

Financial Statements and Operations

Central Bank of Sri Lanka

2023



CENTRAL BANK OF SRI LANKA

Financial Statements and Operations of the Central Bank of Sri Lanka

2023

In accordance with section 99(2) of the Central Bank of Sri Lanka Act, No. 16 of 2023, the Central Bank of Sri Lanka hereby submits to the Minister of Finance, Economic Stabilisation and National Policies, the Annual Financial Statements for the year ended 31 December 2023 approved by the Governing Board, which have been examined and certified by the Auditor-General. The report also provides an update on the operations of the Central Bank in 2023.



CENTRAL BANK OF SRI LANKA

NOTE TO THE READER

In place of the Annual Report hitherto published under Monetary Law Act, No. 58 of 1949, the Central Bank of Sri Lanka, commencing from the financial year 2023, will be publishing two separate reports, namely, "Financial Statements and Operations of the Central Bank of Sri Lanka" and "Annual Economic Review", in fulfilment of the statutory provisions of the Central Bank of Sri Lanka Act, No. 16 of 2023, enacted in September 2023,

This publication, "Financial Statements and Operations of the Central Bank of Sri Lanka 2023", consists of the financial statements of the Central Bank as at 31 December 2023, along with an update on the operations and activities of the Bank during 2023.

The "Annual Economic Review 2023" analyses the state of the economy during the year 2023 emphasising the policy objectives and the condition of the financial system.

Together, these publications serve to enhance transparency, accountability, and information dissemination in relation to the Central Bank's operations, its policy objectives, their impact on the economy and the financial system.

The online version of this publication can be accessed through:

<https://www.cbsl.gov.lk/en/publications/economic-and-financial-reports/financial-statements-operations>



PREFACE

The Central Bank of Sri Lanka (Central Bank) is the apex financial sector regulatory authority in Sri Lanka established under the Central Bank of Sri Lanka Act, No. 16 of 2023 (CBA), which came in to operation on 15th September 2023 by repealing the Monetary Law Act, No. 58 of 1949. The Central Bank is a body corporate with perpetual succession and shall be responsible for the administration of the monetary, financial and payment systems of Sri Lanka.

The new governing structure of the Central Bank comprises two parallel decision-making bodies, namely, (i) the Governing Board (GB) and (ii) the Monetary Policy Board (MPB), both of which are headed by the Governor.

- GB – oversees the administration and management of the affairs of the Central Bank and determines general policies of the Central Bank other than the monetary policy;
- MPB – formulates monetary policy of the Central Bank and implements a flexible exchange rate regime in line with the flexible inflation targeting framework to maintain domestic price stability.

Under the Central Bank of Sri Lanka Act, the objectives of the Central Bank are:

- to achieve and maintain domestic price stability as its primary objective, wherein the Central Bank shall consider the stabilization of output to reach its full potential.
- to secure the stability of the financial system as the other objective wherein, the Central Bank shall consider the development and efficiency of the financial system.

The Governor of the Central Bank continues to function as the Chief Executive Officer of the Central Bank. In addition to the Governor, the Senior Management is comprised of Deputy Governors, Assistant Governors and Heads of Departments. The Central Bank has 29 Departments and 6 Regional Offices and the departments are headed by Directors, reporting to the Governor or a Deputy Governor through an Assistant Governor.

GOVERNOR'S MESSAGE

It is with great pleasure that I present the first publication of Financial Statements and Operations Report of the Central Bank of Sri Lanka (Central Bank) for the year 2023 subsequent to the enactment of the Central Bank of Sri Lanka Act, No. 16 of 2023 (CBA).

This report contains the financial statements of the Central Bank, prepared in accordance with the International Financial Reporting Standards, and duly audited by the Auditor General. It also includes details of the operations carried out by the Central Bank in 2023, ensuring transparent communication to stakeholders regarding the organization's activities.

The year 2023 marked a significant turning point for our country's economy, following the severe socio-economic crisis in the previous year. Despite the challenges, a notable improvement in terms of economic and price stability was witnessed due to the effective and timely adoption of appropriate policy measures. With clear signs of macroeconomic stability, particularly the sharp disinflation and re-anchoring of inflation expectations, monetary policy was eased, supporting economic activity further. Improved monetary policy communications during the year helped enhance monetary transmission, anchor inflation expectations and intensify transparency on Central Bank's activities. Smooth currency operations were ensured to maintain the public confidence and proper functioning of the economy. The enactment of the CBA in 2023 enshrined flexible inflation-targeting as the Central Bank's monetary policy framework along with a flexible exchange rate, while enhancing the Central Bank's independence and accountability.

Despite many challenges faced by the financial sector in 2023 due to the effects of the socio-economic crisis, the stability of the financial system was secured through robust regulatory interventions, vigilant oversight and effective policy measures, while endeavoring to enhance the sector's progression and inclusiveness. Further, under CBA, the Central Bank has been designated as the Macroprudential Authority and the Resolution Authority, and given the responsibility to promote financial inclusion, expanding its mandate and scope in securing financial system stability. Furthermore, measures were implemented aiming to protect the financial consumers while fostering fair and ethical practices among financial service providers. Activities connected to combatting financial fraud and pyramid schemes continued in collaboration with law enforcement authorities, and with public support.

Our responsibilities in the areas of public debt management, foreign exchange, employees' provident fund and the financial intelligence were carried out diligently, distributing the benefits to the respective stakeholders and to the national economy.

Further the operations of the Central Bank ensured compliance with the laws and regulations, minimised its exposure to numerous risks, simultaneously safeguarded its property and employees. Measures were initiated to recruit and elevate employee satisfaction to ease the challenges of high attrition on human-resources.

As we reflect on the achievements of 2023, I am confident that this report accurately captures our efforts to deliver the mandate of the Central Bank. Moving forward, our focus remains on contributing to the continued progress of the economy. In this endeavor, I have full confidence in the policy measures already adopted and to be adopted by the Central Bank on a forward-looking and data-driven manner to meet the challenges ahead as we strive to drive economic advancement. We also intend to focus on advanced technology for increased effectiveness and efficiency in all areas of operations while aligning our activities with international green standards.

I extend my sincere gratitude to the members of the Governing Board, the Monetary Policy Board and the former Monetary Board for their valuable guidance and to our dedicated team at the Central Bank for their commitment and contribution. Moreover, I thank our valued stakeholders, including the citizens of our nation, for their unwavering support and the confidence placed in us throughout this journey.



Dr. P. Nandalal Weerasinghe
Governor

24 April 2024

CORPORATE STRATEGY

The Central Bank through its strategic planning process has linked its overarching mandates for practical execution to achieve their objectives. This process integrates both top-down directives and bottom-up inputs from various departments, ensuring alignment with the objectives, mission, and vision of the Bank.

In 2023, substantial improvements were introduced to the methodology of identifying strategic priorities within the Central Bank, marking a notable evolution in its modus operandi of managing priorities. Through a careful analysis and a systematic approach to identify vitally important issues encompassing a wide range of concerns, the Central Bank outlined its priorities for the next three years, i.e., 2024-2026. Under each priority, a three-year priority plan, with specific actions, expected outcomes, outputs, and Key Performance Indicators was prepared to steer their execution. Individual departments prepared annual Departmental Action Plans for 2024 including all activities related to priority plans and other department specific strategies and operations.

Besides this, to ensure timely completion of the plans, progress monitoring was continued in 2023. Accordingly, while progress review meetings on priority plans were conducted biannually, discussions on the progress of Departmental Action Plans with individual departments were conducted on a quarterly basis. This monitoring mechanism furnishes valuable insights for informed decision-making by the management and drives continued progress towards achieving the Central Bank's set targets.

By employing this iterative and adaptive approach, the Central Bank showcased its dedication to fulfilling its mandate and objectives in a dynamic and evolving economic landscape in 2023. By aligning strategic plans with its objectives and remaining responsive to internal and external challenges, the Central Bank fosters resilience, agility, and sustained success in fulfilling its vital role within the Sri Lankan economy.

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Financial Performance and Accountability

The Central Bank of Sri Lanka (CBSL) serves inter-alia as the nation's authority for monetary policy, financial system oversight, payment system regulation, foreign exchange operations and issuing currency. It was established under the Monetary Law Act, No. 58 of 1949 and is currently governed by the Central Bank of Sri Lanka Act, No. 16 of 2023 (CBA). This Act stipulates achieving and maintaining domestic price stability as the prime objective, while identifying securing financial system stability as the other objective. The Bank's success is measured by the effectiveness of its policies and actions in attaining these objectives, not necessarily by its profitability. This distinction separates CBSL from other public or private entities. Focusing on profitability could incentivise actions that compromise its objectives, as the Bank possesses the unique ability to generate profits through its monetary policy instruments, influencing interest rates and exchange rates. In this background the Central Bank's financial statements reflect gains or losses incurred due to its policies and operations particularly in the implementation of monetary policy, exchange rate policy, and currency issuance etc. at the values as realized. This context is crucial for interpreting and understanding the Bank's financial performance as presented in these statements.

Part XVI (sections 92 to 99) of CBA contains financial provisions relating to CBSL including those relating to the preparation, submission and publication of Annual Financial Statements (section 99). In terms of Section 101 of CBA, accounts of CBSL shall be audited by the Auditor-General and the opinion of the Auditor-General shall be published together with the Annual Financial Statements. Further, in terms of Section 103 (4) (d) of CBA, the Audit Committee is entrusted to review the annual financial statements with the auditors.

Accordingly, the Annual Financial Statements presented have been prepared, reviewed and audited in compliance with the provisions of CBA.

The Highlights of the Financial Statements for the Year ended 2023 in Comparison to the Year 2022.

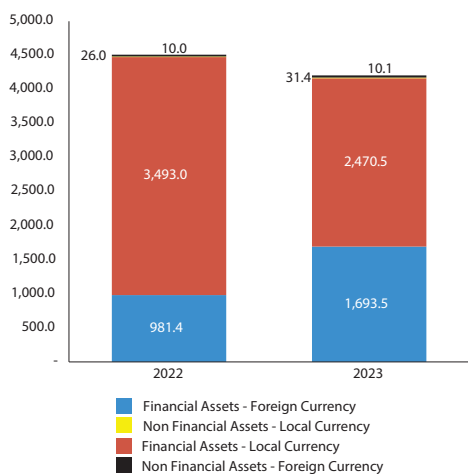
Statement of Financial Position

Composition of Assets

Total assets decreased by Rs. 305.0 bn (6.8%) from Rs. 4,510.4 bn in 2022 to Rs. 4,205.4 bn in 2023. This decline was primarily driven by a substantial decrease in the local currency financial assets of Rs. 1,022.5 bn. This decrease stemmed mainly from the conversion of CBSL's Treasury bill holdings and outstanding Provisional Advances to the Government (PA) into longer tenor Treasury bonds, consequent to the Domestic Debt Optimization (DDO) of the Government of Sri Lanka. The replacement of new Treasury bills and Treasury bonds of which fair value amounting to Rs. 1,946.7 bn against the existing Treasury bills and PA amounting to Rs. 2,368.4 bn and Rs. 344.7 bn, respectively, resulted in a day one loss of Rs. 766.4 bn. Improved liquidity conditions in the domestic money market resulted in a decrease in the securities purchased under reverse repurchase agreements by Rs. 364.1 bn.

However, foreign currency assets have increased due to the increase in CBSL foreign reserves by USD 1.63 bn to USD 3.48 bn (compared to USD 1.85 bn at end 2022). This resulted in an increase in the cash balances by Rs. 547.3 bn and an increase in Fixed Income Securities (FIS) and Treasury bills by Rs. 212.5 bn. However, the appreciation of the Sri Lanka Rupee against the Special Drawing Rights (SDR) (form LKR 483.3276 at end 2022 to LKR 437.9894 at end 2023) led to a decrease in International Monetary Fund (IMF) related assets by Rs. 16.1 bn in LKR terms.

Composition of Total Assets (Rs. Bn)



Composition of Liabilities

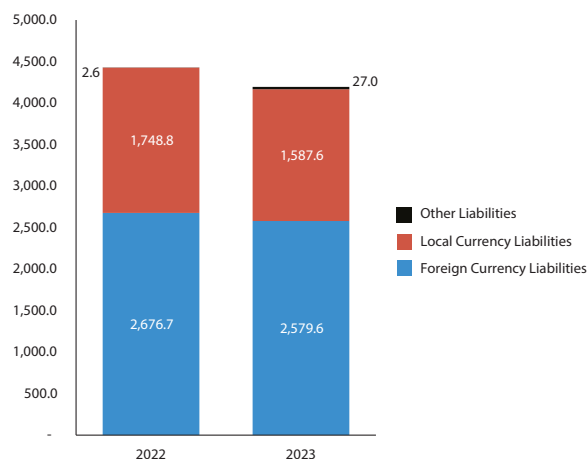
The total liabilities of the CBSL contracted by Rs. 233.9 bn from Rs. 4,428.1 bn in 2022 to Rs. 4,194.2 bn in 2023 representing a decrease of 5.3%. This decrease was primarily due to the reduction in local currency financial liabilities. Local currency financial liabilities decreased by Rs. 161.2 bn due to the reduction in the Balances of Commercial Banks and Other Financial Institutions with the CBSL by Rs. 180.7 bn primarily as a result of the reduction of the Statutory Reserve Ratio (SRR) from 4% to 2% effective from August 2023 and reduction in the Standing Deposit Facility (SDF) balances by Rs. 103.6 bn. The decrease in SDF balances was due to the changes in liquidity distribution among banks. The reductions in liabilities were partially offset by the increase in Currency in Circulation amounting to Rs. 159.9 bn.

Foreign currency financial liabilities decreased by Rs. 97.1 bn, mainly due to the reduction in the balance payable to the Asian Clearing Union (ACU) by Rs. 736.2 bn and a decrease in IMF Liabilities by Rs. 160.6 bn. The balance payable to ACU was converted into a new SWAP facility with the Reserve Bank of India (RBI Special SWAP) combining with the existing payable

to RBI in the foreign liabilities recorded under 'Other' category. The decrease in IMF liabilities was attributed to the loan repayments made during the year under the previous IMF Extended Fund Facility (EFF) and the appreciation of the Sri Lanka Rupee (LKR) against the Special Drawing Rights (SDR) by 10.8%.

The decrease in foreign currency liabilities was partially offset by the increase in foreign liabilities recorded under 'Other' category by Rs. 914.8 bn. This increase was mainly due to the increase in new RBI Special SWAP by Rs. 800.5 bn and the increase in the balance in the Deputy Secretary -Treasury (DST) account by Rs. 247.7 bn held with the CBSL Account in the Federal Reserve Bank, consequent to the receipt of funds to the Government from the IMF, Asian Development Bank (ADB), and the International Development Association (IDA).

Composition of Total Liabilities (Rs. Bn)



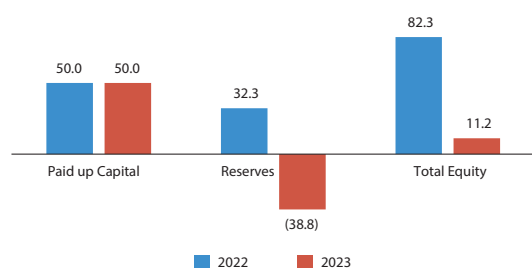
Total Equity

Total equity of CBSL comprised of Capital Funds and Reserves which decreased from Rs. 82.3 bn in 2022 to Rs. 11.2 bn in 2023. This decline was primarily driven by two factors. Firstly, the net loss incurred in 2023 amounting to Rs. 114.4

bn, due to the Day One Loss of Rs. 766.4 bn accounted in September 2023 as a result of the DDO. Secondly, the actuarial losses amounting to Rs. 24.6 bn from post-employment benefit plans which was charged against the retained earnings as per the accounting standards. However, these losses were partially offset by increases in marked-to-market gains on Fair Value Through Other Comprehensive Income (FVOCI) instruments of Rs. 63.6 bn and gains on revaluation of property, plant, and equipment of Rs. 4.8 bn.

Section 97 of CBA stipulates that if the CBSL's audited annual financial statements reflect that the value of its assets falls below the sum of its monetary liabilities and paid-up capital, a capital restoration requirement would be triggered. The monetary liabilities include currency in circulation, and deposits held by licensed commercial banks and government agencies in CBSL. Accordingly, for the year ended 31 December 2023, CBSL's assets exceeded its monetary liabilities and paid-up capital by a healthy margin of Rs. 2,837.1 bn.

Composition of Equity (Rs. Bn)



Income Statement

Income, Expenses and Net Profit/(Loss)

CBSL reported a net loss of Rs. 114.4 bn in 2023 compared to the net loss of Rs. 374.3 bn in 2022, mainly due to the exchange revaluation gain of Rs. 140.1 bn in 2023 as opposed to the exchange revaluation loss of

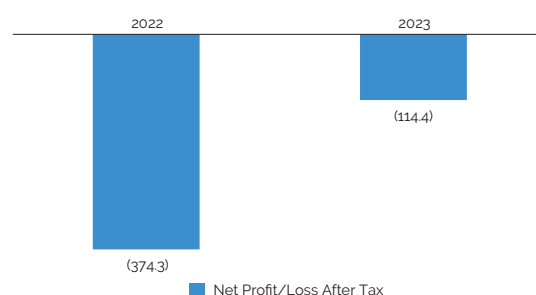
Rs. 610.1 bn in 2022. Higher interest income earned due to the increased level of foreign reserves, increased trading gains and higher unrealized mark-to-market gains from Forex (FX) and FX SWAPS resulted in increased net operating income.

Further, CBSL earned higher interest income from government securities during 2023 as a result of higher average daily holdings of government securities and the high interest rates that prevailed in the market.

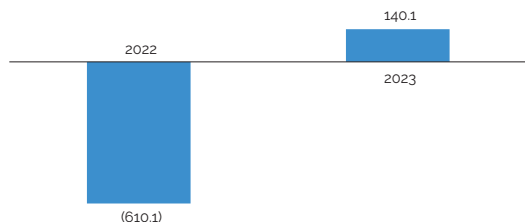
The interest expenses on foreign currency liabilities increased by Rs. 110.2 bn in 2023 mainly due to increased interest expenses on ACU liabilities (Rs. 66.2 bn) and RBI SWAP (Rs. 26.1 bn). This has been partly offset by the reduction in local interest expenses by Rs. 15.8 bn as a result of the reduction in interest expenses of SDF due to lower transaction volumes due to the restrictions imposed on SDF. The operating expenses also recorded a reduction of Rs. 15.5 bn stemming from the reduction of personnel expenses due to the reversal of provision for post-employment contribution plans based on the Actuarial Valuation carried out in 2023.

However, the Day One Loss of DDO of Rs. 766.4 bn resulted in a net loss of Rs. 114.4 bn which could have otherwise ended up in a net profit for the year 2023.

Net Profit/ (Loss) After Tax (Rs. Bn)



Net Foreign Exchange Gain/Loss (Rs.Bn)



Profits Available for Distribution

The bank generated a net loss after tax in 2023. Section 95 of CBA requires to exclude the unrealized gains on price revaluations and unrealized exchange gains and losses from the Net profit after tax. Consequently, the distribution of profits of CBSL is calculated as per section 96 of CBA before the expiration of sixty days after the end of each financial year. Accordingly, the distributable earnings are allocated firstly to establishing special reserves as the Governing

Board may deem fit. Secondly, an amount equivalent to hundred percent of distributable earnings remaining after allocation to special reserves shall be credited to the general reserve account until the sum of the paid-up capital and general reserve is at least six per cent of the total monetary liabilities of the CBSL. Thirdly, any remaining distributable earnings shall, as determined by the Governing Board in consultation with the Minister, either be applied in liquidation of any outstanding Government dues to the CBSL or be paid and credited to the Consolidated Fund. As per section 96 (1) (b) of CBA, the ratio of the sum of the paid up capital and general reserve to total monetary liabilities stood at 6.1% as of 31 December 2023. However, there was no profit available for distribution in 2023 as per section 96 of CBA.

The opinion of the Auditor General on the financial statements and the audited financial statements are presented hereafter.



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My No. }

BAN/G/CBSL/1/23/1

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Your No. }

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திகதி }
Date }

16 April 2024

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 2023 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 2023, and the income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information, 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 101(4) of the Central Bank of Sri Lanka Act, No. 16 of 2023. My report to Parliament in pursuance of provisions in Article 154(6) of the Constitution will be tabled in due course. To carry out this audit, I was assisted by a firm of Chartered Accountants in public practice.

In my opinion, the accompanying financial statements of the Bank give a true and fair view of the financial position of the Bank as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

1.2 Basis for Opinion

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

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

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

No. 306/72, Polduwa Road, Battaramulla, Sri Lanka.



+94 11 2 88 70 28 - 34



+94 11 2 88 72 23



ag@auditorgeneral.gov.lk



www.naosl.gov.lk



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

Governing Board is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as Governing 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, Governing 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 Governing Board.



- Conclude on the appropriateness of Governing 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.

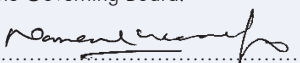
W. P.C. Wickramaratne

Auditor General

STATEMENT OF FINANCIAL POSITION

As at 31 December		2023	2022
Assets	Note	Rs. 000	Rs. 000
Foreign Currency Financial Assets			
Cash & Cash Equivalents	8	1,198,979,570	651,687,864
Securities at Fair Value through Other Comprehensive Income	9	223,406,791	10,867,425
Derivative Financial Instruments	10	5,775,226	401,580
IMF Related Assets	11	265,339,197	281,421,074
Other Receivables		-	37,022,631
Total Foreign Currency Financial Assets		1,693,500,784	981,400,574
Local Currency Financial Assets			
Sri Lanka Government Securities	12	2,044,347,592	2,498,995,015
Securities Purchased under Resale Agreements	13	333,951,940	698,069,219
Provisional Advances to Government	14	-	235,638,700
Equity Investments in Financial and Other Institutions	15	2,169,541	1,817,132
Loans to Banks	16	47,795,687	28,257,902
Other Assets	17	42,184,721	30,182,560
Total Local Currency Financial Assets		2,470,449,481	3,492,960,528
Total Financial Assets		4,163,950,265	4,474,361,102
Foreign Currency Non-Financial Assets			
Gold	18	10,120,756	10,031,610
Non-Financial Assets			
Inventories	19	5,433,838	4,788,407
Other Receivables and Prepayments		1,526,263	1,222,568
Property, Plant and Equipment	20	23,723,256	19,035,278
Intangible Assets	21	689,883	908,137
Total Non-Financial Assets		41,493,996	35,986,000
Total Assets		4,205,444,261	4,510,347,102
Liabilities and Equity			
Foreign Currency Financial Liabilities			
Banks and Financial Institutions	22	54,113,792	146,408,028
Derivative Financial Instruments	10	48,947,900	71,697,994
Asian Clearing Union	23	-	736,258,129
International Monetary Fund	24	967,325,212	1,127,925,092
Others	25	1,509,255,772	594,383,451
Total Foreign Currency Financial Liabilities		2,579,642,676	2,676,672,694
Local Currency Financial Liabilities			
Deposits of Banks and Financial Institutions	26	142,472,582	323,046,181
Deposits of Government and Governmental Entities	27	2,073,290	221,411
Securities Sold Under Repurchase Agreements & Standing Deposit Facility	28	227,035,873	330,637,059
Currency in Circulation	29	1,186,503,181	1,026,567,252
Other Payables	30	29,507,806	68,320,347
Total Local Currency Financial Liabilities		1,587,592,732	1,748,792,250
Total Financial Liabilities		4,167,235,408	4,425,464,944
Other Liabilities			
Deferred Grants	31	2,475	1,834
Pension and Other Post - Employment Benefit Plans	32	26,395,012	1,772,429
Miscellaneous Liabilities and Accruals	33	626,310	855,043
Total Other Liabilities		27,023,797	2,629,306
Total Liabilities		4,194,259,205	4,428,094,250
Equity			
Capital Funds		50,000,000	50,000,000
Other Reserves	34	252,773,117	(191,184,970)
Retained Earnings		(291,588,061)	223,437,822
Total Equity		11,185,056	82,252,852
Total Liabilities and Equity		4,205,444,261	4,510,347,102

The Governor and the Chief Accountant of the Central Bank of Sri Lanka authorized these financial statements for issue on 05 April 2024 and signed on behalf of the Governing Board.


