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

Required actions have already been taken to re-establish the suspended credit facility and Euroclear Bank's response is pending since 12 August 2020.

An amount of USD 1,000.0 Mn was raised under the FIMA Repo facility provided by the U.S. Federal Reserve Bank of New York on 28 September 2020 by pledging Fixed Income Securities from the CBSL foreign reserves worth of USD 1,013.10 Mn as at 31 December 2020. This Facility was fully withdrawn by CBSL by the end of March 2021.

	2021 Financial Assets at FVOCI Rs. 000	2020 Financial Assets at FVOCI Rs. 000
Assets		
Securities Lending	-	430,965
Securities Pledged with Euroclear	2,830,756	5,258,986
Securities Pledged with Federal Reserve Bank	-	196,202,362
Carrying Amount of Assets	<u>2,830,756</u>	<u>201,892,313</u>

55. TRUST AND CUSTODIAL ACTIVITIES

The bank commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets and liabilities on behalf of the GOSL, trusts, retirement benefit

plans and other institutions. The significant trust activities performed by the Bank are as follows:

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

All Licensed Commercial Banks (LCBs), Licensed Specialized Banks (LSBs) and Licensed Finance Companies (LFCs) shall be the members of this Scheme. Accordingly, 69 institutions are members of this Scheme as at 31 December 2021. 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 2021, the fund size of SLDILSF is Rs. 67,887.33 Mn (unaudited). 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.

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

55.6 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. GOSL/Donor Funded Projects

(i) Concluded Projects

Name of the Project/ Loan Scheme	Total Allocation of the Fund (Mn.)		Objective/s	Refinance Granted to PFIs (Rs. Mn.)
Tea Development Project	USD	24.50	Increase income generating activities of Tea Small Holders and improve the contribution to the natural environment.	2,550.90
Second Perennial Crop Development Project	SDR	11.56	Commercialization of perennial crops sector, increase production, nursery development, post harvest handling, processing and marketing.	1,453.11
Plantation Sector Reform Project	USD	40.00	Support policy and institutional reforms in the plantation sub-sectors to increase the productivity and profitability while maintaining competitive advantage of the Plantation Industry.	5,200.00
Small Business Revival Programme	LKR	2,656.00	Resumption of Tsunami affected SMEs.	2,663.40
Small Business Revival Programme - Revolving Fund	LKR	150.00	Resumption of SMEs affected by Tsunami using recovery of Small Businesses.	122.72
Skill Development Project	LKR	94.31	Improve the quality and reliance of Skill Development obtained by the Training Programmes to high quality workforce and address skill mismatching.	94.59
Urban Environment Infrastructure Development Project	USD	4.00	Improve Environmental facilities, health and sanitary conditions of the people living in the urban and semi-urban areas.	369.15
Housing Guarantee Low Income Housing Shelter Project	USD	25.00	Assist Low Income community to build houses/ renovate/ expand the existing.	1,362.00
Urban Development Low Income Housing Project	SDR	15.10	Support Low Income community to improve life style through building up of house.	1,915.76
North Western Province -Water Resource Development Project	USD	1.80	Improve Economic, Social and Nutritional well-being of the people in the North Western Province.	102.76
Matale Regional Economic Advancement Project	SDR	2.00	Permanent rising and sustaining of Income of Small Entrepreneurs.	249.06
Mid Country Perennial Crop Development Project	SDR	11.56	Increase the production capacity of Perennial Crops in the Mid Country area.	642.00
Agriculture Rehabilitation Project	SDR	17.05	Rehabilitate persons and property, affected by the civil disturbances in the Northern and Eastern Provinces including five bordering Districts.	843.00
Small Holder Tea Development Project	USD	12.60	Develop Small Holder Tea Sector and rehabilitate tea facilities.	645.93
Poverty Alleviation Micro-finance Project	YEN	1,368.00	Setting up of an effective credit delivery mechanism for channelling formal credit to income generating activities.	1,402.45
Small Farmers Landless Credit Project	USD	17.40	Establish cost effective and sustainable micro credit delivery system to generate employment while improving saving habits among the Low Income Community.	345.69

Kegalle Integrated Rural Development Project	SDR	1.50	Uplift the living standard of people by promoting income generating activities.	148.00
Southern Province Rural Development Project	SDR	27.90	Improve the quality of life and enhance the income generating activities of the people in the Southern Province.	564.00
EIB Contract B	EUR	10.00	Rehabilitate Small and Medium Size projects including Tourism and their service sectors directly affected by the Tsunami.	1,553.27
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 PFIs (Rs. Mn.)
	LKR	USD		
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.	4,273.60
"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.	5,449.54
Smallholder Agribusiness Partnership Programme (SAPP) 4P Agribusiness	USD	30.29	Increase the Production, Productivity, Quality and Value addition of agriculture produce.	419.48
Smallholder Agribusiness Partnership Programme (SAPP) 4P Youth				359.31
Smallholder Agribusiness Partnership Programme (SAPP) RF Youth				132.26
Smallholder Agribusiness Partnership Programme (SAPP) RF Agri Business				11.98
Smallholder Agribusiness Partnership Programme (SAPP) RF Income Generation				38.19
Smallholder Agribusiness Partnership Programme (SAPP) 4P FI Bulk Loan				58.85
Smallholder Agribusiness Partnership Programme (SAPP) RF FI Bulk Loan				-
Smallholder Agribusiness Partnership Programme (SAPP) RF Promoter Bulk Loan				-
Self Employment Promotion Initiative Phase II (SEPI II)				LKR
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.	201.75

56. EVENTS OCCURRING AFTER THE REPORTING DATE

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

As disclosed in the Note 48.3, the values of assets and liabilities of the Bank denominated in foreign currencies have been translated with reference to the year end spot exchange rates. Subsequent to the reporting date, the exchange rates for the currencies disclosed in Note 48.3 to the financial statements have appreciated significantly against LKR and it would result in changes to the values arising from the subsequent translation or foreign currency assets and liabilities compared to the amounts reported in the statement of financial position as at 31 December 2021.

2. BANK SUPERVISION

The Bank Supervision Department (BSD) was established under Section 28 of the Monetary Law Act (MLA) No. 58 of 1949. It has been conferred in terms of the provisions of the MLA and the Banking Act No. 30 of 1988, with specific powers and duties to conduct continuous supervision and periodical examination of Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs) in Sri Lanka (hereinafter referred to as licensed banks) and to issue regulations to licensed banks. The main objectives of BSD are aimed at 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 achieve the above objectives, BSD carries out functions pertaining to regulation and supervision of licensed banks: issuing licences to carry out banking business, formulating and issuing prudential regulations, conducting continuous supervision and periodic statutory examinations of licensed banks, assessing and approving the fitness and propriety of Directors, Chief Executive Officers (CEOs) and Key Management Personnel (KMPs) of licensed banks, granting regulatory approvals, initiating regulatory actions as prescribed by the Monetary Board, and engaging in awareness and capacity building of the banking sector.

The Sri Lankan banking sector comprised 24 LCBs and 6 LSBs by end 2021. In addition, 3 Representative Offices (ROs) of foreign banks were in operation. Further, in March 2021, the Monetary Board granted approval for ICICI Bank Limited (ICICI), India to set up an RO in Sri Lanka. The RO of ICICI commenced operations in January 2022. A list of licensed banks and ROs is provided in Annex II-1.

A summary of the main functions and activities performed by BSD during 2021 is as follows.

2.1 Issuance of Prudential Regulations

BSD issued proactive prudential regulations to ensure stability and resilience of the banking sector while continuing to extend concessions to affected borrowers of licensed banks amidst the COVID-19 pandemic. Some of the key regulatory measures introduced during 2021 are summarised below. Regulations are provided in Part III of this Report.

- (a) Classification, Recognition and Measurement of Credit Facilities and Other Financial Assets in Licensed Banks
- (b) Regulatory Framework on Technology Risk Management and Resilience
- (c) Recovery plans for licensed banks
- (d) Priority sector lending targets for LCBs and LSBs to the

Micro, Small and Medium scale Enterprises (MSME) sector

- (e) Restrictions on discretionary payments of licensed banks
- (f) Restrictions on forward sales and purchases of foreign exchange by LCBs
- (g) Restrictions on investments in Sri Lanka International Sovereign Bonds (ISBs) by LCBs and National Savings Bank (NSB)
- (h) Maximum interest rates on mortgage backed housing loans and foreign currency deposits of LCBs and NSB
- (i) Extension of concessions for tourism sector and for borrowers affected by COVID-19
- (ii) Provision of banking services amidst the COVID-19 outbreak
- (k) Recognition of Lanka Rating Agency Ltd as an acceptable credit rating agency
- (l) Annual licence fee of licensed banks

2.2 Drafting the New Banking Act

BSD is in the process of finalising the 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, resolution of licensed banks, imposing monetary penalties/fines, ring-fencing of banks to mitigate contagion risk, and strengthening provisions for mergers, acquisitions, and consolidation. The Central Bank expects to enact the new Act by end 2022.

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

(a) Mergers, Acquisitions and Closures of Licensed Banks

The merger process between the Housing Development Finance Corporation Bank of Sri Lanka and State Mortgage and Investment Bank which commenced in 2018 continued during 2021.

(b) Branches and Other Banking Outlets of Licensed Banks

By end 2021, 586 requests were processed, and 484 approvals were granted, while 102 requests were deferred/declined on prudential grounds (Table II-1). Accordingly, by December 2021, there were 3,621 bank branches, 3,783 Student Savings Units and 6,342 Automated Teller Machines (ATMs) in operation.

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

Types of Approvals	No. of Approvals	
	Processed	Granted
Opening and Installation	428	366
Branches	32	13
Self Service Machines (SSMs)	205	166
Student Saving Units (SSUs)	0	0
Mobile Banking Units and Vehicles	0	0
Other Banking Outlets	35	35
Agents of Licensed Banks	156	152
Relocation	111	80
Branches	94	67
SSMs	12	8
Other	5	5
Closures and cancellation of approvals granted for branches and other service outlets	7	5
Discontinuation and cancellation of approvals granted for ATMs and Other Automated Machines	7	5
Discontinuation and cancellation of approvals granted for Agents of licensed banks	33	28
Total	586	484

(c) Other Regulatory Approvals

During 2021, a total of 502 other regulatory approvals were granted (Table II-2).

Table II-2
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	268
Outsourcing arrangements	32
Disposal of property below market value	18
Inclusion of debentures in Tier 2 capital	8
Exceeding maximum amount of accommodation	5
Abandoned property reimbursements	1
Acquiring material interest in shareholding	1
Requests for expatriate staff visa recommendations/renewals	20
Other Approvals	149
Total	502

(d) Regulatory Actions

During 2021, licensed banks were required to initiate corrective measures regarding non-compliances with the Banking Act and Directions issued thereunder on 18 instances.

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.

- (b) 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. In line with the Department Action Plan, the existing web-based off-site surveillance reporting system of banks is being reviewed with a view to rationalise and consolidate the financial data, considering inter alia the introduction of new accounting standards, i.e. SLFRS 9 – Financial Instruments and changes in regulatory requirements in terms of new classification directions (Banking Act Direction Nos. 13 and 14 of 2021) and other developments. Accordingly, two new FinNet returns were introduced, while two other returns were amended.
- (c) Considering the liquidity stresses resulting from moratoria and challenges faced by licensed banks in raising/rollover of foreign currency funds, special board papers were submitted to the Monetary Board. In addition, banking industry aggregate data were shared with other departments of the Central Bank and government institutions to facilitate policy decisions and preparation of reports. Further, the Monetary Board was apprised of the banking sector performance on a quarterly basis, while 13 presentations on the performance of the banking sector were also prepared for various fora.
- (d) BSD attended to complaints directly made by customers/general public or forwarded by the Financial Consumer Relations Department regarding frauds by bank staff/external parties, misconduct by bank staff, etc. Further, during 2021, approximately 22 requests made under the Right to Information Act No. 12 of 2016 were handled by BSD.
- (e) BSD facilitated the collection and submission of information on reimbursement of interest relating to the Special Interest Scheme for Senior Citizens to the Ministry of Finance on a quarterly basis. Further, BSD conducted 2 special examinations on remote basis to identify irregularities in the Special Interest Scheme for senior citizens and instructed licensed banks to rectify such irregularities.
- (f) BSD continued to monitor the progress on addressing supervisory concerns identified during statutory examinations of banks within specified time targets on a quarterly basis.

2.5 Conduct of Periodic Examinations

(a) During 2021, BSD conducted 22 Statutory Examinations, including examinations on full scope and follow-up examinations basis. Due to the third wave of the COVID-19 outbreak in the country, 12 Statutory Examinations were conducted on remote basis during the period commencing April to September 2021, considering the limitations over physical visits to banks.

- (b) In addition, 11 Spot Examinations were conducted on several licensed banks, inter-alia, to verify matters relating to export proceeds and workers' remittances, foreign currency transactions, Telegraphic Transfers (TT), ATM withdrawals, and classification of loans and advances by banks during the debt moratorium period granted under the COVID-19 Relief Scheme. Based on the findings of these Spot Examinations, Reports were submitted to the Monetary Board/Governor/senior management of CBSL, as appropriate, while recommendations of such reports were communicated to licensed banks or relevant departments of CBSL for implementation. Reports on Statutory Examinations of 4 banks conducted during 2020 were submitted to the Monetary Board in 2021 and accordingly, all reports of statutory examinations conducted in 2020 were completed during the first three months of 2021. In addition, 14 reports of Statutory Examinations of 11 banks conducted in 2021, including interim reports on 3 banks and 5 Statutory Examinations conducted on remote basis, were submitted to the Monetary Board and other reports are in the process of completion.
- (c) BSD conducted Statutory Examinations of 4 banks on consolidated risk-based supervision extending the scope of statutory examinations to group entities. One examination report including findings of the consolidated risk-based supervision was submitted to the Monetary Board in 2021 and 3 reports on consolidated supervision are in the process of completion.
- (d) During the year 2021, ratings were assigned to all 30 licensed banks, solely for internal purposes, in terms of the Bank Sustainability Rating Indicator (BSRI) Framework, based on a combination of quantitative and qualitative indicators attributable to the banks' efficiency and sustainability and overall assessment of banks. A Detailed Report on ratings assigned for licensed banks based on BSRI Framework was submitted to the Monetary Board as a part of a periodical industry review report. In addition, 4 statutory examinations were conducted in line with the BSRI Framework commencing 01.10.2021, as directed by the Monetary Board. Further, review of assigned ratings for all banks based on the quantitative indicators was carried out on a quarterly basis during the year.

2.6 Awareness and Capacity Building of the Banking Sector

(a) Capacity Building

During 2021, BSD continued providing resource persons for capacity building programmes of the banking sector as well as providing training and development opportunities for its staff. Most of these programmes were conducted virtually and covered areas such as banking and finance, regulatory compliance, risk management, technology/cybersecurity risk, climate risk resilience, and sustainable finance. Further, Officers of BSD also continued to serve as committee members in various committees.

(b) Meetings with Banks and other Stakeholders

BSD continued to function as the secretariat for the monthly meetings of CEOs of licensed banks chaired by the Governor which are aimed at maintaining continuous dialogue between the Central Bank and the banking sector. Accordingly, 11 monthly meetings and 2 special meetings were conducted physically/virtually in 2021 to discuss matters relating to the developments in the Sri Lankan economy, the banking sector, and the regulatory and supervisory framework. Additionally, a meeting of bank chairpersons was held to apprise the banking sector performance, developments in the economy and local and global regulatory frameworks, and the expectations of the regulator during these extraordinary times.

Regular meetings were conducted with the senior management and Board-appointed committees of concerned licensed banks to discuss bank-specific matters, to ensure proper oversight and timely implementation of corrective actions, and to ensure the sustainability of the banking sector. Further, BSD conducted meetings with external auditors of licensed banks and the Institute of Chartered Accountants of Sri Lanka to discuss matters pertaining to specific areas to focus on bank audits and consistent application of accounting standards by licensed banks amidst the COVID-19 outbreak.

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

Annex II - 1

List of Licensed Banks as 31.12.2021

Licensed Commercial Banks

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

Licensed Specialised Banks

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

Representative Offices of Foreign Banks

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

3. CENTRE FOR BANKING STUDIES

Established on 15 September 1981, the Centre for Banking Studies (CBS), the training arm of the Central Bank celebrated its 40th anniversary in the year 2021 and continued to play its strategic role of developing human capital of the financial services industry. The focus of CBS during the year 2021 was concentrated towards conducting all pre-scheduled programmes and other events with high quality to cater to the demand of the financial sector even amidst the challenges caused by continuation of the COVID-19 pandemic.

CBS offered training programmes covering a wide range of areas related to the banking and finance industry to ensure both technical and soft skills are developed in professionals. Among these, CBS offered several courses in collaboration with reputed international financial training institutes including the South-East Asian Central Banks (SEACEN) Centre and Deutsche Bundesbank. Further, CBS launched a new Certificate Course on “Financial Markets” in a bid to expand its standardised certificate courses. CBS continued to be a proactive partner in capacity development for the implementation of Sustainable Finance in Sri Lanka with the support of the United Nations Development Programme (UNDP) in the year 2021. During 2021, CBS successfully conducted 118 programmes which consisted of 48 pre-scheduled programmes, 27 special programmes and 43 public events. During the year, 4,741 participants attended CBS training programmes while public events of CBS were attended by 6,802 participants via online platforms. In addition, CBS coordinated two television series titled “Thakshilawa” and “Ariwootroo” targeting Advanced Level students who follow economics as a subject.

In marking the 40th Anniversary of CBS, several special events were organised. The Anniversary Oration on “Bridging the Knowledge Gap and Preserving Trust in the Professional Educational System” and the High-Level seminar on “Digital Financial Transformation” were two such events that gathered appreciable attention and created significant momentum among relevant stakeholders and the public. Further, CBS organised its first ever Post Budget Forum on the Government Budget 2022 and it was the first of CBS’s newly launched expert panel discussion series. In addition to these, CBS launched its revamped website with state-of-the-art interactive features, in

celebrating the 40th Anniversary (www.cbs.cbsl.lk). Parallel to these technological enhancements, the CBS website will be embedded with an Institute Management System (IMS) in early 2022 with the objective of replacing manual operations of CBS by an automated, secure and easy-to-use solution which eventually benefit all stakeholders of CBS.

CBS conducted an in-depth post evaluation process, to improve its programme modules, the delivery of lectures and other services it offers. In formulating future training interventions, a rigorous consultation process was carried out with the continuous engagement of the newly established Faculty Advisory Committee of CBS which consists of experienced and competent experts from the Central Bank and the financial industry. Further, CBS revamped its process of ascertaining and analysing training needs of the financial industry. A specially designed Training Needs Survey was carried out reaching a wide array of industry practitioners and human resource professionals and the feedback received and the survey outcomes were taken into consideration in preparation of the Course Catalogue for 2022. As a result of these continuous and effective engagements with the industry experts, CBS has expanded its training scope beyond the finance industry to other critical sectors of the economy, too.

4. COMMUNICATIONS

The Communications Department (CMD) continued to support the Central Bank’s core and other objectives through the timely dissemination of information amongst its various stakeholders by coordinating press conferences, conducting awareness programmes, etc. through a variety of media platforms, amidst challenging circumstances related to the travel and other restrictions imposed due to the COVID-19 pandemic that seeped into 2021.

4.1 Core Communications

Overall, CMD issued 1961 press releases detailing the decisions of the Monetary Board in relation to monetary policy, financial institutions and financial markets, in all three languages, in compliance with the National Language Policy. As the media constituted a key tool through which the Central Bank promotes transparency, CMD organised 14 press conferences to enhance the public’s understanding of what it does and why. These included the “Road Map 2021: Monetary and Financial Sector Policies for 2021 and Beyond” held in January and October 2021 to communicate the way forward of the Sri Lankan economy, and the 8 Monetary Policy Press Conferences as per the Advance Release Calendar; half of which were conducted virtually. CMD also supported the Monetary Policy endeavours of the Central Bank through its analyses of Monetary Policy Expectations prior to the Monetary Board meetings, by summarising policy rate predictions and forecasts by local research institutions as published in local newspapers and their rationales, to gauge public perceptions and expectations, and the Monetary Policy Reach Report,

within a week after each press conference, to assess the effectiveness of the reach of the core messages of the Monetary Policy Review and to identify the reactions by the media to the Monetary Policy Decisions of the Central Bank. Corrective actions were taken to rectify all inadvertent and deliberate inaccuracies by the media as and when required. CMD also arranged virtual awareness programmes on Monetary Policy at the regional level on a quarterly basis within approximately a week after the announcement of the Monetary Policy Review in collaboration with the Economic Research Department (ERD), Regional Development Department (RDD) and Centre for Banking Studies (CBS) to enhance the public understanding of Monetary Policy and to guide market expectations. Four such programmes were conducted at the Regional Offices of Matara, Trincomalee, Anuradhapura, and Kilinochchi during 2021.

CMD strengthened the social media presence of the Central Bank through the establishment of the Social Media Monitoring Unit and streamlined the process of addressing all social media queries submitted to the Central Bank. CMD also extended the advertising platforms of the Central Bank activities to online news websites in 2021 to enhance the reach of the messages by the Central Bank amongst the tech savvy segment of the population. Further, CMD collaborated with Financial Consumer Relations Department (FCRD) to introduce a separate webpage in the Central Bank corporate website to facilitate the complaint submission process of general public regarding financial institutions.

4.2 Other Communications

CMD also facilitated several additional press conferences covering a broader range of topics such as Foreign Remittances and Digital Economy. CMD issued press notices, including advertisements and allotted Gazette notifications as per the requirements of other departments during 2021. CMD continued to send SMS alerts pertaining to Telegraphic Transfer (exchange) rates, Sri Lanka Interbank Offered Rates (SLIBOR) and policy rates. In addition, with the assistance of the Statistics Department (STD), CMD disseminated key economic indicators on a daily, weekly and monthly basis, for the benefit of internal and external stakeholders of the economy. CMD also enhanced the modes of advertising to carry its messages across to the various target audiences. In addition to newspaper advertisements to promote the Conversion of Foreign Currencies through Commercial Banks and to request the general public to avoid informal ways of foreign remittances, CMD expanded its repertoire to include Alternative Online News Websites and Radio Snippets.

CMD, RDD and CBS jointly improved the scope of the Central Bank awareness programmes using media, in a mass scale, to enhance the financial literacy of the household sector to contain over-indebtedness. Radio programmes including a host of live radio discussions and a snippet campaign in collaboration with Sri Lanka Broadcasting Corporation were carried out as part of this campaign. In addition, TV discussions, a brochure

campaign, a poster and sticker campaign, publication of articles in newspapers and the Central Bank periodicals, a dedicated social media campaign, and the issuance of press releases aimed at raising awareness were also part of the financial literacy awareness campaign. CMD also conducted awareness programmes in all three languages for the Central Bank staff to enhance their writing skills.

The CMD issued a special publication on currency titled "The 70 Year Journey of Currency Issue and Management" co-authored by retired Director Communication of the Central Bank Ms. S H Gunawardena and Retired Senior Manager of the Nuwara Eliya Regional Office of the Central Bank Mr. W M K Weerakoon, which were sold through its publication sales counters at the Economic History Museum (EHM), the Centre for Banking Studies Publications Store in Rajagiriya, and the sales counters at Regional Offices. Although the publication sales counters were closed intermittently due to lockdowns and travel restrictions enforced by the pandemic, bulk sales of the Central Bank publications, including the 2020 Central Bank Annual Report were facilitated to bookshops through EHM, enabling timely public access to these publications despite lockdowns. Credit, debit card and QR code payment options were introduced to the EHM publication sales counter to ensure efficient transactions and minimise the physical handling of cash. CMD also distributed copies of various publications free of charge among government schools offering Economics as a subject for the Advanced Level examination and public libraries across the country. The Central Bank Annual Report-2020 was distributed among schools teaching Advanced Level Economics in collaboration with the Central Bank Regional Offices.

Despite the challenges posed by the pandemic, CMD's Photographic and Video Unit continued to cover the events of the Bank in 2021 and delivered all related services, including uploading video recordings of such events to the corporate website of the Bank and YouTube in a timely manner. From 2021, the CMD outsourced printing work of the Central Bank, and the Procurement Division of the Central Bank facilitated all printing requirements of the Central Bank, including the Central Bank Annual Report-2020, the periodicals; *Satahana*, *News Survey and Vaippakam*, *Economic and Social Statistics of Sri Lanka – 2021*, and the Sri Lanka Socio Economic Data Folder 2021.

4.3 Internal Communication

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

The Library and Information Centre (LIC) continued to play a key role in internal communications through the acquisition and dissemination of knowledge to help Central Bank officers to stay abreast on current affairs and economic developments in a rapidly changing environment. LIC increased its repertoire of books, reports, journals and various online databases which provide access to a wide range of publications on topics relating to economics, management and finance. In addition, LIC subscribed to online resources on subjects relevant to Central Banking; e.g. www.centralbanking.com, www.economist.com, etc. to provide staff access to them. LIC subscribes to international periodicals and journals such as *Fortune Magazine*, *Time Magazine*, *South Asia Economic Journal* and *The Economist* in printed form and *Asia Monitor*, *Payment Cards and Mobiles Payment*, *Journal of Financial Crime*, *Financial Regulation & Compliance*, *Money Laundering Control*, *Journal of Human Resources* in both printed and electronic forms. LIC continued to compile electronic notifications such as Current Contents, News from the Local Press, Central Banking.com, and News Desk. While notes and reports on economics, banking and finance were disseminated among the staff via the intranet, LIC also compiled a record of all daily newspapers for archival purposes.

5. CURRENCY

In terms of Section 49 of the Monetary Law Act No. 58 of 1949 (MLA), the Central Bank reserves the sole right and authority to issue currency in Sri Lanka. The Currency Department (CRD) of the Central Bank is entrusted with the responsibility of handling functions related to this statutory obligation of the Monetary Board on currency issuance and management. During 2021, CRD continued its contribution to the stability of the financial system by ensuring that the legal tender in Sri Lanka is available in required quality and adequate quantities to meet the demand and it is secured from counterfeiting, despite the challenges of COVID-19.

5.1 Currency Management

Issuance of good quality currency notes and coins into circulation, acceptance of currency deposits from Licensed Commercial Banks (LCBs), and withdrawal of unfit (unserviceable) currency notes and coins from circulation are the key functions of Currency Management. Following are the activities that were carried out during the year 2021 to ensure the effectiveness of currency management.