 Dr. P. Nandalal Weerasinghe – Governor


 D. S. L. Sirimanne - Chief Accountant

The accounting policies and notes on pages 12 to 87 form an integral part of these Financial Statements.

INCOME STATEMENT

For the year ended 31 December		2023	2022
	Note	Rs. 000	Rs. 000
Operating Income :			
Income from Foreign Currency Financial Assets			
Interest Income	36	18,031,111	1,579,295
Gain/(Loss) from Unrealized Price Revaluations	37	29,165,459	(127,286,104)
Gain/(Loss) from Realized Price Changes		39,013,468	(9,968,941)
Total Income from Foreign Currency Financial Assets		86,210,038	(135,675,750)
Expenses on Foreign Currency Financial Liabilities			
Interest Expense	38	(142,515,856)	(32,293,277)
Reversal/(Charge) of Expected Credit Losses on Foreign Currency Financial Assets	39	(86,696)	(763,218)
Total Expenses on Foreign Currency Financial Liabilities		(142,602,552)	(33,056,495)
Net Foreign Exchange Revaluation Gain/(Loss)		140,077,201	(610,149,293)
Foreign Currency Investment Income		83,684,687	(778,881,538)
Net Income from Local Currency Financial Assets			
Interest Income	36	595,962,421	482,676,527
Gain/ (Loss) from Realised Price Changes		(1,293,472)	(7,866,974)
Interest Expense	38	(21,810,330)	(37,619,594)
Disposal Gain/ (Loss) of DDO		6,775,702	-
DDO Day One Gain/ (Loss)		(766,413,281)	-
Reversal/ (Charge) of Expected Credit Losses on Local Currency Financial Assets	39	396,659	497,432
Net Income from Local Currency Financial Assets		(186,382,301)	437,687,391
Other Income	40	1,585,485	2,454,218
Other Expense	40.1	(3,536,359)	(10,260,110)
Total Net Operating Income		(104,648,488)	(349,000,039)
Operating Expenses:			
Personnel Expenses:	41		
- Salaries and Wages		(7,253,093)	(6,691,770)
- Defined Contribution Plan Costs		3,949,834	(11,550,422)
- Post Employment Benefit Plan Costs		(891,177)	(2,091,404)
		(4,194,436)	(20,333,596)
Depreciation and Amortization		(715,321)	(737,304)
Cost of Inventory (Cost of New Currency Issue)		(2,108,575)	(2,339,653)
Administration and Other Expenses	42	(2,763,994)	(1,910,381)
Total Operating Expenses		(9,782,326)	(25,320,934)
Loss Before Tax		(114,430,814)	(374,320,973)
Tax	43	-	-
Loss for the Year		(114,430,814)	(374,320,973)

Figures in brackets indicate deductions

The accounting policies and notes on pages 12 to 87 form an integral part of these Financial Statements.

STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December		2023 Rs. 000	2022 Rs. 000
	Note		
Loss for the Year		(114,430,814)	(374,320,973)
Other Comprehensive Income (OCI)			
Items that are or may be re-classified subsequently to Profit/(Loss)			
Net Fair Value Gain/(Loss) on Securities at Fair Value through Other Comprehensive Income	34	1,266,198	(1,189,382)
Net Fair Value Gain/(Loss) on Government Securities at Fair Value through Other Comprehensive Income	34	61,897,210	11,225,713
		63,163,408	10,036,331
Items that will not be re-classified subsequently to Profit/(Loss)			
Gain on revaluation of Property, Plant & Equipment		4,752,685	-
Post-Employment Benefit Plan (Cost)/Income Recognized in Other Comprehensive Income	32	(24,625,742)	14,163,877
Net Fair Value Gain on Equity Investments at Fair Value through Other Comprehensive Income	34	352,408	145,915
		(19,520,649)	14,309,792
Other Comprehensive Income/(Expense)		43,642,759	24,346,123
Total Comprehensive Income /(Expense)		(70,788,055)	(349,974,850)

Figures in brackets indicate deductions
The accounting policies and notes on pages 12 to 87 form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December	Contributed Capital	Other Reserves	Retained Earnings	Total
	Rs.000	Rs.000	Rs.000	Rs.000
Balance as at 1 January 2022	50,000,000	315,128,226	98,490,818	463,619,044
Loss for the year	-	-	(374,320,973)	(374,320,973)
Transfer to RTGS Sinking Fund	-	438,146	(438,146)	-
Post-Employment Benefit Plans cost recognized in Other Comprehensive Income	-	-	14,163,877	14,163,877
Transfer of Net Foreign Exchange Revaluation Gain/(Loss) (IRR)	-	(610,149,293)	610,149,293	-
Transfer to CBSL Internal Funds	-	-	(355,494)	(355,494)
Net Fair Value Loss on Securities at Fair Value through Other Comprehensive Income	-	(1,189,382)	-	(1,189,382)
Transfer of Funds from Retained Earnings to Market Revaluation Reserve	-	49,638,590	(49,638,590)	-
Transfer of Funds to General Reserve	-	27,526,076	(27,526,076)	-
Transfer of Funds to MLTCF for the RDD operations as per the profit appropriation BP of 2021	-	15,000,000	(15,000,000)	-
Profit appropriation for the year 2021 - Recovery of outstanding GOSL obligations from 2021 profit	-	-	(31,035,788)	(31,035,788)
Transfer of Funds to CBSL Employees and Pensioners Distress Relief Fund	-	-	(60)	(60)
Transfer to Reserve for funding purposes of Post-Employment Benefits	-	1,051,039	(1,051,039)	-
Gain on Market Valuation of Government Securities Classified at Fair Value through Other Comprehensive Income	-	11,225,713	-	11,225,713
Gain on Market Valuation of Equity Investments Classified at Fair Value through Other Comprehensive Income	-	145,915	-	145,915
Balance as at 31 December 2022	<u>50,000,000</u>	<u>(191,184,970)</u>	<u>223,437,822</u>	<u>82,252,852</u>
Balance as at 1 January 2023	50,000,000	(191,184,970)	223,437,822	82,252,852
Transfer of CBSL distributable Profit for the year 2022 to Surplus	-	235,034,628	(235,034,628)	-
Loss for the year	-	-	(114,430,814)	(114,430,814)
Transfer to RTGS Sinking Fund	-	512,228	(512,228)	-
Post-Employment Benefit plans cost recognized in other Comprehensive Income	-	-	(24,625,742)	(24,625,742)
Transfer of Net Foreign Exchange Revaluation Gain/(Loss) (IRR)	-	140,077,201	(140,077,201)	-
Transfer to CBSL Internal Funds	-	-	(345,219)	(345,219)
Transfer to Fixed asset revaluation reserve	-	4,752,685	-	4,752,685
Net Fair Value Gain on Securities at Fair Value through Other Comprehensive Income	-	1,266,198	-	1,266,198
Transfer of Funds to CBSL Employees and Pensioners Distress Relief Fund	-	-	(51)	(51)
Gain on Market Valuation of Government Securities Classified at Fair Value through Other Comprehensive Income	-	61,897,210	-	61,897,210
Gain on Market Valuation of Equity Investments Classified at Fair Value through Other Comprehensive Income	-	352,408	-	352,408
Expected Credit Losses on FVOCI Investments	-	65,529	-	65,529
Balance as at 31 December 2023	<u>50,000,000</u>	<u>252,773,117</u>	<u>(291,588,061)</u>	<u>11,185,056</u>

Figures in brackets indicate deductions
The accounting policies and notes on pages 12 to 87 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December			2023	2022
Cash Flows from Operating Activities		Note	Rs. 000	Rs. 000
Receipts:				
Interest Received - Foreign Currency			15,104,897	1,550,703
Interest Received - Local Currency - Others			19,813,449	3,498,481
Liquidity Management and Trading Income			37,719,996	(17,835,915)
Realised Exchange Loss			60,713,515	(179,967,468)
Other Income Received			1,571,269	8,020,273
			<u>134,923,125</u>	<u>(184,733,926)</u>
Disbursements:				
Interest Paid - Foreign Currency			146,093,995	23,170,613
Interest Paid - Local Currency			19,520,364	40,437,692
Payments to Employees			11,295,646	12,435,846
Payments to Suppliers			50,131,974	(31,924,158)
			<u>227,041,978</u>	<u>44,119,993</u>
Net Cash Flows generated from Operating Activities		44	<u>(92,118,853)</u>	<u>(228,853,919)</u>
Cash Flows from Investing Activities				
Receipts:				
Net Increase in Other Local Currency Financial Assets			(3,508,310)	(2,431,705)
Principal Recoveries from Loans and Advances to Other Institutions			2,134	49,642
Proceeds on disposal of Property, Plant and Equipment			1,923	(234)
Net Increase/ (Decrease) in Securities Sold under Resale Agreements/Standing Deposit Facility			(103,511,000)	229,574,179
			<u>(107,015,255)</u>	<u>227,191,882</u>
Disbursements:				
Net Decrease in Foreign Currency Securities			173,612,101	31,403,136
Net Increase/ (Decrease) in Other Foreign Currency Financial Assets			10,037,550	(42,189,977)
Net (Increase)/ Decrease in Other Foreign Currency Financial Liabilities			(182,850,778)	(704,622,720)
Net (Increase)/ Decrease in Other Local Deposits and Payables			(17,173)	(3,660)
Purchase of Property, Plant and Equipment, net of Grants			430,029	3,773
Purchase of Intangible Assets			6,557	879,377
Net Decrease in Gold Inventory			-	(26,108,952)
Net Loans and Advances Granted to/ (Recovered from) Other Institutions			19,370,476	(61,796,952)
			<u>20,588,761</u>	<u>(802,435,975)</u>
Net Cash Flows generated from Investing Activities			<u>(127,604,016)</u>	<u>1,029,627,857</u>
Cash Flows from Financing Activities				
Receipts :				
Issue of Circulating Currency			469,219,521	347,595,479
Withdrawal of Circulating Currency			(309,283,592)	(326,127,293)
Net Issue of Circulating Currency			<u>159,935,930</u>	<u>21,468,186</u>
Disbursements:				
Net Issues of Circulating Currency on Government Transactions		45	(932,498,697)	851,954,489
Net Issues/(Withdrawals) of Circulating Currency on Transactions with Banks and Financial Institutions		46	<u>180,573,600</u>	<u>(22,342,019)</u>
Net Issues of Circulating Currency			<u>(751,925,097)</u>	<u>829,612,470</u>
Net Decrease in Circulating Currency			<u>911,861,027</u>	<u>(808,144,284)</u>
Disbursements:				
Grant/(Repayment) of Foreign Currency Term Liabilities			54,502,758	27,384,295
Payments to Other Funds			51	60
Payments to Pension Fund			-	3,363,735
Transfer of Profits to Consolidated Fund			-	30,000,000
			<u>54,502,809</u>	<u>60,748,090</u>
Net Cash Flows used in Financing Activities			<u>857,358,218</u>	<u>(868,892,374)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents			<u>637,635,350</u>	<u>(68,118,436)</u>
Exchange Rate Effect on Cash and Cash Equivalents			(20,232,669)	(3,321,000)
Cash and Cash Equivalents at the Beginning of the Year			126,065,050	197,504,486
Cash and Cash Equivalents as at 31 December		8	<u>743,467,730</u>	<u>126,065,050</u>

Figures in brackets indicate deductions

The accounting policies and notes on pages 12 to 87 form an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

1. REPORTING ENTITY AND STATUTORY BASE

The Central Bank of Sri Lanka ("Bank" or "CBSL") was established under the Monetary Law Act No. 58 of 1949 of Sri Lanka as amended ("MLA") to confer and impose upon the Monetary Board of the Central Bank powers, functions and responsibilities necessary for the purposes of administration and regulation and other connected matters. However, with the intention to review several provisions in the MLA in line with global best practices, Central Bank of Sri Lanka Act (CBA) was enacted in 2023 as a result of economic developments and the overall evolution of central banking. Accordingly, CBA repealed the MLA and it is in force effective from 15th September 2023.

CBA has identified CBSL as an authority responsible for the administration, supervision and regulation of the monetary, financial and payment systems of Sri Lanka. CBA has established the Governing Board of the Central Bank and Monetary Policy Board of the Central Bank repealing the Monetary Board of the Central Bank established through MLA. The Governing Board is charged with the responsibility of overseeing the administration and management of the affairs of the Central Bank and the determination of general policy of the Central Bank other than the monetary policy whilst the Monetary Policy Board of the Central Bank is charged with the formulation of monetary policy of the Central Bank and implementation of a flexible exchange rate regime in line with the flexible inflation targeting framework in order to achieve and maintain domestic price stability.

These financial statements were authorized for issue by the Governor and Chief Accountant for and on behalf of the Governing Board on 05th April 2024.

1.1 Principal Activities

CBA has special provisions to improve the central bank's independence, to increase its openness and accountability, and to reinforce the monetary policy framework to maintain continued price stability in Sri Lanka. The objectives of the CBSL were also changed accordingly.

As per CBA, the primary objective of CBSL is to achieve and maintain domestic price stability. Further, the other objective of the CBSL is to secure the financial system stability.

Other than above primary and other objective, the Bank is also 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. Accordingly, the activities of the Bank mainly include determining and implementing monetary and exchange rate policies, issuing and managing the currency of Sri Lanka, hold and ensure the prudent and effective management of the official international reserves of Sri Lanka, administer, supervise and regulate payment systems and ensure the safety, effectiveness, and efficiency of such payment systems, register, license, regulate and supervise financial institutions and resolve financial institutions regulated and supervised by the Central Bank and some other powers, duties and functions as described under the section 7 (1) of CBA.

The above activities carried out in order to achieve the 'primary objective' and 'other objective' of CBSL can be broadly segregated into foreign currency and local currency activities. Results of these activities are presented under the financial statements of CBSL.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Statement of Compliance

These financial statements of the Bank for the year ended 31 December 2023 have been prepared in accordance with International Financial Reporting Standards (IFRS).

2.2 Basis of Preparation

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).

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

2.3 Reporting Format

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

2.4 Functional and Presentation Currency

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

2.5 Materiality and Aggregation

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

2.6 Offsetting

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

2.7 Comparative Information

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

3. USE OF ESTIMATES AND JUDGMENTS

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

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

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

3.1 Classification and Impairment of Financial Assets

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

3.2 Pensions and Other Post Employment Benefit Plans

The cost of defined benefit plans is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future compensation increases, mortality rates and future pension increases. Due

to the long-term nature of these plans, such estimates are subject to significant uncertainty. Assumptions used in the actuarial valuation are disclosed in Note 32 to the Financial Statements.

3.3 Fair Value of Financial Instruments

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

4. CHANGES TO MATERIAL ACCOUNTING POLICY INFORMATION

There were no changes to the accounting policies and accounting policies adopted are consistent with those of the previous financial year.

5. MATERIAL ACCOUNTING POLICY INFORMATION

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

Currency	2023 Rs.	2022 Rs.
1 Australian Dollar	220.2031	247.0237
1 Canadian Dollar	245.1179	268.4335
1 Euro	357.4170	388.3461
1 Japanese Yen	2.2983	2.7703
1 Special Drawing Rights (SDR)	437.9894	483.3276
1 Sterling Pound	412.2896	437.4023
1 United States Dollar	323.9233	363.1100
1 Chinese Yuan (Offshore)	45.6377	52.6513

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.

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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

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in profit or loss.

5.3.4 Impairment of Financial Assets

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

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

No impairment loss is recognized on equity investments.

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

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

Measurement of ECL

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

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

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

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

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

Assessing the Significant Increase in Credit Risk (SICR)

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

Credit-impaired financial assets

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

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

Presentation of allowance for ECL in the Statement of Financial Position

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

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

Write-off

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

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

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 Income Statement with the exception of fair value changes in equity investments which will not be recycled to Income Statement upon derecognition. Interest income is recognised in Income Statement 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 Income Statement 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 Income Statement.

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

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 CBA. 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 Income Statement .

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.

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5.14 Provisional Advances to Government

As stipulated by the CBA, under the Section 127, the Central Bank may make new direct provisional advances to the Government to finance expenditures authorized to be incurred out of the Consolidated Fund within the first month of the financial year. Every such new advance shall be repaid within a period of not exceeding six months.

5.15 Loans to Other Institutions

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

5.16 Securities Borrowings and Securities Lending

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

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

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

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

5.17 Staff Loans

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

Discount rate - Average Weighted Prime Lending Rate (AWPR) is used as the discount rate and it varies with the period of the loans.

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

Assumptions used for computation of fair valuation

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

5.18 Gold

Section 40 (2) of the CBA which specifies the management of the international reserves states that gold including credit balances representing such gold may be held by the CBSL as part of the international reserves. Section 94 (3) describes that the unrealized gains arising from market price revaluation due to its positions in gold recorded in the income statement in line with the internationally recognized financial reporting framework as approved by the Governing Board, prior to distribution of profits. As this gold is part of the International Reserve and not used as a commodity which is traded during the normal course of business, gold is fair valued and the gains or losses are transferred to the Income Statement. Prior to appropriation of profits, the unrealized 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 Income Statement. 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 & 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 Land	Over 50 Years
Buildings on Leasehold land	Lower of 50 years or over the lease term
Plant & Plant Integrals	20 Years
Furniture & Equipment	10 Years
Motor Vehicles	5 Years
Motor Vehicles acquired 2014 onwards	10 Years
Computer Hardware	4 Years
Others	3 Years

The carrying values of Property, Plant and Equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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

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

An intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, an entity can demonstrate all of the following:

- (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale.
- (b) its intention to complete the intangible asset and use or sell it.
- (c) its ability to use or sell the intangible asset.
- (d) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.

(e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

(f) its ability to measure reliably the expenditure attributable to the intangible asset during its development

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 Income Statement.

At each reporting date, the Bank reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

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

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

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

5.26 Provisions

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

5.27 Currency in Circulation

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

5.28 Defined Benefit Plans

A defined benefit plan is a postemployment benefit plan other than a defined contribution plan. Bank operates defined benefit schemes for Pension, Widows' and Orphans' Pensions (W&OP), Widowers' and Orphans' Pensions (WR&OP), Retirement Gratuity and Post Employment Medical Benefits. The Bank and eligible beneficiaries make contributions, to separately administered funds in respect of the first three schemes.

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method. The Bank's obligation in respect of defined benefit plan is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the valuation date on Government Bonds that have maturity dates approximating to the average remaining years of service. All principal actuarial assumptions disclosed in Note 32 are revised annually.

5.29 Defined Contribution Plans

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

Obligations for contributions to defined contribution plans are recognized as expense in the Income Statement 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 Income Statement over the periods necessary to match them to the expenses it is intended to compensate on a systematic basis. Where the grant relates to an asset, the fair value is credited to a deferred government grant account and is released to the Income Statement over the expected useful life of the relevant asset on a systematic basis consistent with the depreciation policy of the related asset.

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.

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 Income Statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to income in arriving at the result for the year.

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

5.32.1 Interest Income and Expenses

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

5.32.2 Dividends

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

5.32.3 Miscellaneous Income and Expenses

Miscellaneous income and expenses are recognised on an accrual basis.

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

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

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 116 of the CBA 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 , Inland Revenue (Amendment) Act No. 45 of 2022 and as per Inland Revenue (Amendment) Act No. 04 of 2023. In terms of the Economic Service Charge (amendment) Act No. 07 of 2017, the Bank is liable for ESC commencing from 1 April 2017. However, unrealized gain on exchange rate and unrealized marked to market gain on foreign currency financial assets are exempted from ESC with effect from October 2018 as per the ESC (amendment) Act, No 33 of 2018. Further, the Bank is exempted from Value Added Tax on supply of financial services as per Value Added Tax (Amendment) Act No.17 of 2013.

ESC was abolished with effect from 1 January 2020.

5.33 Events Occurring after the Reporting Date

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

STATEMENT OF CASH FLOWS

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

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

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

A number of new standards and amendments to standards are effective for annual periods beginning after 1st January 2023 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.

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.

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

	2023 Rs. 000	2022 Rs. 000
Cash Balances with Banks	239,279,034	7,626,592
Time Deposits with Banks	486,868,385	-
Overnight Placements	16,422,911	118,410,171
Interest Receivable on Cash and Cash Equivalents	897,400	28,287
Cash and Cash Equivalents for Cash Flow Purpose	743,467,730	126,065,050
Cash and Cash Equivalents available for Restricted Use (Note 8.1)	456,377,841	526,467,646
Less: Expected Credit Losses on Cash and Cash Equivalents (Note 8.2)	(866,001)	(844,832)
Total	1,198,979,570	651,687,864

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

8.2 Movement in Expected Credit Losses on Cash and Cash Equivalents

	2023			2022		
	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	841,441	3,392	844,833	52,009	33,359	85,368
Charge/ (Reversal) during the year	(206,032)	227,200	21,168	789,432	(29,967)	759,465
Balance as at 31 December	635,409	230,592	866,001	841,441	3,392	844,833

9. INVESTMENTS IN FOREIGN SECURITIES

	2023 Rs. 000	2022 Rs. 000
Securities at Fair Value through Other Comprehensive Income		
-Investment in Foreign Securities	223,406,791	10,867,425
Total Investment in Foreign Securities	223,406,791	10,867,425
Expected Credit Loss on Securities at Fair Value through Other Comprehensive Income (Note 9.1)	70,273	4,744

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

	2023			2022		
	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	4,744	-	4,744	995	-	995
Charge/ (Reversal) during the Year	65,529	-	65,529	3,749	-	3,749
Balance as at 31 December	70,273	-	70,273	4,744	-	4,744

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.

	2023			2022		
	Assets Rs. 000	Liabilities Rs. 000	Notional Amount Rs. 000	Assets Rs. 000	Liabilities Rs. 000	Notional Amount Rs. 000
Currency SWAPS	5,775,226	46,740,483	396,845,081	401,580	71,669,551	208,591,719
Forex Forward	-	2,207,417	72,882,743	-	28,443	1,724,773
Total	5,775,226	48,947,900	469,727,824	401,580	71,697,994	210,316,492

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.

10.7 Amounts due to Bank of Ceylon, People's Bank, DFCC Bank PLC, Commercial Bank of Ceylon PLC and National Development Bank PLC under Long-term USD/LKR Buy-Sell Swap Agreements

The Bank entered into long-term USD/LKR buy-sell swap agreements with licensed commercial banks with a view to build-up foreign reserves. As at 31 December 2023, the outstanding of such long-term buy-sell swap agreements of the Bank with licensed commercial banks are as follows.

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Bank	Date of Agreement	Outstanding Amount (USD mn)	Last Maturity Date on Tranche-wise	Tenor/ Conditions	Underlying Transaction
Bank of Ceylon	15-Aug-23	225.00	12-Aug-25	<ul style="list-style-type: none"> Execute a 2-year outright forward transaction on the date of exchange of bonds (15 August 2023) to buy USD 225 million from BOC, where the far leg date and the far leg exchange rate coincide with the far leg date and the far leg exchange rate of the above swap transaction and in a way that both USD and LKR amounts of the two far leg transactions to be net settled. 	Facilitated the exchange of their Sri Lanka Development Bonds (SLDBs) investment into LKR denominated government bonds under the Domestic Debt Optimization (DDO) program.
Bank of Ceylon	22-Apr-21	35.00	15-Dec-27	<ul style="list-style-type: none"> 6 years at zero cost. 	Loan received under Asian Infrastructure Investment Bank (AIIB) COVID 19 Emergency and Crisis Response Project.
Bank of Ceylon	29-Jun-21	44.78		<ul style="list-style-type: none"> Settlements in 5 tranches and approximately USD 10 mn is expected to be settled in every 6 months. 	
People's Bank	23-Apr-21	35.00			
People's Bank	30-Sep-21	44.78			
DFCC Bank PLC	15-Nov-21	118.75	15-Aug-28	<ul style="list-style-type: none"> 7 years at zero cost. Settlements in 20 tranches and USD 6.25 mn is expected to be settled in every 3 months. 	Loan received from the United States International Development Finance Corporation (DFC).
Commercial Bank of Ceylon PLC	17-Nov-21	35.00	23-Nov-26	<ul style="list-style-type: none"> 5 years, at zero cost for the first 18 months and, a semi-annual premium of Rs. 1.00 per USD thereafter. One off settlement at maturity. 	Loan received from CDC PLC, UK.
National Development Bank PLC	18-Mar-22	33.00	19-Mar-29	<ul style="list-style-type: none"> 7 years, at a premium of Rs. 1.00 per USD for first 18 months and henceforth, a semi-annual premium of Rs. 1.00 per USD for remaining five and half years of the loan. Settlements in 12 tranches and USD 3.00 mn is expected to be settled in semi-annually. 	Loan received from DFC

11. IMF RELATED ASSETS

	2023 Rs. 000	2022 Rs. 000
Measured at Fair Value through Profit or Loss		
IMF Quota (Note 11.1)	253,508,295	279,779,554
Holding of Special Drawing Rights (Note 11.2)	10,991,665	626,461
	264,499,960	280,406,015
Measured at Amortized Cost		
Deposits with IMF (Note 11.3)	345,479	377,081
Prepaid Charges - IMF Loans	493,765	637,986
Less: Expected Credit Losses on IMF Related Assets (Note 11.4)	(7)	(8)
	839,237	1,015,059
	265,339,197	281,421,074

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:

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

- (i) **Subscriptions:** A member's subscription to IMF resources is equal to its quota and determines the maximum amount of financial resources the member is obliged to provide to the IMF. A member must pay its subscription in full; up to 25 per cent must be paid in reserve assets specified by the IMF (SDRs or usable currencies), and the rest in the member's own currency.
- (ii) **Voting power:** The quota defines a member's voting power in IMF decisions. IMF member's votes comprise basic votes plus one additional vote for each SDR 100,000 of quota. The 2008 reform fixed the number of basic vote at 5.50 per cent of total votes.
- (iii) **Access to financing:** The amount of financing a member can obtain from the IMF (access limits) is based on its quota. Under Stand-By and Extended Arrangements, for instance, a member can currently borrow up to 145 per cent of its quota annually (temporarily increased to 245 percent of quota through end 2021 as part of the Fund's COVID-19 response) and 435 per cent cumulatively. Access to finance may be higher in exceptional circumstances.
- (iv) **SDR allocations:** Members' shares of SDR allocations are established in proportion to their quotas. A general SDR allocation equivalent to about US dollars 650 billion was made to IMF members that are participants in the SDR Department in proportion to their existing quotas in the IMF, which became effective on 23 August 2021. Of this general SDR allocation Sri Lanka's share amounted to SDR 554.80 million.

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11.2 Holding of Special Drawing Rights

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

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

11.3 Deposits with IMF – PRGF – HIPC Trust Deposit

The PRGF – HIPC (Poverty Reduction and Growth Facility for the Heavily Indebted Poor Countries) Trust Deposit was made under the agreement between the GOSL and the IMF on 21 April 2000 by transferring SDR 788,783 from Sri Lanka’s deposit in the post SCA-2 (Special Contingent Account) administered account with the IMF. This account was created under the guidance of the IMF by transferring the balance held in SCA-2 against Sri Lanka when it was decided to wind up SCA-2 by the IMF. The IMF requested the countries that had balances in the Post SCA-2 account to consider providing the balances in that account to the PRGF/HIPC Trust either as outright grant or as a means of providing a subsidy for PRGF/HIPC Loan. Accordingly GOSL agreed to transfer the funds from Post SCA-2 accounts to PRGF/HIPC Trust account, not as an outright grant, but as an interest free deposit until 2018. This was later extended until 2024.

11.4 Movement in Expected Credit Losses on IMF Related Assets

	2023 Rs. 000	2022 Rs. 000
Stage 1		
Balance as at 1 January	8	3
Charge/(Reversal) for the Year	(1)	5
Balance as at 31 December	7	8

12. SRI LANKA GOVERNMENT SECURITIES

The Central Bank purchases government securities in the secondary market as per Section 86 (4) and in the primary market under Section 86 (5) of the Central Bank of Sri Lanka Act No. 16 of 2023.

	2023 Rs. 000	2022 Rs.000
Treasury Bills	208,344,310	2,480,822,291
Treasury Bonds	1,804,175,760	17,708,352
Interest Receivable	31,827,522	464,372
	2,044,347,592	2,498,995,015

The Bank’s local government securities portfolio is classified as Fair Value Through Other Comprehensive Income (FVOCI) instruments and was subject to the Domestic Debt Optimization (DDO) on 21 September 2023. On initial recognition, the new instruments were fair valued and a day one loss of Rs.776.4 bn was charged to the Income Statement. The fair valuation takes into consideration the market risk, credit risk and therefore, any credit losses related to the government securities portfolio has been considered through the day one loss and accounted for in the Income Statement for the financial year 2023.

12.1 Impact of Domestic Debt Optimimization on Sri Lanka Government Securities

As part of the Domestic Debt Optimization (DDO), CBSL's Provisional Advances to the Government of Sri Lanka and Treasury Bills purchased from the Government amounting to Rs. 345 billion and Rs.2,368 billion respectively were restructured and converted into new Treasury Bonds and Bills with a stepped down coupon interest profile on 21 September 2023.

Treasury bills received consisted of a maturity dates varied between February 2024 - September 2024 and Treasury Bonds received consisted of maturities between 6 years to 15 years at step coupon interest of 12.4% until 2024 (incl.), 7.5% until 2026 (incl.) and 5% from 2027 until maturity.

The above restructure resulted in a day one loss amounting to Rs.766.4 bn as the transaction price differed from the fair value of the new instruments. This day one loss has been charged to Income Statement in line with the requirements of IFRS 9 – Financial Instruments.

In deriving at the fair value of the new instrument a level 2 input was used in line with IFRS 13 – Fair Value Measurement. Level 2 inputs refer to inputs other than quoted prices included within Level 1 that are observable for the asset. Interest Rate yield curve have been considered as the observable input based on the term of the bond, and adjustments have been made for the known changes such as the interest rate profile between the stepped coupon instrument and fixed coupon instrument.

The following table demonstrates the reasonable possible change in the key assumptions, employed with all other variables held constant in the day one loss computation.

The sensitivity of the Income Statement is the effect of the assumed changes in discount rate as depicted below.

Sensitivity Analysis at 1% on the Day One Loss of DDO

Effect of “-” change in discount rate - Rs. 652.8 bn

Effect of “+” change in discount rate - Rs. 869.7 bn

13. SECURITIES PURCHASED UNDER RESALE AGREEMENTS

	2023 Rs. 000	2022 Rs.000
Securities Purchased under Resale Agreements	332,862,000	691,637,000
Interest Receivable on Securities Purchased under Resale Agreements	1,089,940	6,432,219
	<u>333,951,940</u>	<u>698,069,219</u>

14. PROVISIONAL ADVANCES TO GOVERNMENT

As stipulated by CBA, under the Section 127, the Central Bank may make new direct provisional advances to the Government to finance expenditures authorized to be incurred out of the Consolidated Fund within the first month of the financial year. Every such new advance shall be repaid within a period of not exceeding six months. The total amount of such advances outstanding shall not exceed ten per centum of the revenue of the first four months of the preceding financial year, as reported in the half yearly report published by the Ministry of the Minister under the Fiscal Management (Responsibility) Act, No. 3 of 2003 for the relevant period. Such new advances shall bear interest at prevailing market-related rates as determined by the Central Bank.

15. EQUITY INVESTMENTS IN FINANCIAL AND OTHER INSTITUTIONS

These investments are made in terms of Section 114(2) (a) of CBA. Under this Section, the Bank is empowered to acquire and hold shares in any company which, in the opinion of the Governing Board, was formed for the advancement and promotion of human resources and technological development in the banking and financial sector or to facilitate clearance of transactions among commercial banks operating in Sri Lanka.

15.1 Investment position

Company	Nature of the Business	2023			2022		
		No. of Shares	Fair Value Rs. 000	Fair Value per share Rs. 000	No. of Shares	Fair Value Rs. 000	Fair Value per share Rs. 000
Lanka Pay (Private) Limited	Automated Clearing	2,986,824	938,965	314.37	2,986,824	769,866	257.75
Lanka Financial Services Bureau Limited	Automated Fund Transfers	500,000	-	(0.81)	500,000	-	(4.60)
Credit Information Bureau of Sri Lanka Limited	Provision of Credit Information	48,244	1,230,576	25,507.33	48,244	1,047,266	21,707.69
			<u>2,169,541</u>			<u>1,817,132</u>	

The equity investments were carried at fair value as at 31 December 2023.

16. LOANS TO BANKS

	2023 Rs. 000	2022 Rs. 000
Loans to Banks (Note 16.1)	47,931,158	28,601,832
Less: Expected Credit Loss on Loans to Banks (Note 16.2)	(135,471)	(343,930)
	<u>47,795,687</u>	<u>28,257,902</u>

16.1 Loans To Banks

These are the loans granted in terms of Part IIIA of Chapter V of the Monetary Law Act No. 58 of 1949 to facilitate lending for productive purposes. However, with the enactment of the new CBA, the loans will be governed under the savings provisions i.e. Section 134 of the new Act.

	2023 Rs. 000	2022 Rs. 000
Medium & Long Term Credit Scheme		
- Related Parties	16,039	18,173
Repair of Damaged Houses North & East		
- Related Parties	8,448	42,260
Saubagya COVID-19 Renaissance Facility (Note 16.1.1)		
- Related Parties	34,612	1,337,217
- Others	38,215	484,532
Saubagya COVID-19 Renaissance Refinance Facility (Note 16.1.2)		
- Related Parties	576,334	11,207,691
- Others	212,185	2,570,533
Saubagya Loan Scheme (Note 16.1.3)		
- Related Parties	12,356,860	10,469,090
- Others	1,455,216	2,087,594
Loans Recognized under Credit Guarantee Scheme of CBSL		
- Related Parties	101,226	86,307
- Others	9,091	-
Domestic Agriculture Development Pilot Phase (DAD-PP) Loan Scheme (Note 16.1.4)		
- Related Parties	508,007	227,305
- Others	114,925	71,130
Liquidity Support Facility to Banks (Note 16.1.5)	32,500,000	-
	<u>47,931,158</u>	<u>28,601,832</u>

- 16.1.1** Saubagya Covid-19 Renaissance Facility : This new credit scheme was introduced by Central Bank under the Section 83 of the Monetary Law Act No.58 of 1949 to support the revival of the economy affected by COVID-19 outbreak, on the condition that Licensed Commercial Banks lend to businesses adversely affected by COVID-19 outbreak.
- 16.1.2** Saubagya Covid-19 Renaissance Refinance Facility : The Central Bank launched this new refinance facility under the Saubagya Loan scheme to revive the Micro, Small and Medium Sector enterprises adversely affected by the COVID-19 outbreak and to promote economic activity in the country.
- 16.1.3** Saubagya Loan Scheme : Regional Development Department introduced Saubagya ('The Prosperity') loan scheme with a view to provide credit facilities for agriculture, livestock, micro, small and medium scale enterprises (MSMEs) and MSMEs affected by disaster in Sri Lanka In terms of section 88A of the Monetary Law Act No.58 of 1949.
- 16.1.4** Domestic Agriculture Development Pilot Phase Loan Scheme (DAD-PP) : Regional Development Department implemented DAD-PP, in terms of section 88A of the Monetary Law Act, to promote inclusive development of the agriculture sector in Sri Lanka by providing affordable financing facilities for the smallholder farmer community along with a range of technical assistance and better market opportunities through well connected value chains.
- 16.1.5** The MB at its meeting 20.12.2022 approved providing a liquidity facility to all Licensed Commercial Banks (LCBs) and National Savings Banks under the Section 83(1) of the MLA, on a case by case basis. Further, this position has been further elaborated under Section 36 of the CBA.

16.2 Movement in Expected Credit Losses on Loans to Banks

	2023				2022			
	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
Balance as at 1 January	6,057	251,565	86,307	343,929	14,435	21,477	13,016	48,928
Charge/ (Reversal) during the year	8,639	(241,108)	24,011	(208,458)	(8,378)	230,088	73,291	295,001
Balance as at 31 December	14,696	10,457	110,318	135,471	6,057	251,565	86,307	343,929

17. OTHER ASSETS

	2023 Rs. 000	2022 Rs. 000
Financial Assets		
Investments by Internal Funds	21,441,883	18,557,124
Less: Expected Credit Loss on Investments by Internal Funds (Note 17.1)	(236)	(405)
Net Investment by Internal Funds	21,441,647	18,556,719
Investments of Schemes operated by RDD	-	-
Less: Expected Credit Loss on Investments of RDD (Note 17.2)	-	-
Staff Loans at Amortized Cost	5,778,336	5,355,855
Receivable from Treasury and Other Ministries	8,698,715	3,540,585
Other Receivables	5,487,471	2,258,723
Less: Expected Credit Loss on Other Receivables (Note 17.3)	(2,226,887)	(2,226,887)
	17,737,635	8,928,276
	39,179,282	27,484,994
Non Financial Assets		
Deffered Asset on Staff Loan	3,005,439	2,697,566
	42,184,721	30,182,560

17.1 Movement in Expected Credit Loss on Investments by Internal Funds

	2023			2022		
	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	86	319	405	39	241	280
Charge/ (Reversal) during the Year	(23)	(146)	(170)	47	78	125
Balance as at 31 December	63	173	235	86	319	405

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

	2023	2022
	Stage 1 Rs. 000	Stage 1 Rs. 000
Balance as at 1 January	-	150
Charge during the year	-	(150)
Balance as at 31 December	-	-

17.3 Movement in Expected Credit Losses on Other Receivables

	2023	2022
	Stage 3 Rs. 000	Stage 3 Rs. 000
Balance as at 1 January	2,226,887	2,226,887
Charge during the year	-	-
Transferred from schemes operated by RDD	-	-
Balance as at 31 December	2,226,887	2,226,887

18. GOLD

Section 40 (2) of the CBA which specifies the management of the international reserves states that gold including credit balances representing such gold may be held by the CBSL as part of the international reserves.

19. INVENTORIES

	2023 Rs. 000	2022 Rs. 000
Notes for Circulation	3,433,564	2,485,880
Coins for Circulation	1,657,594	2,074,163
Notes in Transit from the Supplier	239,803	144,188
Cost Adjustments	3,344	-
	5,334,305	4,704,231
Less: Provision for Slow Moving Items	(415)	(2,446)
	5,333,890	4,701,785
Stationery and Sundry Inventory	99,948	86,622
Total Inventories	5,433,838	4,788,407

In 2023, inventories of Rs. 2,108.58 Mn (2022 - Rs. 2,339.65 Mn) were recognized as an expense during the year and included in "Cost of Inventory (Cost of New Currency Issue)" in the Income Statement.

20. PROPERTY, PLANT AND EQUIPMENT

Cost/Valuation	Land and Buildings	Plant & Plant Integrals	Furniture & Equipment	Vehicles	Computers	Right-of-use Assets	Others	Construction In progress	2023 Total	2022 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	18,176,536	1,629,425	1,611,293	611,793	1,149,356	69,049	57,703	193,083	23,498,238	23,218,062
Additions during the Year	-	9,119	141,422	-	351,755	9,378	33	237,369	749,076	465,348
Disposals during the Year	-	-	(3,523)	-	(39,043)	-	-	-	(42,566)	(7,477)
Transfers during the Year	-	-	-	-	-	-	-	(327,335)	(327,335)	(177,699)
Transfer of accumulated depreciation on revalued assets	(657,379)	-	-	-	-	-	-	-	(657,379)	-
Revaluation gain during the year	4,760,946	-	-	-	-	-	-	-	4,760,946	-
Remeasurement of Right of Use Asset	-	-	-	-	-	(21,728)	-	-	(21,728)	-
As at 31 December	22,280,103	1,638,544	1,749,192	611,793	1,462,068	56,699	57,736	103,117	27,959,252	23,498,234
Accumulated Depreciation										
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
As at 1 January	438,228	1,219,435	1,210,502	494,359	1,045,251	15,355	39,826	-	4,462,956	3,982,068
Depreciation for the Year	219,150	30,062	99,115	30,973	86,184	7,172	191	-	472,847	488,051
Disposals during the Year	-	-	(3,487)	-	(38,942)	-	-	-	(42,429)	(7,163)
Transfer of Accumulated Depreciation on revalued assets	(657,378)	-	-	-	-	-	-	-	(657,378)	-
As at 31 December	-	1,249,497	1,306,130	525,332	1,092,493	22,527	40,017	-	4,235,997	4,462,956
Net Book Value	22,280,105	389,047	443,062	86,461	369,575	34,172	17,719	103,117	23,723,255	19,035,278

The carrying values of Land and Buildings are recorded at fair value. The latest independent valuation was performed as at 31 December 2023 by Mr. A. A. M. Fathihu, Chartered Valuer, which was recorded as at 31 December 2023.

During the financial year, the Bank has acquired property, plant and equipment by means of cash with an aggregated cost of Rs.412.36 Mn (2022 - Rs. 617.28 Mn).

The value of the fully depreciated assets which are still in use as at 31 December 2023 was Rs. 3,399.34 Mn. (2022 - Rs. 2,939.00 Mn).

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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 2023 (Rs. 000)
Land & Building								
Head Office - Colombo 01	A. A. M. Fathihu	Market Approach & Cost Approach	21,000,000	14,000-23,500	-	-	-	12,914,256
Whiteaways Building - Colombo 01	-do-	Market Approach & Income Approach	18,500,000	-	7,596,000	40%	16.66	876,986
Central Point Building - Colombo 01	-do-	Market Approach & Income Approach	21,000,000	-	10,800,000	40%	16.66	1,196,644
Centre for Banking Studies - Rajagiriya	-do-	Market Approach & Cost Approach	5,000,000	4,000 - 15,000	-	-	-	3,507,578
Bank House - Colombo 07	-do-	Market Approach & Cost Approach	12,000,000	5,000 - 13,500	-	-	-	2,047,831
Regional Office - Matara	-do-	Market Approach & Cost Approach	2,250,000 - 4,500,000	5,000 - 12,000	-	-	-	445,062
Regional Office - Matale	-do-	Market Approach & Cost Approach	200,000 - 1,000,000	4,000 - 12,000	-	-	-	308,500
Holiday Home - Nuwara Eliya	-do-	Market Approach & Cost Approach	2,000,000	6,000 - 18,000	-	-	-	446,400
Holiday Home - Kataragama	-do-	Market Approach & Cost Approach	400,000	5,000 - 15,500	-	-	-	272,891
Building on Leasehold Land								
Regional Office - Anuradhapura	A. A. M. Fathihu	Cost Approach	-	5,800 - 12,500	-	-	-	53,625
Holiday Home - Anuradhapura	-do-	Cost Approach	-	9,050	-	-	-	18,953
Regional Office - Kilinochchi	-do-	Cost Approach	-	2,500 - 10,500	-	-	-	135,850
Holiday Home - Somawathiya	-do-	Cost Approach	-	15,900 - 16,000	-	-	-	55,529

Composition of Land and Buildings

	Carrying Value 2023 Rs. 000	Carrying Value 2022 Rs. 000
Freehold Land	14,197,619	10,855,725
Buildings on Freehold Land	7,874,058	6,593,850
Buildings on Leasehold Land	208,429	288,733
	22,280,105	17,738,308

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. 6,991.47 Mn (2022 - Rs. 7,133.73 Mn).

21. INTANGIBLE ASSETS

	2023			2022
	Intangible Assets Rs. 000	Intangible Assets - WIP Rs. 000	Total Rs. 000	Rs. 000
Computer Software:				
Cost:				
As at 1 January	1,962,918	197,500	2,160,418	1,564,916
Additions during the Year	6,557	23,434	29,991	1,209,009
Transfers during the Year	-	(6,000)	(6,000)	(613,507)
As at 31 December	1,969,475	214,934	2,184,409	2,160,418
Amortization:				
As at 1 January	1,252,281	-	1,252,281	1,003,284
Amortization Charge for the Year	242,245	-	242,245	248,997
As at 31 December	1,494,526	-	1,494,526	1,252,281
Net Book Value:				
As at 31 December	474,949	214,934	689,883	908,137

The Bank has acquired intangible assets by means of cash with an aggregated cost of Rs. 23.99 Mn during the year (2022 - Rs. 879.38 Mn).

The value of fully amortized intangible assets which are still in use as at 31 December 2023 was Rs. 1,004.92 Mn. (2022 - Rs. 982.69 Mn).

22. BANKS AND FINANCIAL INSTITUTIONS

	2023 Rs. 000	2022 Rs. 000
Payable to Foreign Banks	53,459,271	146,381,827
Payable to other Foreign Financial Institutions	654,521	26,201
	<u>54,113,792</u>	<u>146,408,028</u>

23. ASIAN CLEARING UNION

	2023 Rs. 000	2022 Rs. 000
ACU Liability	-	731,375,677
Interest Accrual	-	4,882,452
	<u>-</u>	<u>736,258,129</u>

The Asian Clearing Union (ACU) was established in 1974 at the initiative of the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP). The ACU was established as a mechanism to settle, on a multilateral net basis, the payments for intra-regional transactions, among Central Banks of participant countries. The participants of the ACU are Sri Lanka, Bangladesh, Bhutan, India, Iran, Maldives, Myanmar, Nepal and Pakistan. The net settlement position (net position and accrued interest) of each ACU participant is settled at the end of each two-months settlement period. Interest is calculated on the daily outstanding balance and shall be credited or debited to the participants' accounts at the end of each settlement period. The settlement takes place within four working days of the following month. The applicable interest rate varied between 4.32% and 5.35% during the year 2023, in comparison to a range of 0.10% to 4.09% in 2022.

The Central Bank of Sri Lanka (CBSL) and the Reserve Bank of India (RBI) entered into a Special Swap Agreement in October 2023, combining outstanding amounts under the SAARCFINANCE Bilateral Currency Swap Framework (US dollars 0.4 billion) and deferred settlement of Asian Clearing Union (ACU) liabilities (US dollars 2.2 billion) amounting to a total outstanding liability of US dollars 2.6 billion. The position of this Special Swap facility as at 31.12.2023 is explained under notes 25 & 25.6.

24. INTERNATIONAL MONETARY FUND

	2023 Rs. 000	2022 Rs. 000
Interest bearing Loans (Note 24.1)	292,928,957	385,639,212
Allocation of Special Drawing Rights (Note 24.2)	416,183,699	459,264,653
Quota Liability (Note 24.3)	117,593,131	129,765,698
Other Amounts Payable to IMF (Note 24.4)	140,619,425	153,255,529
	<u>967,325,212</u>	<u>1,127,925,092</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 comprises of the basic rate of charge, which is equivalent to the SDR interest rate (as of 31st December 2023, rate stands at 4.103 per cent per annum) plus 100 basis points.

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IMF Executive Board approved EFF arrangement on 20th March, 2023 amounting to SDR 2.3 billion (USD 3 bn) for direct budget financing of Sri Lanka. As per the Memorandum of Understanding (MOU) signed between Central Bank of Sri Lanka and Ministry of Finance (MoF), servicing of the obligations to the IMF that relates to the direct budget financing is fulfilled without a financial burden to the CBSL, thus not recorded in the CBSL Balance sheet. Repurchases and all costs and charges related to the financial assistance under the EFF, including interest and other charges are the responsibility of the Government of Sri Lanka and to be paid by the MoF on its behalf.