(a) Currency Printing and Minting

CRD placed orders for 185 million pieces of new currency notes value at Rs. 262.4 billion for the year 2021 to meet the demand and maintain sufficient stocks. There were no orders placed for circulation coins during the year 2021.

(b) Issuance of Currency

CRD successfully adapted to the new normal while addressing the unforeseen high demand for currency amidst the COVID-19 pandemic.

CRD facilitated and encouraged direct exchange of serviceable currency notes among LCBs which reduced issuances of currency notes in 2021 in comparison to the previous year. Accordingly, total currency issued into circulation amounted to Rs. 390.9 billion which comprised Rs. 172.7 billion of fit currency notes, Rs. 217.3 billion of new currency notes, and Rs. 0.9 billion of coins.

Table II-3
Issuance of Currency Notes and Coins

Item	Value (Rs. bn)				
	2017	2018	2019	2020	2021
Fit Notes	504.6	467.0	526.5	467.1	172.7
New Notes	123.3	328.4	248.7	229.5	217.3
Coins (a)	1.4	1.1	1.0	0.7	0.9
Total	629.3	796.5	776.2	697.3	390.9

(a) Commemorative coins are excluded from coin issuances

(c) Acceptance of Currency Deposits

CRD accepts currency deposits from LCBs, primarily to maintain the statutory reserve requirement imposed by the Central Bank. CRD also accepts unfit currency notes including damaged currency notes from LCBs to remove them from circulation. Fit currency notes deposited by LCBs during 2021 recorded a significantly lower amount compared to previous years, mainly due to relatively low Statutory Reserve Ratio and the facilitation of direct exchange of serviceable currency notes among LCBs.

Table II-4
Deposit of Currency Notes

Item	Value (Rs. bn)				
	2017	2018	2019	2020	2021
Fit Notes	464.2	524.1	606.9	445.0	144.6
Unfit Notes	119.9	229.6	132.1	95.4	76.1
Total	584.1	753.7	739.0	540.4	220.7

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

(d) Destruction of Unfit Currency Notes

Exercising the statutory power granted to the Central Bank to destruct unfit currency notes, CRD destroyed 108.2 million pieces of unfit currency notes amounting to Rs. 44.3 billion in 2021 (Table II-5).

Table II-5
Destruction of Unfit Currency Notes

Notes	2017	2018	2019	2020	2021
Pieces (mn)	177.1	343.8	235.0	127.3	108.2
Value (Rs. bn)	94.2	252.2	139.8	62.2	44.3

5.2 Other Activities

(a) Operating Currency Counters

During the year 2021, CRD catered to the public through currency counters by exchanging damaged currency

notes valued Rs. 93 million and the facilitation of the special exchange counter for the public established at Bank of Ceylon, Pettah Branch by issuing currency notes and coins valued Rs. 655 million and Rs. 39.1 million, respectively.

(b) Operating Economic History Museum

Unlike in previous years, the Economic History Museum (EHM) did not operate at its fullest potential due to the pandemic. However, during the year 2021, EHM rendered its services to 3,663 individuals on numismatics, by sales of commemorative notes, coins and other collector items, and conducting presentations.

(c) Preserving Public Confidence in Currency

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

Accordingly, CRD facilitated the certification of 1,065 counterfeit notes, which were detected and referred to the Central Bank. The rate of counterfeit notes detected is around 0.8 notes per million notes in circulation indicating substantially low level of incidence of counterfeiting compared to many other countries. As per Section 59 of the MLA, 63 certificates were issued as conclusive evidence for imitation of currency notes to facilitate court proceedings and CRD attended 3 court cases of counterfeiting during the year.

(d) Issuance of Commemorative Coins

The Central Bank issued gold and silver commemorative coins of Rs. 1000 to mark the 65th Anniversary of diplomatic relations between Sri Lanka and the People's Republic of China and the 100th Anniversary of Communist Party of China, in the year 2021.

(e) Approvals for Reproduction of Currency Notes

In terms of the Monetary Board approved policy on reproduction of currency notes, CRD granted approval for 2 requests during the year 2021.

5.3 Developments and New Projects

(a) Revamping Currency Operations

In line with the completion of the first stage of procurement for revamping of currency operations, the submitted Expression of Interest (EOI) Proposals were evaluated, and the second stage of the procurement has been initiated. Through this project, CRD expects to address several operational issues, including increasing currency note processing capacity and operational efficiency.

6. DOMESTIC OPERATIONS

6.1 Functions of DOD

The Domestic Operations Department (DOD) is entrusted with performing functions as stipulated in the Monetary Law Act (MLA) No. 58 of 1949, in supporting the achievement of the core objectives of the Central Bank. Accordingly, in 2021, the major functions carried out by DOD included the implementation of monetary policy by conducting Open Market Operations (OMOs), regulation of statutory reserves of Licensed Commercial Banks (LCBs), actions relating to banker and official depository of the Government, government agencies and other institutions, provision of intraday liquidity facility to dealer direct participants in order to ensure smooth functioning of the LankaSettle System, and regulation of Authorised Money Brokers (AMBs).

6.2 Implementation of Monetary Policy

6.2.1 Open Market Operations (OMOs)

DOD conducted OMOs in order to maintain the Average Weighted Call Money Rate (AWCMR), which serves as the operating target of the current flexible inflation targeting framework, at desired levels with less volatility.

(a) Estimating Money Market Liquidity

Domestic money market liquidity is estimated on a daily basis based on a number of factors with a view to addressing liquidity needs of participating institutions in the money market 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 currency in circulation, foreign exchange related transactions of the Central Bank, changes in the reserve position of commercial banks, and transactions of the Government with Central Bank were taken into consideration.

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

DOD provided inputs to the MOC in view of implementing the monetary policy stance adopted by the Monetary Board. Accordingly, upon reviewing the developments in the domestic money market and foreign exchange markets on a daily basis and considering the estimated liquidity conditions, desired level of the operating target, liquidity distribution among participating institutions in the money market, and the need for devising appropriate market signals, DOD proposed actions for consideration of the MOC in managing money market liquidity.

(c) Conducting Open Market Auctions

Auctions were conducted to absorb and inject liquidity from and to the money market on a needs basis in

support of overall liquidity management operations. Such auctions helped maintain the operating target of the monetary policy frame work at the desired level.

(i) Repurchase (Repo) Auctions

Overnight, short term and long term repo auctions were conducted to absorb excess liquidity from the domestic money market following the reversal of the accommodative monetary policy stance in mid-August 2021. 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 a same day settlement basis. Long term repo auctions were conducted with settlement on the next business day with the view to absorbing excess market liquidity that appeared to persist for a considerable period.

(ii) Reverse Repo Auctions

Reverse repo auctions were conducted to inject liquidity to the domestic money market on a long term basis in order to address the significant liquidity shortage of certain LCBs.

(iii) Outright Transactions

During 2021, outright sale of Treasury bill auctions was conducted by the Central Bank to absorb excess liquidity on a permanent basis from the money market by way of selling securities to Participating Institutions (PIs).

Table II-6
Auctions Conducted during 2021

Type of Auction	No. of Auctions	(Rs. bn)	
		Total Amount offered	Total Amount Accepted
Repo Auctions			
Overnight	46	1,594.0	1,182.7
Short term	47	870.0	423.0
Long term	11	180.0	60.0
Reverse Repo Auctions			
Long term (LCBs)	2	250.0	203.5
Outright Auctions			
Outright Sale of Treasury Bills	5	55.0	14.4

(d) Provision of Standing Facility

Standing facilities were provided to PIs, which were unable to fulfil their short term liquidity requirements through the interbank money market and daily OMO auctions. The Standing Deposit Facility (SDF) was used to absorb excess liquidity of PIs, while the Standing Lending Facility (SLF) was available to provide liquidity to PIs on an overnight basis. In 2021, the total amount absorbed under this SDF was Rs. 29,450.3 billion and total amount granted as SLF was Rs. 30,095.2 billion.

Table II-7
Standing Facilities during 2021

Standing Facility	(Rs. bn)			
	Minimum	Maximum	Average	Total Volume
Standing Deposit Facility	59.3	266.6	122.2	29,450.3
Standing Lending Facility	0.01	534.6	124.9	30,095.2

6.2.2 Administering and Monitoring the Statutory Reserve Ratio (SRR)

The SRR determines the minimum amount of reserves that each LCB should maintain, in terms of the provisions of the MLA, in the settlement account with the Central Bank, in proportion to the total rupee deposit liabilities of the respective bank. DOD is responsible for administering the maintenance of statutory reserves as per the SRR and monitoring the compliance of LCBs on the same. DOD issued operating instructions to all LCBs on 19 August 2021 as per the Monetary Board decision to increase the SRR by 2.00 percentage points to 4.00 per cent, with effect from the reserve maintenance period commencing 01 September 2021.

6.2.3 Bank Rate

The Bank Rate, which is termed as Lender of Last Resort (LOLR) rate, is the rate at which emergency loans are provided to banking institutions under Sections 86 and 87 of the MLA. The Bank Rate is automatically adjusted in line with the Standing Lending Facility Rate (SLFR), with a margin of +300 basis points. In line with the tight monetary policy stance introduced from mid-August 2021, the Bank Rate increased to 9.00 per cent by 19 August 2021. No emergency loans were provided for banking institutions during 2021.

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

6.3.1 Accounts of Financial Institutions

LCBs and Standalone Primary Dealers (SPDs) are connected to the monetary system through the settlement accounts with the Central Bank. The General Ledger (GL) accounts are maintained at DOD to facilitate the clearance of payments and settlements and for settlement of payments for scripless securities transactions among the Real Time Gross Settlements (RTGS) participants. Further, LCBs use the same accounts for the purpose of maintaining their reserves as per the SRR. As at end 2021, DOD maintained GL accounts pertaining to the RTGS accounts for 24 LCBs and 8 SPDs.

6.3.2 Government Accounts

In performing the functions relating to the role of the Central Bank as the banker to the Government, DOD continued to provide banking facilities to government departments, agencies and institutions and certain foreign entities on

behalf of the Government. DOD maintained 49 such accounts. More than 87 per cent of transaction volume of such accounts belonged to the Deputy Secretary to the Treasury (DST) Account, the Public Debt Department's Current Account, the Inland Revenue Commissioner's VAT Refund Account and the President's Fund Account.

In terms of Section 89 of the MLA, the Central Bank provides provisional advances to the Government, not exceeding ten 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, which shall be repayable within a period not exceeding six months. At the beginning of 2021, maximum utilisable amount under provisional advances was increased by Rs. 43.7 billion to Rs.198.4 billion based on the government revenue estimate for the year 2021. However, with the revised government budget, which was approved by the Parliament in December 2021, maximum utilisable amount under provisional advances was revised downward to Rs. 152.0 billion. Accordingly, as at end 2021, the provisional advances stood at Rs. 152.0 billion, compared to Rs. 154.7 billion as at end 2020. Based on the government budget for 2022, the provisional advances to the Government increased to Rs. 225.1 billion resulting in a provision of additional advances of Rs. 73.0 billion at the beginning of 2022.

6.4 Provision of Intra-Day Liquidity Facility (ILF)

DOD ensured the smooth and efficient functioning of the RTGS system by providing ILF to 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. 50,777.0 billion and Rs. 215.2 billion, respectively. This shows a significant increase in ILF utilisation over that of the previous year, which amounted to a total of Rs. 15,843.0 billion with a daily average of Rs. 66.9 billion.

6.5 Supervision of Authorised Money Brokers

Money brokers perform an intermediary role in 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 supervise the operations of Authorised Money Brokers (AMBs) in Sri Lanka to ensure their professional conduct in the domestic money market. Nine companies were issued with "Certificate of Authorisation" under the above regulations, and designated as "Authorised Money Brokers", by end December 2021. DOD conducted annual supervisions of all AMBs remotely during 2021 due to the COVID-19 pandemic.

7. ECONOMIC RESEARCH

The Economic Research Department (ERD), which was established under Section 25 of the Monetary Law Act (MLA) No. 58 of 1949, is entrusted with the function of preparing data and conducting economic research for the guidance of the Monetary Board and the Governor of the Central Bank in formulating, implementing, and executing policies and measures and for the information of the public in the areas of money and banking and other subjects of general interest related to economics. Despite the challenges posed by the COVID-19 pandemic, ERD continued to carry out its duties in 2021 by conducting research and policy analyses on important contemporary economic issues and by providing proactive and prudent policy recommendations to the Senior Management and the Monetary Board with the view to restoring macroeconomic stability of the Sri Lankan economy. Further, ERD continuously provided proactive policy advice to the Senior Management to be relayed to the Government in performing the Central Bank's role as the Government's advisor on economic and financial affairs. Accordingly, the Central Bank continued to apprise the Government on emerging macroeconomic developments and issues and submit recommendations to the Government on measures and policies that would be implemented to strengthen certain sectors of the economy and to maintain macroeconomic stability. Meanwhile, ERD continued to publish statutory publications on a timely basis, disseminated statistics and other macroeconomic information to all stakeholders including the general public, and engaged in knowledge sharing activities to a wide audience. Further, with a view to fostering a culture of research and knowledge sharing about subjects of contemporary importance, ERD continued to promote conduct of research within the Department and the Central Bank. Moreover, ERD played a catalyst role in establishing and maintaining close cooperation with foreign counterparts and international agencies.

7.1 Maintaining Economic and Price Stability

With the statutory objective of 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 domestic economy as well as the global economy, while producing projections and forecasts to facilitate proactive and timely monetary policy decision making by the Monetary Board. As the secretariat to the Monetary Policy Committee (MPC), during the year, ERD facilitated eight scheduled MPC meetings and a special MPC meeting by presenting comprehensive reports on economic and monetary conditions, including forward looking analyses supported by model based macroeconomic projections, enabling MPC to make informed judgements and necessary recommendations to the Monetary Board on the appropriate monetary policy stance of the Central Bank. ERD coordinated the preparation of the *Six-Month Road Map for Ensuring Macroeconomic & Financial System Stability* presented in October 2021, in which

the Central Bank announced near term measures to ensure macroeconomic and financial system stability. ERD continued to provide analyses on various policy measures proposed by the Government and the Central Bank, highlighting their economic implications, particularly monetary implications. Further, ERD provided analyses and reports to the Senior Management on various economic issues and appropriate policy measures required to maintain macroeconomic stability. Moreover, ERD continued to facilitate the Monetary Policy Consultative Committee (MPCC), which consists of a cross section of stakeholders including eminent professionals, academics and private sector personnel, by coordinating eight meetings during the year, with the view to strengthening the monetary policy decision making process. Moreover, ERD continued to improve its in-house modelling and forecasting capacity by streamlining the model based Forecasting and Policy Analysis System (FPAS) as a part of continuous efforts in enhancing the monetary policy decision making and communication process. ERD took several measures to improve external communication and enhance awareness among the general public and other stakeholders aimed at anchoring inflation expectations in line with the envisaged inflation path over the medium term. ERD published eight press releases on Monetary Policy Review, informing the general public of the stance of monetary policy of the Monetary Board, and facilitated press conference proceedings. The press conferences, which were organised by the Communications Department (CMD), were livestreamed via various online and social platforms enabling a wide reach of monetary policy communication on a real time basis. Further, ERD provided resource personnel to facilitate webinars, particularly in Sinhala and Tamil, on the current monetary policy stance, which were coordinated by the Regional Offices of the Central Bank, subsequent to monetary policy announcements, to reach a wider audience. Meanwhile, measures were also taken by ERD to further improve the compilation and dissemination of monetary and interest rate statistics during the year. Accordingly, while streamlining the data collection process, monthly surveys on Small and Medium sized Enterprises (SMEs), International Sovereign Bonds (ISBs) and Sri Lanka Development Bonds (SLDBs) held by Licensed Commercial Banks (LCBs) were carried out during 2021.

7.2 Maintaining External Sector Stability

Amidst challenging and vulnerable economic conditions, particularly in the external sector, ERD continuously provided 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. 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 monetary implications of proposed foreign loans, as requested by the Government, prior to its expected borrowings. ERD continued to publish statistics related to the Balance of Payments (BOP) and the International Investment Position (IIP) in the BPM6 format on a quarterly basis and the International Reserve Data Template (RDT) on a monthly basis, while making timely submissions related to Quarterly External Debt Statistics (QEDS) to the World Bank and direct investment data for the Coordinated Direct Investment Survey (CDIS) on an annual basis. ERD conducted several surveys during the year to ensure 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 continued to carry out preparatory work related to implementing the International Transactions Reporting System (ITRS), a project to collect and compile information about foreign currency transactions of a granular level that take place through the banking sector. The ITRS project is expected to be implemented during 2022. Moreover, ERD functioned as the Secretariat for the Task Forces to Strengthen Foreign Exchange Inflows, which were set up to improve foreign exchange inflows, considering the urgency in strengthening foreign exchange inflows to the country and coordinated such Task Forces to facilitate updating the progress to the Presidential Task Force.

7.3 Proactive Policy Advice

ERD continued to perform its role of policy advisory to the Monetary Board, the Government and other stakeholders on monetary policy, exchange rate policy, international trade, and fiscal sector related issues. In particular, ERD proactively attended on policy recommendations to assist the authorities to uphold and stabilise the pandemic disrupted economy. In keeping with its statutory role as per Sections 64 and 68 of the MLA, ERD submitted confidential reports to the Hon. Minister of Finance on the prevailing and anticipated conditions and risks of the monetary and external sectors, respectively, while proposing required policy measures to the Government with the view of ensuring domestic and external sector stabilisation. In compliance with Section 116(1) of the MLA, the confidential *September 15th Report*, which consists of developments and emerging risks in the economy along with policy suggestions, was also submitted to Hon. Minister of Finance by the statutory deadline. Further, ERD prepared and submitted necessary confidential reports to the Senior Management which included analyses on the causes of the economic disturbances, the probable effects of such disturbances on macroeconomic and financial system stability, and policy measures recommended for the implementation by the Government.

The Director of Economic Research (DER) continued to provide necessary policy advice by serving in various internal

committees, including MPC, the Monetary Board Level External Debt Monitoring Committee (MBEDMC), 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. Further, DER continued to serve as an observer in the Internal Investment Oversight Committee (IIOC) and the International Reserve Investment Oversight Committee (IRIOC). While attending the Monetary Board meetings on a regular basis for the purpose of providing necessary policy inputs, 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, etc. by providing inputs on macroeconomic developments, issues and subjects of topical interest with the support of the senior members of ERD. Further, DER and senior members of ERD extended their service to external institutions by way of representing the Central Bank in numerous committees and boards, including the Hector Kobbekaduwa Agrarian Research and Training Institute (HARTI) and several committees appointed by His Excellency the President and Cabinet of Ministers. In particular, officers of ERD represented the Central Bank in the Project Committee on the Rehabilitation on the Northern Part of Elephant Pass Saltern, Steering Committee on Implementing Sustainable Finance Road Map of Sri Lanka, Working Group for Developing a Taxonomy for Sustainable Finance in Sri Lanka, Government Finance Statistics (GFS) Coordinating Committee, Tariff Determination Committee, Advisory Committee on Trade Promotion and Information of Export Development Board, National Committee on Socio-Economics and Policy Analysis, Fertiliser Price Deciding Committee, Committees on Introducing a Pricing Formula for LP Gas and Wheat Flour, Special Committees on Supporting SMEs Affected by the Pandemic, Committee to Conduct a Preliminary Study on the Associated Credit Costs of Oil Procurement by the CPC, Advisory Council in 13 Years Guaranteed Education Programme, and Committee on Maintaining Cost of Living. Meanwhile, officers of ERD actively carried out analyses on topical interests, including winning industries in Sri Lanka, fuel pricing mechanisms, price behaviour of essential food commodities and policy prescriptions, economic implications of the shift towards organic agriculture, energy sector concerns, and legalising cannabis cultivation. Moreover, support was extended to external authorities by providing reports of technical expertise on various matters, including economic implications of the Colombo Port City and the impact of X-Press Pearl maritime disaster.

7.4 Statutory Publications and Dissemination of Data and Information

ERD, with the assistance of the other Departments of the Central Bank, published its flagship publication, the Annual Report of the Central Bank for 2020 in all three official languages, which is a statutory requirement under the MLA.

The Annual Report was presented to the Hon. Minister of Finance and was disseminated to the public by end April 2021, despite operational difficulties and challenges posed by the re-escalated pandemic. *Recent Economic Developments - Highlights of 2021 and Prospects for 2022*, the other key annual publication of the Central Bank, was also compiled with the support of other Departments and released in October 2021. ERD also prepared the *Six-Month Road Map*, which was delivered by the Governor of the Central Bank on 01 October 2021. ERD was committed to disseminating accurate economic, financial and policy information among the general public on a timely manner via both conventional and unconventional channels, especially to address negative speculation by various external parties, during disruptions to economic activity. In the process, ERD ensured the availability of daily, weekly and monthly statistics in the online library of the Central Bank, and media statements were released on monetary policy reviews and external sector developments. While disseminating statistics covering all sectors of the economy, which are compiled based on international standards, ERD consistently adhered to the requirements of the Special Data Dissemination Standard (SDDS) as set by the International Monetary Fund (IMF) to enhance member country transparency and openness. Further, during the year, ERD compiled data for the SAARCFINANCE and Currency Composition of Official Foreign Exchange Reserves (COFER) databases.

7.5 Engaging in Policy Research and Knowledge Sharing

As the research arm of the Central Bank, ERD continued to nurture a culture of research within the Department and the Central Bank, thereby upholding research and analyses on subjects of contemporary importance. The Research Advisory Panel (RAP), which acts as the departmental committee responsible for research related initiatives, actively contributed to research activities, including arrangement of knowledge sharing forums and guiding researchers. In April 2021, ERD researchers presented a country paper at the SAARCFINANCE Virtual Seminar on *Economic Modelling and Forecasting – Practices in Central Banks*. Another research study was presented by an ERD officer at the SAARCFINANCE research conference held in June 2021 on *The COVID-19 Pandemic in the SAARC Countries: Policy Responses and its Impact*. In September 2021, ERD organised a joint annual international research workshop in collaboration with the Asian Development Bank Institute (ADB I) and Asia Pacific Applied Economic Association (APAEA) for the second consecutive year under the theme *Emerging Issues for Macroeconomic Stability*. Senior researchers from ERD presented their joint work with APAEA associates in the webinar, and these studies were eventually published or are currently being considered for publication in reputed peer reviewed international journals. Further, research work by ERD officers were presented in virtual conferences hosted by ADB I held in October and November 2021. In addition, the

staff of ERD continued to present and publish their work in local and international forums. Meanwhile, ERD coordinated publishing two volumes of the Central Bank's prime research journal, *Staff Studies*, during 2021, under the guidance of RAP. Members of RAP continued to evaluate research proposals and research papers of postgraduate aspirants to fulfil the requirements of the postgraduate scholarship scheme of the Central Bank, while providing supervisory services to postgraduate students of the university system.

During the year, ERD continued to extend its expertise to improve the economics knowledge of parties interested within and outside the Central Bank with the support of CMD, Centre for Banking Studies (CBS) and Regional Offices of the Central Bank. Among the beneficiaries of such collaborations were students of schools and universities, and officers of public and private sector institutions. *The State of the Sri Lankan Economy, Challenges and Outlook as Reflected in the Annual Report 2020* was a key public lecture conducted by ERD virtually in all three official languages following the publication of the Central Bank Annual Report. In addition to in-person awareness programmes, officers of ERD conducted several virtual education sessions about the objectives and functions of the Central Bank, monetary policy, fiscal policy, external sector policies, and recent economic developments. At the same time, ERD provided resource personnel to *Thakshilawa* and *Arivootru*, the annual television educational lecture series organised by CBS in Sinhala and Tamil languages, respectively, for the benefit of G.C.E. Advanced Level Economics students and teachers.

7.6 International Relations

Being the focal point of the contact for multilateral financial organisations, ERD facilitated cooperation with the IMF, SAARCFINANCE, and the South East Asian Central Banks (SEACEN) Centre, on behalf of the Government and the Central Bank. In particular, ERD facilitated the IMF Mission on Article IV Consultation and IMF virtual staff visit in July 2021, 41st and 42nd Virtual Group Meetings of SAARCFINANCE Governors and participated in the annual SEACEN Executive Committee meeting and Board of Governors (BOG) meetings. While providing information and sharing views on macroeconomic developments, ERD supported the linkage between the Government and the key multilateral development banks, such as the World Bank and the Asian Development Bank (ADB). Further, ERD represented the delegation appointed by the Foreign Minister for 77th Session of the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) and 15th Session of Ministerial Conference of United Nations Conference on Trade and Development (UNCTAD). Moreover, DER and senior officers of ERD provided necessary information and clarifications at the virtual investor meetings held during the year and maintained a continuous dialogue with external stakeholders of the economy, including rating agencies.

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 Act is vested with the Commissioner of Labour, while all the powers, duties and responsibilities of the fund management are vested with the Monetary Board of the Central Bank as the custodian of the Fund.

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 purpose of the Act, maintaining books of accounts relating to the Fund, preparation of financial statements of the Fund and transmit a copy to the Minister in charge of Labour and submission of the same to the Auditor General.

During 2021, 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 2021, total member contributions increased by 9.9 per cent to Rs. 165.7 billion from Rs. 150.7 billion recorded in the previous year, while the total refunds made to the members and their legal heirs also increased to Rs. 118.2 billion which was a 7.7 per cent increase compared to the year 2020 (Table II-8). Accordingly, the net contribution in 2021 increased to Rs. 47.5 billion compared to Rs. 41.0 billion recorded in 2020.

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

The total value of the Fund increased by 12.1 per cent to Rs. 3,166.1 billion as at end 2021 compared to Rs. 2,824.3 billion as at end 2020, due to the income generated from investments and net contributions (after deducting refunds from contributions) received. Total liability to the members (member balances) stood at Rs. 3,066.9 billion as at end 2021, recording a 10.8 per cent increase from Rs. 2,767.8 billion as at end 2020 (Table II-8).