Two loan tranches have been received under EFF arrangement from IMF in the year of 2023. First loan tranche of SDR 254 million was received on 22nd March, 2023. Total USD equivalent amounting to USD 331,626,865.25 was transferred to DST's dollar account and the second loan tranche of SDR 254 mn was received on 14th December 2023 and transferred equivalent USD 337,800,661.18 to DST's dollar account.

The promissory notes signed by the Secretary, MoF have been issued in favor of IMF, when receiving each loan tranche from IMF. In accordance with the MOU, two promissory notes issued in March, 2023 and December 2023 are kept in the safe custody of the CBSL.

	Effective SDR interest rate as at 31.12.2023 %	Maturity	2023 Rs. 000	2022 Rs. 000
Extended Fund Facility	5.103	2029	292,928,957	385,639,212
Total Interest bearing Loans			292,928,957	385,639,212

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

	2023 Rs. 000	2022 Rs. 000
DST - PRP III under Escrow Agreement (Note 25.1)	-	179
DST - PRP III Phase II under Escrow Agreement (Note 25.2)	-	30,071
DST Special Dollar A/C 2 (Note 25.3)	248,714,938	991,218
Amount due to Bangladesh Bank (BB) under swap facility (Note 25.4)	-	73,060,873
Amount due to People's Bank of China (PBoC) under swap facility (Note 25.5)	459,955,000	520,231,000
RBI Special SWAP (Note 25.6)	800,490,754	-
Other Foreign Liabilities	95,080	70,110
	1,509,255,772	594,383,451

25.1 Priority Road Project III under Escrow Agreement

This Facility Agreement was signed between the China Development Bank (CDB) and the Government of Sri Lanka on 11 March 2014 for USD 300.00 Mn. The purpose of this loan is to finance the cost of improvement and rehabilitation of Priority Road Project III-Phase I. As per the Facility Agreement, the Bank has been appointed as the

Banker to the Government of Sri Lanka. Accordingly, an account has been opened in its books of account for the sole purpose of depositing the loan and disbursing such received funds to the Road Project. During the year 2019, USD 19.13 Mn was disbursed. Several disbursements were made using these funds during 2020 resulting only USD 0.0004 Mn as the balance at 31 December 2020. There was no transaction during 2021 and 2022. Thus, the balance remains as USD 0.0004Mn as at 31 December 2022. In March 2023, the remained balance of USD 0.0004 Mn was refunded to CDB and thus, the balance is null as at 31 December 2023.

25.2 Priority Road Project III Phase II under Escrow Agreement

The Phase II of this agreement was received on 24 November 2014 for USD 100.00 Mn. During the year 2019, USD 20.24 Mn was disbursed. The disbursements amounting to USD 13.83 Mn were made during 2020. There was no disbursements during 2021 and 2022. The balance as at 31 December 2022 is only USD 0.082 Mn. In March 2023, the remained balance of USD 0.082 Mn was refunded to CDB and thus, the balance is null as at 31 December 2023.

25.3 DST Special Dollar A/C 2

This is a dollar account maintained on behalf of the Treasury Operations Department in order to credit the proceeds received on behalf of Treasury in USD. During the year 2023, two tranches of EFF loan were received from IMF for budget financing of Sri Lanka. Accordingly, USD 331.63Mn and USD 337.80Mn were credited corresponding to 1st and 2nd tranche of EFF loan respectively in the year of 2023. In addition, during the year 2023, miscellaneous US dollar receipts to treasury from various foreign and local organizations and interest income on investments made on these funds have been credited and utilized for repayment of loans and other disbursements on behalf of Government. The balance as at 31 December 2023 is USD 767.82 Mn.

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

The CBSL and the BB entered into a BCSA and a subsequent Addendum to the same in August 2021 and May 2022, & February 2023 for a total amount of USD 200 million that was received in three tranches during August/September 2021, in exchange of an equivalent amount of LKR, for a period of three months which was rolled over seven times thereafter for similar tenors.

Accordingly, this swap facility matured in August/ September 2023, and the CBSL made necessary arrangements to settle the swap facility in full during August/ September 2023.

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

Under the BCSA between the CBSL and the PBoC entered into in March 2021, CNY 10 billion (equivalent to approximately USD 1.4 Bn) was received from the PBoC in exchange of an equivalent amount of LKR for a period of one year in December 2021 and the CNY swap proceeds can be utilized for restricted use (Note 8.1).

Outstanding balance as of 31 December 2023 represents the CNY 10 billion swap rolled-over for the second time in December 2023 for another period of one year, and this facility is expected to mature in December 2024.

25.6 Amount due to the Reserve Bank of India under Special Swap Agreement signed between the RBI and the CBSL

As explained under note 23, CBSL and RBI entered into a Special Swap Agreement in October 2023. CBSL commenced monthly repayments with due interests from the latter part of 2023 and it is expected to settle this liability in full within three years.

26. DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS

These are the deposits maintained by LCBs for the purpose of meeting Statutory Reserve Requirement under section 32 of CBA and deposits maintained by LCBs, Primary Dealers and the Employees' 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 CBA. 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.

	2023 Rs. 000	2022 Rs. 000
Deposits by Banks :		
- Related Parties	93,734,580	240,719,873
- Others	36,014,842	70,817,929
	<u>129,749,422</u>	<u>311,537,802</u>
Deposits by Financial Institutions :		
- Related Parties	233	216
- Others	12,722,927	11,508,163
	<u>12,723,160</u>	<u>11,508,379</u>
Total Deposits by Banks and Other Financial Institutions	<u>142,472,582</u>	<u>323,046,181</u>

27. DEPOSITS OF GOVERNMENT AND GOVERNMENTAL ENTITIES

	2023 Rs. 000	2022 Rs. 000
Government Deposits	1,694,698	160,513
Government Agencies and Funds	378,592	60,898
	<u>2,073,290</u>	<u>221,411</u>

These are the deposits maintained in terms of Section 81 & 82 of CBA since the Bank is the official depository of the Government and/ or government agencies or institutions.

28. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS & STANDING DEPOSIT FACILITY

	2023 Rs. 000	2022 Rs. 000
Standing Deposit Facility	227,035,873	330,637,059
	<u>227,035,873</u>	<u>330,637,059</u>

Repurchase agreements are undertaken for Open Market Operations (OMO) to manage liquidity in the money market under Section 31 of Central Bank 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 strategies of the Bank, decided from time to time. There was no outstanding balance of Sri Lanka Government Securities sold under repurchase agreements as at 31 December 2023 (2022 – Nil).

Standing Deposit Facility (SDF) is also undertaken for OMO to manage liquidity in the money market. This facility is available to deposit participant's excess liquidity on an overnight basis. 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	2023 Rs. 000	2022 Rs. 000
Coins:		
1 cent	3,631	3,631
2 cent	5,709	5,709
5 cent	23,267	23,267
10 cent	39,236	39,236
25 cent	122,475	122,475
50 cent	185,093	185,097
1 rupee	1,073,741	1,054,291
2 rupee	1,657,217	1,633,948
5 rupee	5,477,594	5,373,467
10 rupee	8,709,257	8,278,530
20 rupee	149,841	149,777
Commemorative coins	609,633	604,099
	<u>18,056,694</u>	<u>17,473,527</u>

Notes:		
1 rupee	4,981	4,981
2 rupee	26,694	26,694
5 rupee	37,190	37,191
10 rupee	1,245,351	1,247,314
20 rupee	7,818,764	7,714,028
50 rupee	7,491,942	7,672,840
100 rupee	28,520,217	27,890,398
200 rupee	126,164	126,206
500 rupee	57,752,961	52,838,832
1000 rupee	160,871,342	154,427,683
2000 rupee	2,363,611	2,709,640
5000 rupee	902,187,270	754,397,918
	<u>1,168,446,487</u>	<u>1,009,093,725</u>
Total Currency in Circulation	<u>1,186,503,181</u>	<u>1,026,567,252</u>

30. OTHER PAYABLES

	2023 Rs. 000	2022 Rs. 000
Provision and Charges	895,496	7,910,908
Amounts received from Commercial Banks to Loan Settlements	3,231,613	-
Liability against Abandoned Property Transfers Received (Note 30.1)	20,788,599	15,415,255
Balances of Employee Benefit Plans (Note 30.2)	29,533	12,361
Other Payables (Note 30.3)	4,562,565	44,981,823
	<u>29,507,806</u>	<u>68,320,347</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:

	2023 Rs. 000	2022 Rs. 000
Balances in CBSL Provident fund, Pension schemes and Widows' / Widowers' & Orphans' Pension Schemes	29,533	12,361
	<u>29,533</u>	<u>12,361</u>

31. DEFERRED GRANTS

	2023 Rs. 000	2022 Rs. 000
As at 1 January	1,834	1,178
Additions during the Year	1,404	1,288
Utilization during the year	(735)	-
Amortization during the Year	(28)	(632)
As at 31 December	2,475	1,834

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

This includes a grant received by CBSL from Project Management Unit of SAPP as a grant for 70% of the Software development cost in implementation of New Automation System for SAPP Loan Schemes, three research grants received from the Knowledge Partnership Programme of the Bank of Korea amounting to Rs. 2.85Mn (received in 2020, 2021 & 2023) which will be utilized to cover the cost of local training programme of CBSL staff (during 2023 - Rs. 0.73Mn has been utilized) and Rs. 2.32 Mn received from the United Nations Development Programme which has been utilized for awareness programme on sustainable finance.

32. PENSION AND OTHER POST EMPLOYMENT BENEFIT PLANS

The Bank operates seven defined benefit plans which cover all eligible employees. Under the Employees' Retirement Pension Scheme (old), employees who joined the Bank prior to 1 January 1998 and complete 10 years of service become eligible to the scheme. The employees who have joined the Bank after 1 January 1998 and complete 10 years of service become eligible for the new pension scheme. These Pension Schemes are non-contributory pension schemes where the cost of benefits is wholly borne by the Bank. The Widows' and Orphans' Pension Scheme for male employees and Widowers' and Orphans' Pension Scheme for female employees are open to employees of the Bank who had joined prior to 1 January 1998 whereas the new Widows' and Orphans and Widowers' and Orphans' Pension Scheme is open for employees of the Bank who joined after 1 January 1998. Eligible Employees under the Widows' and Orphans Pension Scheme (old) and Widowers' and Orphans' Pension Scheme (old) plans who were recruited before 1 August 1994 contribute 5% of the monthly basic salary & employees who were recruited on or after 01 August 1994 contribute 10% of the monthly basic salary whereas the eligible employees under the new Widows' and Orphans and Widowers' and Orphans' Pension Scheme contribute 5.5% of the monthly basic salary.

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

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

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

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

The total present value of all benefit obligations of Rs. 75,377.83 Mn (2022 – Rs. 40,853.23 Mn) exceeds the total fair value of plan assets/investments of Rs. 55,571.05 Mn (2022 – Rs. 43,838.73 Mn) at the end of the reporting period resulting in a deficit of Rs. 19,806.78 Mn (2022 – Excess of Rs. 2,985.49 Mn).

As at 31 December 2023								
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' 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	52,618,936	2,964,009	12,463,640	1,310,948	966,603	562,315	4,491,378	75,377,829
Fair Value of Plan Assets/ Investments	(31,615,810)	(7,471,123)	(7,618,333)	(3,238,555)	(1,781,443)	(239,112)	3,606,677	55,571,053
Net Benefit Liability/ (Asset)	21,003,126	(4,507,114)	4,845,307	(1,927,607)	(814,840)	323,203	884,701	19,806,776

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).

	2023 Rs. 000	2022 Rs. 000
Employee Retirement Pension Scheme	21,003,126	1,609,738
Employee Retirement Pension Scheme-New	(4,507,114)	(4,147,765)
Widows' and Orphans' Pension Scheme	4,845,307	1,018,938
Widows' and Orphans' and Widowers' and Orphans' Pension Scheme - New*	-	(455,747)
Gratuity Scheme (Gross)	562,315	316,311
Medical Benefit Scheme (Gross)	4,491,378	3,430,954
	26,395,012	1,772,429

*Rs. 455.75 bn adjusted to other comprehensive income in year 2023 as actuarial valuation adjustment.

Movement in the Benefit Liability/(Asset)	Employee Retirement Pension Scheme	Employee Retirement Pension Scheme - New	Widows' and Orphans' Pension Scheme	Widowers' and Orphans' Pension Scheme	Widows' and Orphans' and Widowers' Pension Scheme - New	Gratuity Scheme	Medical Benefit Scheme	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
As at 1 January 2023	1,609,738	(4,147,766)	1,018,938	(1,382,294)	(844,696)	105,741	654,844	(2,985,495)
Net Benefit Expense/(Income)	305,850	(767,483)	159,280	(268,352)	(258,672)	42,575	139,566	(647,236)
Amount recognized in Other Comprehensive Income	19,317,266	908,895	3,667,089	(276,961)	288,528	174,887	90,291	24,169,995
Contribution Paid	(229,728)	(500,761)	-	-	-	-	-	(730,489)
As at 31 December 2023	21,003,126	(4,507,115)	4,845,307	(1,927,607)	(814,840)	323,203	884,701	19,806,775

Movement in the Present Value of Projected Benefit Obligations	Employee Retirement Pension Scheme	Employee Retirement Pension Scheme - New	Widows' and Orphans' Pension Scheme	Widowers' and Orphans' Pension Scheme	Widows' and Orphans' and Widowers' Pension Scheme - New	Gratuity Scheme	Medical Benefit Scheme	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
As at 1 January 2023	28,743,485	742,361	6,594,557	769,222	256,344	316,311	3,430,954	40,853,234
Interest Cost	5,461,262	141,049	1,252,966	146,152	48,705	60,099	651,881	7,762,114
Current Service Cost	-	20,592	-	-	-	22,484	49,063	92,139
Benefit Paid From the Fund	(4,117,977)	(24,216)	(949,036)	(69,192)	(1,102)	(77,904)	(511,274)	(5,750,701)
Actuarial Gains on Obligations	22,532,166	2,084,223	5,565,153	464,766	662,656	241,325	870,754	32,421,043
As at 31 December 2023	52,618,936	2,964,009	12,463,640	1,310,948	966,603	562,315	4,491,378	75,377,829

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Movement in Fair Value of Plan Assets/Investments	Employee Retirement Pension Scheme	Employee Retirement Pension Scheme - New	Widows' and Orphans' Pension Scheme	Widowers' and Orphans' Pension Scheme	Widows' and Orphans' and Widowers' Pension Scheme - New	Gratuity Scheme	Medical Benefit Scheme	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
As at 1 January 2023	27,133,747	4,890,127	5,575,619	2,151,516	1,101,040	210,570	2,776,110	43,838,729
Interest Income	5,155,412	929,124	1,059,368	408,788	209,198	40,008	527,461	8,329,359
Contributions by the Employer	229,728	500,761	-	-	-	-	-	730,489
Contributions by the Employees	-	-	34,318	5,716	98,179	-	33,917	172,130
Benefit Paid from the Fund	(4,117,977)	(24,216)	(949,036)	(69,192)	(1,102)	(77,904)	(511,274)	(5,750,701)
Return on Plan Assets/Investments excluding Interest Income	3,214,900	1,175,328	1,898,064	741,727	374,128	66,438	780,463	8,251,048
As at 31 December 2023	31,615,810	7,471,124	7,618,333	3,238,555	1,781,443	239,112	3,606,677	55,571,054
Expenses/(Income) Recognised in Other Comprehensive Income (OCI) for the Year Ended 31 December 2023	Employee Retirement Pension Scheme	Employee Retirement Pension Scheme - New	Widows' and Orphans' Pension Scheme	Widowers' and Orphans' Pension Scheme	Widows' and Orphans' and Widowers' Pension Scheme - New	Gratuity Scheme	Medical Benefit Scheme	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Actuarial (Gains)/Losses on Obligations for the Year								
Due to Change in Financial Assumptions	23,834,427	2,076,957	5,697,363	719,047	708,123	241,566	1,369,209	34,646,692
Due to Experience	(1,302,261)	7,266	(132,210)	(254,281)	(45,467)	(241)	(498,455)	(2,225,649)
Return on Plan Assets/Investments excluding Interest Income	(3,214,900)	(1,175,328)	(1,898,064)	(741,727)	(374,128)	(66,438)	(780,463)	(8,251,048)
Net (Income)/Expense for the Year Recognized in OCI	19,317,266	908,895	3,667,089	(276,961)	288,528	174,887	90,291	24,169,995
Benefit Expense for the Year Ended 31 December 2023	Employee Retirement Pension Scheme	Employee Retirement Pension Scheme-New	Widows' and Orphans' Pension Scheme	Widowers' and Orphans' Pension Scheme	Widows' and Orphans' and Widowers' Pension Scheme - New	Gratuity Scheme	Medical Benefit Scheme	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Interest Cost on Benefit Obligation	5,461,262	141,049	1,252,966	146,152	48,705	60,099	651,881	7,762,114
Interest Income on Plan Assets/Investments	(5,155,412)	(929,124)	(1,059,368)	(408,788)	(209,198)	(40,008)	(527,461)	(8,329,359)
Current Service Cost	-	20,592	-	-	-	22,484	49,063	92,139
Contributions by the Employees	-	-	(34,318)	(5,716)	(98,179)	-	(33,917)	(172,130)
Benefit Expense/(Income)	305,850	(767,483)	159,280	(268,352)	(258,672)	42,575	139,566	(647,236)
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' 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	30,555,775	7,218,808	7,485,779	3,045,981	1,751,938	233,868	3,469,118	53,761,267
Investment in Reverse Repo	495,113	31,143	83,296	136,060	9,102	-	59,935	814,649
Investment in Debentures	561,664	217,706	46,234	52,506	17,431	5,244	77,624	978,409
Investment in Fixed Deposits	-	-	-	-	-	-	-	-
Balances Remaining in Current Accounts	3,258	3,467	3,024	4,008	2,971	-	-	16,729
Total Plan Assets/Investments as at 31 December 2023	31,615,810	7,471,124	7,618,333	3,238,555	1,781,442	239,112	3,606,677	55,571,054

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

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Benefit Expense for the Year Ended 31 December 2022	Employee Retirement Pension Scheme	Employee Retirement Pension Scheme-New	Widows' and Orphans' Pension Scheme	Widowers' and Orphans' Pension Scheme	Widows' and Orphans' and Widowers' and Orphans' Pension Scheme - New	Gratuity Scheme	Medical Benefit Scheme	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Interest Cost on Benefit Obligation	5,507,360	237,051	1,175,513	178,029	92,772	43,920	440,487	7,675,132
Interest Income on Plan Assets/Investments	(3,753,901)	(652,658)	(868,734)	(310,926)	(145,547)	(37,672)	(406,687)	(6,176,125)
Current Service Cost	-	79,596	-	-	-	29,075	63,979	172,650
Past Service Cost	-	-	-	-	-	-	1,040,563	1,040,563
Contributions by the Employees	-	-	(48,623)	(13,892)	(122,463)	-	(7,293)	(192,271)
Benefit Expense / (Income)	1,753,459	(336,011)	258,156	(146,789)	(175,238)	35,323	1,131,049	2,519,949

Composition of the Plan Assets/Investments	Employee Retirement Pension Scheme	Employee Retirement Pension Scheme-New	Widows' and Orphans' Pension Scheme	Widowers' and Orphans' Pension Scheme	Widows' and Orphans' and Widowers' and Orphans' Pension Scheme - New	Gratuity Scheme	Medical Benefit Scheme	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Investment in Government Securities	25,156,360	4,598,490	5,063,782	1,955,169	1,072,593	196,145	2,658,415	40,700,954
Investment in Reverse Repo	112,927	42,808	33,002	2,015	9,225	9,252	43,525	252,754
Investment in Debentures	817,628	222,411	342,261	58,157	17,361	5,173	74,170	1,537,161
Investment in Fixed Deposits	1,043,051	24,187	134,333	134,847	968	-	-	1,337,386
Balances Remaining in Current Accounts	3,781	2,231	2,241	1,328	893	-	-	10,474
Total Plan Assets/Investments as at 31 December 2022	27,133,747	4,890,127	5,575,619	2,151,516	1,101,040	210,570	2,776,110	43,838,729

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

	2023	2022
Discount Rate	12.60%	19.00%
Expected Rate of Return on Assets	12.60%	19.00%
Rate of Salary Increases - Gratuity and Old Pension Schemes	7% - 17.98%	7.00%
Rate of Salary Increase - Pension New	6.50%	6.50%
Future Pension Increases - Old Pension Scheme	6% - 16.00%	6.00%
Future Pension Increases - New Pension Scheme	2.5% - 12.50%	2.50%
Attrition Rate	2.00%	2.00%
Medical Cost Inflation Rate	4.00%	4.50%
Average Remaining years of Service		
CBSL Pension	26 Years	26 Years
CBSL Pension - New	38 Years	39 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	39 Years
Gratuity Scheme	17 Years	17 Years
CBSL Medical Benefit Scheme	27 Years	27 Years
Retirement Age	60 Years	60 Years

Sensitivity Analysis at 0.5% (As at 31 December 2023)	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	52,618,936	2,964,009	12,463,640	1,310,948	966,603	562,315	4,491,378
Effect of "+" change in discount rate	(1,810,742)	(254,862)	(456,757)	(63,684)	(100,615)	(16,814)	(165,170)
Effect of "-" change in discount rate	1,932,210	286,405	490,367	68,908	116,062	17,775	178,470
Effect of "+" change in attrition rate	-	-	-	-	-	116,333	-
Effect of "-" change in attrition rate	-	-	-	-	-	(125,769)	-
Effect of "+" change in salary escalation rate	-	-	-	-	59,664	18,581	-
Effect of "-" change in salary escalation rate	-	-	-	-	(55,192)	(17,688)	-

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.

	2023 Rs. 000	2022 Rs. 000
Lease Liability (Note 33.1.4)	24,602	60,142
Provision for Credit Guarantees (Note 33.2)	31,293	220,347
Other Liabilities	570,415	574,554
	626,310	855,043

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

	2023 Rs. 000	2022 Rs. 000
Interest on lease liability	5,908	6,030
Amortisation of right-of-use assets	7,172	7,161

33.1.3 Amounts Recognised in the Statement of Cash Flows

	2023 Rs. 000	2022 Rs. 000
Total cash outflow for leases	6,418	7,032

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33.1.4 Lease Liability

	2023 Rs. 000	2022 Rs. 000
Balance as at 1 January	60,142	61,144
Additions during the year	9,378	-
Remeasurement during the year	(44,408)	-
Interest charges during the year	5,908	6,030
Lease payments during the year	(6,418)	(7,032)
Balance as at 31 December	24,602	60,142

33.1.5 Maturity Analysis of Lease Liability

	2023 Rs. 000	2022 Rs. 000
Non-current	19,182	57,642
Current	5,420	2,500
Balance as at 31 December	24,602	60,142

33.1.6 Maturity Analysis based on Contractual Undiscounted Cash Flows

	2023 Rs. 000	2022 Rs. 000
Less than one year	7,861	8,303
One to five years	11,379	23,198
More than five years	35,235	119,492
Total undiscounted lease liabilities	54,475	150,993

33.2 Provision for Credit Guarantees

	2023 Rs. 000	2022 Rs. 000
Deferred Income on Credit Guarantee Schemes operated by RDD	-	1,023
Expected Credit Loss on Credit Guarantees (Note 33.2.1)	31,293	219,324
Balance as at 31 December	31,293	220,347

33.2.1 Movement in Expected Credit Losses on Credit Guarantees

	2023 Stage 1 Rs. 000	2022 Stage 1 Rs. 000
Balance as at 1 January	219,324	1,011,732
Reversal during the Year	(188,031)	(792,408)
Balance as at 31 December	31,293	219,324

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. In terms of CBA, section 4 applies to capital of CBSL.

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 94 (3) & 95 of the Central Bank 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, on proposed amendments to the Profit Distribution Policy of the Bank, where Monetary Board deems necessary, transfer may be made from the MRR to Retained Earnings, in the case of negative Retained Earnings due to significant unrealized marked to market losses.

Considering the marked to market gains recorded in 2021, an amount of Rs. 49.64 Bn was transferred to MRR from Retained Earnings in 2022 as per the Monetary Board decision dated 24 February 2022. With the enactment of CBA, sections 94 & 95 applies to MRR.

- 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 Monetary Board decision.
- 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 Scripless Securities Settlement system. During March 2018, an additional Rs.2.00 Bn was transferred from 2017 profits to this reserve.
- viii) **Special Credit Guarantee Scheme Reserve** - This reserve was set up in the year 2014 by transferring Rs.2.00 Bn from Medium and Long Term Credit Fund, of which Rs.1.00 Bn is allocated to support restructure of Saubaghya Loan Scheme, Awakening North Loan Scheme (phase II), Resumption of Economic Activities in the East (phase II) and Repair of Damaged Houses in North and East operated by Regional Development Department of the Bank. The balance of Rs.1.00 Bn is allocated to implement a special credit guarantee scheme to support lending to Small and Medium Enterprises by Commercial Banks.
- ix) **Reserve for Funding purpose of Post Employment Benefit Plans** - As per Monetary Board decision dated 16.12.2016, it is proposed to allocate 50 per cent of the benefit expenses of the actuary of a given year (starting from 2016) to a separate reserve, if there are adequate distributable profits with a view to compensate the possible negative impact to the equity attributed to actuarial losses and benefit expenses. An allocation of Rs.1,051.04 Mn was made to this fund in February 2022, from the distributable profits of year 2021.
- x) **Medium and Long Term Credit Reserve** - In accordance with the Monetary Board decisions dated 15 April 2020 and dated 11 June 2020, Rs. 15.46 Bn from the General Reserve and the Building Reserve, Rs. 1.96 Bn from the Special Credit Guarantee Scheme Reserve, Rs. 3.00 Bn from the Technical Advancement Reserve and Rs. 4.33 Bn from the Reserve for Funding Purposes of Post Employment Benefit Plans was transferred during 2020 to the Medium and Long Term Credit Reserve to support the refinance lending programs initiated by the Bank to overcome the effects of COVID 19 Pandemic.

Further, based on the RDD net asset incorporation performed on 31st December 2021 in accordance with the Monetary Board decision dated 24 February 2022, the net impact of such absorption for a value of Rs.15.00 Bn was subsequently transferred to this reserve from the distributable profit of year 2021.

The movements in the other reserves are as follows:

	Medium and Long Term Credit Reserve	Market Revaluation Reserve	Other Reserves	Special Credit Guarantee Scheme Reserve	RTGS Sinking Fund	Fixed Asset Revaluation Reserve	IRR	Net Fair value Gain/ (Loss) on FVOCI Securities	Pension Fund Reserve	Reserve for Funding Purposes of Post Employment Plans	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Balance as at 1 January 2023	44,577,739	136,676,102	31,527,302	40,000	3,678,072	11,902,670	(428,113,261)	3,971,781	2,000,000	2,554,624	(191,184,970)
Transfer to RTGS Sinking Fund	-	-	-	-	512,228	-	-	-	-	-	512,228
Transfer of distributable Profits of year 2022 to Surplus Reserve	-	-	235,034,628	-	-	-	-	-	-	-	235,034,628
Transfer of Net Foreign Exchange Revaluation Gain/ (Loss)	-	-	-	-	-	-	140,077,201	-	-	-	140,077,201
Net Fair Value Loss on Securities at Fair Value through Other Comprehensive Income	-	-	-	-	-	-	-	1,266,198	-	-	1,266,198
Market Valuation Reserve - Government Securities Classified at Fair Value through Other Comprehensive Income	-	-	-	-	-	-	-	61,897,210	-	-	61,897,210
Incremental adjustment on ECL of FVOCI Instruments	-	-	-	-	-	-	-	65,529	-	-	65,529
Gain on Revaluation of Property, Plant and Equipment	-	-	-	-	-	4,752,685	-	-	-	-	4,752,685
Market Valuation Reserve - Equity Investments Classified at Fair Value through Other Comprehensive Income	-	-	-	-	-	-	-	352,408	-	-	352,408
Balance as at 31 December 2023	<u>44,577,739</u>	<u>136,676,102</u>	<u>266,561,930</u>	<u>40,000</u>	<u>4,190,300</u>	<u>16,655,355</u>	<u>(288,036,060)</u>	<u>67,553,126</u>	<u>2,000,000</u>	<u>2,554,624</u>	<u>252,773,117</u>

35. PROFIT DISTRIBUTION

- i. In terms of Section 95 of CBA, the following adjustments are made to the net profit/ (loss) for the year to arrive at distributable profit.
- The earnings available for distribution shall be determined by deducting from the net profits after tax the total amount of unrealized revaluation gains arising from price revaluations and unrealized revaluation gains and losses arising from exchange rates, and by allocating an equivalent amount to the respective unrealized revaluation reserve accounts.
 - Exchange revaluation losses shall be transferred to the respective unrealized revaluation reserve account until such revaluation reserve account has a zero balance, after which the losses shall be covered by the retained earnings.
- ii. Any other adjustment arising from Sec. 96 of CBA.
- Further, any other adjustment as required by accounting standards and management decisions are adjusted in arriving at the distributable profit.
- Based on the above adjustments, the distributable profit for the year ended 31st December 2023 is as follows,

Item	2023 Rs. 000
Part I - Calculation of Distributable Profit/ (Loss)	
Accounting Profit/(Loss)	(114,430,814)
Less:	
a). Transfer of exchange gain to International Revaluation Reserve (IRR) as per section 94.3 & 95.2 (a)	140,077,201
b). Transfer of "marked to market" gain on foreign assets to Market Revaluation Reserve (MRR) as per section 94.3 & 95.2 (a)	33,746,758
c). Transfer of interest income on internal Funds to respective Funds	857,637
Charged against Retained Earnings - OCI (As per IAS 19 - Employee Benefits)	<u>24,625,742</u>
Distributable Profit/(Loss) as per new CBA	<u>(313,738,153)</u>

Due to the no profits available for distribution in 2023, no transfers are made to the reserves, no recovery of government obligations of Rs. 7.4 bn and no transfer to the Consolidated Fund.

36. INTEREST INCOME FROM FINANCIAL ASSETS

	2023 Rs. 000	2022 Rs. 000
Interest Income from Foreign Currency Financial Assets		
Cash and Short Term Deposits	14,709,026	1,229,509
Financial Assets	3,322,085	349,787
Total Interest Income from Foreign Currency Financial Assets	18,031,111	1,579,295
Interest Income from Local Currency Financial Assets		
Sri Lanka Government Securities	522,475,608	357,442,399
Securities Purchased under Resale Agreements	51,508,176	117,769,763
Other Loans and Advances	2,743,852	5,661,688
Interest Income on Liquidity Support Facility to Banks	16,749,184	-
Interest Income from Other Assets	2,485,601	1,802,677
Total Interest Income from Local Currency Financial Assets	595,962,421	482,676,527
Total Interest Income from Financial Assets	613,993,532	484,255,823

Total Interest Income calculated using the effective interest method during 2023 was Rs.525,759.07 Mn (2022 - Rs. 357,606.08 Mn).

37. GAIN/(LOSS) FROM UNREALIZED PRICE REVALUATIONS

	2023 Rs. 000	2022 Rs. 000
Gold	1,041,718	(3,106,177)
Forex & Currency SWAPS	28,123,741	(124,179,927)
Total Gain/(Loss) from Unrealized Price Revaluations	29,165,459	(127,286,104)

	2023 Rs. 000	2022 Rs. 000
Derivative Financial Instruments - Assets	5,775,226	401,580
Derivative Financial Instruments - Liabilities	48,947,900	71,697,994
Net Assets / (Liability) Position	(43,172,674)	(71,296,415)

	2023 Rs. 000	2022 Rs. 000
Opening Net Assets/ (Liability) Position	(71,296,415)	52,883,513
Closing Net Assets/ (Liability) Position	(43,172,674)	(71,296,415)
Gain/Loss from Unrealised Price Revaluations - Forex and Currency Swats (Note 37)	28,123,741	(124,179,927)

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38. INTEREST EXPENSES ON FINANCIAL LIABILITIES

	2023 Rs. 000	2022 Rs. 000
Interest Expense on Foreign Currency Financial Liabilities		
Asian Clearing Union	79,303,654	13,109,060
IMF Related Liabilities	32,155,485	14,332,873
Other Foreign Payables	31,056,717	4,851,344
Total Interest Expense on Foreign Currency Financial Liabilities	142,515,856	32,293,277
Interest Expense on Local Currency Financial Liabilities		
Securities Sold Under Repurchase Agreements	-	465,598
Standing Deposit Facility	15,893,789	29,948,163
Abandoned Property	4,480,200	3,072,799
Miscellaneous Interest Expenses	1,436,341	4,133,034
Total Interest Expense on Local Currency Financial Liabilities	21,810,330	37,619,594
Total Interest Expense on Financial Liabilities	164,326,186	69,912,871

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

	2023 Rs. 000	2022 Rs. 000
Foreign Currency Financial Assets		
Financial Assets at Amortized Cost		
Cash & Cash Equivalents (Note 8.2)	(21,168)	(759,464)
IMF Related Assets (Note 11.4)	1	(5)
Securities at Fair Value through Other Comprehensive Income (Note 9.2)	(65,529)	(3,749)
Total Expected Credit Loss Reversal/(Charge) on Foreign Currency Financial Assets	(86,696)	(763,218)
Local Currency Financial Assets		
Financial Assets at Amortised Cost		
Loans to Banks (Note 16.2)	208,458	(295,001)
Investments by Internal Funds (Note 17.1 & 17.2)	170	25
Credit Gurantee Provision (Note 33.2.1)	188,031	792,408
Total Expected Credit Loss Charge on Local Currency Financial Assets	396,659	497,432
Total Expected Credit Loss Reversal/(Charge) on Financial Assets	309,963	(265,786)

40. OTHER INCOME

	2023 Rs. 000	2022 Rs. 000
Dividend Income - Related Party	135,642	138,037
Amortization of Assets received from Grants	28	28
Licensing Fees of Financial Institutions	718,550	673,300
Rent Income	208,276	207,766
Charges collected from RTGS Participants	76,269	71,809
Other income from the RDD net asset incorporation	-	597,118
Miscellaneous Income	438,459	766,160
Net Gains on Revaluation of Property, Plant and Equipment	8,261	-
Total Other Income	1,585,485	2,454,218

40.1 OTHER EXPENSE

	2023 Rs. 000	2022 Rs. 000
Incentives on Inward Foreign Remittances	3,536,359	10,260,110
	<u>3,536,359</u>	<u>10,260,110</u>

With an objective of encouraging more workers' remittances to the country through formal fund transferring channels, the Central Bank of Sri Lanka decided to grant an incentive for Sri Lankans working abroad by reimbursing the transaction cost incurred on account of inward workers' remittances. Accordingly, the total transaction cost reimbursed to all Licensed Banks by CBSL during the year 2023 & 2022 are disclosed under other expense.

41. PERSONNEL EXPENSES

	2023 Rs. 000	2022 Rs. 000
Wages and Salaries	7,253,093	6,691,770
Defined Contribution Plan Costs	(3,949,834)	11,550,422
Post Employee Defined Benefit Plan Costs	891,177	2,091,404
Total Personnel Expenses	<u>4,194,436</u>	<u>20,333,596</u>

42. ADMINISTRATION AND OTHER EXPENSES

	2023 Rs. 000	2021 Rs. 000
Repairs and Maintenance	1,883,442	1,277,530
Operating Expenses for Reuters, Bloomberg, SWIFT etc.	266,933	285,862
Travelling	27,499	48,967
Rental Expenses	375	-
Printing	55,016	61,428
Statutory Audit Fees	9,499	12,338
Remuneration to Members of the Governing Board/Sub Committees	5,750	4,500
Advertising Cost	43,359	50,765
Consultancy, Communication, Advisory and Professional Fees	97,074	220,071
Interest Expense on Lease Liability	5,908	6,030
Miscellaneous Expenses	369,139	(57,110)
Total Administration and Other Expenses	<u>2,763,994</u>	<u>1,910,381</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 amendments as per Inland Revenue (Amendment) Act No. 10 of 2021, Inland Revenue (Amendment) Act No. 45 of 2022 & Inland Revenue (Amendment) Act No. 04 of 2023.

During the year 2023, the Bank did not pay any taxes (2022 - Nil).

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

	2023 Rs. 000	2022 Rs. 000
Reported Profit from Operating Activities	(114,430,814)	(374,320,973)
Add/(Less) : Non-Cash Items		
Depreciation and Amortization	715,321	737,304
Interest Receivable – Local Currency – Investment Portfolio	(573,983,784)	(475,212,162)
Net Provision for Defined Employee Benefit Plans	(7,306,344)	7,810,442
Gross Unrealised Foreign Exchange Gain	(79,363,686)	430,181,826
Loss/ (Profit) on Sale of Property, Plant and Equipment	(1,787)	548
Provisions and Accruals	(34,383,058)	43,215,464
Expected Credit Loss Provision on Financial Assets	(309,962)	265,786
Deferred Grants	641	656
Losses on Revaluation	(8,261)	-
Amortization of PRGF Deposit	(3,671)	(3,953)
Amortization Expense of Fixed Income Securities	(2,051,097)	(9,800)
Other income Net Impact from the RDD net asset incorporation	(1,137)	5,568,805
Disposal Gain/(Loss) of DDO	(6,775,702)	-
DDO Day One Gain/(Loss)	766,413,281	-
Add/(Less) : Movements in Other Working Capital Items		
Decrease in Inventories	(645,431)	140,126
Decrease in Interest Receivable	34,439,321	(33,191,964)
Increase in Miscellaneous Liabilities	(1,634,405)	(6,324,458)
Increase in Interest Payable	811,875	12,431,642
Increase in Other Receivables	(44,434,691)	32,570,689
Add/(Less) : Investing and Financing Activities		
Net Unrealised Market Value Changes	(29,165,459)	127,286,104
Net Cash Flows from Operating Activities	<u>(92,118,853)</u>	<u>(228,853,919)</u>

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

	2023 Rs. 000	2022 Rs. 000
Purchase of Sri Lanka Government Securities	(390,878,737)	1,132,877,429
Interest Received – Local Currency – Sri Lanka Government Securities	(648,857,381)	(367,603,730)
Decrease in Advances to GOSL	109,089,300	85,509,900
(Increase)/Decrease in Balances with Government and Government Entities	(1,851,878)	1,170,890
	<u>(932,498,697)</u>	<u>851,954,489</u>

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

	2023 Rs. 000	2022 Rs. 000
(Increase)/Decrease in Deposits by Banks and Financial Institutions	180,573,600	(22,342,019)
	<u>180,573,600</u>	<u>(22,342,019)</u>

47. CONCENTRATIONS OF FUNDING

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

47.1 Balance as at 31 December 2023	Sri Lanka Government	Sri Lanka Public	Sri Lanka Commercial Banks	Foreign Government	Foreign Banks & Financial Institutions	Supranational Financial Institutions	Other	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Foreign Currency Financial Assets								
Cash and Cash Equivalents	-	-	-	657,775,375	211,612,258	329,591,937	-	1,198,979,570
Securities at Fair Value through Other Comprehensive Income	-	-	-	175,243,644	-	48,163,147	-	223,406,791
Derivative Financial Instruments	-	-	5,775,226	-	-	-	-	5,775,226
IMF Related Assets	-	-	-	-	-	265,339,197	-	265,339,197
Total Foreign Currency Financial Assets	-	-	5,775,226	833,019,019	211,612,258	643,094,281	-	1,693,500,784
Local Currency Financial Assets								
Sri Lanka Government Securities	2,044,347,592	-	-	-	-	-	-	2,044,347,592
Securities Purchased under Resale Agreements	-	-	333,951,940	-	-	-	-	333,951,940
Equity Investments in Financial and Other Institutions	-	-	-	-	-	-	2,169,541	2,169,541
Loans to Banks	-	-	47,795,687	-	-	-	-	47,795,687
Other Assets	29,493,288	-	458,824	-	-	-	12,232,609	42,184,721
Total Local Currency Financial Assets	2,073,840,880	-	382,206,451	-	-	-	14,402,150	2,470,449,481
Total Financial Assets	2,073,840,880	-	387,981,677	833,019,019	211,612,258	643,094,281	14,402,150	4,163,950,265
Foreign Currency Non - Financial Assets								
Gold	-	-	-	10,120,756	-	-	-	10,120,756
	-	-	-	10,120,756	-	-	-	10,120,756
Non - Financial Assets								
Inventories	-	-	-	-	-	-	5,433,838	5,433,838
Other Receivables and Prepayments	-	-	-	-	-	-	1,526,263	1,526,263
Property, Plant and Equipment	-	-	-	-	-	-	23,723,256	23,723,256
Intangible Assets	-	-	-	-	-	-	689,883	689,883
Total Non - Financial Assets	-	-	-	-	-	-	31,373,240	31,373,240
Total Assets	2,073,840,880	-	387,981,677	843,139,775	211,612,258	643,094,281	45,775,390	4,205,444,261
47.2 Balance as at 31 December 2022								
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Foreign Currency Financial Assets								
Cash and Cash Equivalents	-	-	-	647,504,532	643,040	3,540,292	-	651,687,864
Securities at Fair Value through Other Comprehensive Income	-	-	-	9,777,301	-	1,090,124	-	10,867,425
Derivative Financial Instruments	-	-	401,580	-	-	-	-	401,580
IMF Related Assets	-	-	-	-	-	281,421,074	-	281,421,074
Other Receivables	-	-	37,022,631	-	-	-	-	37,022,631
Total Foreign Currency Financial Assets	-	-	37,424,211	657,281,833	643,040	286,051,490	-	981,400,574
Local Currency Financial Assets								
Sri Lanka Government Securities	2,498,995,015	-	-	-	-	-	-	2,498,995,015
Securities Purchased under Resale Agreements	-	-	698,069,219	-	-	-	-	698,069,219
Provisional Advances to Government	235,638,700	-	-	-	-	-	-	235,638,700
Equity Investments in Financial and Other Institutions	-	-	-	-	-	-	1,817,132	1,817,132
Loans to Banks	-	-	28,257,902	-	-	-	-	28,257,902
Other Assets	21,460,386	-	448,729	-	-	-	8,273,445	30,182,560
Total Local Currency Financial Assets	2,756,094,101	-	726,775,850	-	-	-	10,090,577	3,492,960,528
Total Financial Assets	2,756,094,101	-	764,200,061	657,281,833	643,040	286,051,490	10,090,577	4,474,361,102
Foreign Currency Non - Financial Assets								
Gold	-	-	-	10,031,610	-	-	-	10,031,610
	-	-	-	10,031,610	-	-	-	10,031,610
Non-Financial Assets								
Inventories	-	-	-	-	-	-	4,788,407	4,788,407
Other Receivables and Prepayments	-	-	-	-	-	-	1,222,568	1,222,568
Property, Plant and Equipment	-	-	-	-	-	-	19,035,278	19,035,278
Intangible Assets	-	-	-	-	-	-	908,137	908,137
Total Non-Financial Assets	-	-	-	-	-	-	25,954,390	25,954,390
Total Assets	2,756,094,101	-	764,200,061	667,313,443	643,040	286,051,490	36,044,967	4,510,347,102

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47.3 Balance as at 31 December 2023	Sri Lanka Government	Sri Lanka Public	Sri Lanka Commercial Banks	Foreign Government	Foreign Bank and Financial Institution	Supranational Financial Institutions	Other	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Foreign Currency Financial Liabilities								
Banks and Financial Institutions	644,173	-	-	-	53,447,345	-	22,274	54,113,792
Derivative Financial Instruments	-	-	44,366,600	-	-	4,581,300	-	48,947,900
IMF	-	-	-	-	-	967,325,212	-	967,325,212
Other	248,714,938	-	-	1,260,445,754	-	95,080	-	1,509,255,772
Total Foreign Currency Financial Liabilities	249,359,111	-	44,366,600	1,260,445,754	53,447,345	972,001,592	22,274	2,579,642,676
Local Currency Financial Liabilities								
Deposits of Banks and Financial Institutions	-	-	129,749,422	-	-	-	12,723,160	142,472,582
Deposits of Government and Government Entities	2,073,199	91	-	-	-	-	-	2,073,290
Securities Sold Under Repurchase Agreements & Standing Deposit Facility	-	-	209,235,873	-	-	-	17,800,000	227,035,873
Currency in Circulation	-	1,186,503,181	-	-	-	-	-	1,186,503,181
Other Payables	259,101	-	3,231,613	-	-	-	26,017,092	29,507,806
Total Local Currency Financial Liabilities	2,332,300	1,186,503,272	342,216,908	-	-	-	56,540,252	1,587,592,732
Total Financial Liabilities	251,691,411	1,186,503,272	386,583,508	1,260,445,754	53,447,345	972,001,592	56,562,526	4,167,235,408
Other Liabilities								
Deferred Grants	-	-	-	-	-	-	2,475	2,475
Pension and Other Post - Employment Benefit Plans	-	-	-	-	-	-	26,395,012	26,395,012
Miscellaneous Liabilities and Accruals	-	-	-	-	-	-	626,310	626,310
Total Other Liabilities	-	-	-	-	-	-	27,023,797	27,023,797
Total Liabilities	251,691,411	1,186,503,272	386,583,508	1,260,445,754	53,447,345	972,001,592	83,586,323	4,194,259,205
47.4 Balance as at 31 December 2022	Sri Lanka Government	Sri Lanka Public	Sri Lanka Commercial Banks	Foreign Government	Foreign Bank and Financial Institution	Supranational Financial Institutions	Other	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Foreign Currency Financial Liabilities								
Banks and Financial Institutions	20,312	-	-	146,368,457	-	-	19,259	146,408,028
Derivative Financial Instruments	-	-	71,697,994	-	-	-	-	71,697,994
Asian Clearing Union	-	-	-	-	-	736,258,129	-	736,258,129
IMF	-	-	-	-	-	1,127,925,092	-	1,127,925,092
Other	1,021,468	-	-	593,291,873	-	69,173	937	594,383,451
Total Foreign Currency Financial Liabilities	1,041,780	-	71,697,994	739,660,330	-	1,864,252,394	20,196	2,676,672,694
Local Currency Financial Liabilities								
Deposits of Banks and Financial Institutions	-	-	311,537,802	-	-	-	11,508,379	323,046,181
Deposits of Government and Government Entities	221,406	5	-	-	-	-	-	221,411
Securities Sold Under Repurchase Agreements & Standing Deposit Facility	-	-	330,637,059	-	-	-	-	330,637,059
Currency in Circulation	-	1,026,567,252	-	-	-	-	-	1,026,567,252
Other Payables	86,808	-	-	-	-	-	68,233,539	68,320,347
Total Local Currency Financial Liabilities	308,214	1,026,567,257	642,174,861	-	-	-	79,741,918	1,748,792,250
Total Financial Liabilities	1,349,994	1,026,567,257	713,872,855	739,660,330	-	1,864,252,394	79,762,114	4,425,464,944
Other Liabilities								
Deferred Grants	-	-	-	-	-	-	1,834	1,834
Pension and Other Post - Employment Benefit Plans	-	-	-	-	-	-	1,772,429	1,772,429
Miscellaneous Liabilities and Accruals	-	-	-	-	-	-	855,043	855,043
Total Other Liabilities	-	-	-	-	-	-	2,629,306	2,629,306
Total Liabilities	1,349,994	1,026,567,257	713,872,855	739,660,330	-	1,864,252,394	82,391,420	4,428,094,250

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 Governing Board (GB) and two Board sub-committees, i.e. the Board Risk Oversight Committee (BROC) and the Audit Committee (AC). The GB 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 GB and is responsible for laying the broad strategy and policies for the Bank's Risk Management and Compliance functions. The BROC also assists the GB 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 defense. In the first line of defense, 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 defense, 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 discusses the related matters at IOCs and reports to BROC. The Internal Audit Department (IAD), as the third line of defense, 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 GB and AC, quarterly and submits information on audit reports issued to the Auditor General on quarterly basis through AC.