Table II-8
Selected Key Information of the Fund

Item	2020	2021 (a)	Change (%)
Total value of the Fund (Rs.bn)	2,824.3	3,166.1	12.1
Total liability to members (Rs.bn)	2,767.8	3,066.9	10.8
Total number of member accounts (mn)	19.8	19.8	-
Contributing member accounts (mn)	2.6	2.3	(11.5)
Non-contributing member accounts (mn)	17.2	17.5	1.7
Total contributions (Rs.bn)	150.7	165.7	9.9
Total refunds (Rs. bn)	109.7	118.2	7.7
Net contribution (Rs.bn)	41.0	47.5	15.9
Number of refunds	197,401	179,681	(9.0)

(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 liquidity position and evaluate investment opportunities. The EPF Investment Oversight Committee (EIOC) oversees the investment activities on a monthly basis as well as provide strategic and policy guidance based on the Monetary Board approved Investment Policy and Guidelines. Further, transactions relating to investments of the Fund and portfolio position are informed to the Monetary Board by the EPF Department on a monthly basis, thereby strengthening the stringent monitoring process of investment activities.

The investment activities of the Fund were carried out amidst an environment of historically low interest rates and continued uncertainty surrounding the COVID-19 pandemic. In line with the Strategic Assets Allocation (SAA) of the Fund, the EPF Department continued to invest a major portion of its funds in government securities. To mitigate the impact of low interest rates on the overall portfolio, the EPF Department invested in short to medium term government securities. However, the EPF Department also invested in its preferred long-term government securities (more than 5 years), considering the need to provide a reasonable rate of return for its members in the context of a low interest rate environment. The EPF Department also undertook measures to capitalise on the positive sentiment in the domestic equity market by disposing selected stocks to realise capital gains. Investment opportunities in corporate debentures were limited given the low interest rate regime, 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 EPF.

Accordingly, as at end 2021, the investment portfolio of Rs. 3,173.3 billion consisted of 93.2 per cent in government securities, 3.8 per cent in equity, 0.8 per cent

in corporate debentures, 1.8 per cent in fixed deposits and the remaining 0.4 per cent in reverse repurchase agreements.

(d) Payment of Interest on Member Balances

The EPF Department has taken measures to declare an interest rate of 9.00 per cent on member balances prevailed at end 2021. Accordingly, EPF was able to pay a high rate of interest to its members in consistent with the past 10 years.

(e) Engaging in Member Services

(i) Issuing of Statements of Member Accounts

Statements of member accounts are distributed to active members through their employers registered with the Fund, on a semiannual basis. Accordingly, the member account statements of the first half and second half of 2020 were distributed during 2021 (Table II-9).

Table II-9
Issue of Member Account Statements

Period	No. of Employers	No. of Statements (Active Members)
2020 1st half	69,998	1,999,486
2020 2nd half	77,912	2,451,346

Source : EPF Department, Central Bank of Sri Lanka

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

Under the Housing Loan Guarantee Scheme, during 2021, the EPF Department issued 9,068 certificates of loan guarantees against EPF balances of members to the participating lending institutions for the approval of housing loans amounting to Rs. 5,423 million (Table II-10). Further, during 2021, nearly Rs. 3,573 million was deducted from the relevant member accounts and remitted to the participating lending institutions to settle the overdue loans of respective members for the year 2020.

Table II-10
Housing Loan Guarantee Facility

Year	Issued Certificates (No.)	Credit Approved (Rs. mn)	Amount Remitted to Lending Institutions (Rs. mn)
2017	10,998	4,946	2,485
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

Source: EPF Department, Central Bank of Sri Lanka

(iii) Pre-Retirement Refund Scheme

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 service of more than 10 years and EPF 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 purpose of house construction or medical treatment w.e.f. 2015. The said scheme is in high demand among the members of EPF. Rs. 8.8 billion was released to 16,554 beneficiaries during the year 2021 under this scheme, while a total of Rs. 107.1 billion was refunded to over 197,057 beneficiaries by the end of 2021.

(iv) EPF Mobile Service Programme

During the year 2021, the EPF Department conducted a mobile service which facilitated almost all the services a member could obtain by visiting the EPF Department. The services included issuing of EPF balance statements, amendment of EPF member details, clearing of dummy numbers, EPF account amendments and promoting SMS & internet member services. Furthermore, awareness for employers on e-collection and direct debit system, re-registration of member details, and providing advice on overall EPF procedures. However, mobile services planned to be conducted during the year were curtailed due to the COVID-19 pandemic situation.

(v) EPF Contribution through Electronic Media

The year 2021 was a significant year for the EPF Department as it introduced a new mechanism via its revamped official website for streamlining its existing e-collection procedure. It enabled the employers to submit their e-returns through the website and to make the payment online through a participating Licensed Commercial Bank (LCB) via 'LankaPay Online Payment Platform (LPOPP)' or by cheque or direct debit. Bank of Ceylon, People's Bank and Commercial Bank of Ceylon PLC were the LCBs that had joined the EPF Department for this facility by end 2021. One of the salient features of the new system is that it further expedites updating of the individual member accounts within 24 hours upon a successful contribution. Furthermore, it facilitates employers to ensure the accuracy of member records appearing in the contribution detail file by comparing with the respective details in the EPF Department's database. This would be a significant improvement in establishing a comprehensive database and hence there will be zero or minimal efforts to be exerted in member detail amendments in future.

By end 2021, the participation of employers in the e-return submission system was increased from 10,069 to 11,260 covering approximately 88 per cent of the active member accounts and

approximately 88 per cent of the total monthly EPF contribution. In addition, actions were taken to make employers further aware regarding the e-return submission procedure and its benefits for EPF stakeholders, while emphasising the importance of taking actions to rectify the issues with regard to member name discrepancies in e-correspondence to assure that the contributions are credited to member accounts in a timely manner.

(vi) Re-registration of EPF Members

Even though a slight drawback was noted during the year 2021 due to the disruptions caused by the COVID-19 pandemic situation that prevailed in the country, 18,758 members were re-registered as per the details in their National Identity Card (NIC), which is used as the unique identification number. The cumulative number of members re-registered by the end of the year 2021 was 1,656,019.

Further, the EPF Department took several initiatives in 2021 based on the access gained to the database of the Department of Registration of Persons (DRP), with the intention to expedite the process of re-registering members in 2022 covering more number of active members.

(vii) Other Services to Members

The Public Relations and Inquiries Counter of the EPF Department concluded a challenging year in 2021 amidst the COVID-19 pandemic. The EPF Department provided its services to 96,561 members/employers who visited the Department and attended to 50,071 and 11,059 member inquiries through telephone calls and e-mails, respectively during the year. Further, the the Department received 76,759 letters from members, employers, and other stakeholders.

In 2021, the Record Amendment Division (RAD) of the EPF Department has attended to 33,400 EPF record amendments to rectify mismatches of name and NIC details of members and correction of account numbers, while updating the correct account balances of respective members. With the access to the database of the DRP, EPF Department was able to serve its members expeditiously, particularly at their identity verification stage of record amendment.

(f) Process Improvement and Capacity Development

A separate division, Process Improvement & Capacity Development Division (PICDD) was established in April 2021 at the EPF Department, primarily to be the central point for the proposed Financial Sector Modernization Project (FSMP) by the World Bank, to upgrade the EPF Department's ICT systems and to assist any innovative initiatives at the EPF Department which are ongoing.

During the year 2021, EPF Department successfully managed to relaunch EPF's official website which facilitates enhanced services to its members such as an online contribution platform. This platform is undergoing additional enhancements where members will be facilitated with a mobile based payment gateway during 2022.

During the last two quarters of 2021, the EPF Department worked towards finalising a contract between the Central Bank and PriceWaterhouseCoopers (PWC) India who was selected by the Central Bank to become its Consultant cum Project Manager. This consultancy arrangement is expected to assist EPF Department's senior management to redesign some of its business processes, introduce innovation and ultimately, implement new state-of-the-art ICT solution at the EPF Department with enhanced member services.

9. FACILITIES MANAGEMENT

The Facilities Management Department (FMD) continued its role of up keeping the facilities of the Central Bank by maintaining and upgrading the building properties in order to create a conducive work environment amidst the turbulent external factors owing to the pandemic situation which continued during the year 2021. Several expeditious measures were initiated to upgrade the facilities of the Head Office Buildings of the Central Bank including renovation of washrooms, replacement of pantry units, necessary waterproofing to identified areas, and replacing of identified electro-mechanical systems, considering that the building property is stepping in to the third decade of its life. Upgrading of the sound system of John Exter International Conference Hall (JEICH) was also contracted out during the period concerned, marking a substantially important initiative in the history of one of the iconic resources available at the Central Bank. Meanwhile, necessary interior arrangements were made expeditiously in the Central Bank Head Office Building to locate newly established departments of the Central Bank. Measures were also taken to improve the running condition of the existing vehicle fleet of the Bank.

During the year under review, necessary measures were taken to allocate the maximum possible office space from the Central Bank Head Office Building to relocate the EPF Department which was operating at the Lloyd's Building owned by the Central Bank. Further, several divisions of the EPF Department were relocated to the Central Bank owned Whiteaways Building in Colombo which was partially vacated by the tenant. In keeping with the decision of the Monetary Board of the Central Bank, the ownership of the Lloyd's Building was transferred to the Government of Sri Lanka to establish the Office of the Cabinet of Ministers, during the year 2021.

A new Closed-Circuit Television (CCTV) system was established at the Sovereign Study Centre located at Centre for Banking Studies (CBS) Premises in Rajagiriya and an access control system for the same location was introduced during the year. Further, Private Automatic Branch Exchange (PABX) was established at the Regional Office in Matara, taking into consideration the importance of available modern communication systems for effective delivery of intended services. Maintenance and upgrading of Holiday Homes of the Central Bank located in Katharagama, Nuwara Eliya, Somawathiya and Kilinochchi were continued during the year 2021, and facilities were enhanced at the Nuwara Eliya Holiday Home by establishing new pantry units.

During the year under review, further strengthening the Regional Office activities, FMD facilitated outsourcing the services of drivers with vehicles and provided them for the use of Regional Offices. In addition, the currently available vehicle fleet of FMD was further strengthened with necessary maintenance and repairs until such time when new vehicles could be procured. Moreover, special arrangements were made by FMD to provide transport facilities to essential staff as decided by each department to report to duties in person and to provide a dedicated transport service to the Central Bank staff to ensure minimal social contact in travelling during the year 2021.

FMD took initiatives to implement COVID-19 protocols within the Central Bank building premises by imposing restrictions to the staff, visitors and tenants and taking various preventive measures relevant to safeguarding the staff and occupants from the spread of COVID-19 while addressing other environmental, health and safety aspects.

As customary, FMD continued to maintain critical services of the buildings and to provide 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 terms of International Accounting Standards/International Financial Reporting Standards and relevant provisions of the Monetary Law Act (MLA) No. 58 of 1949. Since 2002, the International Financial Reporting Framework has been used 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, repayment of foreign loans of the government, maintaining systems for internal reporting of financial transactions, managing the investment portfolios of 17 internal funds, maintaining the Fixed Assets Register for the Central Bank, and maintaining the database of staff loans.

10.1 Preparation of the Financial Statements

- (a) **Monthly Balance Sheet:** As per the requirements of the MLA, monthly Balance Sheets for December 2020 and January to November 2021 were prepared in order to be published in the Government Gazette.
- (b) **Quarterly Reports:** The financial performance and financial position of the Central Bank were reported to the Monetary Board quarterly.
- (c) **Annual Financial Statements:** Accounting systems and procedures for the preparation of accounts were updated to comply with relevant accounting standards and requirements as at end December 2021. Audited Financial Statements of the Central Bank for the year ending 31 December 2021 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 2022 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 2022 of the Central Bank was obtained in December 2021 and the budget was made available to the departments on the first working day of 2022. Meanwhile, quarterly budgetary performance statements for the year 2021 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 2021 within the time targets.
- (b) All external payments to local and foreign suppliers were made as per the procedures laid down under the standing orders of the Central Bank. During the year 2021, a total of 5,730 payments were effected out of which 5,540 were to local suppliers and 190 to foreign suppliers.
- (c) Nearly 3,412 disbursements amounting to Rs 617.94 billion to the General Treasury and relevant projects and 631 installments amounting to Rs 1,396.55 billion on repayment of foreign loans were made during the year 2021. In addition, 2 banking arrangement agreements were signed in 2021 with two foreign banks with respect to a foreign loan and a donor funded project.

10.4 Management of Internal Funds

- (a) A separate unit, which was established under FD and commenced operations in March 2016 to centrally manage the investments of Central Bank's internal funds (excluding EPF) as per the decision taken by the Monetary Board, managed 17 internal funds consisting of 8 superannuation funds of the Central Bank staff and

pensioners and 4 other funds administered by FD, Deposit Insurance and Liquidity Support Fund administered by the Resolution and Enforcement Department, 3 funds administered by the Staff Services Management Department, and project funds administered by the Regional Development Department. All funds are invested under a common Investment Policy by FD and the relevant owner departments are the administrators of the respective funds. The fund management process is governed by the Monetary Board approved Investment Policy Statement/ Guidelines (IPS/IPG) and Strategic Asset Allocation Guidelines. Further, this includes an independently operating front office and back office and the investment activities are overseen by the Internal Investment Oversight Committee (IIOC) chaired by a Deputy Governor, which met 12 times during the year 2021, to advise and monitor the investments of funds. Performance of these Investments were reported quarterly to the Monetary Board for information purposes.

- (b) The funds are invested mainly in Government Securities, Fixed Deposits, high rated corporate debentures and short term Reverse Repos. The audited financial statements of the six superannuation funds for 2020 were submitted to the Monetary Board as per the rules of those funds. As at end 2021, total fund base had increased to Rs. 151.7 billion.

Table II-11
Portfolio Position (Rs. bn.)

Department	Portfolio value as at 31 Dec 2021 (invested values)	Portfolio value as at 31 Dec 2020 (invested values)
Finance	75.3	64.9
Resolution and Enforcement	70.9	60.4
Regional Development	5.4	6.3
Staff Services Management	0.06	0.06
Total	151.7	131.7

10.5 Maintaining Fixed Assets Register

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 System. All changes such as new purchases, change of locations, depreciation and disposals were recorded in this register during the year 2021. The register was updated during the year 2021 with 741 items procured and 346 disposals.

10.6 Maintaining the database of staff loans

FD continuously updated the loan database of the Central Bank staff with the assistance of the Information Technology Department to facilitate the loan recovery recording process and to supply information to employees and to the management during the year 2021. A total of 1,000 loans amounting to Rs 1.14 billion were granted to employees during 2021.

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 Bank for disposal of fixed assets. During the year 2021, officers of FD were represented in 152 Tender Boards and 75 Technical Evaluation Committees related to procurements.

11. FINANCIAL CONSUMER RELATIONS

The Financial Consumer Relations Department (FCRD) was established in August 2020 with the view to strengthen the financial consumer protection framework within the financial entities regulated by the Central Bank. The department has initiated measures to introduce new regulations on financial consumer protection while handling the complaints/grievances and inquiries of general public with respect to regulated entities, referred to the Central Bank. FCRD has received 6,186 complaints/grievances during 2021, with an average of around 500 complaints per month. Out of the complaints/grievances that requires FCRD action, more than 94 per cent were attended with FCRD action. FCRD observed that most of the complaints/grievances were from COVID-19 affected small and medium scale businesses and individuals with respect to moratorium matters, rescheduling of loans, high interest rates, unacceptable/unethical practices and early settlement of credit facilities. In August 2021, FCRD introduced a simplified complaint submission form (CSF) to ensure the completeness of complaints/grievances submitted to FCRD and expedite the processing of such submissions. Further, it will facilitates the automation of the information submitted by financial consumers in their complaints which is useful in analysing complaint data for policy decisions.

FCRD with the support of relevant other departments was able to set up a Contact Centre for the Central Bank with outsourced staff in May 2021. The new Contact Centre is provided with all the facilities required for a modern call center operation. Accordingly, the Central Bank Contact Centre now operates with tri-linguistic and call recording facilities during working hours. Further, in August 2021, FCRD, with a view of providing more convenience and accessibility to the general public, introduced a telephone Hotline – 1935 dedicated to contact the Central Bank via any phone line in Sri Lanka. The Contact Centre answers more than 5,000 telephone inquiries on a monthly basis. Furthermore, as part of consumer awareness, FCRD published a web poster highlighting the rights of financial consumers while continuing awareness programmes such as seminars, webinars, and interviews.

12. FINANCIAL INTELLIGENCE UNIT

Amidst the numerous challenges that arose from the COVID-19 pandemic, the Financial Intelligence Unit (FIU) of the Central Bank worked towards achieving the objective of establishing an effective Anti-Money Laundering and

Combating the Financing of Terrorism (AML/CFT) framework in Sri Lanka, together with its domestic and international stakeholders.

The AML/CFT regime of Sri Lanka is built on three major legislation, i.e. the Prevention of Money Laundering Act No. 5 of 2006 (PMLA), Convention on the Suppression of Terrorist Financing Act No. 25 of 2005 (CSTFA), and Financial Transactions Reporting Act No. 6 of 2006 (FTRA). FIU was established under the FTRA and is responsible for implementing the provisions of the same. Accordingly, FIU, as the lead AML/CFT regulator of the country, has reached out to majority of the Financial Institutions (FIs) and Designated Non-Finance Businesses and Professions (DNFBPs) under the AML/CFT regime of the country to ensure compliance with the recommendations of the Financial Action Task Force (FATF) (international standards on AML/CFT and Proliferation Financing). The key functions of FIU include, reviewing and amending relevant Acts, Regulations and Rules on AML/CFT in line with current market developments and international best practices, disseminating financial intelligence to appropriate Law Enforcement Agencies (LEAs) and Supervisory Authorities (SAs) through conducting strategic and operational analysis, strengthening risk-based AML/CFT supervision in FIs and DNFBPs to combat Money Laundering/Terrorist Financing (ML/TF) in Sri Lanka, and implementing provisions of the Targeted Financial Sanctions in United Nations Security Council Resolutions (UNSCRs).

12.1 Intelligence Management

In terms of the mandatory requirements, Reporting Institutions (RIs) continued to submit information on financial transactions, including suspicious transactions, during the year 2021 through 'LankaFin', a web-based system specially designed to assist in fulfilling threshold reporting and other reporting requirements. Licensed Commercial Banks (LCBs), Licensed Specialised Banks (LSBs), Licensed Finance Companies (LFCs), insurance companies, stockbrokers and money or value transfer service providers continued to report to FIU on Cash Transactions (CTRs) and Electronic Funds Transfers (EFTs), both local and foreign, of Rs. 1.0 million and above, or its equivalent in foreign currencies. During 2021, RIs reported 5.7 million (provisional) CTRs and 9.2 million (provisional) EFTs. In addition, RIs submitted 4,696 Suspicious Transactions Reports (STRs) to FIU in terms of Section 7 of FTRA. After operational and strategic analyses of the STRs received, 1,830 STRs were disseminated to Law Enforcement Authorities (LEAs) and Regulatory Authorities (RAs) for further investigations. 2,220 STRs were kept under surveillance, and 641 STRs were kept for initial analysis and further studies, while the remaining STRs were categorised as no further action required.

In order to enhance the analysis and dissemination functions, FIU introduced the 'goAML' AML/CFT reporting and analysis system to RIs. During 2021, FIU configured the system and commenced major reporting functions of

the system. The live operations of the threshold and STR reporting of 'goAML' were commenced in February 2022.

12.2 Legal Framework and Institutional Compliance

With the objective of improving the effectiveness of the AML/CFT regime of the country, FIU initiated legislative amendments to FTRA and assisted in making amendments to PMLA and CSTFA during 2021. These amendments are expected to come into effect by the end of 2022.

By virtue of the powers vested in terms of Section 15 (2) of FTRA, during the year 2021, FIU took measures to suspend transactions of 163 accounts belonging to 28 individuals and 8 entities pertaining to 17 incidents/cases, based on the suspicions of ML/TF. Accordingly, a balance of Rs. 77.0 mn (Cr.), Rs. 0.9 mn (overdrafts), and US Dollars 12,200 were suspended during the year. In addition, around 1,000 accounts relating to 64 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.

FIU issued several guidelines and circulars to strengthen the AML/CFT supervision process and institutional compliance during 2021, which are available in Part III of the Central Bank Annual Report. Further, FIU took continuous measures to enhance compliance by RIs by effective monitoring and enforcement, onsite and offsite surveillance, and conducting compliance review meetings. Despite the limitations experienced in conducting planned onsite examinations due to the pandemic situation that prevailed in the country, FIU conducted two risk-based onsite examinations, seven joint risk-based onsite examinations, seven spot examinations, and four offsite follow-up examinations to assess AML/CFT compliance of RIs. In addition, seven thematic reviews were conducted on FIs as well as DNFbps. The scope of AML/CFT supervision of DNFbps was further expanded by implementing continuous measures to enhance the number of DNFbp institutions which come under the purview of FIU to strengthen the AML/CFT compliance within this sector.

FIU also continued to take regulatory action for AML/CFT non-compliances by imposing penalties, issuing warning letters and showcause letters, issuing time-bound action plans, and conducting follow-up meetings. Moreover, FIU imposed financial penalties amounting to LKR 10.5 million for four LCBs and five LFCs during 2021 on violations of CDD Rules in relation to United Nations sanctions screening, customer identification and verification, Suspicious Transactions Reporting, and implementation of proper risk controls and mitigation measures.

12.3 National Risk Assessment on Money Laundering and Terrorist Financing (ML/TF NRA)

Complying with Recommendation 1 of the FATF Recommendations, in 2021, FIU initiated conducting the 2nd ML/TF NRA of Sri Lanka with the assistance of the World

Bank and participation of 66 private and public stakeholder agencies. The World Bank conducted its introductory session on 15 July 2021, marking the official commencement of NRA Sri Lanka, using the Webex platform. Subsequently, 13 workshops were conducted for the working groups.

12.4 Domestic and International Cooperation

In terms of FTRA, FIU can enter Memoranda of Understanding (MOUs) to exchange information with any institution or agency domestically or in a foreign state. Accordingly, during 2021, FIU initiated signing MOUs with several domestic agencies and foreign FIUs.

FIU is supervised by FATF jointly with the Asia Pacific Group on Money Laundering (APG). Due to the pandemic, APG conducted its Annual Plenary virtually in the month of July 2021 and a special plenary was held virtually in November 2021. Further, Mutual Evaluation Committee (MEC) Meetings were held virtually during June, July, September, and November 2021. The 6th follow-up Mutual Evaluation Report on Sri Lanka was discussed at the virtual MEC held in September 2021. In this progress report, Sri Lanka requested upgrades to Recommendation 32 on 'Cash Couriers' and Recommendation 40 on 'Other Forms of International Cooperation', which were rated as Partially Compliant (PC) in 2015. The membership agreed to upgrade the rating of Recommendation 32 from 'Partially Compliant' to 'Largely Compliant' while the rating of Recommendation 40 remains same. Thus, out of 40 FATF recommendations, by the end of 2021, Sri Lanka's ratings had improved to 7 Compliant, 25 Largely Compliant, 7 Partially Compliant, and 1 Non-Compliant.

FIU obtains assistance from members of the Egmont Group, i.e. the Association of global FIUs consisting of 166 members, to carry out investigations and collaborate with member countries to gather intelligence about their investigations. During 2021, FIU responded to 33 requests from counterpart FIUs and made 22 requests from counterpart FIUs to share information relating to ongoing investigations. The Egmont Plenary for 2021 was not held as scheduled. However, Working Group meetings, Head of FIUs meeting and Regional Meetings were held virtually and officials of FIU participated in these meetings.

12.5 Institutional Capacity Building and Awareness Programmes

Continuing the efforts to enhance the awareness on AML/CFT, FIU provided resource assistance for 50 awareness/training programmes during the year 2021 accommodating more than 3,000 participants from FIs, DNFbps, LEAs and RAs. These programmes were conducted face-to-face as well as through online platforms. Further, FIU issued several press notices on risks related to informal money transfer schemes, which were published in newspapers and shared on various social media networks.

13. FOREIGN EXCHANGE

The Department of Foreign Exchange (DFE) was established on 20 November 2017, for the purpose of carrying 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), and thereby to ensure proper promotion and regulation of foreign exchange in Sri Lanka. DFE comprises of four Divisions, namely, Policy, Capital Transactions, Monitoring and Investigation, in order to execute the duties assigned. The main functions of DFE are as follows.

- a) 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.
- b) 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.
- c) Implementing provisions of the FEA by formulating Regulations and Orders and issuing of Directions for carrying out foreign exchange activities and transactions.
- d) Granting permissions for specific purposes not covered from the general permissions given under the FEA.
- e) Reviewing the effectiveness of existing policies, identifying necessity for new policies in line with the developments in the foreign exchange market, and implementing such new policies appropriately.
- f) Conducting investigations on non-compliances with the provisions of the FEA.
- g) 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.

Having identified the importance of attracting foreign exchange inflows and curtailing abrupt outflows given the challenging environment created aftermath of the COVID-19 pandemic, a number of remedial measures were taken to ease the pressure on the domestic foreign exchange market. A summary of the key implementations during 2021 is given below.

13.1 Facilitating the issuance of new Regulations, Orders and Directions

Upon reviewing the stakeholders' feedback on the Regulations, Orders and Directions issued in 2017 under the FEA, revised Regulations, Orders and Directions were issued in early 2021 with a view to further simplify and improve clarity on foreign exchange regulations.

Accordingly, DFE facilitated issuance of nine Regulations by the Minister under the FEA, mainly focusing on attracting fresh inward remittances/inflows to the country.

Moreover, DFE facilitated the issuance of 6 Orders by the Minister during the period to support minimising the pressure on the exchange rate and possible negative impact to the Sri Lankan economy, given the COVID-19 pandemic. Further, 29 Directions were issued to ADs during the year, to operationalise the said Regulations/ Orders. The Regulations, Orders and Directions issued during the year 2021 are given in Part III of this Report.

13.2 Granting of Permission for Foreign Exchange Transactions

- (a) Special Permissions were granted under the FEA as illustrated in Table II-12 below.

Table II-12
Special Permissions granted under the FEA

Purpose	No. of approvals	Value in USD mn
Resident Companies to invest abroad	2	23.5
Resident Companies to issue bank/corporate guarantees in favour of residents outside Sri Lanka	3	54.4
Authorised Dealers/Resident Companies to process certain miscellaneous foreign exchange transactions that are not covered by the general permissions granted under FEA	4	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. Two new money changing permits were issued during the year 2021 to limited liability companies (i.e. money changers) for buying and exchanging foreign currency notes.
- ii. Three Money Changers ceased their money changing operations during the year.
- iii. The details of the permits that have been issued to each RD to engage in money changing business are illustrated in Table II-13 below.