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 GB approved SAA, IPS and IGs and reports to the respective Investment Oversight Committees, the BROC and the MB on a periodic basis. Further, the scope of RMD was expanded to assess the risk of CBSL balance sheet. Accordingly, RMD is in the process of developing a suitable framework and building required capacity to carry out this activity.

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

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Further, RMD works with departments to provide the facilitation for updating their Risk Registers on periodic basis. The risk profile of CBSL is developed incorporating departmental risk assessments and the expert opinion of the Senior Management. RMD has commenced developing a Risk Appetite Framework for CBSL, of which the activities have been phased out over a period of two (02) years.

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:

	2023 Rs. 000	2022 Rs. 000
Sri Lanka	2,476,224,707	3,530,384,740
USA	160,310,832	129,318,087
Japan	178,630,838	158,350
Britain	4,385,444	140,790
Europe	1,245,101	2,232,018
Supranational	643,094,281	284,961,366
Other	700,059,062	527,165,751
Total Financial Assets	4,163,950,265	4,474,361,102

(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:

	2023 Rs. 000	2022 Rs. 000
Governments	2,906,859,899	3,413,375,934
Supranational Financial Institutions	643,094,281	268,051,490
Foreign Banks and Financial Institutions	211,612,258	643,040
Sri Lanka Banks & Financial Institutions	387,981,677	764,200,061
Other	14,402,150	10,090,577
Total Financial Assets	4,163,350,265	4,474,361,102

(c) Credit Exposure by Credit Rating

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

Credit Exposure by Credit Rating	Credit Rating	2023 Rs.000	%	2022 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					
		987,367,312	23.71%	651,044,824	14.55%
Other Counterparties					
	AAA	37,683,915	0.91%	-	0.00%
	AA-	104,984,678	2.52%	96,911	0.00%
	A+	68,374,063	1.64%	80,743	0.00%
	A	124,988	0.00%	-	0.00%
	A-	402,174	0.01%	353,258	0.01%
	BBB	1,094	0.00%	68,247	0.00%
	NR	41,346	0.00%	43,881	0.00%
		1,198,979,570	28.79%	651,687,864	14.56%
Securities at Fair Value through Other Comprehensive Income					
	AAA	64,574,785	1.55%	1,090,124	0.03%
	AA+	152,580,340	3.66%	9,777,301	0.23%
	AA-	6,251,666	0.15%	-	0.00%
		223,406,791	5.37%	10,867,425	0.24%
Derivative Financial Instruments					
Locally Rated					
	A	5,192,375	0.12%	343,437	0.01%
	A-	582,851	0.01%	58,143	0.00%
		5,775,226	0.14%	401,580	0.01%
IMF Related Assets					
		265,339,197	6.37%	281,421,074	6.29%
		265,339,197	6.37%	281,421,074	6.29%
Other Receivables					
	A	-	0.00%	37,022,631	0.83%
		-	0.00%	37,022,631	0.83%
Total Foreign Currency Financial Assets		1,693,500,784	40.67%	981,400,574	21.93%

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	Credit Rating	2023 Rs.000	%	2022 Rs.000	%
Local Currency Financial Assets					
Sri Lanka Government Securities	RD	2,044,347,592	49.10%	2,498,995,015	55.85%
Securities Purchased under Resale Agreements	AAA	2,890,380	0.07%	8,624,339	0.19%
	A	146,546,928	3.52%	650,453,702	14.54%
	A-	94,502,257	2.27%	15,966,586	0.36%
	BBB-	26,838,814	0.64%	3,327,832	0.07%
	NR	63,173,560	1.53%	19,696,760	0.44%
Provisional Advances to Government	RD	-	0.00%	235,638,700	5.27%
Equity Investments in Financial and Other Institutions	NR	2,169,541	0.05%	1,817,132	0.04%
Loans to Banks	AAA	-	0.00%	3,327	0.00%
	AA	32,499,239	0.78%	-	0.00%
	A	3,143,169	0.08%	12,416,991	0.28%
	A-	1,121,277	0.03%	5,473,684	0.12%
	BBB+	-	0.00%	79,516	0.00%
	BBB-	516,621	0.01%	1,134,172	0.03%
	BB+	653,159	0.02%	9,070,842	0.20%
	NR	9,862,224	0.24%	79,370	0.00%
Other Assets	AAA	188,269	0.00%	-	0.00%
	AA-	-	0.00%	188,211	0.00%
	A	305,936	0.01%	299,219	0.01%
	A-	152,888	0.00%	149,510	0.00%
	RD	29,493,288	0.71%	21,460,386	0.48%
	NR	12,044,339	0.29%	8,085,234	0.18%
Total Local Currency Financial Assets		2,470,449,481	59.33%	3,492,960,528	78.07%
Total Financial Assets		4,163,950,265	100.00%	4,474,361,102	100.00%
(d) Summary by Major Credit Category					
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 Risk Bank/ Bank of Canada/ Reserve Bank of New Zealand/ Reserve Bank of India/ People's Bank of China		987,367,312	23.71%	651,044,824	14.55%
IMF Related Assets		265,339,197	6.37%	281,421,074	6.29%
	AAA	102,258,700	2.45%	1,090,124	0.01%
	AA+/-	263,816,685	6.34%	9,874,212	0.22%
	A+/-	68,901,225	1.65%	434,001	0.01%
	BBB+/-	1,094	0.00%	68,247	0.00%
	NR	41,345	0.00%	43,881	0.00%
Locally Rated	A+/-	5,775,226	0.15%	37,424,211	0.85%
Total Foreign Currency Financial Assets		1,693,500,784	40.67%	981,400,574	21.93%
Local Currency Financial Assets					
	AAA	3,078,649	0.07%	8,627,666	0.19%
	AA+/-	32,499,239	0.78%	188,211	0.00%
	A+/-	245,772,455	5.89%	684,759,692	15.29%
	BBB+/-	27,355,435	0.66%	4,541,520	0.10%
	BB+/-	653,159	0.02%	9,070,842	0.20%
	RD	2,073,840,880	49.80%	2,756,094,101	61.60%
	NR	87,249,664	2.11%	29,678,496	0.67%
Total Local Currency Financial Assets		2,470,449,481	59.33%	3,492,960,528	78.07%
Total Financial Assets		4,163,950,265	100.00%	4,474,361,102	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	12 - Month ECL		2023 Total Rs.000	
			Stage 1 Rs.000	Life Time ECL 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						
		-	808,019,166	180,161,106	-	988,180,272
	AAA	-	37,733,691	-	-	37,733,691
	AA-	-	104,986,173	-	-	104,986,173
	A+	-	68,375,609	-	-	68,375,609
	A	-	125,087	-	-	125,087
	A-	-	402,276	-	-	402,276
	BBB	-	1,096	-	-	1,096
	NR	-	41,336	-	-	41,336
Gross Carrying Amount		-	1,019,684,464	180,161,106	-	1,199,845,570
Loss Allowance		-	(635,408)	(230,592)	-	(866,000)
Carrying Amount		-	1,019,049,056	179,930,514	-	1,198,979,570
Securities at Fair Value through Other Comprehensive Income						
	AAA	-	64,574,785	-	-	64,574,785
	AA+	-	143,594,484	8,985,855	-	152,580,339
	AA-	-	6,251,667	-	-	6,251,667
		-	214,420,936	8,985,855	-	223,406,791
IMF Related Assets						
	NR	-	265,339,204	-	-	265,339,204
Gross Carrying Amount		-	265,339,204	-	-	265,339,204
Loss Allowance		-	(7)	-	-	(7)
Carrying Amount		-	265,339,197	-	-	265,339,197
Local Currency Financial Assets						
Sri Lanka Government Securities						
	Government Securities (Risk Free Investment)	2,044,397,592	-	-	-	2,044,397,592
		2,044,397,592	-	-	-	2,044,397,592
Securities Purchased under Resale Agreements						
	Other Risk Free Investment	333,951,940	-	-	-	333,951,940
		333,951,940	-	-	-	333,951,940
Provisional Advances to Government						
	Receivable from the Government (Risk Free Investment)	-	-	-	-	-
		-	-	-	-	-
Loans to Banks						
	AA	-	32,500,000	-	-	32,500,000
	A	-	556,927	2,587,458	-	3,144,385
	A-	-	1,022,713	99,352	-	1,122,065
	BBB-	-	12,442	506,153	-	518,595
	BB+	-	42,061	619,100	-	661,161
	NR	-	9,874,635	-	-	9,874,635
	Credit Guarantee Scheme of CBSL	-	-	-	110,317	110,317
Gross Carrying Amount		-	44,008,778	3,812,063	110,317	47,931,158
Loss Allowance		-	(14,696)	(10,458)	(110,317)	(135,471)
Carrying Amount		-	43,994,082	3,801,605	-	47,795,687

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	Credit Rating	Not Subject to ECL Rs.000	ECL			2023 Total Rs.000
			12 - Month Stage 1 Rs.000	Life Time ECL Stage 2 Rs.000	Stage 3 Rs.000	
Other Assets						
Government Securities (Risk Free Investment)		20,794,573	-	-	-	20,794,573
Receivable from the Government (Risk Free Investment)		8,698,715	-	-	-	8,698,715
Other Risk Free Receivable		12,044,340	-	-	-	12,044,340
Locally Rated	AA-	-	188,270	-	-	188,270
	A	-	156,420	149,640	-	306,060
	A-	-	1,875	151,124	-	152,999
	NR	-	-	-	2,226,887	2,226,887
Gross Carrying Amount		41,537,628	346,565	300,764	2,226,887	44,411,844
Loss Allowance		-	(63)	(173)	(2,226,887)	(2,227,123)
Carrying Amount		41,537,628	346,502	300,591	-	42,184,721
Comparative figures as at 31 December 2022 were as follows:						
	Credit Rating	Not Subject to ECL Rs.000	ECL			2022 Total Rs.000
			12 - Month Stage 1 Rs.000	Life Time ECL Stage 2 Rs.000	Stage 3 Rs.000	
Foreign Currency Financial Assets						
Cash & Cash Equivalents						
Federal Reserve Bank - USA/ Reserve Bank of Australia/Bank for International Settlements/ Bank of Japan/ Deutsche Bundes Bank/ Bank of England/ Sveriges Riks Bank/ Bank of Canada/ Reserve Bank of New Zealand/ Reserve Bank of India/ People's Bank of China		-	649,672,094	2,217,173	-	651,889,267
	AA-	-	97,027	-	-	97,027
	A+	-	80,749	-	-	80,749
	A-	-	12,185	341,301	-	353,486
	BBB	-	68,279	-	-	68,279
	NR	-	43,887	-	-	43,887
Gross Carrying Amount		-	649,974,221	2,558,474	-	652,532,695
Loss Allowance		-	(841,440)	(3,391)	-	(844,831)
Carrying Amount		-	649,132,781	2,555,083	-	651,687,864
Securities at Fair Value through Other Comprehensive Income						
	AAA	-	1,090,124	-	-	1,090,124
	AA+	-	9,777,301	-	-	9,777,301
		-	10,867,425	-	-	10,867,425
IMF Related Assets						
	NR	-	281,421,082	-	-	281,421,082
Gross Carrying Amount		-	281,421,082	-	-	281,421,082
Loss Allowance		-	(8)	-	-	(8)
Carrying Amount		-	281,421,074	-	-	281,421,074
Local Currency Financial Assets						
Sri Lanka Government Securities	Government Securities (Risk Free Investment)	2,498,995,015	-	-	-	2,498,995,015
		2,498,995,015	-	-	-	2,498,995,015
Securities Purchased under Resale Agreements	Other Risk Free Investment	698,069,219	-	-	-	698,069,219
		698,069,219	-	-	-	698,069,219
Provisional Advances to Government	Receivable from the Government (Risk Free Investment)	235,638,700	-	-	-	235,638,700
		235,638,700	-	-	-	235,638,700

	Credit Rating	Not Subject to ECL	12 - Month ECL			Life Time ECL		2022
			Rs.000	Stage 1	Stage 2	Stage 3	Total	
				Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Loans to Banks	AAA	-	-	3,333	-	-	3,333	
	A	-	5,513,369	6,906,357	-	-	12,419,726	
	A-	-	4,133,725	1,342,976	-	-	5,476,701	
	BBB+	-	-	79,786	-	-	79,786	
	BBB-	-	1,126,323	11,592	-	-	1,137,915	
	BB+	-	-	9,318,648	-	-	9,318,648	
	NR	-	79,416	-	-	-	79,416	
	Credit Guarantee Scheme of CBSL	-	-	-	-	86,307	86,307	
Gross Carrying Amount		-	10,852,833	17,662,692	86,307	-	28,601,832	
Loss Allowance		-	(6,057)	(251,566)	(86,307)	-	(343,930)	
Carrying Amount		-	10,846,776	17,411,126	-	-	28,257,902	
Other Assets								
	Government Securities (Risk Free Investment)	17,919,801	-	-	-	-	17,919,801	
	Receivable from the Government (Risk Free Investment)	3,540,585	-	-	-	-	3,540,585	
	Other Risk Free Receivable	8,085,234	-	-	-	-	8,085,234	
	AA-	-	188,293	-	-	-	188,293	
	A	-	130,285	168,989	-	-	299,274	
	A-	-	9,252	140,526	-	-	149,778	
	NR	-	-	-	2,226,887	-	2,226,887	
Gross Carrying Amount		29,545,620	327,830	309,515	2,226,887	-	32,409,852	
Loss Allowance		-	(86)	(319)	(2,226,887)	-	(2,227,292)	
Carrying Amount		29,545,620	327,744	309,196	-	-	30,182,560	

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(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.

	2023				2022			
	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	841,441	3,391	-	844,832	52,009	33,359	-	85,368
Transfer to Stage 1	365	(365)	-	-	28,828	(28,828)	-	-
Transfer to Stage 2	-	-	-	-	(34)	34	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
Amount charged to the Income Statement	(206,397)	227,566	-	21,169	760,638	(1,174)	-	759,464
Balance as at 31 December	<u>635,409</u>	<u>230,592</u>	<u>-</u>	<u>866,001</u>	<u>841,441</u>	<u>3,391</u>	<u>-</u>	<u>844,832</u>
Securities at Fair Value through Other Comprehensive Income								
Balance as at 1 January	4,744	-	-	4,744	995	-	-	995
Transfer to Stage 1	-	-	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
Amount charged to the Income Statement	65,529	-	-	65,529	3,749	-	-	3,749
Balance as at 31 December	<u>70,273</u>	<u>-</u>	<u>-</u>	<u>70,273</u>	<u>4,744</u>	<u>-</u>	<u>-</u>	<u>4,744</u>
IMF Related Assets								
Balance as at 1 January	8	-	-	8	3	-	-	3
Transfer to Stage 1	-	-	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
Amount charged to the Income Statement	(1)	-	-	(1)	5	-	-	5
Balance as at 31 December	<u>7</u>	<u>-</u>	<u>-</u>	<u>7</u>	<u>8</u>	<u>-</u>	<u>-</u>	<u>8</u>
Loans to Banks								
Balance as at 1 January	6,057	251,565	-	257,622	14,435	21,477	-	35,912
Transfer to Stage 1	233,219	(233,219)	-	-	-	-	-	-
Transfer to Stage 2	(865)	865	-	-	(4,804)	4,804	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
Amount charged to the Income Statement	(223,715)	(8,754)	-	(232,469)	(3,574)	225,285	-	221,711
Balance as at 31 December	<u>14,696</u>	<u>10,457</u>	<u>-</u>	<u>25,153</u>	<u>6,057</u>	<u>251,566</u>	<u>-</u>	<u>257,623</u>
Claims paid under Credit Guarantee Scheme								
Balance as at 1 January	-	-	86,307	86,307	-	-	13,016	13,016
Transfer to Stage 1	-	-	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
Amount charged to the Income Statement	-	-	24,011	24,011	-	-	73,291	73,291
Balance as at 31 December	<u>-</u>	<u>-</u>	<u>110,318</u>	<u>110,318</u>	<u>-</u>	<u>-</u>	<u>86,307</u>	<u>86,307</u>
Other Assets								
Balance as at 1 January	86	319	2,226,887	2,227,292	189	241	2,226,887	2,227,317
Transfer to Stage 1	-	-	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	(1)	1	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
Amount charged to the Income Statement	(23)	(146)	-	(169)	(102)	77	-	(25)
Balance as at 31 December	<u>63</u>	<u>173</u>	<u>2,226,887</u>	<u>2,227,123</u>	<u>86</u>	<u>319</u>	<u>2,226,887</u>	<u>2,227,292</u>
Credit Guarantees								
Balance as at 1 January	219,324	-	-	219,324	1,011,732	-	-	1,011,732
Transfer to Stage 1	-	-	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
Amount charged to the Income Statement	(188,031)	-	-	(188,031)	(792,408)	-	-	(792,408)
Balance as at 31 December	<u>31,293</u>	<u>-</u>	<u>-</u>	<u>31,293</u>	<u>219,324</u>	<u>-</u>	<u>-</u>	<u>219,324</u>

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

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

	2023 Rs. 000	2022 Rs. 000
Credit-impaired assets at amortized cost as at 1 January	-	-
Classified as credit-impaired during the year	73,291	73,291
Incorporation of credit impaired assets of schemes operated by RDD	-	-
Change in ECL allowance	(73,291)	(73,291)
Credit-impaired assets at amortized cost at 31 December	-	-

48.2 Interest Rate Risk
(a) Foreign Currency Interest Rate Sensitivity

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

The interest rate sensitivity of a portfolio measures by the potential gain or loss that could incur due to a change in the interest rate by 10 basis points. Sensitivity of the risk exposure of the CBSL reserves is given below:

Portfolio Segment	Potential Loss (USD Mn)	
	2023	2022
CBSL reserves	0.77	0.09

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	
	2023	2022
CBSL reserves	0.22	0.05

- 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 CBSL reserves portfolio

Portfolio Segment	Potential Loss (USD Mn)	
	2023	2022
CBSL Reserves	0.0055	0.0023

iii) Value at Risk (VaR)

VaR summarizes in a single number the downside risk of the portfolio, under normal market conditions, from financial market movements. Therefore, VaR is the maximum loss over a target horizon such that there is a low, pre-specified probability that the actual loss will be larger. VaR gives a number, in terms of money, which can be aggregated across risks and positions. VaR is calculated for a 10 day period at 99% confidence interval using Historical and Parametric methods.

Portfolio Segment	Value at Risk (VaR)			
	2023		2022	
	Historical	Parametric	Historical	Parametric
CBSL Reserves	35.43	45.75	44.65	50.22

iv) Trading & Open Position Limits

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

(b) Local Currency Interest Rate Sensitivity

The Government Securities portfolio is recorded in the Statement of Financial Position of the Bank at Fair Value through Other Comprehensive Income as per the Business Model assessment under IFRS 9. This portfolio is not an investment portfolio, as the Bank does not purchase Government Securities with the intention of earning an interest income. The Bank purchases or sells Government Securities to inject rupee liquidity into the domestic market or to absorb liquidity from the market in the course of carrying out its monetary policy operations in relation to one of its core objectives, maintaining economic and price stability. Hence, the volume of Government Securities in the Bank's portfolio is largely determined by its monetary policy operations. However, the portfolio may include Government Securities purchased under Section 86(4) & 86(5) of CBA. In addition, the basic interest rates in the rupee market, the Standing Deposit Rate and the Standing Lending Rate are policy rates determined by the Bank in the course of implementing its monetary policy. Moreover, the Bank's actions in injecting rupee liquidity or absorbing liquidity from the market have a significant impact on general rupee market interest rates. Thus, changes in the interest income earned from the Government Securities portfolio, which arise from changes in the volume of the Bank's Government Securities portfolio, as well as changes in interest rates, are primarily a consequence of the Bank's monetary policy actions or monetary financing, rather than due to investment decisions. Therefore, the Bank does not consider interest rate sensitivities arising from local currency assets.

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

Foreign Currency Interest Rate Sensitivity Gap:	Weighted Avg. Int. Rate %	2023 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	2.5087	1,198,979,570	1,198,979,570	-	-	-	-
Securities at Fair Value through Other Comprehensive Income	2.3260	223,406,791	98,816,614	22,944,799	46,284,595	55,360,783	-
IMF Related Assets	4.0830	12,242,252	12,242,252	-	-	-	-
Total Interest Sensitive Foreign Currency Financial Assets		1,434,628,613	1,310,038,436	22,944,799	46,284,595	55,360,783	-
Non Interest Sensitive Foreign Currency Financial Assets							
IMF Related Assets		253,096,945	-	-	-	345,472	252,751,473
Derivative Financial Instruments		5,775,226	3,526,799	41,010	2,207,417	-	-
Total non Interest Sensitive Foreign Currency Financial Assets		258,872,171	3,526,799	41,010	2,207,417	345,472	252,751,473
Total Foreign Currency Financial Assets		1,693,500,784	1,313,565,235	22,985,809	48,492,012	55,706,255	252,751,473
Interest Sensitive Foreign Currency Financial Liabilities							
IMF	4.1030	292,928,957	34,755,557	34,755,557	69,511,115	153,906,728	-
Other Foreign Liabilities	9.3290	800,490,754	152,181,295	145,765,485	291,530,970	211,013,004	-
Total Interest Sensitive Foreign Currency Financial Liabilities		1,093,419,711	186,936,852	180,521,042	361,042,085	364,919,732	-
Non Interest Sensitive Foreign Currency Financial Liabilities							
Banks and Financial Institutions		54,113,792	54,113,792	-	-	-	-
Derivative Financial Instruments		48,947,900	8,845,596	4,308,498	10,889,030	24,669,983	234,793
IMF		674,396,255	-	-	-	-	674,396,255
Other Foreign Liabilities		708,765,018	-	708,765,018	-	-	-
Total non Interest Sensitive Foreign Currency Financial Liabilities		1,486,222,965	62,959,388	713,073,516	10,889,030	24,669,983	674,631,048
Total Foreign Currency Financial Liabilities		2,579,642,676	249,896,240	893,594,558	371,931,115	389,589,715	674,631,048
Foreign Currency Interest Rate Sensitivity Gap		341,208,902	1,123,101,584	(157,576,243)	(314,757,490)	(309,558,949)	-

Local Currency Interest Rate Sensitivity Gap :	Weighted Avg. Int. Rate %	2023 Total Rs. 000	6 Months or Less Rs. 000	6 to 12 Months Rs. 000	1 to 2 Years Rs. 000	2 to 5 Years Rs. 000	Over 5 Years Rs. 000
Interest Sensitive Local Currency Financial Assets							
Sri Lanka Government Securities	12.3977	2,044,347,592	153,187,295	74,440,866	7,336,054	4,651,050	1,804,732,327
Securities Purchased under Resale Agreements	10.0000	333,951,940	333,951,940	-	-	-	-
Loans to Other Institutions	1.0000	47,795,687	47,783,080	9,464	3,143	-	-
Other Assets - Staff Loans	3.3995	8,783,775	280,621	135,667	276,002	866,149	7,225,336
- Others	12.1308	21,441,646	3,605,935	1,436,378	1,358,935	8,451,966	6,588,433
Total Interest Sensitive Local Currency Financial Assets		2,456,320,640	538,808,871	76,022,375	8,974,134	13,969,165	1,818,546,095
Non Interest Sensitive Local Currency Financial Assets							
Provisional Advances to Government		-	-	-	-	-	-
Other Assets - Others		11,959,300	11,959,300	-	-	-	-
Investment in Equity Securities - Fair Value through Other Comprehensive Income		2,169,541	-	-	-	-	2,169,541
Total Non Interest Sensitive Local Currency Financial Assets		14,128,841	11,959,300	-	-	-	2,169,541
Total Local Currency Financial Assets		2,470,449,481	550,768,171	76,022,375	8,974,134	13,969,165	1,820,715,636
Interest Sensitive Local Currency Financial Liabilities							
Standing Deposit Facility	9.0000	227,035,873	227,035,873	-	-	-	-
Total Interest Sensitive Local Currency Financial Liabilities		227,035,873	227,035,873	-	-	-	-
Non Interest Sensitive Local Currency Financial Liabilities							
Deposits of Banks and Financial Institutions		142,472,582	142,472,582	-	-	-	-
Deposits of Government and Governmental Entities		2,073,290	2,073,290	-	-	-	-
Currency in Circulation		1,186,503,181	1,186,503,181	-	-	-	-
Other Payables		29,507,806	29,507,806	-	-	-	-
Total Non Interest Sensitive Local Currency Financial Liabilities		1,360,556,859	1,360,556,859	-	-	-	-
Total Local Currency Financial Liabilities		1,587,592,732	1,587,592,732	-	-	-	-
Local Currency Interest Rate Sensitivity Gap		2,229,284,767	311,772,998	76,022,375	8,974,134	13,969,165	1,818,546,095

Comparative figures as at 31 December 2022 were as follows:

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

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Local Currency Interest Rate Sensitivity Gap :	Weighted Avg. Int. Rate %	2022 Total Rs. 000	6 Months or Less Rs. 000	6 to 12 Months Rs. 000	1 to 2 Years Rs. 000	2 to 5 Years Rs. 000	Over 5 Years Rs. 000
Interest Sensitive Local Currency Financial Assets							
Sri Lanka Government Securities	31.2439	2,498,995,015	2,481,264,384	-	15,768,874	1,961,757	-
Securities Purchased under Resale Agreements	15.5000	698,069,219	698,069,219	-	-	-	-
Loans to Banks	1.0000	28,257,902	26,398,994	196,759	1,561,865	100,284	-
Other Assets - Staff Loans	3.3688	8,053,421	261,770	226,096	461,704	1,469,430	5,634,421
- Others	9.0352	18,556,718	1,763,964	2,738,646	1,696,628	5,502,281	6,855,199
Total Interest Sensitive Local Currency Financial Assets		3,251,932,275	3,207,758,331	3,161,501	19,489,071	9,033,752	12,489,620
Non Interest Sensitive Local Currency Financial Assets							
Provisional Advances to Government		235,638,700	235,638,700	-	-	-	-
Other Assets - Others		3,572,421	3,572,421	-	-	-	-
Investment in Equity Securities - Fair Value through Other Comprehensive Income		1,817,132	-	-	-	-	1,817,132
Total Non Interest Sensitive Local Currency Financial Assets		241,028,253	239,211,121	-	-	-	1,817,132
Total Local Currency Financial Assets		3,492,960,528	3,446,969,452	3,161,501	19,489,071	9,033,752	14,306,752
Interest Sensitive Local Currency Financial Liabilities							
Standing Deposit Facility	14.5000	330,637,059	330,637,059	-	-	-	-
Total Interest Sensitive Local Currency Financial Liabilities		330,637,059	330,637,059	-	-	-	-
Non Interest Sensitive Local Currency Financial Liabilities							
Deposits of Banks and Financial Institutions		323,046,181	323,046,181	-	-	-	-
Deposits of Government and Governmental Entities		221,411	221,411	-	-	-	-
Currency in Circulation		1,026,567,252	1,026,567,252	-	-	-	-
Other Payables		68,320,347	68,320,347	-	-	-	-
Total Non Interest Sensitive Local Currency Financial Liabilities		1,418,155,191	1,418,155,191	-	-	-	-
Total Local Currency Financial Liabilities		1,748,792,250	1,748,792,250	-	-	-	-
Local Currency Interest Rate Sensitivity Gap		2,921,295,216	2,877,121,272	3,161,501	19,489,071	9,033,752	12,489,620

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 Governing Board and International Reserves Investment Oversight Committee (IRIOC) have set percentage holdings of different currencies in its foreign Reserves. In deciding on the currency allocation, public debt repayment requirements are given due consideration. Accordingly, the Bank holds most major currencies such as US Dollars, Sterling Pounds, Japanese Yen, Euro, Australian Dollars, Chinese Yuan and New Zealand Dollars. Compliance with limits established for foreign currency positions are continuously monitored.

Net Exposure to Foreign Currencies

As at 31 December 2023, the net exposure of the Central Bank of Sri Lanka to major currencies were as follows:

As at 31 December 2023	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	415,748,240	746,105	32,129	4,892,576	-	2,429,557	1,777,619	2,436,400	771,782,944	1,199,845,570
Securities at Fair Value through Other Comprehensive Income	223,406,791	-	-	-	-	-	-	-	-	223,406,791
Derivative Financial Instruments	-	-	-	-	-	-	-	-	5,775,226	5,775,226
IMF Related Assets	-	-	-	-	265,339,204	-	-	-	-	265,339,204
Other Receivables	-	-	-	-	-	-	-	-	-	-
Total Foreign Currency Financial Assets	639,155,031	746,105	32,129	4,892,576	265,339,204	2,429,557	1,777,619	2,436,400	777,558,170	1,694,366,791
Proportion	37.72%	0.04%	0.00%	0.29%	15.66%	0.14%	0.10%	0.14%	45.89%	100%
Foreign Currency Financial Liabilities										
Banks and Financial Institutions	54,113,353	-	-	397	-	42	-	-	-	54,113,792
Derivative Financial Instruments	-	-	4,581,300	-	-	-	-	-	44,366,600	48,947,900
Asian Clearing Union	-	-	-	-	-	-	-	-	-	-
IMF	-	-	-	-	967,325,212	-	-	-	-	967,325,212
Other Foreign Liabilities	1,049,205,692	-	-	-	-	-	-	-	460,050,080	1,509,255,772
Total Foreign Currency Financial Liabilities	1,103,319,045	-	4,581,300	397	967,325,212	42	-	-	504,416,680	2,579,642,676
Proportion	42.77%	0.00%	0.18%	0.00%	37.50%	0.00%	0.00%	0.00%	19.55%	100%
Net Foreign Currency Exposure	(464,164,014)	746,105	(4,549,171)	4,892,179	(701,986,008)	2,429,515	1,777,619	2,436,400	273,141,489	(885,275,885)

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 2023	Sri Lanka Rupees Rs. 000	United States Dollars Rs. 000	Japanese Yen Rs. 000
Purchases	-	468,490,917	178,831,219
Sales	(453,174,711)	(174,329,665)	-

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

As at 31 December 2022	Currency									
	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	118,593,473	2,002,372	130,117	373,692	-	62,567	17,653	10,635	531,342,187	652,532,696
Securities at Fair Value through Other Comprehensive Income	10,867,425	-	-	-	-	-	-	-	-	10,867,425
Derivative Financial Instruments	-	-	-	-	-	-	-	-	401,580	401,580
IMF Related Assets	-	-	-	-	281,421,082	-	-	-	-	281,421,082
Other Receivables	63,061,108	-	-	-	-	-	-	-	-	63,061,108
Total Foreign Currency Financial Assets	192,522,006	2,002,372	130,117	373,692	281,421,082	62,567	17,653	10,635	531,743,767	1,008,283,891
Proportion	19.09%	0.20%	0.01%	0.04%	27.91%	0.01%	0.00%	0.00%	52.74%	100.00%
Foreign Currency Financial Liabilities										
Banks and Financial Institutions	146,407,286	-	-	687	-	55	-	-	-	146,408,028
Derivative Financial Instruments	-	-	-	-	-	-	-	-	71,697,994	71,697,994
Asian Clearing Union	736,258,128	-	-	-	-	-	-	-	-	736,258,128
IMF	-	-	-	-	1,127,925,092	-	-	-	-	1,127,925,092
Other	74,083,264	-	-	-	-	12	-	-	520,300,174	594,383,450
Total Foreign Currency Financial Liabilities	956,748,678	-	-	687	1,127,925,092	67	-	-	591,998,168	2,676,672,692
Proportion	35.74%	0.00%	0.00%	0.00%	42.14%	0.00%	0.00%	0.00%	22.12%	100.00%
Net Foreign Currency Exposure	(764,226,672)	2,002,372	130,117	373,005	(846,504,010)	62,500	17,653	10,635	(60,254,401)	(1,668,388,801)

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

As at 31 December 2022	Sri Lanka Rupees Rs. 000	United States Dollars Rs. 000	Sterling Pound Rs. 000
Purchases	38,782,950	242,870,513	5,467,529
Sales	(186,160,301)	(38,126,550)	-

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

Currency	Average Rate		Year-end Spot Rate	
	2023	2022	2023	2022
	Rs	Rs	Rs	Rs
1 USD	327.8228	328.1818	323.9233	363.1100
1 EUR	354.4458	343.2079	357.4170	388.3461
1 JPY	2.3263	2.4762	2.2983	2.7704
1 GBP	408.3245	400.7632	412.2896	437.4023
1 SDR	437.4372	436.4326	437.9895	483.3276
1 AUD	217.6064	226.3545	220.2031	247.0237

Sensitivity Analysis

A reasonably possible strengthening (weakening) of the above currencies against the Sri Lanka Rupee as at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and affected the profit or loss by the amounts shown below.

	Profit or Loss	
	Strengthening	Weakening
	Rs. 000	Rs. 000
31 December 2023		
USD (5% movement)	(23,208,201)	23,208,201
EUR (5% movement)	37,305	(37,305)
JPY (5% movement)	(227,459)	227,459
GBP (5% movement)	244,609	(244,609)
SDR (5% movement)	(35,099,300)	35,099,300
AUD (5% movement)	121,476	(121,476)

	Profit or Loss	
	Strengthening	Weakening
	Rs. 000	Rs. 000
31 December 2022		
USD (5% movement)	(38,211,334)	38,211,334
EUR (5% movement)	100,119	(100,119)
JPY (5% movement)	6,506	(6,506)
GBP (5% movement)	18,650	(18,650)
SDR (5% movement)	(42,325,201)	42,325,201
AUD (5% movement)	3,125	(3,125)

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

As at 31 December 2023, Contractual maturities of un-discounted cash flows of Financial Assets and Liabilities are as follows,

As at 31 December 2023	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	1,198,979,570	-	-	-	-	1,198,979,570
Securities at Fair Value through Other Comprehensive Income	95,203,787	27,139,807	49,401,366	58,705,161	-	230,450,121
IMF Related Assets	12,242,245	-	-	345,479	252,751,473	265,339,197
Total un-discounted Foreign Currency Financial Assets	1,306,425,602	27,139,807	49,401,366	59,050,640	252,751,473	1,694,768,888
Local Currency Financial Assets						
Sri Lanka Government Securities	320,828,212	234,538,446	193,637,980	876,898,558	3,264,975,031	4,890,878,227
Securities Purchased under Resale Agreements	333,951,940	-	-	-	-	333,951,940
Equity Investments in Financial and Other Institutions	-	-	-	-	2,169,541	2,169,541
Loans to Bank	36,143,621	2,568,815	4,453,674	5,644,633	16,169	48,826,912
Other Assets	18,484,179	2,755,895	3,738,926	14,740,341	31,331,199	71,050,540
Total un-discounted Local Currency Financial Assets	709,407,952	239,863,156	201,830,580	897,283,532	3,298,491,940	5,346,877,160
Total un-discounted Financial Assets	2,015,833,554	267,002,963	251,231,946	956,334,172	3,551,243,413	7,041,646,048
Foreign Currency Financial Liabilities						
Banks and Financial Institutions	54,113,792	-	-	-	-	54,113,792
IMF	55,902,352	55,562,774	108,073,407	282,754,804	1,147,893,395	1,650,186,732
Others	152,181,295	854,530,503	291,530,970	211,013,004	-	1,509,255,772
Total un-discounted Foreign Currency Financial Liabilities	262,197,439	910,093,277	399,604,377	493,767,808	1,147,893,395	3,213,556,296
Local Currency Financial Liabilities						
Deposits of Banks and Financial Institutions	142,472,582	-	-	-	-	142,472,582
Deposits of Government and Governmental Entities	2,073,290	-	-	-	-	2,073,290
Securities Sold Under Repurchase Agreements & Standing Deposits Facility	227,035,873	-	-	-	-	227,035,873
Currency in Circulation	1,186,503,181	-	-	-	-	1,186,503,181
Other Payables	29,507,806	-	-	-	-	29,507,806
Total un-discounted Local Currency Financial Liabilities	1,587,592,732	-	-	-	-	1,587,592,732
Total un-discounted Financial Liabilities	1,849,790,171	910,093,277	399,604,377	493,767,808	1,147,893,395	4,801,149,028
Net un-discounted Financial Assets/ (Liabilities)	166,043,383	(643,090,314)	(148,372,431)	462,566,364	2,403,350,018	2,240,497,020
	Less than 6 months	6 Months -1 Year	1 - 2 Years	2 - 5 Years	Over 5 Years	Total
As at 31 December 2023	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Derivative Financial Assets	174,664,046	40,640,896	14,563,988	41,970,522	860,760	272,700,212
Derivative Financial Liabilities	177,700,713	43,890,959	22,997,259	65,209,000	971,770	310,769,701
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 2022, Contractual maturities of un-discounted cash flows of Financial Assets and Liabilities are as follows,

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

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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 2023	Encumbered Pledged as collateral Rs. 000	Unencumbered Available as collateral Rs. 000	Total Rs. 000
Foreign Currency Financial Assets			
Cash and Cash Equivalents	-	1,198,979,570	1,198,979,570
Securities at Fair Value through Other Comprehensive Income	3,749,003	219,657,788	223,406,791
Derivative Financial Instruments	-	5,775,226	5,775,226
IMF Related Assets	-	265,339,197	265,339,197
Local Currency Financial Assets			
Sri Lanka Government Securities	-	2,044,347,592	2,044,347,592
Securities Purchased under Resale Agreements	-	333,951,940	333,951,940
Equity Investments in Financial and Other Institutions	-	2,169,541	2,169,541
Loans to Banks	-	47,795,687	47,795,687
Other Assets	-	42,184,721	42,184,721
Total Financial Assets	3,749,003	4,160,201,262	4,163,950,265
31 December 2022			
	Encumbered Pledged as collateral Rs. 000	Unencumbered Available as collateral Rs. 000	Total Rs. 000
Foreign Currency Financial Assets			
Cash and Cash Equivalents	-	651,687,864	651,687,864
Securities at Fair Value through Other Comprehensive Income	1,090,124	9,777,301	10,867,425
Derivative Financial Instruments	-	401,580	401,580
IMF Related Assets	-	281,421,074	281,421,074
Other Receivables	-	37,022,631	37,022,631
Local Currency Financial Assets			
Sri Lanka Government Securities	-	2,498,995,015	2,498,995,015
Securities Purchased under Resale Agreements	-	698,069,219	698,069,219
Provisional Advances to Government	-	235,638,700	235,638,700
Equity Investments in Financial and Other Institutions	-	1,817,132	1,817,132
Loans to Banks	-	28,257,902	28,257,902
Other Assets	-	30,182,560	30,182,560
Total Financial Assets	1,090,124	4,473,270,978	4,474,361,102

The restricted use balances of Rs. 456,377.84 million (2022 -Rs. 526,467.65 million) received under the bilateral currency swap agreement between CBSL and the PBoC are included in the cash balances as at 31 December 2023, as explained in Note 25.5. The amount received under this arrangement can be used to finance trade and direct investment between the two countries and for other purposes agreed upon by both parties.

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 2023	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 and Cash Equivalents	-	-	-	1,198,979,570	1,198,979,570
Securities at Fair Value through Other Comprehensive Income	-	223,406,791	-	-	223,406,791
Derivative Financial Instruments	5,775,226	-	-	-	5,775,226
IMF Related Assets	264,499,960	-	-	839,237	265,339,197
Total Foreign Currency Financial Assets	270,275,186	223,406,791	-	1,199,818,807	1,693,500,784
Local Currency Financial Assets					
Sri Lanka Government Securities	-	2,044,347,592	-	-	2,044,347,592
Securities Purchased under Resale Agreements	-	-	-	333,951,940	333,951,940
Equity Investments in Financial and Other Institutions	-	-	2,169,541	-	2,169,541
Loans to Banks	-	-	-	47,795,687	47,795,687
Other Assets	-	-	-	42,184,721	42,184,721
Total Local Currency Financial Assets	-	2,044,347,592	2,169,541	423,932,348	2,470,449,481
Foreign Currency Financial Liabilities					
Banks and Financial Institutions	-	-	-	54,113,792	54,113,792
Derivative Financial Instruments	48,947,900	-	-	-	48,947,900
IMF	-	-	-	967,325,212	967,325,212
Other	-	-	-	1,509,255,772	1,509,255,772
Total Foreign Currency Financial Liabilities	48,947,900	-	-	2,530,694,776	2,579,642,676
Local Currency Financial Liabilities					
Deposits of Banks and Financial Institutions	-	-	-	142,472,582	142,472,582
Deposits of Government and Governmental Entities	-	-	-	2,073,290	2,073,290
Securities Sold Under Repurchase Agreements & Standing Deposit Facility	-	-	-	227,035,873	227,035,873
Currency in Circulation	-	-	-	1,186,503,181	1,186,503,181
Other Payables	-	-	-	29,507,806	29,507,806
Total Local Currency Financial Liabilities	-	-	-	1,587,592,732	1,587,592,732

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

50. FAIR VALUE DISCLOSURES

50.1 Fair Value of Assets and Liabilities

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

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy Note 5.2. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. The fair value hierarchy of financial instruments is given below:

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

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

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

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

31 December 2023	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	223,406,791	-	-	223,406,791
Derivative Financial Instruments	-	5,775,226	-	5,775,226
IMF Related Assets	264,499,960	-	-	264,499,960
	<u>487,906,751</u>	<u>5,775,226</u>	-	<u>493,681,977</u>
Foreign Currency Non-Financial Assets				
Gold	10,120,756	-	-	10,120,756
	<u>10,120,756</u>	-	-	<u>10,120,756</u>
Local Currency Financial Assets				
Sri Lanka Government Securities	239,615,265	1,804,732,327	-	2,044,347,592
Equity Investments in Financial and Other Institutions	-	-	2,169,541	2,169,541
	<u>239,615,265</u>	<u>1,804,732,327</u>	<u>2,169,541</u>	<u>2,046,517,133</u>
Other Non-Financial Assets				
Land	-	-	14,197,619	14,197,619
Building	-	-	8,082,487	8,082,487
	-	-	<u>22,280,106</u>	<u>22,280,106</u>
Financial Liabilities				
Derivative Financial Instruments	-	48,947,900	-	48,947,900
	-	<u>48,947,900</u>	-	<u>48,947,900</u>
31 December 2022	Level 1 Rs. 000	Level 2 Rs. 000	Level 3 Rs. 000	Total Rs. 000
Financial Assets				
Securities at Fair Value through Other Comprehensive Income	10,867,425	-	-	10,867,425
Derivative Financial Instruments	-	401,580	-	401,580
IMF Related Assets	280,406,015	-	-	280,406,015
	<u>291,273,440</u>	<u>401,580</u>	-	<u>291,675,020</u>
Foreign Currency Non-Financial Assets				
Gold	10,031,610	-	-	10,031,610
	<u>10,031,610</u>	-	-	<u>10,031,610</u>
Local Currency Financial Assets				
Sri Lanka Government Securities	2,498,995,015	-	-	2,498,995,015
Equity Investments in Financial and Other Institutions	-	-	1,817,132	1,817,132
	<u>2,498,995,015</u>	-	<u>1,817,132</u>	<u>2,500,812,147</u>
Other Non-Financial Assets				
Land	-	-	10,855,725	10,855,725
Building	-	-	7,099,239	7,099,239
	-	-	<u>17,954,964</u>	<u>17,954,964</u>
Financial Liabilities				
Derivative Financial Instruments	-	71,697,994	-	71,697,994
	-	<u>71,697,994</u>	-	<u>71,697,994</u>
Equity Investments in Financial and Other Institutions				
Fair value of the equity investments were calculated using the Fair Value per Share valuation technique.				
Significant unobservable input used				
Fair Value per share				
Sensitivity Analysis				
A 10% increase in the Fair Value per share would increase the fair value by 10%.				
			2023 Rs. 000	2022 Rs. 000
Balance as at 1 January			1,817,133	1,671,218
Additions during the Year			-	-
Fair Value Gain Recognised in the Other Comprehensive Income			352,408	145,915
Balance as at 31 December			<u>2,169,541</u>	<u>1,817,133</u>

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Valuation Method

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

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

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

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

- Price per perch would get higher/(lower)
- Price per square foot would get higher/(lower)

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

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

Derivatives

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

Gold

	2023 Rs. 000	2022 Rs. 000
Balance as at 1 January	10,031,610	35,151,981
Purchases/ (Sales) during the year	-	(26,108,952)
Foreign Exchange gains/ (losses)	(952,572)	4,094,758
Change in price of gold	1,041,718	(3,106,177)
Balance as at 31 December	10,120,756	10,031,610

50.2 Repurchase and Resale Agreements / Standing Deposit Facility

The reported value of repurchase and resale agreements is considered to approximate their fair value due to short term nature of the agreements. The carrying value of the provided Standing Deposit Facility as at 31 December 2023 was Rs.227,035.87 Mn (2022 - Rs. 330,637.06 Mn) and the carrying value of Sri Lanka Government Securities purchased under resale agreements as at 31 December 2023 was Rs. 333,951.94 Mn (2022 – Rs. 698,069.22 Mn). There was no outstanding balance of Sri Lanka Government Securities sold under repurchase agreements as at 31 December 2023 (2022 – 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	
	2023 Rs. 000	2022 Rs. 000	2023 Rs. 000	2022 Rs. 000
Foreign Currency Financial Assets				
Cash and Cash Equivalents	1,198,979,570	651,687,864	1,198,979,570	651,687,864
IMF Related Assets	11,830,901	1,641,520	11,817,285	1,632,712
Other Receivables	-	37,022,631	-	37,022,631
Local Currency Financial Assets				
Securities Purchased under Resale Agreements	333,951,940	698,069,219	333,951,940	567,532,312
Provisional Advances to Government	-	235,638,700	-	150,128,800
Loans to Banks	47,795,687	28,257,902	47,163,326	88,468,648
Other Assets	42,184,721	30,182,560	42,594,653	25,686,027
Foreign Currency Financial Liabilities				
Banks and Financial Institutions	54,113,792	146,408,028	54,113,792	146,408,028
Asian Clearing Union	-	736,258,128	-	736,258,128
IMF	967,325,212	1,127,925,092	967,325,212	1,127,925,092
Others	1,509,255,772	594,383,451	1,509,255,772	594,383,451
Local Currency Financial Liabilities				
Deposits of Banks and Financial Institutions	142,472,582	323,046,181	142,472,582	323,046,181
Deposits of Government and Governmental Entities	2,073,290	221,411	2,073,290	221,411
Securities Sold Under Repurchase Agreements & Standing Deposit Facility	227,035,873	330,637,059	227,035,873	330,637,059
Currency in Circulation	1,186,503,182	1,026,567,252	1,186,503,182	1,026,567,252
Other Payables	29,507,807	68,320,347	29,507,807	68,320,347

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. GOING CONCERN AND CAPITAL MANAGEMENT

51.1 Going Concern

The financial statements of CBSL has been prepared on the going concern basis. The Governing Board has assessed the key financial risks impacting the Bank as disclosed in the financial statements and has determined that there are no material uncertainties that may cast significant doubt about the Bank's ability to continue as a going concern and that therefore the going concern basis is an appropriate assumption to use in preparing the financial statements.