Table II-13
RDs Permitted to Engage in Money Changing Business as at 31 December 2021

Category of Institution	Permitted business	No. of permits issued
Limited Liability Companies who are solely engaged in the money changing business (money changers)	Buying and exchanging foreign currency	65*
	Buying, selling and exchanging foreign currency	
Licensed Finance Companies (LFCs)	Buying, selling and exchanging foreign currency	08
Tourist Hotels	Buying foreign currency	03
Total		76

* Permits were issued to 65 companies which include 76 money changing outlets/branches. Out of those 76 outlets, 63 were permitted to buy and exchange foreign currency while the remaining 13 were permitted to buy, sell and exchange foreign currency.

Accordingly, as of 31 December 2021, 26 ADs and 76 RDs (this includes only the main outlet of the RDs), were in operation. The list of ADs (i.e. Licensed Commercial Banks (LCBs)) who are authorised to deal in foreign exchange for permitted transactions and Licensed Specialised Banks (LSBs) who are permitted to deal in foreign exchange for the purposes specified in the respective authorisation and RDs is in Annex II-2 and Annex III-3, respectively.

(c) Transfer of Migrants' funds

ADs were permitted to open 787 Capital Transactions Rupee Accounts during the year for the purpose of releasing migration allowance to Sri Lankan emigrants and to facilitate outward remittances of inherited funds to non-nationals. However, the amounts transferred through these accounts were limited due to issuance of the Order under Section 22 of the FEA which suspended certain capital transactions until 01 July 2022.

13.3 Issuing Clearance Letters to Resident Investors

DFE issued 13 clearance letters during the year to resident investors confirming that there are no pending investigations under the FEA against such investors 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 requirement imposed in terms of the Directions issued on such foreign currency accounts. DFE submits this information to the management and to the statutory publications of the Central Bank, where relevant with an analysis of such information. Further, any non-compliance detected out of the information reported by ADs are directed for further investigations in terms of the FEA.
- ii. The reports generated on foreign currency sales reported on Form 1 and foreign currency purchases reported on Form 2 through Forex System are forwarded to the management with appropriate analysis on a regular basis.
- iii. Transactions on Electronic Fund Transfer Cards (ETFCs) are monitored through an online reporting system and referred for investigations if any suspicious transactions are detected.
- iv. In terms of the Repatriation of Export Proceeds into Sri Lanka Rules No. 5 of 2021 issued under the Monetary Law Act No. 58 of 1949, receipts of exports proceeds in Sri Lanka and the conversion of such proceeds are stringently monitored by the Department. For such

purpose, data on export proceeds are collected from ADs on monthly basis and the same is submitted to the management for decision making until the implementation of IT based export proceeds monitoring system. In addition, the details of the exporters who have failed to comply with the Rules are also reported to DFE by ADs and clarifications for such violations are called with the view to combating non-compliances.

- v. Thirty-eight (38) new investigations were initiated in respect of ADs, RDs and other persons with regard to non-compliances under the Regulations, Directions and Orders issued under the FEA.
- vi. Further, seventeen (17) investigations including fifteen (15) investigations initiated before 2021 and two (02) investigations initiated during 2021 were concluded during the year taking appropriate actions upon following the investigation procedure stipulated in the FEA.
- vii. Additionally, law enforcement authorities were assisted in litigation and juridical proceedings by providing expert evidence/testimonies by DFE in respect of matters pertaining to the provisions of the FEA.

13.5 Initiating Foreign Exchange Transactions Monitoring Systems

Actions were taken during 2021 in collaboration with the Economic Research Department, Information Technology Department of the Central Bank, and ADs to implement a comprehensive cross border and domestic foreign exchange transactions monitoring system (i.e. International Transactions Reporting System) in order to collect data from ADs. This proposed mechanism is expected to capture all data on foreign exchange sales/purchases and inflows/outflows, thereby enabling continuous monitoring of foreign exchange transactions. Further, with the objective of ensuring effective capturing of export data, an IT based export proceeds monitoring system was developed. It was designed to link the information available with Sri Lanka Customs on export shipments with the export proceeds receipts information available with the ADs.

13.6 Enhancing Awareness on Foreign Exchange Regulations

Ten awareness programmes were conducted during the year for the ADs and other stakeholders on new Regulations and the provisions of the FEA. Moreover, seven press releases and four notices to the public were issued to enhance awareness on the foreign exchange Regulations, Orders and Directions. Further, the official website of DFE (www.dfe.lk) has also been duly updated to enhance public awareness on new regulations and DFE continued to provide clarifications for inquiries on foreign exchange transactions.

Annex II-2

List of Authorised Dealers (ADs) as at 31 December 2021

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 2021

RDs permitted to buy and exchange foreign currency	
Money Changers	
1	A. H. M. Trading (Pvt) Ltd
2	A.O.Lakshmi Jewels (Pvt) Ltd
3	Abdeen Money Changers (Pvt) Ltd
4	Abilash Money Exchange (Pvt) Ltd
5	Ariyawansa Enterprises (Pvt) Ltd
6	Aruna Forexc (Pvt) Ltd
7	Asian Money Exchange (Pvt) Ltd
8	Brescia Grameen (Pvt) Ltd
9	Bullion Money Exchange (Pvt) Ltd
10	Capital Exchange (Pvt) Ltd
11	Carlo International (Pvt) Ltd
12	Central Money Exchange (Pvt) Ltd
13	Colombo Money Exchange (Pvt) Ltd - Colombo 01
14	Colombo Money Exchange (Pvt) Ltd – Colombo 06
15	Dadigama Group (Pvt) Ltd
16	Data Exchange International (Pvt) Ltd
17	Daya Authorized Money Changer (Pvt) Ltd
18	Delta Sarath Holdings (Pvt) Ltd
19	Galle Money Exchange (Pvt) Ltd - Galle
20	Galle Money Exchange (Pvt) Ltd – Galle Fort
21	George Michael Holdings (Pvt) Ltd

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

Licensed Finance Companies	
77	Asia Asset Finance PLC
78	Bimpuh Finance PLC
79	Citizens Development Business Finance PLC
80	Lanka Credit and Business Finance Ltd
81	L B Finance PLC
82	Senkadagala Finance PLC
83	Sinhaputhra Finance PLC
84	Singer Finance (Lanka) PLC
RDs permitted to buy foreign currency	
Tourist Hotels	
85	Pearl City Hotel
86	Shangri-La Hotel Colombo
87	Shangri-La's Hambantota Resort & Spa
Other Entities	
88	MMBL Money Transfer (Pvt) Ltd
89	Sri Lanka Export Credit Insurance Corporation

14. FOREIGN REMITTANCES FACILITATION

The Foreign Remittances Facilitation Department (FRFD) was established on 03.11.2021 under the provisions of the Monetary Law Act No. 58 of 1949. The main objective of the newly formed FRFD is to facilitate and streamline workers' remittance inflows to the country.

FRFD worked towards realising the full potential of labour migration and workers' remittances by engaging in the following activities during 2021 and early 2022.

14.1 Incentive Schemes for Migrant Workers

- The Central Bank introduced the 'Additional Incentive Scheme on Inward Workers' Remittances' whereby Sri Lankan migrant workers are paid an additional Rs. 8 per US dollar remitted and converted to Sri Lankan Rupees from December 2021, in addition to the Rs. 2 paid for each US dollar, through the Government budget for 2021. However, with the greater flexibility in the exchange rate, the Central Bank discontinued the incentive of Rs. 8.00 per US dollar on the conversion of workers' remittances in March 2022.
- Introduced an incentive scheme to reimburse the transaction costs borne by migrant workers up to Rs. 1,000 per each transaction over Rs. 20,000 when remitting money to Sri Lanka and converting to Sri Lankan rupees.

14.2 Encouraging Migrant Workers to Open Bank Accounts

Facilitated opening of five mini-bank branches at the Department of Immigration and Emigration premises in Battaramulla. These dedicated 'Mini Bank Branches' with restricted financial services were established particularly for the convenience of prospective migrant workers. It is expected that migrant workers make use of this opportunity to meet all

their banking requirements prior to the departure and thereby facilitate the inflow of workers' remittances through formal banking channels.

14.3 Awareness Programmes

- Public awareness programmes on incentive schemes focused on migrant workers and importance of formal money transferring channels were conducted through various modes such as newspapers, radio programmes, seminars, social media platforms and news websites.
- Conducted awareness programmes and interactive sessions, both physically and virtually, for the Sri Lanka expatriates and representatives of Exchange Houses in the Middle Eastern Region to educate them on the incentives introduced for migrant workers as well as to identify and address issues in the sector and to streamline the current and proposed incentive schemes for migrant workers as per the feedback received at the said interactions.

14.4 Liaising with Stakeholders

- FRFD has been in continuous dialogue with the Department of Immigration and Emigration to expedite the passport issuance process and revision of criteria and promotion of long-term resident visa categories for foreigners.
- The Department has been liaising with the Ministry of Labour to expedite the implementation of a new pension scheme for migrant workers.
- FRFD was engaged in handling clarifications, complaints and grievances in relation to remitting foreign currency to the country.

Going forward, FRFD will be extensively involved in the process of introducing new schemes to enhance migrant workers' welfare in collaboration with relevant authorities. In this regard, FRFD will continue to work with key stakeholders in the foreign employment sector such as the Ministry of Labour, State Ministry of Foreign Employment Promotion and Market Diversification and Sri Lanka Bureau of Foreign Employment as well as the banking sector and several other stakeholders to introduce incentive schemes for migrant workers. In addition to the establishment of a pension scheme, these incentive schemes include banking facilities such as low interest loans and enhanced duty-free concessions.

15. GOVERNOR'S SECRETARIAT

With the objective of providing operational and technical assistance required by the Governor of the Central Bank to take swift action and providing the expertise to overcome economic challenges that arose due to the COVID-19 pandemic and dynamic financial and economic conditions, the Governor's Secretariat which functioned as a division of the Secretariat Department since 9 February 2015 was re-established as a Department under the name of the "Governor's Secretariat Department" (GSD) on 24 September 2021.

GSD was engaged in providing high level secretarial work, corporate services and protocol duties for facilitating the mission of succeeding in terms of challenging economic goals such as minimising the impact of the COVID-19 pandemic on the local economy, following up of activities on work assigned by the Governor to other departments, and work related to maintaining relationship with banks, other institutions as well as the public in a very effective manner.

Managing appointments and meetings of the Governor with officials and visitors in a timely manner, attending to correspondence related to such appointments, bringing the activities of other Departments constantly to the attention of the Governor, and following up on assigned tasks are the main functions of GSD. The Governor had a significant number of meetings with high ranking officials, including Governors of other central banks, Ministers, Members of Parliament, Members of diplomatic corps based in Sri Lanka, CEOs of banks and other financial institutions and heads of media institutions, business leaders, and delegations from international financial institutions such as the United Nations, Japan International Cooperation Agency, Asian Development Bank, International Monetary Fund, World Bank, and other foreign delegations. All such appointments and correspondences relating to these meetings and outcomes thereon were well communicated by the Governor's Secretariat Department to the relevant stakeholders monitoring the progress of the same.

GSD maintained relationships with both local and global participants in the banking, finance and economic sectors in order to perform its tasks effectively. In particular, the continuation of relationships with global counterparties was given top priority in the context of the growing reputation of Sri Lanka as an emerging economy. In that context, GSD interacted with global investors regularly, furnishing them with reliable information and arranging meetings for them with the Governor. Considering the current pandemic situation, tele and video conferences, video interviews, and meetings with global investors were conducted using modern methods of communication.

GSD provided protocol services to the Governor, high ranking visitors of the Governor, and special invitees to the Central Bank. All arrangements for official local and foreign travels of the Governor were also made by GSD during this period. In addition, the Department organised all official visits of the Governor abroad as the Chief Guest or as the keynote speaker, including Foreign Investment Promotion Meetings. While providing protocol services to the Governor for official foreign travels, GSD also provided necessary data and information daily and prepared necessary electronic media presentations in order to ensure the success of such visits. Whenever the Governor was abroad, GSD provided real time data on domestic money market and foreign exchange market information to the Governor. In addition, all official functions hosted by the Governor and Deputy Governors were arranged by GSD.

GSD provided necessary professional inputs, which were requested by the Governor for meetings of committees of the Central Bank such as the Corporate Management Committee, Monetary Policy Consultative Committee, Financial Systems Stability Consultative Committee, and meetings of bank CEOs and non-bank financial institutions CEOs. In addition, GSD assisted the Economic Research Department in the preparation of the "Six-Month Road Map for Ensuring Macroeconomic and Financial System Stability", which was presented on 01 October 2021.

The Governor also attended meetings with the heads of public enterprises, major exporters and importers, and other business community, where GSD provided necessary data and information. Further, GSD provided timely information to foreign investors with the assistance of the relevant Departments.

GSD closely followed up on instructions issued by the Governor to other Departments and ensured that they were implemented without delay, using the Task Tracker System. GSD also assisted the public by responding to their queries, particularly with regard to matters relating to the Employees' Provident Fund, finance companies, banking issues, and other issues relevant to the Central Bank.

16. HUMAN RESOURCES

The main objective of the Human Resources Department (HRD) is ensuring the availability of a highly productive, motivated and contended team of employees, who can contribute towards the achievement of the objectives of the Central Bank. In line with the above, HRD continued to carry out strategic and operational human resource management (HRM) functions, while adopting the best HRM practices. Accordingly, in line with the strategies identified in the Strategic Plan of the Central Bank, HRD carried out various activities to develop human resources of the Bank, such as recruitment of new staff, promotions, job rotations, employee remunerations, training and skill development, motivation of staff, performance evaluation, and grievance handling during the year 2021. Further, HRD facilitated conducting the Corporate Management Committee (CMC), Training Committee (TC), and Training Sub Committee (TSC) meetings in order to take necessary decisions and make recommendations on all the HR and HR development related matters, and matters related to corporate support functions. HRD also executed various measures in order to maintain cordial relationship with the Central Bank management, employees and trade unions with a view of improving industrial harmony and overall work efficiency of the Bank. Matters of the Central Bank pensioners and Pensioners' Associations were also well considered for discussion during this year by HRD.

With the outbreak of the COVID-19 pandemic during 2021, and the resultant mobility restrictions imposed by the health authorities from time to time, HRD took measures to ensure a safe working environment for employees while maintaining uninterrupted operations of the Bank. Accordingly,

arrangements were made to facilitate the Central Bank employees to 'Work From Home', and issued guidelines and circulars on working arrangements as well as on health and safety measures that were required to be adhered with, in line with the guidelines issued by the health authorities from time to time. Further, arrangements were made to carry out a survey continually to assess the vulnerability and risk exposure of Central Bank employees to COVID-19, in line with the guidelines issued by health authorities. Also, HRD made arrangements to vaccinate Central Bank employees with the booster dose in collaboration with the Sri Lanka Army to ensure their safety and to carry out the Bank's functions continuously without interruption.

The Human Resources structure of the Bank and a summary of the activities carried out by HRD during the year are given below.

16.1 Human Resources Structure

The total number of staff of the Central Bank as at the end of 2021 was 1,357 which consisted of 715 Staff Class (SC) Officers, 503 Management Assistant Class (MAC) Officers and 139 Office Assistant Class (OAC) employees. The total staff of the Central Bank consisted of 714 male and 643 female officers representing 53 per cent and 47 per cent of the total staff, respectively. The average age of an employee of the Central Bank was 39 years at the end of 2021.

16.2 Educational and Professional Qualifications of Employees

The Central Bank has a diverse and talented pool of human resources with a high level of academic and professional qualifications. Table II -14 shows the details of the educational and professional qualifications possessed by the Bank's employees as at the end of 2021.

16.3 Human Resources Management

(a) Recruitments

In 2021, under the General Recruitment procedure, HRD recruited Management Trainees leading to Staff Class Grade I (probation) and promoted internal candidates as Probationary Staff Officers parallel to the recruitment of

Management Trainees, to fill the vacancies identified in the Staff Class employee category of the Central Bank, while recruiting English-Tamil Translators and English-Sinhala Translators on Contract Basis to fulfil specific short term skill requirements of the Bank. In 2021, a Notarial Clerk was recruited to the Central Bank under the Lateral Recruitment process.

Further, HRD took measures to initiate the recruitment process of Banking Assistants (Trainee) and Junior Personal Assistants (English and Sinhala) to the Central Bank.

(b) Performance Management

HRD carried out the employee performance evaluation process as planned during the year. Under the performance evaluation process, the level of performance of each employee is evaluated by assigning ratings for the performance achieved based on the generic and technical competencies in line with the specified evaluation criteria. The final performance marks of employees up to SC Grade III (2) are used as one of the requirements in the promotion criteria.

Further, HRD reviewed the mid-year performance review process of the departments. It provided an opportunity to understand the level of performance of staff members during the first half of the year.

(c) Promotions

Under the employee promotion scheme of the Central Bank, HRD facilitated promotions for the employees ensuring their career progression. Accordingly, a total of 224 staff members were granted their Class and Grade promotions in 2021. Further, four Heads of Department were promoted as Assistant Governors, six Deputy Heads of Department were promoted as Additional Heads of Department, six Staff Class III (1) officers were promoted as Deputy Heads of Department and 208 employees were granted their Class and Grade promotions.

(d) Training and Skills Development

The process of upgrading skills and knowledge of the staff of the Central Bank is of paramount significance in

Table II-14
Educational Qualifications/Professional Memberships of Employees of the Central Bank
as at 31.12.2021

Employee Class	Educational Qualifications/Professional Membership Holders								
	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	Total
SC	25	132	164	75	45	3	201	14	659
MAC	-	4	23	17	13	28	44	30	159
OAC	-	-	-	-	-	-	7	-	7
Total	25	136	187	92	58	31	252	44	825

a changing environment to fulfil the objectives of the Bank effectively. Accordingly, the Central Bank defrays the cost by encouraging its officers to read postgraduate studies in internationally recognised universities under the Central Bank Sponsorship Scheme for postgraduate students and facilitates officers to attend short term training programmes locally and internationally, to support the continuous enhancement of knowledge, expertise, and skills within the Bank.

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

Accordingly, in 2021, HRD facilitated two officers to embark on postgraduate programmes in reputed universities in Australia and one officer to commence a Master's Degree in a local university on a part-time basis. The number of officers who have commenced/completed postgraduate studies under the Central Bank Sponsorship Scheme during the period from the year 2017 to end of the year 2021 is given in the Table II - 15 below.

The Central Bank discouraged in-person participation in Short Term Foreign Trainings (STFT) until further notice with effect from 12 March 2020 considering the pandemic situation prevailing worldwide. Instead, the Bank facilitated officers to attend online training programmes in 2021 conducted by the other Central Banks and reputed international and local institutions. Accordingly, HRD facilitated officers to attend 529 STFT conducted virtually and 1,229 officers sent their nominations to participate in the same.

In the meantime, HRD facilitated 208 officers to participate in 44 local training programmes conducted by the outside local training institutes and 450 officers to participate in 46 local training programmes conducted by the Centre for Banking Studies (CBS).

In addition, HRD facilitated the Central Bank employees to follow Local Long Term (part time) Training programmes

and continued its Sponsorship Scheme for Chartered Financial Analyst (CFA) qualification while facilitating following Certificate Courses, Diploma Programmes and other qualifications offered by reputed local institutions. HRD also facilitated knowledge sharing among the staff of the Central Bank and other Central Banks. Accordingly, HRD conducted knowledge sharing programmes with the Bank of Korea in 2021 in the field of macroeconomics under the topic of "Foreign Exchange Policy and Capital Flow Management."

(e) Job Rotation

The Central Bank implements the annual job rotation policy to facilitate the Bank to achieve its overall objectives more effectively while providing opportunities for employees to gain experience in different areas/functions of the Bank. However, Annual Job Rotation for the year 2021 was not implemented due to the COVID-19 pandemic except for the transferring of 12 employees in OAC based on the roster plan formulated under Annual Job Rotation Scheme. Arrangements were made to implement the Annual Job Rotation for SC and OAC employees from 01 January 2022.

(f) Industrial Harmony

HRD continued to perform its role as the facilitator for maintaining a closer dialogue between the Management and Trade Unions. Accordingly, three discussions were arranged in 2021 giving the opportunity for the Management and Trade Unions to resolve some of the issues related to remuneration, promotions, training, welfare, recruitment, and general administration of the Bank.

16.4 Establishment of New Departments

In accordance with the provisions of Section 33 of the Monetary Law Act No. 58 of 1949 and as per the Monetary Board decision taken at its Meeting No. 33/2021 held on 23 September 2021, the Governor's Secretariat Department (GSD) in the Central Bank was established with effect from 24 September 2021. Also, the Monetary Board at its Meeting No. 36/2021 held on 27 October 2021 decided to establish the Foreign Remittance Facilitation Department (FRFD) with effect from 03 November 2021.

Table II – 15
Postgraduate Studies under the Central Bank Scholarship Programme

Year	Postgraduate Studies				Total	
	PhD		Master's Degree		Commenced	Completed
	Commenced	Completed	Commenced	Completed		
2017	6	6	9	18	15	24
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
Total	21	17	31	53	52	70

16.5 Meetings Attended by the Governor during the Year 2021

- (a) Foreign Visits undertaken by the Governor
 - i. Meetings with senior counterpart officials and other investors in the State of Qatar during the period of 20 – 23 October 2021
 - ii. Meetings with senior counterpart officials and other investors in Dubai, United Arab Emirates during the period of 03 – 09 November 2021
- (b) Virtual Meetings attended by the Governor
 - i. Webinar on “Economic Outlook 2021” organized by American Chamber of Commerce in Sri Lanka on 15 January 2021
 - ii. Conference Call with Dr. Surjit Bhalla, Executive Director, IMF on 19 January 2021
 - iii. SAARC FINANCE Governors’ Group Meeting on 01 March 2021
 - iv. Conference call with Lord Davies, UK Prime Minister’s Trade Envoy for Sri Lanka on 22 March 2021
 - v. G-24 Ministerial Meeting (IMF/WB Spring Meeting) on 05 April 2021
 - vi. IMF Asia Pacific Department’s Regional Economic Outlook Meeting on 08 April 2021
 - vii. IMF/WB Spring Meetings on 08 April 2021
 - viii. G-24/AFI Policymaker’s Round table discussion on 13 April 2021
 - ix. Meeting with Asia Pacific Director, IMF on 16 April 2021
 - x. 49th ACU Board of Directors Meeting on 24 May 2021
 - xi. Sri Lanka-Mashreq Non-Deal Roadshow on 21 June 2021
 - xii. Investor Meeting with Franklin Templeton, Bluebag, Goldman AM and Wellington on 22 June 2021
 - xiii. Interview with CNBC World Channel on 12 July 2021
 - xiv. Meeting with Governor of Reserve Bank of India on 10 August 2021
 - xv. Interview with Bloomberg on assuming duties as the Governor of the Central Bank on 17 September 2021
 - xvi. Keynote Speaker – SLS Debt Sustainability/ The Current Challenge-ICC Sri Lanka on 25 September 2021
 - xvii. CMA Virtual Meeting on 27 September 2021
 - xviii. Central Bank - Asian Development Bank Institute (ADB) and the Asia-Pacific Applied Economics Association (APAEA) Workshop on Emerging Issues for Macroeconomic Stability on 30 September 2021
 - xix. CNBC Asia Interview on 01 October 2021
 - xx. Interview with Bloomberg on Current Economic Situation on 07 October 2021
 - xxi. Commonwealth Central Bank Governors’ Meeting on 11 October 2021
 - xxii. IMF/World Bank Annual Meetings/G-24 Ministerial Meeting on 11 October 2021
 - xxiii. HSBC Global Emerging Markets Forum with Investors on 14 October 2021
 - xxiv. 42nd SAARC Finance Governor’s Group Meeting on 15 November 2021
 - xxv. Conference call with Fitch ratings on Annual Review of Sri Lanka on 02 December 2021
 - xxvi. SEACEN Board of Governors’ Meeting on 06 December 2021
 - xxvii. Meeting with the Governor of the Central Bank of United Arab Emirates on 06 December 2021
 - xxviii. Meeting with the Sri Lankan Ambassadors in the Middle Eastern Region on 07 December 2021
 - xxix. Meeting with Sri Lankan professionals residing in the United Arab Emirates on 13 December 2021
 - xxx. Meeting with Sri Lankan professionals residing in the Kingdom of Saudi Arabia on 17 December 2021

16.6 Promotions/Appointments

- i. Mr. K G P Sirikumara, Mr. D Kumaratunge, Mrs. U L Muthugala and Mr. C P S Bandara were promoted to Staff Class Special Grade and were appointed as Assistant Governors with effect from 17 November 2021.
- ii. Mr. K M Abeykoon, Director of the Centre for Banking Studies, was appointed as Superintendent of the Currency Department with effect from 19 January 2021.
- iii. Mr. B L J S Balasooriya, Director of the Staff Services Management Department, was appointed as Director of the Regional Development Department with effect from 19 January 2021 and subsequently he was appointed as Director of the Staff Services Management Department with effect from 24 November 2021.
- iv. Mr. R M Jayawardena, Director of the Facilities Management Department, was appointed as Director of the Staff Services Management Department with effect from 19 January 2021 and subsequently he was appointed as Acting Director of the Security Services Department in addition to the duties of the Staff Services Management Department with effect from 12 July 2021. Thereafter, he was appointed as the Director of the Resolution and Enforcement Department with effect from 24 November 2021.
- v. Mr. W R M K Fernando, Director of the Risk Management Department, was appointed as Director of the International Operations Department with effect from 19 January 2021 and in addition to the same he was appointed as the Secretary to the Governor attached to the Governor’s Secretariat with effect from 16 September 2021. Subsequently he was appointed as Director of the Governor’s Secretariat Department with effect from 24 September 2021 in addition to

- his duties as Director of the International Operations Department.
- vi. Mr. M S K Dharmawardane, Director of the Regional Development Department, was appointed as Director of the Communications Department with effect from 19 January 2021 and subsequently he was appointed as Director of the Regional Development Department with effect from 24 November 2021.
 - vii. Mrs. R D T Gunasekara, Director of the Communications Department, was appointed as Director of the Policy Review and Monitoring Department with effect from 19 January 2021.
 - viii. Mr. C P S Bandara, Director of the Policy Review and Monitoring Department, was appointed as Director of the Risk Management Department with effect from 19 January 2021.
 - ix. Mrs. D S W Samaratunga, Director of the International Operations Department, was appointed as Director of the Centre for Banking Studies with effect from 19 January 2021.
 - x. Mr. A M Gunathilake, Superintendent of the Currency Department, was appointed as Director of the Facilities Management Department with effect from 19 January 2021 and subsequently he was appointed as Director of the Human Resources Department with effect from 24 November 2021.
 - xi. Mr. M D S N Gunatilleka, Additional Director of the Department of Foreign Exchange, was appointed as the Additional Director of the Facilities Management Department with effect from 22 February 2021 and was subsequently appointed as the Additional Director of the Resolution and Enforcement Department with effect from 19 April 2021.
 - xii. Mr. G C A Ariyadasa, Additional Director of the Regional Development Department, was appointed as the Additional Director of the Department of Foreign Exchange with effect from 22 February 2021.
 - xiii. Dr. (Mrs.) T M R P Yatigammana, Additional Director of the Risk Management Department, was appointed as the Additional Chief Accountant of the Finance Department with effect from 19 April 2021.
 - xiv. Dr. E W K J B Ehelepola, Additional Director of the Economic Research Department, was appointed as the Additional Superintendent of the Public Debt Department with effect from 27 April 2021.
 - xv. Mr. W G Prabath, Additional Superintendent of the Public Debt Department, was appointed as the Additional Director of the Human Resources Department with effect from 27 April 2021.
 - xvi. Mr. R R Jayaratne, Director of the Department of Foreign Exchange, was appointed as Director of the Security Services Department with effect from 10 May 2021.
 - xvii. Dr. (Mrs.) A A I N Wickramasinghe, Additional Director of the Legal and Compliance Department, was appointed as Director of the Department of Foreign Exchange with effect from 10 May 2021.
 - xviii. Dr. R A A Perera, Additional Director of the Domestic Operations Department, was appointed as Director of the Domestic Operations Department with effect from 27 July 2021.
 - xix. Mr. J P Gamalath, Director of the Financial Consumer Relations Department, was appointed as Director of the Department of Supervision of Non-Bank Financial Institutions with effect from 21 September 2021.
 - xx. Mr. J D S J Nanayakkara, Director of the Department of Supervision of Non-Bank Financial Institutions, was appointed as Director of the Financial Consumer Relations Department with effect from 21 September 2021.
 - xxi. Dr. (Ms.) D S T Wanaguru, Additional Director of the Economic Research Department, was appointed as Director of the International Operations Department with effect from 28 September 2021.
 - xxii. Dr. B H P K Thilakaweera, Additional Director of the Macroprudential Surveillance Department, was appointed as Director of the Foreign Remittance Facilitation Department with effect from 03 November 2021.
 - xxiii. Mrs. K N N M Bandara, Director of the Human Resources Department, was appointed as the Secretary of the Central Bank with effect from 24 November 2021.
 - xxiv. Mr. D M D B Dissanayake, Director of the Resolution and Enforcement Department, was appointed as the Director of the Security Services Department with effect from 24 November 2021.
 - xxv. Mrs. E H Mohotty, Director of the Financial Intelligence Unit, was appointed as the Director of the Communications Department with effect from 24 November 2021.
 - xxvi. Mr. M R Wijewardane, Additional Director of the Payments and Settlements Department, was appointed as the Director of the Payments and Settlements Department with effect from 24 November 2021.
 - xxvii. Mr. J M Ameer, Additional Secretary of the Secretariat Department, was appointed as the Director of the Facilities Management Department with effect from 24 November 2021.
 - xxviii. Dr. (Mrs.) H K J Ekanayake, Additional Director of the Statistics Department, was appointed as the Director of the Risk Management Department with effect from 24 November 2021.
 - xxix. Mrs. D R Karunaratne, Additional Director of the Bank Supervision Department, was appointed as the Director of the Financial Intelligence Unit with effect from 24 November 2021.
 - xxx. Mr. W M Priyankara, Additional Director of the Policy Review and Monitoring Department, was appointed as the Additional Director of the Financial Intelligence Unit with effect from 24 November 2021.

- xxi. Dr. (Mrs.) W G S S J Keerthiratne, Additional Director of the Financial Intelligence Unit, was appointed as the Additional Director of the Legal and Compliance Department with effect from 03 December 2021.
- xxii. Dr. (Mrs.) Y M Indraratna, who reported for duty after serving as the Alternate Executive Director at the International Monetary Fund, was appointed as the Director in charge of Special Projects attached to the Governor's Secretariat Department with effect from 13 December 2021.
- xxiii. Mr. N Y D C Weerasinghe, Additional Superintendent of the Public Debt Department, was appointed as the Additional Director of the Regional Development Department with effect from 31 December 2021.
- xxiv. Mr. D L Nihal, Additional Director of the Regional Development Department, was appointed as the Additional Superintendent of the Public Debt Department with effect from 31 December 2021.

16.7 Employees on Release

- (a) Dr (Mrs). Y M Indraratna, Staff Class Grade IV officer, to the International Monetary Fund as an Alternate Executive Director until 30 November 2021.
- (b) Mrs. S Ranasinghe, Staff Class Grade II officer released to the International Monetary Fund as an Administrative Assistant

16.8 Retirements/Resignations

During the year of 2021, a total of 44 officers retired from the Bank Service, including two Deputy Governors, four Heads of Department and one Deputy Head of Department. A total of 14 officers resigned from Central Bank service including one Additional Head of Department and two Deputy Heads of Department.

17. INFORMATION TECHNOLOGY

The Information Technology Department (ITD) continued to fulfill its dynamic role of contributing towards accomplishing the core objectives of the Central Bank, by providing enterprise level integrated Information Technology (IT) solutions and corporate services through secure infrastructure, despite the challenges of having to undergo a forced adaptation to new realities due to the COVID-19 pandemic.

During the year, ITD provided its services 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 support and enhancement of competencies of the staff.

(a) Delivery of Cost-effective Application Software Solutions

ITD played a pivotal role in implementing a state-of-the-art Reserve Management System (RMS) for managing

the foreign reserves of the country. Further, in order to process other foreign currency (FX) related transactions, a separate system, Non-Reserve Management System (NRMS), was developed and implemented by ITD, facilitating the activities of the Payments and Settlements Department (PSD), the Finance Department (FD) and the Public Debt Department (PDD). This system manages FX transactions and facilitates financial messages required to process several types of foreign payments, including Asian Clearing Union related payments, foreign debt payments, Treasury payments, and other payments made by the Central Bank.

Stemming from a key strategic initiative of the Central Bank, ITD completed development of an International Transaction Reporting System (ITRS) for the collection of granular data on cross border and domestic foreign currency transactions from Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs) for the purpose of enhancement of operational and policy decision making process. ITD also provided technical expertise to banks to ensure the successful implementation of ITRS.

Open Market Operations (OMO) settlement activities were enhanced through the implementation of a new web-based portfolio management module for PSD, with improved functionalities for securities allocation, authorisation, and report generation.

To strengthen the continuous supervision and examination process of financial institutions, the FinNet System was further enhanced to collect financial information in line with Sri Lanka Financial Reporting Standards (SLFRS-9) from LCBs, LSBs, Licensed Finance Companies (LFCs), and Specialised Leasing Companies (SLCs). In the same vein, Licensed Microfinance Companies (LMFCs) were also included to FinNet, enabling digital data submissions.

During the year, ITD also facilitated the implementation of a new website for the Centre for Banking Studies (CBS) together with an institute management system, to manage programmes and facilities of CBS through an automated, secure, and easy-to-use solution.

ITD provided the Employees' Provident Fund (EPF) Department with required technologies facilitating the implementation of a new web application, enabling extended employer and member services. This web application was launched along with the new and improved EPF website, supporting employers with online contribution payments through the Common Electronic Fund Transfer Switch (CEFTS) and facilitating automation of member account updates, providing convenience to both employers and members.

The Currency Management System (CMS) of the Currency Department (CRD) was integrated with currency

destruction machines. This eliminated the inefficiencies related to manually recording destructed currency notes in the CMS and improved the transparency and security of the destruction process.

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

ITD initiated development of a new system for refinance, interest subsidy and credit guarantee schemes required by the Regional Development Department (RDD) to streamline the processing of loans.

The development of a deposit data collection tool to collect data from banks and finance companies required by the Resolution and Enforcement Department (RED) was also continued.

In order to monitor export proceeds received by the country, ITD commenced development of an Export Proceeds Monitoring System. This system will facilitate Department of Foreign Exchange (DFE) to monitor export proceeds repatriations for goods and services exports along with their conversion status.

To increase the efficiency of staff loan processing, ITD initiated development of a new and improved web based loan granting system for the Staff Services Management Department (SSMD).

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

Further, ITD expanded 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 Enhancements of the IT Infrastructure

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

ITD continued setting up the new Head Office Data Centre to comply with the Telecommunications Industry Association (TIA) 942 Rated-3 standard.

In order to strengthen the security of the Disaster Recovery Site, ITD installed and configured new firewalls equipped with latest technologies.

The Virtual Private Network (VPN) of the Central Bank was enhanced by incorporating two-factor authentication and other secure connectivity mechanisms, complying with industry standards.

(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 modernization of the RTGS System by serving in the Technical Evaluation Committee (TEC) for the selection of a suitable vendor.

Further, ITD provided technical expertise for the ongoing financial market infrastructure development project to establish an Electronic Trading Platform (ETP), a Central Securities Depository (CSD), and a Clearing House (CH) with a Central Counter Party (CCP) solution.

(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 all employees of the Central Bank.

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 threats. 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. ITD also progressed with implementing a Security Incident and Event Management (SIEM) Analyser to strengthen the security posture of the Central Bank.

Virtual user awareness programmes were carried out to provide employees of the Central Bank with knowledge and guidance on usage of enterprise applications without compromising any security guidelines.

(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 maintained a high level of availability of critical infrastructure (above 99.5 per cent), on par with 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 community within the Central Bank, ITD continued to publish awareness banners on the intranet and circulated security advisory alerts through email to the 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.

18. INTERNAL AUDIT

The internal audit function has been in operation in the Central Bank since 1951. The vision, mission, scope of work, authority, responsibility, accountability, and independence of the Director and the staff of the Internal Audit Department (IAD) have been included in the Internal Audit Charter approved by the Monetary Board. In conducting audits, Global Standards are followed. A summary of the activities carried out by the Department during 2021 is given below.

18.1 Internal Audit Plans

Strategic Audit Plan for 2022 – 2024 and Annual Audit Plan for 2022 were compiled during the year.

18.2 Conduct of Audit Assignments

(a) Process Audits and Information Systems Audits

In 2021, process and information systems audits were conducted. Each audit engagement was carried out in four sequential steps, i.e. planning, performing, communicating audit results and taking resolution actions. A three-step process was followed for the communication of audit results, i.e. conducting closing conference with Auditee Department to get audit observations validated, issuing of draft audit report and issuing of final report. Implementation of audit recommendations by process owners was also followed-up during the year.

(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.

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

During the year, Internal Audit Reports were submitted to the 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.

18.3 Awareness Programmes

IAD conducted an awareness programme for the Audit Coordinating Officers of the Bank on the "Internal Audit Facilitation Guidelines" in 2021. A Guest Auditor Presentation on Information Systems (IS) Audit was also conducted by an IS Audit professional for the benefit of IAD staff.

18.4 Facilitated the Monetary Board Advisory Audit Committee

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

Assistant Secretary to the AAC. Accordingly, IAD provided secretarial facilities to the AAC during the year.

19. INTERNATIONAL OPERATIONS

In terms of the enabling provisions of the Monetary Law Act (MLA) No. 58 of 1949, the International Operations Department (IOD) is entrusted with performing the functions of managing official foreign exchange reserves and monitoring of the domestic foreign exchange (FX) market activities to ensure orderly and smooth operations of the domestic FX market.

19.1 International Reserves Management

IOD continued its foreign reserves management activities in line with the Investment Policy Statement and the Investment Guidelines approved by the Monetary Board, under the supervision of the International Reserves Investment Oversight Committee (IRIOC), taking into consideration the safety, liquidity and return objectives. Since 2016, the Central Bank has been managing foreign reserves in line with a model based scientific framework stemming from the asset and liability structure, which mainly considers the objectives of liquidity requirements, capital preservation, income generation and the risk tolerance of the Central Bank. Accordingly, foreign reserves of the Central Bank are objectively divided into three main tranches, and each tranche has distinctive investment horizons, asset compositions and currency compositions. Under these tranches, different portfolios are maintained.

However, traditional liquidity, safety and return exercises of the reserve management turned to a different edition since 2020, with a series of unprecedented events occurred with the outbreak of the COVID-19 pandemic. The possible stressed scenarios became simple realities to the entire globe with capital markets recording unnerving struggles with extreme volatilities. In an outset of this nature, the reserve management operations of the Central Bank were no exception. It was one of the most challenging years in known history, where the optimal reserve management operations were restrained and forced to adopt to situation and time specific approaches. With the declaration of a global pandemic situation with lockdowns, the external sector of the country was disturbed heavily as the tourism sector been completely halted, whilst the ratings of the country got revised downward.

In this context, the main revenue and credit generation sources of the country were dampened. Consequently, the Central Bank had to deploy foreign reserves constantly since April 2020, especially to settle dues on foreign currency debt obligations of the Government. This was an extremely challenging task for an emerging economy amidst an extremely volatile external setting, where the focus was primarily on liquidity management. In order to settle the debt obligations, the Government and the Central Bank executed extensive measures, i.e. execution of repo facilities with several central banks, change of asset compositions,

negotiations with other Governments in terms of financing facilities, restoration of different methodologies in settling debt payments and facilitating swap arrangements. In such a context, the adoption of usual reserve management policies deviated from the standard practices and focused on the country's specific foreign currency requirements, policy settings and the external circumstances.

Meanwhile, the Central Bank successfully implemented the new Reserve Management System (RMS) on 01 January 2022, replacing the system that was in operation from January 2014. The implementation process of RMS commenced in December 2020 and development, integration, designing, and parallel testing were carried out in 2021 to ensure the installation and commissioning of a sophisticated and the most pertinent system for the reserve management activities of the Central Bank. The new system is expected to bring several improvements in terms of reserve management of the Central Bank, including the introduction of performance and attribution tool, and the launch of advanced portfolio analytics and the risk management tool.

19.2 Performance Analysis and Facilitation Activities

Despite the sharp decline in foreign reserve levels, the Central Bank managed reserves and gross official reserves were compiled on a daily basis as usual, while assessing the performance of reserve management activities based on the total return approach and presenting the same to the Monetary Board on a quarterly basis.

With a view to provide a buffer even with short term foreign exchange liquidity until a buildup of official reserves is in place, IOD continued to negotiate and process several Bilateral Currency Swap Agreements (BCSAs) with regional central banks. Entering into a BCSA is a lengthy process, which involves numerous rounds of communications and negotiations between the providing party and the requesting party, in respect of legal provisions and financial terms, followed by approvals of the Monetary Board and the Cabinet of Ministers. Accordingly, the Central Bank entered into two BCSAs during 2021 with the People's Bank of China and the Bangladesh Bank in March and August 2021, respectively. Under the provisions of the BCSA with the Bangladesh Bank, a total of US dollars 200 million was drawn in three tranches and CNY 10 billion (equivalent to US dollars 1.5 billion) was drawn in December 2021 for a period of one year under the BCSA signed with the People's Bank of China, which is kept as a standby arrangement. Furthermore, discussions were held with several other regional central banks aiming at securing swap facilities.

Meanwhile, IOD conducted the annual review in terms of evaluating the adherence/compliance with Anti Money Laundering/Combating the Financing of Terrorism (AML/CFT) requirements of foreign counterparties for existing active counterparties in 2021, despite the extremely challenging global and local foreign exchange market conditions.

19.3 Domestic Foreign Exchange Market Developments

IOD continued its active engagement in monitoring of the domestic FX market activities and keeping the external value of the Sri Lanka rupee stable during the year, despite the challenging market conditions due to lingering issues stemming from the COVID-19 pandemic and the impact of continuous sovereign credit rating revisions by the global rating agencies. Since end of April 2021, banks mutually agreed to execute FX transactions within the USD/LKR exchange rate band of Rs. 200 - Rs. 203, in order to curb the depreciation pressure and market speculation on the exchange rate to a certain extent. Furthermore, since early September 2021, following the Governor's instructions to all banks to execute FX transactions within the USD/LKR exchange rate between Rs. 200 - Rs. 203, the average spot exchange rate in the domestic interbank FX market hovered within the specified range. Moreover, in order to address forex liquidity issues in the domestic FX market, the Central Bank implemented several new measures, where IOD had to actively engage in making such efforts successful. During 2021, the Central Bank instructed all Licensed Banks to sell a portion of converted export proceeds and converted workers' remittances to the Central Bank to strengthen the official foreign reserve position.

In terms of dissemination of information, IOD issued several press releases and conducted awareness programmes to banks as and when necessary. IOD continued to publish the indicative exchange rate for the US dollar along with indicative exchange rates for fifty-six other world currencies. IOD also published average Telegraphic Transfer (TT) buying and selling exchange rates of Licensed Commercial Banks (LCBs) against the Sri Lanka rupee for nine major currencies, on the Central Bank website, on a daily basis. Further, IOD facilitated the requests of various government institutions and other stakeholders, including the general public, by providing necessary exchange rate related data. Meanwhile, to ensure high standard of market conduct, IOD strengthened measures to quell any speculative behaviors of LCBs and to revise the Net Foreign Exchange Open Position (NOP) limits applicable to respective LCBs on temporary and case-by-case basis in 2021, to facilitate smooth functioning of the domestic FX market. At the same time, appropriate regulatory actions were taken against market participants, as necessary, for misconduct or misbehavior in the domestic FX market.

In observing market sentiments, IOD, as per its entrusted responsibility of ensuring the orderly conduct of the domestic FX market, provided its 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, and related matters suggested by other departments of the Central Bank as well as external organisations throughout the year 2021.

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 foreign exchange market and official reserves to the Monetary Policy Committee (MPC). Especially, the Monetary Board was continuously apprised and provided appropriate recommendations, highlighting concerns and way forward on the developments in the domestic foreign exchange market in a timely manner. IOD also delivered presentations and submitted several notes to the senior management on the recent developments in the domestic FX market and foreign exchange requirements as and when required. In 2021, IOD continued to engage with market participants, including customers, to address their foreign exchange related concerns, while assisting to ensure the uninterrupted supply of essential imports, including oil, gas, coal, pharmaceuticals and other essential food commodities, enabling the economy to function as smoothly as possible, amidst the FX liquidity shortage that prevailed in the domestic FX market.

Moreover, with the objective of attracting more FX inflows to the country and thereby to improve the liquidity in the domestic FX market, the Government together with the Central Bank, offered several incentives for workers' remittances channeled through formal banking sector. The public were also incentivized with a number of measures, including an additional Rs. 10 per US dollar when converting their foreign currency notes into Sri Lanka rupees. The implementation of these incentives was promptly facilitated by IOD.

Meanwhile, IOD continued to provide its contribution and inputs to the Capital Market Development Project (CMP), which is to be implemented by the Central Bank, aiming at developing the domestic FX market, while improving the market monitoring activities, and through the implementation of an electronic trading platform for domestic FX market, the independent price discovery and the market liquidity are expected to improve.

20. LEGAL AND COMPLIANCE

The Legal and Compliance Department (LCD) was established with a view to safeguarding the interests of the Central Bank whilst enhancing the level of compliance and governance standards thereof. LCD is charged with the duty of introducing law reforms to the financial sector namely, developing new laws, incorporating suitable amendments to the existing laws administered by the Central Bank, and strengthening the regulatory and supervisory framework thereof. In 2021, despite the challenges faced by the Central Bank due to the COVID-19 pandemic, LCD continuously contributed to perform a wide array of activities of the Central Bank, which could be summarised as follows.

LCD engaged in reviewing and introducing major legislation administered by the Central Bank, including the new Banking Act and the amendments to the Finance Business Act No. 42 of 2011. Such reforms will be essentially required to provide a stronger legal foundation for the regulatory and supervisory framework of the Central Bank. The second round of discussions pertaining to the proposed Banking Act has been concluded in 2021 to further strengthen and streamline the provisions thereof on par with the international standards. The amendments proposed to the Finance Business Act will also enhance regulatory and supervisory powers of the Central Bank over non-bank financial institutions including the resolution authority of the Central Bank.

In addition to the major legislative enactments as aforesaid, LCD was largely involved in developing new legislation namely, the Trading, Clearing and Netting Act, Financial Assets Management Agency Act and Microfinance and Credit Regulatory Authority Act. The Financial Assets Management Agency Act was aimed at introducing a concept based legal framework to establish financial asset management companies in Sri Lanka with a view to easing the burden of the balance sheets of regulated financial institutions due to underperforming assets. The new Microfinance and Credit Regulatory Authority Act was drafted to establish a separate regulatory authority for the regulation and supervision of business of money lending and business of microfinance and to ensure consumer protection in respective businesses. LCD continuously engaged in the above process during 2021.

With a view to facilitating the Capital Market Development Project undertaken by the Central Bank, initiatives were taken to introduce a new Trading, Clearing and Netting Act for Sri Lanka. It primarily aimed at introducing a comprehensive legal and technology infrastructure designed to transform the markets for government securities and foreign exchange into safer, modern, competitive and fair marketplaces supported by modern post-trade clearing, central counterparty systems, multi-currency Real Time Gross Settlement System etc. LCD engaged in this project throughout the year. Simultaneously, amendments were proposed to the Registered Stock and Securities Ordinance No. 7 of 1937 and subsidiary legislation issued thereunder to strengthen the issuance of Treasury Bonds and to restore the public confidence on government securities market in Sri Lanka.

Apart from that, LCD reviewed several pieces of legislation, which are relevant to the Central Bank and the financial sector drafted by several other stakeholders, such as the Colombo Port City Economic Commission Bill, Coronavirus Disease 2019 (COVID-19) (Temporary Provisions) Bill, Finance Bill, Data Protection Bill, proposed amendments to the Foreign Exchange Act, National Savings Bank Act, and the Bank of Ceylon Ordinance, etc. In doing so, LCD assessed the impact of such enactments/amendments to the existing regulatory and supervisory framework of the Central Bank given the national importance embedded therein.

During 2021, LCD engaged in revisiting the governance-driven policies of the Central Bank namely, whistle blowing policy, codes of conduct applicable for Central Bank staff and the members of the Monetary Board. Meanwhile, LCD as the focal point of the compliance function of the Central Bank promptly attended to compliance requirements of foreign counterparties of the Bank and conducted annual Know Your Customer/Customer Due Diligence reviews pertaining to such counterparties to ensure their compliance when engaging in foreign exchange operations of the Central Bank.

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 of LCD handled 144 information requests and 13 appeals relating to the Central Bank under the RTI Act during 2021. Further, LCD defended the Central Bank before the RTI Commission. The RTI Unit of LCD dealt with information requests received from citizens and entities established in Sri Lanka in a prompt manner, notwithstanding the challenging effects of the COVID-19 pandemic such as frequent lockdowns, travel restrictions, and work from home protocol, etc.

The year 2021 was a crucial year for the Central Bank as several lawsuits were initiated by third parties against some of the policy initiatives taken by the Bank to alleviate the impact of COVID-19. Debt moratoriums on affected sectors of the economy, rules issued under the Monetary Law Act No. 58 of 1949 to augment repatriation of export proceeds into Sri Lanka, and winding-up of failed finance companies whose licences have been cancelled by the Monetary Board, etc. were such initiatives challenged in courts during 2021. LCD handled all such litigations in a successful manner liaising with relevant authorities.

LCD cooperated with other affiliated departments of the Central Bank to develop and amend subsidiary legislations such as Directions, Regulations, Guidelines, Orders, Rules pertaining to their operations. LCD advised and provided recommendations for such departments, especially focusing on the legal and/or compliance risk that would be associated therewith.

Officers of LCD have largely contributed to the awareness programmes conducted by the Central Bank to enhance the financial inclusiveness of the country. The contribution of LCD was focused on the Central Bank legal and regulatory framework, prohibited schemes, unauthorised finance business, issues relating to finance leasing, hire purchase, and financial consumer protection, etc. Moreover, officers of LCD served on several special committees set out for various subject matters; such as, Steering and Technical Evaluation Committees for Procurement and Implementation of a New Real Time Gross Settlement System, the Committee on national financial inclusion strategy of Sri Lanka etc. pertaining to the activities of the Central Bank and the financial sector during 2021.

21. MACROPRUDENTIAL SURVEILLANCE

The Macroprudential Surveillance Department (MSD) conducts a vast array of analyses on possible systemic risks affecting the financial sector with a view of facilitating the Central Bank to achieve financial system stability, which is one of the core statutory objectives of the Central Bank. Such analyses compliment the microprudential regulation and supervision, which is also an approach followed by central banks in maintaining financial system stability. In this process, MSD conducts systemic risk analysis by using data provided by financial institutions and MSD also gathers data from a myriad of other sources as and when necessary. In addition, MSD conducts stress testing under plausible adverse scenarios to ensure the resilience of the financial system against any adverse shocks. These analyses contribute to the forward-looking policy formulation process of the Central Bank to mitigate and/or avoid systemic risk to maintain financial system stability. A summary of the main activities undertaken by the MSD during 2021 is given below.

(a) Macroprudential Surveillance

MSD conducted analyses on risks emanating from global and domestic macroeconomic developments, financial institutions and financial markets using the data reported by regulated financial institutions and data collected by MSD from several other sources. Analysis on data related to household and corporate sector debt dynamics in order to identify the impact from such sectors to the financial sector was also conducted by the MSD. In addition, MSD continued to compile a number of composite financial system stability indicators based on the stability and soundness of different subsectors of the domestic financial system, while taking steps to improve the reliability of these indices. Consequent to such analysis, a number of board papers including quarterly risk assessments were submitted to the Monetary Board containing risk assessments which highlight possible threats to the stability of the financial system, and other contemporary concerns regarding financial system stability with policy recommendations during 2021.

(b) Stress Testing Framework

MSD continued with the Technical Assistance (TA) obtained from the International Monetary Fund (IMF) in 2020 to expand the width and depth of the macroprudential surveillance framework in Sri Lanka. With the help of the TA, MSD developed a new dynamic solvency stress testing framework for banks which provides inferences to make proactive policies to assure system stability. The new bank solvency stress test model provides a macroprudential perspective by assessing resilience of the financial system as a whole under hypothetical scenarios. The macroprudential perspective emphasises, in particular a systemic viewpoint that ultimately links key sources of risk, transmission mechanisms and vulnerabilities in the

banking system to the real economy and vice versa. The framework thus differs from supervisory stress tests that focus predominantly on resilience of individual institutions. The Bank solvency stress tests are an integral part of central banks' macroprudential policy. MSD involved in data collection and maintaining the data infrastructure, generating stress testing scenario with a set of applied tools, and execution of the quantitative toolkit which embodies risk modules with transmission mechanisms accommodating envisaged shocks to the banks' balance sheets and resilience. With the view of building the banking sector capacities to facilitate data collection, a descriptive user guide has been developed and several virtual training sessions were conducted.

The TA also entailed establishment of liquidity stress testing framework for the banking sector through which the resilience of the banking system to liquidity shocks will be assessed. Maturity Ladder Template has been developed by MSD in consultation with BSD to bridge the data gap and to perform liquidity stress testing. The template identifies cash inflow-outflow mismatches and counterbalancing capacities of financial assets and financial liabilities denominated in major reporting currencies and their respective maturities. During 2021, a pilot data collection and the first round of formal data collection were conducted while technical implementation of liquidity stress testing has been concluded. It is envisaged to conduct the pilot liquidity stress testing and present the results to the Financial System Stability Committee in early 2022.

(c) Surveys and Data Collection

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

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

The Financial System Stability Review (FSSR): To present an independent evaluation of risks and vulnerabilities faced by the Sri Lankan financial sector and to discuss risk mitigation measures adopted, MSD publishes the FSSR. The FSSR contains five chapters, namely, Macrofinancial Conditions; Financial Markets; Financial Institutions; Household Sector & Corporate Sector and Financial System Infrastructure. MSD drafted the FSSR 2021 which will be published in early 2022.

Statutory Publications: MSD continued to contribute to key publications of the Central Bank via coordinating and compiling the Chapter on "Financial Sector Developments and Stability" of the Central Bank Annual Report 2020 and the "Recent Economic Developments 2021". 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 in charge of Finance. In addition, MSD also contributed to other publications of the Central Bank by way of compiling financial sector data and providing analyses on subsectors of the financial system.

(e) Conducting Corporate Sector and Household Sector Analysis

MSD conducts the assessment of Corporate Sector Vulnerabilities based on data collected from non-financial listed companies in the Colombo Stock Exchange. This analysis is focused on assessing the dynamics of corporate sector which is regarded as early warning indicators of economic downturn and financial vulnerabilities as macroeconomic and financial sector developments affect corporate sector performance and balance sheets. The solvency of corporates was assessed to identify the spillover effects of corporates' balance sheets on financial institutions.

Surveillance of household and institutional sector debt to identify plausible build-up of systemic risks in the financial system is an important aspect in the area of Macroprudential Surveillance. This analysis assesses the corporate & government sector and household sector vulnerabilities using the data received from Credit Information Bureau (CRIB). The CRIB provides quarterly data on outstanding credit of the banks and LFCs/SLCs sector on aggregate basis which is used for this analysis.

(f) 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 in the Central Bank established for the identification of risks affecting the financial sector and to facilitate discussion of measures to mitigate risks and strengthen the inter-departmental coordination efforts to promote financial system stability. Eight FSSC meetings were held during 2021. MSD presented its Quarterly Risk Assessment (QRA) reports at FSSC meetings to obtain the views of the members and QRAs were submitted to the Monetary Board along with the recommendations proposed and endorsed by the FSSC members.

Financial System Stability Consultative Committee (FSSCC): MSD provides the secretarial services to the FSSCC which is comprised of key personnel from external sector institutes in the Sri Lankan financial system. FSSCC was reconstituted in September 2021 by appointing

new members while some of the existing members were discontinued from the committee. Six FSSCC meetings were held during the year. The policy suggestions provided by the FSSCC is informed to the Monetary Board by MSD.

Financial System Oversight Council (FSOC): MSD took over the secretariat function of FSOC which is an inter-regulatory committee from the Bank Supervision Department at the latter part of 2021 as the Terms of Reference of the FSOC was amended incorporating macroprudential aspects. Accordingly, MSD will provide secretariat services to the FSOC in future.

(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 a member of the steering committee on implementing the Sustainable Finance Road Map, MSD coordinated the initiatives on developing the Sustainable Finance Taxonomy with the International Finance Corporation (IFC), World Bank Sustainable Banking Network and the United Nations Development Programme (UNDP). MSD facilitated in liaising with stakeholders, sustainable development finance experts and the technical experts in developing the green finance taxonomy via organising stakeholder meetings and collating responses for green finance questionnaire during 2021.

22. PAYMENTS AND SETTLEMENTS

The Payments and Settlements Department (PSD) discharges the responsibilities entrusted to the Central Bank under Section 62A of the Monetary Law Act, No. 58 of 1949, which 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. In addition, the statutory mandate entrusted to the Central Bank under the Payment and Settlement Systems Act, No. 28 of 2005, to regulate and oversee the payment and settlement systems, and to implement the national payment system policy with the objective of ensuring safety, efficiency, competitiveness and stability of the payment and settlement systems in Sri Lanka, is also carried out through PSD.

Main functions carried out by PSD are operations of the Real Time Gross Settlement System, providing back-office service for financial transactions, management of the SWIFT Communication System, facilitating transactions under the Asian Clearing Union (ACU), regulation and oversight of Payment and Settlement Systems (PSS). A summary of the functions performed by PSD during 2021 is given below.

22.1 Operations of the Real Time Gross Settlement System

PSD continued to operate the Real Time Gross Settlement (RTGS) System, which settles time critical large value inter-

participant payments as well as customer payments on real time gross basis. In order to ensure smooth functioning of the RTGS System, PSD facilitated and monitored the provisioning of the Intraday Liquidity Facility (ILF) to the Participating Institutions (PIs) which requested extra funds. PIs of the RTGS System are the Central Bank, 24 Licensed Commercial Banks (LCBs), 7 standalone Primary Dealers (PDs), Employees' Provident Fund and the Central Depository System of the Colombo Stock Exchange. During 2021, the RTGS System settled 449,828 transactions to a total value of Rs. 294,602 billion. The average volume and value of RTGS transactions settled per day were 1,867 and Rs. 1,222 billion, respectively. With regard to ILF operations, on average, Rs. 208.5 billion per day was released to PIs. Adhering to international best practices, system availability of the LankaSettle System, which consists of the RTGS System and LankaSecure System was maintained at a high level of 99.9 per cent on average during the year.

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

(a) Back-office service for Foreign Exchange Transactions

During 2021, PSD settled 9,712 transactions relating to foreign exchange trading and funding, money market, fixed income securities, gold trading, Asian Clearing Union, and Repo/Reverse Repo amounting to US Dollars 163.05 billion.

(b) Back-office service for Open Market Operations

The settlement of open market operations related transactions with LCBs and PDs was carried out to facilitate the management of market liquidity. Accordingly, during 2021, PSD effected and facilitated 387 Repo transactions amounting to Rs. 1,576.8 billion, 4,961 Standing Deposit Facility transactions amounting to Rs. 29,297.06 billion, 1,797 Reverse Repo transactions amounting to Rs. 28,892.6 billion, and 14 Outright Sale transactions amounting to Rs. 14.35 billion.

22.3 Management of the SWIFT Communication Network

PSD maintained 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, structures, processes, risk management procedures and controls. To maintain robust connectivity (both globally and locally) and provide an efficient and secure financial messaging service, the Central Bank obtained connectivity to SWIFT-Net via Lanka Financial Services Bureau Ltd. New mandatory and security updates were carried out annually and quarterly to strengthen the SWIFT interface and to provide a highly secure and more efficient service for SWIFT users in line with the international standards for the facilities provided by the SWIFT service during the year 2021. Further, SWIFT is in the process of adhering to the mandatory requirement of ISO 20022 standards for message formats from MT to MX categories.

22.4 Facilitating Transactions under the Asian Clearing Union (ACU)

PSD continued to facilitate the settlement of eligible transactions with respect to trade and other transactions among member countries of the ACU through respective central banks on a multilateral net basis in US dollars during the year 2021. The total number of transactions effected through the ACU mechanism was 6,307 and the value of total transactions was Rs. 714.4 billion. The value of net settlement made under the ACU mechanism was Rs. 581.9 billion. The 49th meeting of the Board of Directors of ACU and the Standing Technical Committee meeting of ACU which were organised by the Reserve Bank of India (RBI) were held virtually in May 2021.

22.5 Regulation and Oversight of Payment and Settlement Systems (PSS)

PSD facilitated introduction of new payment technologies and continued its regulatory and oversight activities to ensure safety and efficiency of the electronic payment systems. Accordingly, the following major activities were carried out by PSD during 2021.

- (a) In order to promote implementation of LANKAQR for retail payments, a nation wide rollout campaign was launched on 25 October 2021. In addition, PSD participated in the events organised by financial institutions to popularise the usage of LANKAQR. Considering the need of encouraging more merchants to join the LANKAQR initiative, the reduced rate of 0.5 per cent maximum Merchant Discount Rate (MDR) was extended till 31 December 2021.
- (b) The maximum per transaction value of JustPay, which is a Mobile Application based payment solution for low value payments operated by LankaClear (Pvt) Ltd. was increased to Rs. 50,000 with effect from 01 February 2021.
- (c) Evaluated applications and issued licences to two financial institutions to issue debit cards as service providers of payment cards, in terms of the provisions of the Payment Cards and Mobile Payment Systems Regulations No. 1 of 2013. In addition, approval was granted to several product enhancements submitted by Licensed Operators of Mobile Phone based e-money systems. Conducted on-site and off-site supervision on Licensed Operators of Mobile Phone based e-money systems to ensure reliability and smooth functioning of the said systems.
- (d) Completed the development of POCs for the Blockchain based shared Know Your Customer (KYC) solution and successfully concluded the testing with LCBs that were interested in joining the testing of POC. The final report was presented to the Governor in October 2021.
- (e) Internal committees appointed within PSD to study Digital Banking, Artificial Intelligence and Central Bank Digital Currency completed their studies and submitted their reports to the Governor.

- (f) Drafted a Regulation to regulate and supervise Money or Value Transfer Service Providers and submitted the Monetary Board approved Regulation to the Ministry of Finance for the signature of the Minister.
- (g) Conducted the self-evaluation to assess the compliance of the RTGS System with Principles for Financial Market Infrastructure and submitted the report to the World Bank for independent assessment.
- (h) Evaluated the Business Continuity Plans of the LankaSettle participants and LankaClear Pvt. Ltd. (LCPL) in order to ensure their ability to continue business operations in a contingency situation.

22.6 National Payment Council

The National Payments Council (NPC), which is the industry consultative and monitoring committee on payment systems had six meetings during the year 2021, and PSD functioned as the secretariat of NPC. In 2021, NPC monitored the progress of implementing the Road Map for 2020-2022 and the progress of committees appointed to focus on new technologies and concepts such as digital payment platforms, virtual currencies, open banking and to decide the way forward of the 'Digital Year' programme. Committees appointed to study virtual currencies and open banking submitted the reports to NPC. Considering the increased involvement of finance companies in the digital payment eco system, two members were appointed to represent the non-bank financial sector in the NPC. In addition, as the regulator of the non-bank financial sector, Director, Department of Supervision of Non-Bank Financial Institutions was also appointed as a member of NPC.

22.7 Public Awareness

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

23. POLICY REVIEW AND MONITORING

The Policy Review and Monitoring Department (PRMD) facilitates the strategic planning process of the Central Bank, aligning departmental functions towards achieving the core objectives of the Bank. Accordingly, PRMD facilitates formulation of bank-wide strategies and Departmental Action Plans and compiles the Strategic and Action Plan for the forthcoming year which is made available as an e-document for the information of the internal staff. Periodic reviews are conducted to evaluate the progress made in implementing the plan. In this regard, PRMD conducts the annual Strategic Planning Retreat (SPR) and quarterly reviews on Departmental Action Plans with each department. Progress of individual Departmental Action Plans are reported to the Corporate Management Committee

(CMC) for its review and subsequently to the Monetary Board for required guidance.

PRMD also conducts policy studies/surveys on current issues of importance and/or any other subject area assigned by the management related to activities of the Central Bank to assess the effectiveness of policies implemented in an independent manner.

23.1 Strategic and Action Plan 2021 of the Central Bank

The Strategic and Action Plan of the Central Bank 2021 consisted of annual targets for 2021 and was launched by the Governor at the New Year Work Commencement Ceremony held on 01 January 2021.

23.2 Progress Monitoring and Review

In 2021, PRMD conducted Review Meetings quarterly, to assess the progress of implementation of Departmental Action Plans in terms of the level of achievement of outputs planned on a quarterly basis under each Key Performance Indicator and reported to the management and the Monetary Board.

23.3 Policy Review

Two policy studies were conducted during the year to assess the effectiveness of the Work from Home arrangement adopted by the Central Bank during the pandemic and to assess the effectiveness of the Library and Information Centre of the Central Bank as the Central Knowledge Hub in terms of achieving its objectives.

23.4 Virtual Panel Discussion on “Central Banking in Challenging Times”

PRMD in collaboration with Economic Research Department organised a virtual panel discussion on “Central Banking in Challenging Times” with three eminent internationally recognised professionals as the panelists. Topics which are timely and with a common interest for central banks such as the role of a central bank in financing their respective economies and governments during the pandemic situation and its limitations, need for greater financial inclusion, rapid adoption of new technologies, and the role of international financial organisations during the pandemic were deliberated in this discussion. The importance of maintaining exchange rate stability, external reserves, low interest rates, and low inflation were also extensively discussed.

23.5 Facilitation of Achievement of Sustainable Development Goals Applicable to the Central Bank

PRMD facilitated the Coordinating and Monitoring Committee appointed to align and monitor Sustainable Development Goals (SDGs) in identifying the activities/indicators coming under the purview of the Central Bank. Information with respect to the SDG indicators was provided

to the Sustainable Development Council. PRMD represented the Central Bank at the Voluntary National Review on SDG implementation at the Sri Lanka Stakeholders Consultative Workshop in 2021.

24. PUBLIC DEBT

The Public Debt Department (PDD) 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. Accordingly, PDD was established on 28 August 1950 at the inception of the Central Bank. The strategic priority of PDD is to ensure that the government’s financing needs are met at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk, adhering to best standards and practices of the government securities market.

In achieving this strategic priority, the key functions of the PDD include, but are not limited to,

- i. formulation and implementation of a sound debt management strategy to improve the debt profile of the government;
- ii. raising funds in line with the gross borrowing requirement of the Government as per the Appropriation Act or other relevant legislation/authorisations accessing both domestic market and the international capital market through issuances of securities based on conducive market conditions and in concurrence with the Ministry of Finance;
- iii. Servicing of Government debt accurately and on time as instructed by the General treasury.
- iv. developing the government securities market by deepening and broadening the secondary market for government securities thereby increasing the demand for government securities;
- v. maintaining the LankaSecure system where the title registry of government securities are managed in order to facilitate smooth functioning of the settlement of market transactions in government securities;
- vi. undertaking analytics on debt dynamics for risk management of the Central Government debt portfolio and communicating with stakeholders appropriately.

24.1 Raising of Funds to Meet the Government’s Gross Borrowing Requirement

- (a) The Government’s borrowing requirement in 2021 was met primarily through the issuance of Treasury bills, Treasury bonds, and Sri Lanka Development Bonds (SLDBs).
- (b) The shift in investor preferences towards short term securities and recourse of the Government at times of

cash flow volatilities resulted in a significant increase in Treasury bill issuances, and the issuances in relatively shorter tenure Treasury bonds and SLDBs led to a marginal decline in Average Time to Maturities (ATMs) across all three instruments compared to the previous year.

- (c) During 2021, PDD was able to double the issuances of SLDBs compared to 2020, to gradually phase-off a part of external debt.
- (d) Despite challenging market conditions, and to offset the impact of higher Treasury bill issuances, PDD diligently issued Treasury bonds to raise substantive volume of finance and thereby maintained ATMs at satisfactory levels in 2021.
- (e) An abridged table of activities under each of the source of funds is given in Table II-16.

24.2 Servicing of Government Debt

A total of Rs. 2,375.6 billion debt service payments was facilitated during 2021 which includes domestic debt service payment of Rs. 1,590.1 billion and foreign debt service payment of Rs. 785.5 billion.

In servicing domestic currency debt, 224 International Securities Identification Numbers (ISINs) were processed during 2021 as coupon and maturity payments. Comparatively, 215 ISINs were processed during the year 2020. Similarly, in servicing foreign currency debt 1,836 foreign loans were processed in 2021 compared to 1,894 foreign loans processed in 2020.

24.3 Maintenance of the Title Registry in Government Securities

The Title Registry of scripless government securities is recorded in the Central Depository System (CDS) which ensures the safekeeping of government securities. The total holdings in scripless securities as at end December 2021 amounted to Rs. 9,238.6 billion in face value. This consisted of Rs. 2,270.7 billion in Treasury bills and Rs. 6,967.9 billion in Treasury bonds. The number of registered CDS accounts holders as at end December 2021 was recorded at 96,825.

Periodic statements to CDS account holders on their holdings, transactions and payments were sent continuously throughout the year. PDD sent 1,458 statements in electronic form and

15,270 semi-annual statements of holdings, 35,452 monthly statements of transactions, and 14,320 payment statements by post to CDS account holders during 2021.

The real-time notification facility for CDS account holders, which was introduced in 2019, delivers real-time notification for each and every debit and credit record of scripless securities carried out in each Securities Account, by way of an SMS or/ and e-mail alert to such CDS account holders who have opted for the facility. During the year, LankaSecure sent 147,744 emails and 47,561 SMS alerts as real-time notifications compared to 129,941 and 40,063 respectively in 2020.

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.

24.4 Facilitation of the Settlement of Government Securities

CDS together with the Scripless Security Settlement System (SSSS) constitutes the LankaSecure system which is 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 LankaSecure system.

The LankaSecure system consists of 31 Dealer Direct Participants (24 licensed commercial banks and 7 primary dealer companies) maintaining accounts on their own behalf and on behalf of their customers who are the investors of government securities and 3 Direct Participants (Central Bank of Sri Lanka, Colombo Stock Exchange and Employees' Provident Fund) who hold accounts on their own behalf only.

24.5 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, following initiatives were undertaken during 2021.

Table II-16
Instruments and Issuance Performance 2020 and 2021

Instrument	2020				2021			
	Issuances Rs. billion	WAYR (%)	ATM (Years)	No. of Auctions	Issuances Rs. billion	WAYR (%)	ATM (Years)	No. of Auctions
Treasury bills (a)	2,590.5	5.8	0.6	52	3,821.4	6.1	0.5	53
Treasury bonds	1,332.1	7.4	5.3	15	1,762.0	8.7	5.1	22
	Issuances USD million	WAYR (%) (b)	ATM (Years)	No. of Auctions	Issuances USD million	WAYR (%)	ATM (Years)	No. of Auctions
Sri Lanka Development Bonds	507.0	6.2 [4.2]	1.7	7	1,041.3	7.3	1.5	5

WAYR: Weighted Average Yield Rate/ Cost; ATM: Average Time to Maturity
(a) Gross Treasury bill issuance including Treasury bills issued to Central Bank.
(b) Values in [] indicate the WAYR of Spreads above the LIBOR for Floating Rate SLDBs. No floating rate SLDBs were issued in 2021.

(a) Prudent Debt Management Strategy

The share of debt maturing within one year increased marginally in 2021, having to rely more on Treasury bills during the COVID-19 pandemic period to facilitate the increased cashflow requirement of the Government to ensure smooth functioning of critical government services during the pandemic while also maintaining timely servicing of debt obligations.

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

Less reliance on government financing from foreign sources compared to domestic sources during the year resulted in an improvement in the Average Time to Maturity (ATM) in foreign currency denominated debt by end 2021 compared to end 2020, while lowering the foreign currency debt exposure during 2021 despite challenging circumstances.

(b) Introduction of Trade Reporting

Measures were taken to record all secondary market trades of government securities on the trade date to enhance and strengthen the secondary market trading practices and to improve the reliability of trading practices of government securities as well as to increase investor safety and confidence.

Accordingly, all participants of the LankaSettle System were required to report details of all trades on the trade date to Central Bank, effective from 01 April 2021.

(c) Cessation of Publication of Maximum Yield Rate of Acceptance at Treasury Bill and Treasury Bond auctions

Facilitating the Government's policy of maintaining a low interest rate environment to stimulate the economic growth and to minimise the borrowing cost during the COVID-19 pandemic, PDD with the concurrence of the Monetary Board, introduced the maximum yield rate for acceptance for all maturities offered at Treasury bill and Treasury bond auctions effective from 06 May 2020. However, in view of the bottoming out of the yield rates and the partial acceptance in spite of the elevated yield rates at the primary auctions, publication

of the maximum yield rate of acceptance at the Treasury bill and Treasury bond auctions was ceased effective from 22 September 2021. The measure was also introduced to gradually phase off holdings of Central Bank Treasury bills and to raise required funds with a positive real return on investment.

(d) Increasing the Minimum Acceptance at Phase I of the Treasury Bond Issuance System that Triggers the Mandatory Allocation in Phase III

Imposition of Phase III at the Treasury bond primary auctions, where any shortfall from a particular series offered at the primary auction that persists after the conclusion of Phases I and II is allocated amongst the Primary Dealers (PDs) on a mandatory basis, was suspended with the commencement of publication of the maximum yield rate of acceptance. This was re-enacted with the cessation of the maximum yield rate of acceptance arrangement, albeit with the minimum acceptance requirement at Phase I that triggers the Phase III being increased to 80 per cent from 70 per cent. With the aforesaid increase, establishment of a market cleared price/yield for fair mandatory allocation among PDs at Phase III was further ensured.

(e) Limitation of Initiation of Phase III at Primary Auctions Only to Treasury Bonds with a Remaining Maturity of Maximum 5 Years

With the view of further facilitating a dynamic and vibrant secondary market for government securities, initiation of Phase III at primary auctions was limited only for Treasury bonds with a remaining maturity of less than 5 years. This initiative was also expected to address the concerns of market participants to trade longer tenure maturities allocated via mandatory allocation at Phase III, at times of significant shift in market demand for longer tenure maturities in the secondary market. Phase III was not initiated at Treasury bond auctions held during 2021.

(f) Establishment of Direct Issuance Windows for Treasury Bonds and SLDBs

With the aim of further ensuring that the funding requirement of the General Treasury is fully accommodated at the primary auctions, Direct Issuance Windows (DIWs) for Treasury bonds and SLDBs were introduced. Effective from the Treasury bond auction held on 29 July 2021, the DIW for Treasury bonds was made available only for the Treasury bond series that was fully allocated at Phase I and, at the weighted average yield rate (WAYR) determined at Phase I. Amount issued via the DIW for Treasury bonds is in addition to the amount offered for each Treasury bond series offered at the auction and is limited to 20 per cent of the amount offered for the respective Treasury

bond series. Effective from the SLDB auction held from 15 to 19 January 2021, a DIW was also opened for SLDBs post auction, at the weighted average fixed rates (WAFRs) determined for respective maturities at the relevant auction, up to the aggregate amount specified at the auction announcement.

(g) Establishment of an Investment Window for SLDBs

An investment window to facilitate recipients of goods and services export proceeds and other foreign currency holders including Sri Lankans working abroad, was established effective from 23 December 2021. In addition to broaden the investment avenues for foreign currency earners, this measure is also expected to facilitate the recent measures taken by the Government and the Central Bank to improve the foreign currency dynamics in the domestic market.

(h) Introduction of the Non-Reserve Management System to Replace the Treasury Management System

PDD Initiated the process for establishment of a new external debt payment system under the Non-Reserve Management System to replace the current Treasury Management System to settle the foreign debt obligations. 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.

(i) 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 bring overall investment behaviour in Sri Lanka to match with international best practices by shifting its landscape in trading and settlements. BTA Consulting Limited of United Kingdom has been providing consultancy services for the project. CMDP is envisaged to implement an Electronic Trading Platform (ETP), a Clearing House (CH) with a Central Counterparty (CCP) arrangement, an upgraded Central Securities Depository (CSD), and a market surveillance system. During 2021, the operating model of the infrastructure, the technical specifications of the model and required legal reforms were developed.

24.6 Coordinating Sovereign Rating Review Missions

In 2021, PDD facilitated international rating agencies (Fitch Ratings, Moody's Investors Services, S & P Global Ratings) for their rating reviews in line with rating engagements. Further, rating announcements were critically reviewed in collaboration with related departments within the Central Bank and the Ministry of Finance and periodic public announcements were made, often conveying repetitive adverse implications arising from rating actions.

25. REGIONAL DEVELOPMENT

The year 2021 continued to be a challenging year to the Regional Development Department (RDD) with the impact of the COVID-19 pandemic as RDD continually engaged in implementing recovery initiatives of moratorium facilities granted from time to time while expanding lending activities to Micro, Small and Medium Enterprises (MSMEs) at concessionary interest rates and conducting awareness and capacity building programmes for many stakeholders including the general public. Complementing the conventional operations of the department, RDD continued to develop new strategies, initiatives and programmes to support MSMEs including self-employed individuals of all economic sectors, to support them in the challenging environment prevailing in the country. In this regard, the six Regional Offices of the Central Bank played a predominant role in addition to representing the Central Bank at the regional level.

As the lead player in launching country's first ever National Financial Inclusion Strategy (NFIS), with an aspiring vision of "Better quality inclusion for better lives", year 2021 was even more remarkable for RDD. Meanwhile, with the objective of establishing a sustainable market based value chain concept in the country, RDD implemented the Domestic Agriculture Development programme-Pilot Phase (DAD-PP) and continued supporting Participating Financial Institutions (PFIs) by sharing their credit risk through the guarantee schemes against loans granted to MSMEs. In addition, RDD continued implementing several new credit schemes for refinance and interest subsidy during the year.

Alongside these developments, in view of curtailment of physical meetings under the pandemic environment, RDD increased the usage of electronic media to communicate with stakeholders including general public to enhance the financial inclusion, entrepreneurship development, and project finance with the assistance of Regional Offices of the Central Bank.

25.1 Expansion of Concessionary Credit Facilities

RDD operated 20 refinance, interest subsidy and credit guarantee schemes, funded by Government, Central Bank and Donor Agencies in 2021. Summary of the schemes are given in Table II-17.

In total, RDD released Rs. 27,268.13 million covering 80,899 beneficiaries through PFIs during 2021 under 14 refinance and 6 interest subsidy and/or credit guarantee schemes. Out of total loans granted, 57.6 per cent were released through the refinance schemes while the balance 42.4 per cent was released under interest subsidy and/or credit guarantee schemes. With respect to the funding source of the schemes implemented by RDD, the Government provided funds covering 48.6 per cent of the total loan amount released while the Central Bank and donor agencies financed 49.4 per cent and 2.0 per cent, respectively.

25.1.1 Implementation of Government Funded Schemes

RDD, as an agent of the Government, initiated 11 Government funded schemes comprising 7 refinance schemes and 4 interest subsidy and credit guarantee schemes. Through these schemes, RDD released Rs. 13,263.52 million (i.e., 48.6 per cent of the total loan disbursements) during 2021 serving 68,613 beneficiaries.

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

During the year, the New Comprehensive Rural Credit Scheme (NCRCS) namely 'Sarusara', which is an interest subsidy and credit guarantee scheme implemented three decades ago supported 61,397 farmers to meet their short term working capital requirements in cultivating 34 short term crop varieties in 2021. Under this scheme, a total amount of Rs. 9,576.68 million was released by PFIs representing 72.2 per cent of the disbursements made under Government funded schemes. To cover the interest subsidy of the scheme, the Government provided Rs. 207.9 million during the year.

Meanwhile, RDD continued to implement the Smallholder Tea and Rubber Revitalisation (STaRR) Programme, in collaboration with the Project Management Unit (PMU) of STaRR, and disbursed Rs. 107.82 million among 485 beneficiaries. Despite the initial planning of conclusion by 31 October 2021, considering the importance of continuing the scheme for beneficiaries, steps were taken to extend STaRR for a further one year period.

Further, due to the intensification of shrimp farming in Sri Lanka towards increasing the production by twofold gradually, a new interest subsidy scheme was introduced in December 2021.

(b) Refinance Schemes Funded by the Government

RDD continued 7 refinance schemes, namely, Poverty Alleviation Microfinance Project – Revolving Fund (PAMP-RF), Self-Employment Promotion Initiative Loan Scheme - Phase II (SEPI – Phase II), Swashakthi Loan Scheme, Supply Chain Re – Energising Loan Scheme (SCRELS), Revolving Fund (RF) Income Generation Loan Scheme, RF Agribusiness Loan Scheme, and RF Youth Loan Scheme under the Government funded component of the Smallholder Agribusiness Partnerships Programme (SAPP) during the year 2021.

25.1.2 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 implement several credit schemes during 2021. Considering the importance of maintaining a healthy business environment

under prevailing COVID-19 pandemic, moratoria for the loans granted to MSMEs were given with special attention to the tourism sector.

RDD continued to implement the Saubagya (Prosperity) Loan Scheme and disbursed Rs. 5,008.50 million among 5,660 beneficiaries during 2021. The Saubagya COVID - 19 Renaissance Facility (SCRF) - Phase IV was introduced by allocating Rs. 10,000 million as a refinance scheme to provide working capital loans to re-energise State-Owned Enterprises (SOEs).

With the intention of bearing the credit risk of PFIs lending to the rice mill owners in Sri Lanka, a credit guarantee scheme was implemented by RDD in year 2021. This scheme covers loans released by PFIs to eligible borrowers to meet their working capital requirements arising on purchasing paddy. An eligible borrower under this scheme is required to have an annual turnover of less than Rs. 750 million.

The pilot phase of the DAD programme was introduced in 2021 to identify the gaps and opportunities to develop a comprehensive market based value chain system in the country. DAD-PP covers three value chains, vegetable, dairy and spices. The Central Bank allocated Rs. 1,000 million for this programme.

25.1.3 Implementation of Donor Funded Schemes

The donor funded component of the SAPP continued its operations during 2021. This component was funded by the International Fund for Agricultural Development (IFAD) while the scheme included Public-Private-Producer-Partnership (4P) Agribusiness, 4P Youth Loan Scheme, and 4P FI Bulk Loan Scheme. These schemes disbursed Rs. 550.1 million among 2,431 beneficiaries during 2021.

SAPP acts as an agriculture value chain financing programme mainly focusing on improving access to finance among the farmers, farmer groups and youth entrepreneurs participating in the agricultural value chain.

25.2. Financial Inclusion: The National Financial Inclusion Strategy (NFIS) in Sri Lanka

Financial inclusion has become a priority of most government initiatives supporting the efforts of individuals and entities to work themselves out of poverty and contribute to economic growth in a level playing field. Having identified the need of a comprehensive and cohesive effort to further advance financial inclusion in Sri Lanka, the Central Bank, jointly with other relevant stakeholders, developed country's first ever NFIS and launched on 3 March 2021.

The Action Plan of the NFIS is actively in operation with the collaboration of implementing entities focusing on four thematic areas, namely Digital Finance & Payments, MSME Finance, Consumer Protection, and Financial Literacy & Capacity Building.

Table II-17
Summary of the Credit Schemes Implemented by RDD

Source of Funds	Name	Objective	Type of the Scheme	Release of funds in 2021 (Rs. million)	Interest Rate to the end borrower (% p.a.)	Remarks
GOSL Funded	PAMP-RF	Poverty alleviation through promotion of income generating activities and organising low income groups to link them with formal banking system	Refinance	31.20	12.00	
	Swashakthi Loan Scheme	Generate employment opportunities, for new young entrepreneurs engaged in income generating activities in the MSME Sector	Refinance	1,433.50	5.50	
	SEPI-Phase II	Provide financial assistance to youth trained by recognised vocational training institutions for establishment of their own self-employment projects	Refinance	5.35	7.00	
	SAPP-RF Income Generation Loan Scheme	Increase the production, productivity, quality and value addition of agriculture produce	Refinance	34.64	6.50	
	SAPP-RF Agribusiness Loan Scheme		Refinance	11.98	6.50	
	SAPP-RF Youth Loan Scheme		Refinance	132.26	6.50	
	SCREL	Re-energise the tea supply chain by supporting existing tea manufactures to revamp their businesses	Refinance	39.00	3.50	
	NCRCS	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	9,576.68	4.00	PFI's own funds and Interest Subsidy by GOSL
	Interest Subsidy Scheme for Intensification of Shrimp Farms in Sri Lanka	Assist Shrimp farmers to upgrade their farms	Interest Subsidy		1st 18 months-4.50 Next 6 months-8.50	PFI's own funds and Interest Subsidy by GOSL
STaRR	Provide concessionary credit facilities for the smallholder farmers involved in the STaRR Project, who have experienced delayed 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	107.82	6.50	PFI's own funds and Interest Subsidy by GOSL	
CBSL	Saubagya Loan Scheme	Start up or expand any micro, small and medium scale enterprise (MSME) or any MSME affected by a disaster	Refinance	5,008.50	6.00	
	SCRF-Phase 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	-	<Rs. 1 mn - 4.00 >Rs. 1 mn to Rs. 25 mn - 5.00	
	SCRF-Phase I	Support the economic recovery efforts of the businesses and individuals negatively affected by the COVID-19 pandemic	Refinance	5,029.11	4.00	
	SCRF-Phase II		Refinance	3,416.90	4.00	
	SCRF-Phase III		Interest Subsidy & Credit Guarantee	1,891.09	4.00	
	Credit Guarantee Scheme for the MSME Rice Mill Owners in Sri Lanka	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	CBSL - Credit Guarantee PFI's - Loan Financing
Donor Funded Agencies	SAPP - 4P Agribusiness Loan Scheme	Increase the production, productivity, quality, and value addition of agriculture produce	Refinance	234.92	6.50	International Fund for Agriculture Development (IFAD)
	SAPP - 4P Youth Loan Scheme			256.33	6.50	
	SAPP - FI Bulk Loan			58.85	6.50	

In recognition of the need for improving financial education as a priority action across all policy pillars of the NFIS, an island-wide financial literacy survey was successfully completed in 2021. Based on the outcome of the survey, designing appropriate policy responses to enhance the financial literacy level of the country is expected. Modules and educational materials are being developed by the Ministry of Education in collaboration with the Central Bank and other relevant stakeholders to incorporate financial

education into the school curriculum as a compulsory subject for Grades 6 to 11.

The Secretariat for NFIS was established at RDD to continuously coordinate, and support the implementing entities of the NFIS, while monitoring the ongoing progress of the Action Plan of the strategy. A clear governance structure has been established comprising the National Financial Inclusion Council, Management Committee and Working Groups to ensure the achieving of NFIS actions.

25.3 Financial Literacy

With the aspiration of enhancing financial literacy and financial inclusiveness among the public, RDD and Regional Offices of the Central Bank continued in-person and online financial literacy and awareness programmes in 2021. Table II-18 provides the summary of such programmes.

Table II-18
Awareness and Special Programmes Conducted during 2021

Type of Programme	No. of Programmes
Financial Literacy, Entrepreneurship and Skill Development	334
Training of Trainers (TOT) Discussions	08
TV and Radio	17
Knowledge Sharing	07
Total	366

25.4. Regional Level Representation

Regional Offices represent the Central Bank at the regional level while facilitating many aspects such as identifying underserved segments in the country, conducting awareness programmes, credit camps, and trade fairs. During 2021, the six Regional Offices of the Central Bank directly handled more than 86,800 queries relating to Employees' Provident Fund and 434 public grievances in various aspects. Further, they were involved in facilitating several Surveys conducted by other Departments of the Central Bank in 2021, covering 731 samples in different districts in the country. In line with the Central Bank efforts to encourage migrant workers to channel their worker remittances through the formal channels, a series of awareness programmes was conducted by Regional Offices of which 27 programmes were conducted in December 2021 covering more than 3,000 participants.

25.5. Other Initiatives

25.5.1 Green Village Programme

RDD introduced the Green Village Programme in 2021 to increase the quality of life of the households by introducing green initiatives and encouraging them to use natural resources efficiently and effectively, to minimise environmental degradation, and enhance green production while introducing a "Go Green" attitude among domestic communities.

25.5.2 International Affiliations

Relationship with international organisations continued in 2021 through conducting international programmes regarding financial inclusion and credit supplementation. RDD, having identified the importance of sharing knowledge among the Central Bank staff in enhancing financial inclusion and its latest policy level developments, continued conducting international programmes in collaboration

with the International Organisations in which the Central Bank holds memberships, 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.

25.6. Incorporating RDD Funds with the Central Bank Financial Statements

RDD was established in 2001 by amalgamating Rural Credit Department and Development Finance Department under the modernisation programme implemented by the Central Bank. For more than two decades, RDD has been maintaining many credit schemes to support the MSME sector including the self-employed to enhance their income generating activities while supporting to reduce regional level disparities and employment generation in the country. During this period, RDD continued with maintaining individual project accounts by broadly separating credit schemes between the Central Bank and Government funded schemes. Identifying the importance of integrating financial statements maintained by RDD into the Central Bank financial statements, all funds of the schemes implemented by RDD except other funds claimed by the Government were absorbed into the financial statements of the Central Bank by 31 December 2021 as such outstanding balances were recognised as accumulated income of the Central Bank originated through credit operations of RDD. The summary of the balances absorbed into the Central Bank books of accounts is given in Table II - 19.

Table II-19
Incorporated Balances of RDD under Central Bank Financial Statements

Source	Amount Rs. mn
Investment Portfolio	5,380
Refinance Receivable from PFIs ¹	9,144
Cash Balances ²	1,954

¹ Major portion of the Refinance receivable from PFIs consists of balance relating to the Saubagya Loan Scheme. The Saubagya Loan Scheme comprised of the balances transferred from several credit schemes such as Second Perennial Crop Development Project, Sabaragamuwa Province Integrated Rural Development Revolving Project, Matale Regional Economic Advancement Project, Plantation Sector Reform Project, Surathura, Small and Medium Industry Credit Fund, Small and Medium Assistant Enterprises Project, Bus Purchase Loan Credit Guarantee Scheme, Second Perennial Crop Development Project Revolving Fund, Tea Development Project Credit Guarantee Scheme, Small Holders Tea Development Project Credit Guarantee Scheme, Tea Development Project Revolving Fund Credit Scheme, Dry Zone Livelihood Support & Partnership Programme Loan Scheme, Dry Zone Livelihood Support & Partnership Programme Revolving Fund Loan Scheme, EIB contract B loan scheme, Matale Regional Economic Advancement Project Revolving Fund Loan Scheme, Krushi Navodhya Term Loan Programme, Construction Sector Development Project, Smallholder Plantation Entrepreneurship Development Programme, Policy Stimulus Fund, Revolving Fund for Resumption of Economic Activities in the Northern Province Loan Scheme, Revolving Fund for Provision of Credit to Sri Lanka Transport Board, Sabaragamuwa Integrated Rural Development Project Phase II Loan Scheme, Self-Employment Promotion Initiative Loan Scheme, Post Tsunami Coastal Rehabilitation and Resource Management Programme, Awakening North Loan Scheme - Revolving Fund - Phase II, and Repair of Damaged Houses in the North And the East.

² Cash balances reflect the following projects: Special Loan Scheme for Agricultural Sector Development Loan Scheme - Viskam, Repair of Damaged Houses in the North and the East Refinance Loan Scheme, Policy Stimulus Fund, Saubagya Loan Scheme, Mid-Country Perennial Crop Development Project Credit Guarantee, Agriculture Rehabilitation Project, Plantation Sector Reform Project Credit Guarantee, Small Holder Tea Development Project Credit Guarantee, Small and Medium Scale Industries Credit Guarantee, Small and Medium Enterprise Assistance Project Credit Guarantee, Bus Purchase Loan Credit Guarantee Scheme, and Credit Guarantee Scheme for Pawning Advances.

26. RESOLUTION AND ENFORCEMENT

The Resolution and Enforcement Department (RED) contributed towards the achievement of one of the Central Bank's two main objectives, which is maintaining financial system stability by effectively managing the Sri Lanka Deposit Insurance and Liquidity Support Scheme (SLDILSS), conducting investigations over prohibited schemes based on the provisions of Section 83C of the Banking Act No.30 of 1988 and developing the Resolution Framework of the Central Bank.

A summary of activities carried out by the department during the year 2021 is given below.

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

During the year, two Regulations applicable to SLDILSS were issued as follows.

- The Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulations No. 01 of 2021 was issued to increase the maximum compensation payable amount from Rs. 600,000 to Rs. 1,100,000 in respect of depositors of member institutions including the Licensed Finance Companies whose licenses were cancelled/suspended prior to 01.04.2021.
- The Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulations No. 02 of 2021 was issued with effect from 06.08.2021, repealing and replacing the existing regulations of SLDILSS. This change was aimed at improving operations and management of SLDILSS in line with the applicable international best practices and based on the experience gained by operating the Scheme since the establishment.

As at end 2021, the Scheme comprised sixty-nine (69) member institutions with a total fund size of approximately Rs. 67.9 billion. Financial highlights of SLDILSS are given in Table II- 20 below.

Table II - 20
Financial Highlights of SLDILSS

Item	Amount (Rs. mn)	
	As at 31.12.2020	As at 31.12.2021
Size of the fund	51,322.1	67,887.3
Total Income	20,814.0	19,298.9
Total Expenditure	31,964.4	96.6
Surplus/(Loss) for the year (before tax)	(11,150.4)	19,202.3
Total Assets	73,559.1	74,443.9
Investment in Government Securities	67,877.8	69,529.2
Loans and Receivables (net of provisions)	682.1	381.9
Other Comprehensive Income Reserve	7,778.2	(2,103.0)

26.2. Compensation payments to the depositors of distressed finance companies

RED continued compensation payments to the depositors of the license cancelled/suspended finance companies

in accordance with SLDILSS Regulations during the year 2021. Compensation payments to the depositors of Central Investments and Finance PLC (CIFL), The Standard Credit Finance Ltd (TSCFL), and TKS Finance Ltd (TKSFL) were conducted in line with the internally developed payment mechanism and compensation payments to the depositors of The Finance Company PLC (TFC), ETI Finance Ltd (ETIFL), and Swarnamahal Financial Services PLC (SFSP) were continued under the Agency Banking agreement with the People's Bank.

SLDILSS was able to pay compensation amounting to Rs. 29.2 million to 70,827 depositors of all six (06) license cancelled and suspended companies as at 31.12.2021 and details are given in Table II-21 below.

Table II - 21
Total Compensation Paid by SLDILSS as at 31.12.2021

Name of the Company	No. of Depositors paid	Compensation paid (Rs.million)
CIFL	3,451	1,802.2
TSCFL	2,509	1,193.7
TKSFL	1,788	964.5
TFC	34,192	12,029.8
ETIFL	26,280	12,212.8
SFSP	2,607	1,048.6
Total	70,827	29,251.6

26.3 Investigation Activities

RED continued to attend to a considerable number of inquiries regarding prohibited schemes mainly received via social media, written complaints, print and electronic media, and from law enforcement authorities. As the initial step, prima facie inquiries were conducted to identify the institutions alleged to be operating prohibited schemes in contravention of the provisions of Section 83C of the Banking Act and further investigations were initiated in respect of established prima facie cases.

Further, RED coordinated and followed up the investigations already referred to the Attorney General for prosecutions with the support of Legal and Compliance Department. As a preventive measure, RED conducted awareness programmes to educate different segments of the general public on prohibited schemes and to improve their financial literacy in coordination with other departments of the Central Bank.

26.4 Development of Resolution Framework of Central Bank of Sri Lanka

RED continued to develop the resolution framework for the Licensed Banks and Licensed Finance Companies within the existing legal framework.

27. 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 of such risks could have an adverse impact on the achievement of objectives, financial position, and the 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.

27.1 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 during 2021, and incorporated amendments as required.

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. In addition, RMD conducted the biennial survey on operational risks to determine the level of awareness with regard to the existing operational risk management mechanism in the Central Bank with the view of enhancing the risk culture within the Central Bank and to further improve the operational risk management mechanism currently in use.

RMD continued to administer incidents reported through the Incident Reporting System, enabling the development of a central repository of incidents and tracking progress on the implementation of corrective measures. The information gathered through this system helps in identifying possible risk trends, areas of vulnerabilities and improving related risk treatment measures.

27.2 Financial Risk

As the second line of defence, RMD independently monitors, analyses, evaluates, and reports financial risks covering credit, market and liquidity risks. Further, it ensures compliance with Investment Policy Statements (IPS), Strategic Asset Allocation (SAA) and Investment Guidelines (IGs) 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 SAA for IR, IPS for EPF and IGs for IIF and EPF, incorporating amendments as required. RMD reviewed Counterparty Credit Risk Management Guidelines (CCRMG) by introducing a new model for issuer and counterparty exposure limit calculations, based on the Basel III standardised approach for credit risk management. These reviewed guidelines were incorporated into the relevant IGs. RMD assessed market and credit risks by frequent analysis of the relevant risk indicators and monitored adherence to the limit framework given in SAAs, IPSs and IGs for IR, IIF and EPF. Risk assessments and non-compliances were presented at relevant monthly Investment Oversight Committee (IOC) meetings.

RMD was also involved in the process of implementing a new Reserve Management System (RMS) for IR during the year. Accordingly, some of the activities of RMD relating to market and credit risk assessments as well as compliance monitoring of reserve management were automated.

Quarterly reporting to the Non-Financial Risk Management Committee (NFRMC) on operational risks and the Board Risk Oversight Committee (BROC) and Monetary Board on both operational and financial risks was carried out by RMD to effectively manage risks related to operations and fund management activities of the Central Bank.

28. SECRETARIAT

The Secretariat Department (SD) is one of the few Departments that was established at the inception of the Central Bank. The main functions of SD involve overall corporate administration of the Central Bank, procurement management, administration of superannuation funds, facilitating overseas studies and training, conducting the Board of Survey for assets disposal management, and provision of secretarial and protocol assistance to the Governor.

(a) Overall Corporate Administration

During the year 2021, overall corporate administration was performed in line with governing regulations, accountability, risk management and other key attributes of good governance. In doing so, SD conducted a survey on Central Bank's properties and having identified the risk areas, obtained a comprehensive insurance cover for all the properties of the Central Bank, facilitated incoming and outgoing postal services of the Central Bank through its mail management service, ensured efficient and economical stationery store management, organised 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 2021, 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 of the Central Bank. Procurements were done through tender procedures as well as non-tender procedures in line with the procurement procedures set out in the Central Bank Manual which are broadly consistent with National Procurement Guidelines. In addition, SD promptly attended to a number of time critical ad-hoc procurements. Further, SD contributed to the procurement of goods and services under the Financial Sector Modernisation Project of the World Bank.

(c) Administration of Superannuation Funds

SD continued to administer the payments relating to the Superannuation Funds of the Central Bank which involved 2,312 beneficiaries. Accordingly, SD engaged in paying gratuities, commuted pensions, releasing provident fund balances and making monthly pensions, Widows' and Orphans' Pension (W&OP) payments, and Widowers' and Orphans' Pension (WR&OP) payments. Further, SD attended to a number of correspondences with the beneficiaries in order to fulfill their requirements including collection of life certificates in line with Pension Rules specified in the Central Bank Manual.

(d) Facilitating overseas studies and Training

During 2021, SD facilitated postgraduate studies for employees and duty travels abroad for members of the senior management. In this regard, SD was involved in making payments to universities and to the employees who travelled abroad for aforesaid purposes. In addition, SD issued visa letters and Provident Fund balance confirmation letters enabling obtaining visas and facilitated purchasing air tickets and travel insurance. However, compared to previous years, the number of opportunities for such foreign travel was at a subdued level due to the COVID-19 pandemic.

(e) Conducting Board of Survey

The Board of Survey is the method employed by the Central Bank for disposal of its fixed assets. Accordingly, the survey to identify obsolete, damaged, unserviceable and irreparable assets was completed during the year.

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

The Governor's Secretariat Division of SD provided secretarial and protocol assistance to the Governor during the year until the establishment of the Governor's Secretariat Department on 23 September 2021. The secretarial and protocol assistance provided included scheduling of appointments and meetings, preparation and compilation of presentations and speeches for the Governor, coordinating and arranging the Governor's

local travels, arranging official functions hosted by the Governor, and protocol services provided to VIP visitors of the Governor and the Central Bank.

29. SECURITY SERVICES

The Security Services Department (SSD) continued its operations to protect its employees, visitors and properties of the Central Bank including Regional Offices and other establishments in spite of the various challenges encountered during the year as a result of the COVID-19 pandemic. Special Security arrangements were provided for currency consignment in transit coordinating with the Sri Lanka Police as organisational priorities. SSD actively contributed to all business continuity drills of the Central Bank.

(a) System Improvements

Operational fitness of all fire-fighting equipment located at the Head Office and other premises were inspected, maintained and replaced 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. SSD continuously updated itself with intelligence information and maintained relationships with relevant authorities.

(b) Surveillance Activities

SSD screened and facilitated 13,478 visitors to the Head Office of the Central Bank and all visitors to its Regional Offices. 28,309 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, 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 the services of their staff due to the pandemic situation. SSD introduced a new duty roster system for its staff to reduce human contact inside the Bank's premises.

(d) Assessment of Security Controls

The security plan was updated based on the findings of the security control assessment. Accordingly two baggage scanners were procured for the Centre for Banking Studies and Employees' Provident Fund Department. In view of the above assessment, arrangements have been made to replace mobile communication system from analog to digital to ensure smooth functioning of SSD. Further, SSD is in the process of procuring of two explosive detectors for the use of the Central Bank.

(e) Strengthening Human Capital and Competency Building

SSD is in the process of recruiting Assistant Security Officers in order to meet the increasing demand for security duties at the Central Bank. A training programme was conducted on newly installed IP based Closed-Circuit Television (CCTV) for a selected group of security officers to enhance skills on modern technology.

30. 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 for the Bank. Hence the welfare facilities of SSMD are designed to foster good physical and mental health of Central Bank employees and thus promote a healthy working environment. Key services rendered by the department includes disbursement of loans under the Staff Housing (mortgage) Loan Scheme, Provident Fund Loan Scheme and Staff Benefit 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 and facilitating a contented and motivated work force that can work with a high level of efficiency. Moreover, medical needs of dependents of the 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 2021. Special measures were taken to comply with the guidelines issued by the health authorities regarding the COVID-19 pandemic and facilitate new services required by staff. SSMD organised 08 PCR test programmes in collaboration with 03 private hospitals at the Central Bank head office premises during the year. In addition, SSMD made arrangements for its employees to obtain vaccinations against COVID-19 at 03 designated vaccination centers and also organised a booster vaccination programme at the Central Bank head office premises in December 2021. SSMD continued the disbursement of housing and other welfare loans to the staff and reimbursed medical expenses incurred by all beneficiaries registered under the MBS during the year. The number of beneficiaries under the MBS consisting of employees, pensioners and their registered dependents together with widows/widowers stood at approximately 10,837 as at end 2021. Further, SSMD provided medical facilities to the staff through the Medical Centre during office hours with medical tests and laboratory services provided at a reasonable charge. In April 2021, SSMD conducted an awareness programme for the staff on building a "Beautiful & Lovely Home" by a Chartered Architect.

Restaurant services were provided to members of staff during working hours through an outsourced service provider.

The SSMD supervised the operations of the restaurant to ensure provision of quality food and beverages to the staff at reasonable prices.

31. STATISTICS

The Statistics Department (STD), in 2021, continued its contribution towards achieving the Central Bank's objectives of maintaining economic and price stability and maintaining financial system stability by effectively engaging in departmental operations. Despite the limits on mobility and the challenging work environment that remained throughout the year due to the pandemic, the Department was able to carry out its activities as planned using modern technology.

31.1 Conducting Surveys and Compiling Indices

(a) Business Surveys

The Purchasing Managers' Index (PMI) Surveys were conducted during the year on a monthly basis. The PMI surveys target large companies predominantly concentrating on the Western province, covering manufacturing, construction and services activities.

The results were used to evaluate the month-on-month developments in the respective sectors of the economy and as high frequency leading indicators in the indicator-based GDP forecasting process. Further, the evaluations that were made based on the survey findings were reported to the Monetary Policy Committee (MPC) and Monetary Board for policymaking purposes. The results of Manufacturing and Services PMIs were released as press notices for the use of industry analysts and the general public. These survey findings are widely used by business professionals, economic analysts and policymakers in assessing the industry and economic conditions.

The Business Outlook Survey (BOS) was continued as a quarterly survey during 2021 to capture current and expected developments of the economy from the viewpoint of the corporate sector. The target population of this survey was large scale enterprises covering agriculture, industry and services activities of the economy. The aggregate results and the key insights were submitted to the MPC and the Monetary Board 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 the external users.

Credit Conditions Surveys, namely the Credit Demand Survey (CDS) and Credit Supply Survey (CSS), which capture the demand and supply side developments of the credit market activities were continuously conducted during the year 2021. CDS, targeting Small and Medium Enterprises (SMEs) of the economy, continued as an annual survey in association with the Regional Offices of the Central Bank. CDS in 2021 was designed to identify

credit-related developments and issues experienced by SMEs, particularly due to the pandemic, in financing their needs. On the other hand, CSS is designed to capture the recent developments and outlook of the credit supply related activities on a quarterly basis, covering all Licensed Commercial Banks and Licensed Specialised Banks in Sri Lanka. The results of both CDS and CSS were used in the policy formulation process of the Central Bank while results of CSS were also published on the Central Bank website for the benefit of the general public.

The Retail Sales Volume Survey (RSVS) and the Supermarket Retail Trade Survey (SRTS) were continued in monthly and quarterly frequencies, respectively, to understand the developments in the general trade and modern trade segments of the retail sector. Based on the findings of these surveys, fluctuations in the retail trade volumes were identified. The Survey on Transportation Services, which includes land transportation, air transportation, port, and logistic services, was continued as a monthly survey during 2021 to capture the developments in the transportation sector. Further, a survey was carried out to identify the developments during 2021 and the prospects for 2022 related to the Information Technology and Business Process Management (IT & BPM) sector. The findings of these surveys were used for internal economic analyses of the Central Bank, particularly in the economic growth forecasting process.

STD initiated an online survey to capture the household sector sentiments about the economic condition, job availability, family income, family expenditure, and savings level in comparison to the status prevailed six months before and their expectations on the same for the upcoming six months. The sample of respondents was randomly selected from a pool of registrants to various online programmes conducted by the Central Bank and an average of 100 responses were recorded on a monthly basis. Using the outcome of the online survey, the Consumer Confidence Index (CCI) was compiled on a monthly basis using a methodology adapted internationally. A summary report on CCI was submitted to the management and STD intends to publish a quarterly CCI in future for the benefit of various stakeholder groups interested in household sector sentiments.

The Land Valuation Indicator (LVI) was compiled and the Condominium Market Survey (CMS) was conducted during 2021 to assess the developments in the real estate property market as indicators of financial system stability. Compiling LVI for Colombo District was continued on a semi-annual basis with three sub-indices, which represent Residential, Commercial, and Industrial lands, based on per perch bare land price assessments collected from the Government Valuation Department under the said three land categories. Two press releases on LVI were published in 2021 for public information.

CMS, which was initiated with the objective of collecting data on the condominium sector developments, was continued on a quarterly basis to gather information on actual sales prices, demand, reasons for price changes, the number of current and upcoming housing units, project occupancy levels, and buyer portfolio details from major condominium developers. With the advent of adverse conditions related to the pandemic, comments were also sought from the developers to better comprehend the sector's future trajectory, which would enhance the Central Bank's policy-making process in terms of the financial system stability. A summary report of the survey findings continued to be published quarterly on the Central Bank website during the year.

Based on the CMS information, a quarterly price index was compiled to monitor price changes in the primary condominium market. Concurrently, a property price index for the secondary condominium market was compiled on a monthly basis utilising the publicly available property advertisement data. The process was extended to compile property price indices for lands and houses. These property price indices were further improved during 2021 with the technical assistance of the IMF.

(b) Inflation Expectations Survey (IES)

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 2021, the Corporate Sector surveys were continued as email-based surveys, while the Household Sector surveys were conducted in virtual mode, in addition to the email and telephone-based methods. These virtual surveys were conducted for the employees of selected institutions of the Public Sector located in the vicinity of the Matala, Anuradhapura, Kilinochchi, Trincomalee and Nuwara Eliya Regional Offices of the Central Bank, with the help of the respective Regional Offices. Moreover, awareness sessions were also conducted to enhance the knowledge on inflation and inflation expectations of the Household Sector, while carrying out these surveys. Household Sector survey responses were collected continuously from the Teacher Investigators (TIs) of the Country Wide Data Collection System (CWDCS) on a monthly basis. The survey findings were reported to the MPC and the Monetary Board for consideration in the policymaking process.

(c) Country Wide Data Collection System (CWDCS)

Operations of CWDCS, were continued and carried out during 2021 on time amidst the pandemic, with the engagement of 53 TIs in order to collect retail prices of an identical basket of goods to that of the National Consumer Price Index (NCPI)—producer prices of agricultural commodities and building materials, daily wages of the

informal sector workers, inflation expectations, and retail sales volumes of selected categories of goods—thereby providing the Central Bank with timely inputs for in-house policymaking processes. Upgrading the operations of CWDCS, Tableau software was connected to CWDCS for generating reports. Aiming to improve the quality of data collected through CWDCS, on-site and off-site supervisions of data collection were conducted in collaboration with the Regional Offices of the Central Bank. The annual seminars to discuss the issues faced by TIs during the data collection process and the remedial actions were conducted in 2021 in virtual mode. In addition, as per the request of Consumer Affairs Authority, selected data from CWDCS were shared with them on a weekly basis.

Moreover, the services of non-teacher data investigators were obtained to collect data/information on wholesale and retail prices from the Pettah market, Marandagahamula 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 on the current price movements of essential food items and for forecasting purposes. Furthermore, a summary of the price data was published on the Central Bank website, on a daily basis. The quality and timeliness of data collection was enforced by conducting on-site supervisions and constant monitoring of data submitted by the non-teacher data investigators. The data collection process was maintained without interruptions even during the COVID-19 pandemic.

STD continued improving CCPI and NPCI based inflation forecasts considering leading indicators compiled using food prices available on websites of three leading supermarkets. In this regard, prices of all items in the CCPI food basket were collected from the websites of the respective supermarkets on a daily basis. Afterwards, month-on-month price changes of all food items in the food basket were derived and used as a leading indicator for CCPI and NPCI based inflation forecasting.

(d) Public Sector Employment Survey and Labour Force Information

The annual Public Sector Employment Survey was continued in 2021 covering all public sector institutions i.e. institutions under central government and provincial councils to assess the developments in the public sector employment. Furthermore, overall labour market data analysis on labour force, employment, unemployment, foreign employment, labour relations, and labour market reforms was done by STD, based on the statistics of the Department of Census and Statistics (DCS), Sri Lanka Bureau of Foreign Employment (SLBFE), Department of Labour (DOL), and other data sources.

STD compiled wage rate indices for public, formal and informal private sectors to assess the movements of salaries and wages of the economy. Further, wage movements of the public, formal private and informal private sectors were analysed separately. Based on the public administration salary circulars issued from time to time, nominal and real wage rate indices for the public sector were compiled on a monthly basis. 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 DOL. The Informal Private Sector Wage Rate Index, which was used to analyse the movements of the Informal private sector wages was compiled based on information collected through CWDCS. The wage rate indices were submitted monthly to the Special Data Dissemination System (SDDS) in 2021 as well.

31.2 Forecasting Short Term Inflation and GDP

STD continued to contribute towards the Forecasting and Policy Analysis System (FPAS) of the Central Bank by engaging in forecasts of short term inflation and GDP. Accordingly, the model based and indicator based forecasts were produced using relevant inputs from various sources. Model based forecasts were further strengthened during the year by using the Principal Component Analysis (PCA) approach for the sub-indices of the BOS to generate near term GDP forecasts. The finalised forecasts were detailed and discussed at regular monetary policy cycles and submitted to the Monetary Board to facilitate policy decision-making.

Latest price trends and expected price movements associated with market developments and econometric techniques were used to forecast short term inflation based on both CCPI and NCPI. As a continuous effort to improve inflation forecasts, the Department explored new variables and data sources which reflect both supply and demand side impact on inflation. In addition, STD continued exploring identification of suitable inflation forecasting models using time series and machine learning techniques.

31.3 Compiling Regional Statistics

(a) Sri Lanka Prosperity Index (SLPI)

SLPI is a multi-dimensional indicator compiled by the Central Bank to assess the country's performance in socio-economic aspects. It is compiled annually using appropriate provincial indicators with respect to three sub-indices: Economic and Business Climate, Wellbeing of the People, and Socio-Economic Infrastructure. In December 2021, STD compiled SLPI for the year 2020 using 41 representative variables and published a press release.

(b) Provincial Gross Domestic Product (PGDP)

STD compiled PGDP for 2020 in nominal terms based on the top-down methodology, and in this process the

National Accounts estimates of the DCS, which cover agriculture, industry, and services related activities were disaggregated to the provinces using appropriate variables. Despite the pandemic related limitations in data collection, the Department was able to issue the press release on the latest PGDP estimates in December 2021. These estimates indicate the information about the contribution of each province to the national GDP, which is useful for public authorities to decide on the allocation of resources among provinces.

31.4 Uplifting Sri Lanka's Position in Global Rankings

(a) "Ease of Doing Business" Ranking

The ninth edition of the "A Step-by-Step Guide to Doing Business in Sri Lanka" publication, which contains updated information useful for the business community, potential entrepreneurs, foreign investors and investment promotion agencies was released in 2021. The publication included guiding information for starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency that is used in arriving at the Ease of Doing Business ranking

31.5 Disseminating Information

STD continued to disseminate official statistics in both printed and electronic modes in 2021 despite the challenging conditions prevailed. Annual statistical publications, "Economic and Social Statistics of Sri Lanka 2021 – Volume XLIII" and "Sri Lanka Socio Economic Data 2021 – Volume XLIV" were released in July and September 2021 respectively in all three languages. The Department contributed to two chapters of the Central Bank's Annual Report and Report on Recent Economic Developments, while continuing to provide data for the Monthly Bulletin of the Central Bank.

STD's regular releases Daily Economic Indicators, which consist of high-frequency data including exchange rates, money market rates, stock market, and the energy sector statistics, Daily Price Report of selected consumer items, Weekly and Monthly Economic Indicators, were published on the Central Bank website throughout the year in a timely manner. Furthermore, various other information was disseminated to the general public via press releases, while the "Data Library," the Central Bank's online database, was updated and maintained to meet the data needs of researchers and other stakeholders.

32. 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 the non-banking sector Primary Dealer Companies (PDCs) under the provisions of Registered Stock and Securities (Primary Dealers) Regulations No. 01 of 2009 as amended and Local Treasury Bills (Primary Dealers) Regulations No.01 of 2009 as amended.

DSNBFI's supervisory function includes conducting statutory examinations (on-site supervision) and continuous surveillance (off-site supervision) of the licensed/registered institutions, while the regulatory function involves issuance of licences/registrations, prudential regulations, granting regulatory approvals, and investigating into companies carrying on finance business without authority. Apart from the major functions, DSNBFI also engages in several other activities such as capacity building of the sector, facilitating court proceedings and attending to public complaints.

As at end 2021, there were 39 LFCs, 3 SLCs, 4 LMFCs and 7 PDCs under the purview of the Department. In addition, there were 58 Registered Finance Leasing Establishments (RFLEs) that possess licences under the FLA, including the 3 SLCs. The names of these LFCs, SLCs, RFLEs, LMFCs, and PDCs are provided at the end of this section. The main functions and activities performed by DSNBFI during 2021 are summarised below.

32.1 Policy Measures

During the year, several prudential regulations were issued to streamline the existing regulatory framework of NBFIs in line with the current market 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 in the wake of the COVID-19 outbreak are provided in Part III of this report. A summary of the major prudential measures is given below.

- (a) An amendment was issued to the Directions on Valuation of Immovable Properties of LFCs and SLCs.
- (b) An amendment was issued to the Directions on Loan to Value (LTV) ratios of LFCs and SLCs.
- (c) A Circular was issued to LFCs and SLCs requesting to provide concessions for COVID-19 affected businesses and individuals engaged in passenger transportation services.
- (d) A Circular was issued to LFCs and SLCs requesting to extend the debt moratorium granted to tourism sector under Circular No. 09 of 2020 issued on 30 September 2020.
- (e) LFCs and SLCs were informed of deferment of the implementation of Direction No. 01 of 2020 on Classification and Measurement of Credit Facilities.

- (f) The relaxation given under Direction on Liquid Assets issued on 30 September 2020 was further extended for a period of three months until 30 June 2021.
- (g) A Direction was issued to LFCs on Foreign Currency Borrowings.
- (h) Further to the Directions on Foreign Currency Borrowings by LFCs issued earlier, the LFCs were informed that the Central Bank has decided to facilitate the foreign currency borrowings.
- (i) A Circular was issued on concessions for COVID-19 affected businesses and individuals.
- (j) LFCs and SLCs were requested to freeze seizure and repossession orders of vehicles on credit facilities of customers affected by the pandemic.
- (k) The effective date of the Finance Business Act (Classification and Measurement of Credit Facilities) Direction No. 01 of 2020 was further deferred.
- (l) A Direction was issued to PDCs on Minimum Capital Requirement.
- (m) An amendment to the Circular dated 09 June 2021 was issued requesting LFCs and SLCs to further extend the concessions for COVID-19 affected businesses and individuals.
- (n) A Circular was issued to LFCs and SLCs informing that Lanka Rating Agency Ltd. has been recognised by the Central Bank as an acceptable credit rating agency.
- (o) A Circular was issued to LFCs and SLCs requesting to extend concessions and suspend recovery actions for COVID-19 affected businesses and individuals until 31 March 2022.
- (p) LFCs were requested to pay additional incentive on inward worker remittances with an objective of encouraging more workers' remittances.
- (q) Prevailing interest margins of 2, 3 and 5 year term deposits have been revised in line with the increasing T Bill rates.
- (r) Investment in government securities under reverse REPO transactions was included in liquid assets of LFCs.
- (s) A Direction was issued to LFCs on Assessment of Fitness and Propriety of Key Responsible Persons.
- (t) A Direction was issued to LFCs on Corporate Governance.
- (u) Prevailing interest margin of 5 year term deposits and 5 year debt instruments has been revised with the intention of providing increased returns on investments for senior citizens.

32.2 Supervision of Licensed Institutions

(a) Conducting Statutory (On-Site) Examinations

- (i) DSNBFI conducted statutory examinations of 18 LFCs and 3 PDCs during 2021. The main findings of the examinations included the deterioration

of the assets' quality, risks of highly concentrated loan portfolios, and weaknesses in the governance structure including related party transactions, lapses in the risk management, internal audit and compliance functions, non-compliances with regulatory requirements and lower operational efficiency in financial intermediation.

- (ii) The Monetary Board approved Time Bound Action Plans (TBAP) including recommendations to rectify supervisory concerns identified during the examinations of LFCs/PDCs, and they were communicated to the respective companies for the attention of the Board of Directors. The actions taken by LFCs and PDCs in line with the TBAP are being monitored by the off-site surveillance division.
- (iii) Further, DSNBFI conducted spot examinations of 3 LFCs to investigate irregularities based on the information received from third parties and to review the progress of implementing the special directions issued by the Monetary Board.

(b) Conducting Continuous (Off-Site) Surveillance

- (i) All LFCs, SLCs, and PDCs were continuously being supervised based on the periodic financial information submitted by LFCs/SLCs/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 and PDCs through early warning indicators and internal rating system on the areas of capital, liquidity and provisioning, and the necessary recommendations were made when required.
- (ii) In addition, all LMFCs were continuously being supervised based on the financial information submitted by the LMFCs. Similarly, other financial information including auditors' reports, management letters, external rating, and press reports were reviewed by the Department.
- (iii) DSNBFI took prompt corrective actions to rectify the supervisory concerns of the sector within a clearly 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.
- (iv) DSNBFI granted regulatory approvals to LFCs and SLCs to issue debt instruments, increase share capital, capital infusions by new investors, amend the Articles of Associations, form subsidiaries, outsource business operations, appoint new

Directors and officers performing executive functions and ownership transfers.

- (v) In order to address the weaknesses and risks exposures in the LFCs/SLCs sector, the Masterplan for Consolidation of Non-Bank Financial Institutions Sector (Masterplan) was introduced in 2020. During 2021, the necessary due diligences, information memorandums and business valuations of 13 identified LFCs/SLCs were completed and shared with the interested parties. Similarly, the necessary interferences for negotiations were arranged by DSNBFI. Further, approvals in principle were obtained for 6 transactions from the Monetary Board under Masterplan during 2021.
- (vi) Further, Associated Motor Finance Co. PLC amalgamated with Arpico Finance Co. PLC during the year of 2021. Hence, finance business licence and finance leasing registration issued to Arpico Finance Co. PLC were cancelled.
- (vii) DSNBFI mediated to resolve a large number of complaints received from the general public with regard to the operations of LFCs and SLCs that were largely relating to policy matters and LFCs of which licenses have been cancelled.

(c) Resolution Actions

The key focus of DSNBFI during 2021 was to implement further regulatory measures in an expeditious manner, on the companies whose licences have been cancelled or suspended due to insolvent nature that have been confronted with prolonged liquidity crisis for the past several years. Accordingly, the following steps were taken in this regard.

- (i) The winding up application of The Finance Company PLC was filed at the Colombo Commercial High Court on 16.02.2021.
- (ii) The suspension order issued to Swarnamah Financial Services PLC (SFSP) was removed for a period of three months w.e.f. 13.01.2021 to facilitate the repayment of 50% of the remaining deposits. Considering the successful completion of the repayment of 50% of the remaining deposits, the business of SFSP was again suspended w.e.f. 12.04.2021. However, the business of SFSP was again resumed for a limited period of six months on 13.10.2021 to explore the possibility of absorbing the company to the Masterplan. Approval in principle has been granted on 08.12.2021 to sell 3 investment properties of SFSP to SMB Leasing PLC, under the aforesaid Masterplan. With the completion of the said transactions, SFSP will be in a position to repay the remaining deposits in full.

- (iii) During 2021, the suspension of business of Perpetual Treasuries Ltd. was extended twice on 05.01.2021 and 05.07.2021 and continues to remain in force for a further period of six months from 05.01.2022 in order to continue the investigations being conducted by the Central Bank.
- (iv) Several consolidation proposals as per the Masterplan were initiated for the LFCs who are non-compliant with capital requirements.
- (v) Meetings were also held with the Senior Management and Management Panels of LFCs relating to the issues prevailing in the companies whose licences have been cancelled or suspended.

(d) Public Awareness and Capacity Building

(i) Public Disclosure

The names of LFCs and SLCs indicating non-compliances with prudential capital requirements and subject to regulatory restrictions, if any, were published in the Central Bank website. Further, DSNBFI published press notices to disclose the progress of the investigations initiated in terms of section 42 of FBA.

(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 three meetings with the Chief Executive Officers of LFCs/SLCs chaired by the Governor with the objective of sharing views between the Central Bank and LFC/SLC sector on matters relating 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, Regional Development Department, as and when required. Press releases were also issued with the intention of increasing public awareness.

32.3 Investigation of Unauthorised finance business entities

After assigning the investigation function on unauthorised deposit taking and finance businesses to

DSNBFI in July 2020, the Department had commenced 97 investigations by end 2021 based on complaints and information received. A special unit has been established in the Financial and Commercial Crime Investigations Division of the Sri Lanka Police to assist DSNBFI in conducting the investigations relating to unauthorised deposit taking and finance business, based on a request made by DSNBFI through the Governor. During 2021, DSNBFI issued three freezing

orders to the parties subject to investigations under Section 42 of FBA and these freezing orders were confirmed and extended by the High Court based on the requests of Director, DSNBFI. Moreover, Director, DSNBFI obtained extensions from the High Court on the freezing orders issued in 2020. Director, DSNBFI obtained court orders to suspend overseas travel of concerned parties of three entities subject to investigations.

Annex II - 4

Authorised Financial Institutions (As at end 2021)	
Licensed Finance Companies	
1. Abans Finance PLC (a)	21. Mercantile Investments and Finance PLC
2. Alliance Finance Co. PLC	22. Merchant Bank of Sri Lanka & Finance PLC
3. AMW Capital Leasing and Finance PLC	23. Multi Finance PLC (a)
4. Asia Asset Finance PLC	24. Nation Lanka Finance PLC (a)
5. Associated Motor Finance Co. PLC (a) (b)	25. Orient Finance PLC
6. Bimpuh Finance PLC (a)	26. People's Leasing & Finance PLC
7. Central Finance Co. PLC	27. People's Merchant Finance PLC
8. Citizens Development Business Finance PLC	28. Prime Finance PLC (a)
9. Commercial Credit & Finance PLC	29. Richard Peiris Finance Ltd.
10. Commercial Leasing & Finance PLC	30. Sarvodaya Development Finance Ltd. (f)
11. Dialog Finance PLC	31. Senkadagala Finance PLC
12. ETI Finance Ltd. (c)	32. CBC Finance Ltd.
13. Fintrex Finance Ltd.	33. Sinhaputhra Finance PLC (a)
14. HNB Finance PLC	34. Singer Finance (Lanka) PLC
15. Ideal Finance Ltd. (d)	35. Siyapatha Finance PLC
16. Kanrich Finance Ltd. (a)	36. Softlogic Finance PLC
17. Lanka Credit and Business Finance Ltd. (e)	37. Swarnamahal Financial Services PLC (a)
18. LB Finance PLC	38. UB Finance Co. Ltd.
19. LOLC Development Finance PLC	39. Vallibel Finance PLC
20. LOLC Finance PLC	
Registered Finance Leasing Establishments	
(A) Licensed Commercial Banks	(B) Licensed Specialised Banks
1. Amana Bank PLC	1. Housing Development Finance Corporation Bank of Sri Lanka
2. Bank of Ceylon	2. Pradeshiya Sanwardana Bank
3. Commercial Bank of Ceylon PLC	3. Sanasa Development Bank PLC
4. DFCC Bank PLC	4. Sri Lanka Savings Bank Ltd.
5. Hatton National Bank PLC	
6. MCB Bank Ltd.	(C) Specialised Leasing Companies
7. National Development Bank PLC	1. Assetline Leasing Co. Ltd.
8. Nations Trust Bank PLC	2. Co-operative Leasing Co. Ltd.
9. Pan Asia Banking Corporation PLC	3. SMB Leasing PLC
10. Sampath Bank PLC	
11. Seylan Bank PLC	
12. Union Bank of Colombo PLC	

(D) Licensed Finance Companies

- | | |
|--|--|
| 1. Abans Finance PLC (a) | 21. Mercantile Investments and Finance PLC |
| 2. Alliance Finance Co. PLC | 22. Merchant Bank of Sri Lanka & Finance PLC |
| 3. AMW Capital Leasing and Finance PLC | 23. Multi Finance PLC (a) |
| 4. Asia Asset Finance PLC | 24. Nation Lanka Finance PLC (a) |
| 5. Associated Motor Finance Co. PLC (a) (b) | 25. Orient Finance PLC |
| 6. Bimputh Finance PLC (a) | 26. People's Leasing & Finance PLC |
| 7. Central Finance Co. PLC | 27. People's Merchant Finance PLC |
| 8. Citizens Development Business Finance PLC | 28. Prime Finance PLC (a) |
| 9. Commercial Credit & Finance PLC | 29. Richard Peiris Finance Ltd. |
| 10. Commercial Leasing & Finance PLC | 30. Sarvodaya Development Finance Ltd. (f) |
| 11. Dialog Finance PLC | 31. Senkadagala Finance PLC |
| 12. ETI Finance Ltd. (c) | 32. CBC Finance Ltd. |
| 13. Fintrex Finance Ltd. | 33. Sinhaphutra Finance PLC (a) (g) |
| 14. HNB Finance PLC | 34. Singer Finance (Lanka) PLC |
| 15. Ideal Finance Ltd. (d) | 35. Siyapatha Finance PLC |
| 16. Kanrich Finance Ltd. (a) (g) | 36. Softlogic Finance PLC |
| 17. Lanka Credit and Business Finance Ltd. (e) | 37. Swarnamahal Financial Services PLC (a) |
| 18. LB Finance PLC | 38. UB Finance Co. Ltd. |
| 19. LOLC Development Finance PLC | 39. Vallibel Finance PLC |
| 20. LOLC Finance PLC | |

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 Ltd. | 6. Perpetual Treasuries Ltd. (i) |
| 3. Entrust Securities PLC (h) | 7. Wealth Trust Securities Ltd. |
| 4. First Capital Treasuries PLC | |

(a) Non-compliant with the minimum capital adequacy requirement as at 31.12.2021 or minimum core capital requirement as at 01.01.2022. Those companies are required to comply with the requirements of the Masterplan introduced to Non-banking sector by the Monetary Board, or capital restoration plan approved by the Monetary Board within a given time frame.

(b) Associated Motor Finance Co. PLC amalgamated with Arpico Finance Co. PLC w.e.f.01.04.2021.

(c) Business operations were suspended on 13.07.2020 by the Monetary Board. On 06.01.2021, the Monetary Board decided to cause Director, Supervision of Non-Bank Financial Institutions to make an application to a competent court for the winding up.

(d) The name of Ideal Finance Ltd. has been changed to Mahindra Ideal Finance Ltd w.e.f. 28.01.2022.

(e) The name of Lanka Credit and Business Finance Ltd. has been changed to Lanka Credit and Business Finance PLC w.e.f. 21.01.2022 due to the listing requirement under the Masterplan.

(f) The name of Sarvodaya Development Finance Ltd. has been changed to Sarvodaya Development Finance PLC w.e.f. 06.01.2022 due to the listing requirement under the Masterplan.

(g) Restrictions were imposed by the Monetary Board on conducting new leasing business.

(h) Participation in government securities primary auction was refrained w.e.f. 24.07.2017.

(i) Suspended carrying on the business and activities of a primary dealer w.e.f. 06.07.2017 and current suspension is effective until 05.07.2022.