51.2 Capital management

As of 31 December 2023 total equity of the Bank amounted to Rs.11.1 Bn and the Governing Board is of the view that the Bank is sufficiently capitalized to continue the activities of the Bank. As per section 97 of CBA, in the event, the annual audited financial statements of the CBSL reflect that value of its assets falls below the sum of its monetary liabilities and its paid up capital, CBSL can request for a capital infusion from the Government to restore capital to an unimpaired level. In such event CBSL will assess the situation and decide the extent of the shortfall and with the approval of Governing Board request the Minister for a capital contribution to be made by the Government. The amount of capital in currency or in negotiable instruments issued at prevailing market related interest rates will be transferred after obtaining the approval of the Parliament.

52. RELATED PARTIES

52.1 Transactions with State and State Controlled Entities

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

Nature of the Transaction	2023 Rs. 000	2022 Rs. 000
Transactions:		
Outright purchases of Government Securities	1,394,499	-
Outright sales of Government Securities	-	242,099
CBSL and Government Securities Purchased/Sold under Agreement to Repurchase/Sales	13,979,231,698	143,913,767,948
Interest income/expenses on CBSL and Government Securities Purchased/Sold under Agreement to Repurchase/Sales	-	56,770,262
Liquidity Support Facility to Banks	32,500,000	-
Funds received on behalf of Government	599,128,330	210,540,495
Funds disbursed on behalf of Government	351,384,381	211,034,101
Cost of Printing currency notes, for the year ended 31 December (Note 52.1.3)	2,603,776	1,856,465
Payments for Goods, Services and Taxes, during the year ended 31 December (Note 52.1.4)	11,136,712	5,147,957
Gross Foreign Exchange Transactions during the period (Note 52.1.6)		
Sales	285,491,347	872,421,407
Purchases	912,234,278	695,124,187
USD/LKR Derivatives	10,742,797	595,270,456
External legal expenses	4,109	-
Funds Received in respect of Abandoned Property, during the year	572,600	365,405
Rent Income	208,276	207,763
Dividend Income	135,642	115,786
Other Transactions (Note 52.1.9)	912,255	794,842
Balances:		
Sri Lanka Government Securities held by CBSL (Note 52.1.7)	2,044,347,592	2,498,995,015
Provisional Advances to Government (Note 14)	-	235,638,700
Loans given under Covid - 19 Renaissance Refinance Scheme	14,435,008	1,821,749
Government Securities held for specific purposes	20,491,905	17,930,602
RTGS Balances with Banks and Financial Institutions (Note 26)	93,734,580	240,719,873
Nostro Balance with BOC London	41,368	43,888
Receivable from Treasury and other Ministries	8,698,715	3,540,670
Payable to Treasury and other Ministries (Note 25)	248,714,938	1,021,468
Current Account Balances with Government and Government Entities as at 31 December	(199)	(297)
Abandoned Property Balances	8,766,945	5,998,940
Other Balances (Note 52.1.9)	284,800	13,321,704

52.1.1 As empowered under 61 of Part IX of the CBA and authorized by the Governing Board, the Bank Supervision Department carries out regulation and supervision of the banks licensed by CBSL.

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 the Section 132 of CBA, the Central Bank shall continue to act as agent of the Government and be limited only in respect of the issuance of securities of the Government for the account of the Government and in respect of the management of public debt including servicing of both domestic and foreign debt until such date as the relevant law relating to public debt management agency or office comes into operation.

52.1.3 The Bank has the sole right and authority to issue currency in Sri Lanka as per section 44 of the CBA. 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 that result in the holding or placing of assets and liabilities on behalf of Government, trusts, retirement benefit plans and other institutions, as explained in Note 56.

52.1.6 In accordance with the provisions of the MLA (CBA with effect from 14 September 2023), International Operations Department of the Bank monitors the developments in the domestic foreign exchange market and net foreign exchange open positions of licensed commercial banks and National Savings Bank. In monitoring the domestic foreign exchange market developments, the Bank is supposed to be on both sides of the market to moderate the excessive volatility in the exchange rate of Sri Lankan rupee. However, the Bank intervention strategy mainly focused on purchasing foreign exchange due to the requirement of accumulating FX reserves particular to meet the Net Official International Reserves (NIR) target under the IMF-EFF program. During the first quarter, the Bank had to sell foreign exchange to the market aiming at financing the importation of essential commodities such as fuel and coal to assist maintaining economic activities in the country. The amounts of purchases and sales of foreign exchange represent results of such activities.

52.1.7 The Domestic Operations Department of the Bank performs its direct functions of implementing the Bank's monetary policy mainly through open market operations as per Section 31 of CBA and enforcing Statutory Reserve Requirement as per Sections 32-34 of CBA 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 2023 is given in Notes 12. Interest earned on the Government securities is given in Note 36.

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

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

52.2 Transactions with Key Management Personnel

Key Management Personnel of the Bank are the members of the Governing 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

	2023 Rs. 000	2022 Rs. 000
Short Term Employee Benefits	170,108	261,043

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

	2023 Rs. 000	2022 Rs. 000
Outstanding Loans to Key Management Personnel	250,997	329,345
Loans granted during the year	153,118	203,018
Loans re-paid during the year	205,474	187,331

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

	2023 Rs. 000	2022 Rs. 000
Contributions paid and payable	69,624	106,371

The Bank contributed various amounts to Pension and Other Post Retirement Plans as disclosed in Note 32 and paid Rs. 1,017.89 Mn (2022 – Rs. 986.99 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

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 2023.

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	
	2023 Rs. 000	2022 Rs. 000
Related Parties	114,763	1,989,471
Others	5,979	88,808
Total Credit Guarantees	120,742	2,078,279

The expected credit loss on credit guarantee is recognized for the year ended 31 December 2023 is recorded in Note 39.

53.3 Legal Claims

There were number of legal proceedings outstanding against the Bank as at 31 December 2023 and no provision has been made as the Bank is of the opinion that it is unlikely that any significant loss will arise.

54. COMMITMENTS

a) As at 31 December 2023, the Bank has capital commitments amounting to Rs. 64.78 Mn, in respect of the acquisition of Property, Plant and Equipment.

b) As at 31 December 2023, outstanding forward exchange transactions are as follows:

Forward exchange contracts		2023 '000	2022 '000
Forward Exchange Sales	USD	1,221,302	559,112
	GBP	-	12,500
	JPY	538,182	-
Forward Exchange Purchases	USD	225,000	4,750

55. TRANSFERS OF FINANCIAL ASSETS

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

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

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

55.1 Transferred Financial Assets that are not Derecognized in their Entirety

a. Securities Sold under Agreements to Repurchase

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

b. Securities Lending

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

c. Securities Pledged

In order to facilitate the securities settlement process, securities amounting to AUD 35.0 Mn were pledged by the Central Bank of Sri Lanka (CBSL) to Euroclear for a credit facility of USD 30.0 Mn until January 2017. At present, pledged securities held with Euroclear Bank amount to USD 3.0 Mn. The pledged securities are held in a separate account at Euroclear Bank.

Assets

Securities Pledged with Euroclear
Carrying Amount of Assets

2023 Financial Assets at FVOCI	2022 Financial Assets at FVOCI
Rs. 000	Rs. 000
3,749,003	1,090,124
<u>3,749,003</u>	<u>1,090,124</u>

56. TRUST AND CUSTODIAL ACTIVITIES

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

- 56.1** The Bank handles disbursements and repayments of various foreign loans and grants under foreign funded development projects and credit schemes on behalf of the GOSL. It also collects counterparty funds under various foreign loans and grants on behalf of the GOSL and invests such funds in treasury bills on requests made by donor agencies.
- 56.2** The Bank shall have the custody of the moneys of the Employees Provident Fund (EPF). In terms of the statute, the functions of the Governing Board consist of receiving contributions, surcharges, income from investments, maintaining proper accounts of registered members of EPF, investing surplus funds and payment of benefits to the members.
- 56.3** The Bank administered the Deposit Insurance Scheme, which was a voluntary deposit insurance scheme opened to banking institutions licensed by the CBSL and cooperative societies registered under the Cooperative Societies Law No. 5 of 1972, which carry on banking business, and with effect from 1 October 2010 funds of this scheme have been transferred to the Sri Lanka Deposit Insurance Scheme, which was formed as per Gazette No: 1673/11 dated 28 September 2010.
- 56.4** In keeping with the above Gazette, CBSL established a Mandatory Deposit Insurance Scheme named the Sri Lanka Deposit Insurance Scheme as well as a 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 Gazette No: 2239/52, new Regulations titled 'Sri Lanka Deposit Insurance and Liquidity Support Scheme (SLDILSS) Regulations No. 02 of 2021 dated 06 August 2021 were issued by repealing and replacing the initial SLDILSS Regulations No. 01 of 2010 dated 28 September 2010, as amended.

With the Banking (Special Provisions) Act No. 17 of 2023 (BSPA) coming into operation from 15.11.2023, Sri Lanka Deposit Insurance Scheme (SLDIS) Directions No. 01 of 2023 were issued under the BSPA, repealing SLDILSS Regulations No. 02 of 2021.

All Licensed Commercial Banks (LCBs) and Licensed Specialized Banks (LSBs) licensed under the Banking Act and Licensed Finance Companies (LFCs) licensed under the Finance Business Act, shall be members of this Scheme. Accordingly, 63 institutions are members of this Scheme as at 31 December 2023. In terms of Section 43 (2) of the BSPA, deposits to be insured include demand, time and savings deposit liabilities of the member institutions and exclude debt instruments including any promissory notes, hybrid equity and such other debt instruments as may be determined by CBSL and deposit liabilities as stipulated in Section 43(3) of the BSPA.

The deposit insurance fund was established on 1 October 2010 with the transfer of Rs. 350.20 Mn from the investments of the Voluntary Deposit Insurance Scheme and Rs. 1,168.31 Mn of investments made from collection of abandoned property funds of LCBs. As at 31 December 2023, the fund size of SLDIF is Rs. 110,117.96 Mn (unaudited, provisional) and reserve on financial instruments at fair value through other comprehensive income is Rs. 2,528.25 Mn. Accordingly, total equity balance of SLDIF as of 31 December 2023 is Rs. 112,646.21 Mn (unaudited, provisional). Currently, the amount of compensation payable per-depositor per-institution is limited to Rs. 1,100,000 or its equivalent in the case of foreign currency deposits. The payment of compensation shall not be a liability of CBSL, and CBSL shall not be responsible for any liability that exceeds the total amount lying to the credit of the SLDIF.

The Deposit Insurance Unit (DIU) is currently established in the Deposit Insurance and Resolution Department and is responsible for operation and management of the Scheme under the instructions and supervision of the Director of Deposit Insurance and Resolution in terms of Directions and policies as approved by the Governing Board from time to time. DIU shall maintain books and accounts distinctly separate from the Financial Statements of CBSL. The Auditor General shall be the Auditor of this Scheme.

- 56.5** On behalf of the Governing Board of the Bank, RDD acts as the exclusive agent of the GOSL with regard to the projects funded by GOSL and foreign donors as stipulated in the section 87(1) of the CBA. As at 31.12.2023, refinance granted to Participatory Finance Institutions (PFIs) amounted to Rs. 17,091.78 mn.

MAINTAINING DOMESTIC PRICE STABILITY

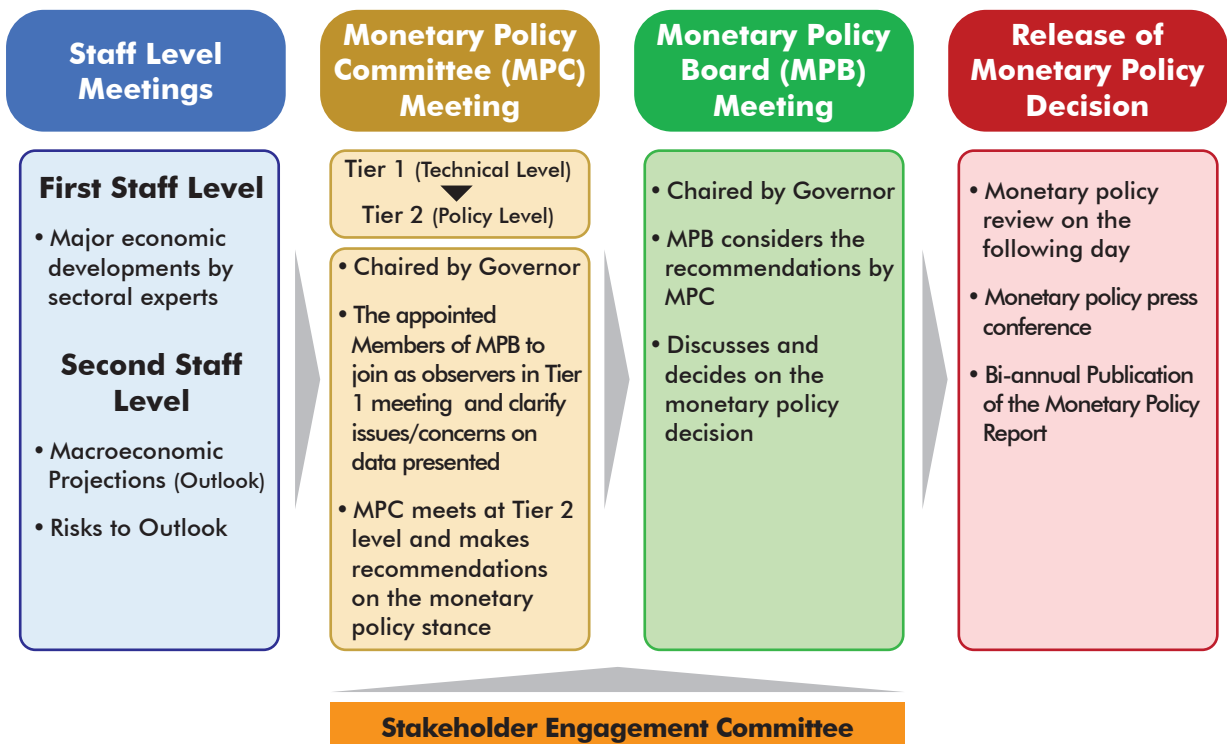
As per the Central Bank of Sri Lanka Act No. 16 of 2023 (CBA), enacted in September 2023, the primary objective of the Central Bank is to achieve and maintain domestic price stability. In this regard, the Monetary Policy Board of the Central Bank is charged with the formulation of monetary policy and implementation of a flexible exchange rate regime in line with the flexible inflation targeting framework (FIT). FIT aims at maintaining inflation at the targeted levels as determined in the Monetary Policy Framework Agreement (MPFA), while supporting economic growth to reach its potential. The current MPFA between the Government and the Central Bank of Sri Lanka, which was published in the Government Gazette on 05 October 2023, requires the Central Bank to maintain inflation at 5 per cent. In terms of operational aspects of

this framework, the Central Bank uses its policy instruments to guide short-term interest rates, particularly the Average Weighted Call Money Rate (AWCMR), to be consistent with the policy stance to achieve the inflation target.

Conduct of Monetary Policy

The Central Bank pursued a tight monetary policy stance until June 2023. However, as inflation moderated faster than expected, the Central Bank commenced easing of the monetary policy stance in June 2023, and continued to relax monetary policy during the latter half of the year as clear signs were evident of demand-driven inflationary pressures remaining subdued. A detailed description of the conduct of monetary policy and its effects is provided in the Annual Economic Review-2023 of the Central Bank.

Monetary Policy Decision Making Process



The Central Bank continued compiling, monitoring, and analysing trends and developments in the monetary, external, real, and fiscal sectors of the economy as well as global economic trends, while producing projections and forecasts to facilitate proactive monetary policy decisions. Near-term forecasts for inflation and Gross Domestic Product (GDP) with forward looking analysis using data and information collected through traditional and non-traditional methods were used to ensure data driven decision making, while model-based and indicator-based forecasts were produced using relevant inputs from various sources. These forecasts were detailed and discussed at regular monetary policy rounds, which include several rounds of staff-level discussions, followed by meetings of the Monetary Policy Committee (MPC) that would make recommendations on the appropriate monetary policy stance to the Monetary Policy Board (previously, to the Monetary Board), to facilitate monetary policy decision-making.

As per the Section 83 of the Central Bank of Sri Lanka Act, No. 16 of 2023, a Council is to be established to coordinate the fiscal policies of the Government and the monetary and financial system stability policies of the Central Bank (Coordination Council). The Governor of the Central Bank, who also acts as the Chairperson, and the Secretaries to the Treasury and the Ministry of the Minister assigned the subject of Economic Policy (in the event that such subject is assigned to a Minister other than the Minister of Finance) serve as members of the Coordination Council. The Coordination Council is required to meet quarterly to exchange views on recent macroeconomic developments, outlook, and risks. Accordingly, the inaugural meeting of the Coordination Council was held on 07 November 2023.

Meanwhile, in order to broaden the engagement with key stakeholders of the economy into the monetary policy formulation process, the Central Bank held quarterly meetings of the Stakeholder Engagement Committee, which consists of a cross section of stakeholders, including eminent professionals, academics, and private sector personnel.

Monetary Policy Communication

The monetary policy communication strategy of the Central Bank in 2023 focused on clear and concise communication to improve public and other stakeholder understanding of matters pertaining to monetary policy formulation and implementation thereby enabling them to make decisions which would have a bearing on the achievement of the Central Bank's primary objective of achieving and maintaining domestic price stability. Thus, monetary policy communication forms a critical component of the Central Bank's FIT monetary policy framework, helping anchor inflation expectations through greater transparency and credibility. Clear communication of policy objectives and decisions, expectations, forward guidance, and constant engagement with stakeholders helped shape expectations during 2023, which was a very difficult year with heightened uncertainties.

As per the statutory requirement, the Central Bank published the Annual Report of the Central Bank for 2022, in all three languages in April 2023. Further, the Central Bank continued to disseminate economic and financial information through daily, weekly, and monthly indicators and bulletins and the online data library available on the Central Bank website. The Central Bank commenced publishing the Monetary Policy Report (MPR) for the first time in July 2023,

highlighting and explaining recent movements in inflation, sources of inflation and medium-term projections for inflation as well as key risks to such projections. The publication of this bi-annual report became mandatory following the enactment of the CBA in September 2023.

Eight press releases on Monetary Policy Reviews were issued during 2023, informing the public of the monetary policy stance, while facilitating the monetary policy review press conferences and livestreaming of the same enabling a wide outreach of real time monetary policy communications. As a way of improving the clarity in communication and to provide the outlook for inflation, the Central Bank continued the publication of inflation fan charts in its monetary policy reports, monetary policy review press releases, and press releases on inflation. Publication of inflation outlook is expected to guide inflation expectations of the public, thus supporting the achievement of the inflation target over the medium-term.

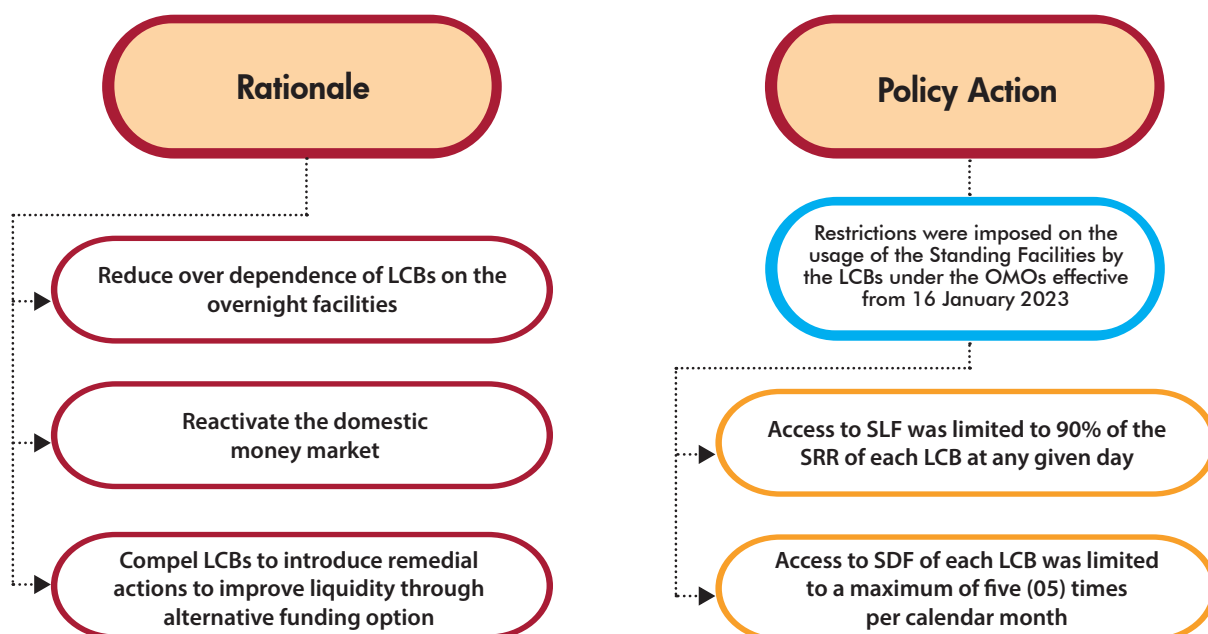
The Central Bank, with its resource personnel, facilitated webinars coordinated by the Regional Offices of the Central Bank to enhance the outreach following monetary policy announcements, and conducted awareness programmes on economic developments, monetary policy and other Central Bank functions throughout the year.

Further, providing data for the IMF's Special Data Dissemination Standard (SDDS) ensured the dissemination of data pertaining to all sectors of the economy as per the published Advance Release Calendar. In addition, the Central Bank ensured dissemination of data and information to the international agencies in a timely manner.

Monetary Operations

As stipulated in Section 31 of the CBA, the Central Bank carries out Open Market Operations (OMOs) to achieve the domestic price stability objective of the Central Bank, in line with the adopted monetary policy stance. Accordingly, in

Imposing Restrictions on Standing Facilities



implementing monetary policy, the Central Bank regularly infused liquidity through overnight and term reverse repo auctions under the OMOs since mid-April 2023, on a need basis ensuring certainty on the availability of liquidity. Further, outright purchases of Treasury bonds were carried out through auctions to inject liquidity on a permanent basis. In addition to regular OMOs, special liquidity facilities were provided to certain licensed banks to strengthen their liquidity positions. The Standing Facilities were provided to Participatory Institutions (PIs), which were unable to fulfill their short-term liquidity requirements through the money markets and the daily OMO auctions.

Restrictions on the availability of the Standing Facilities were imposed in January 2023. Accordingly, the usage of Standing Deposit Facility (SDF) was limited to a maximum of five (05) times per calendar month, while the Standing Lending Facility (SLF) was limited to 90 per cent of the Statutory Reserve Requirement (SRR) of each LCB on any given day. The Central Bank has removed the above mentioned restrictions on the usage of the SDF with effect from 01 April 2024, considering the improvements in liquidity conditions and domestic money market activities.

Further, the Central Bank continued to administer and monitor the compliance of LCBs with the SRR, which determines the reserves that each LCB should maintain, in proportion to the total average rupee deposit liabilities of the respective bank, in their settlement account with the Central Bank, in terms of Section 32 of the CBA.

Domestic Foreign Exchange Market Operations

The Central Bank is vested with powers to determine and implement the exchange rate policy of the country whilst being entrusted

with the responsibility of engaging in foreign exchange (forex) operations with LBs and various other domestic and foreign counterparts.

The Central Bank discontinued the daily guidance given to the market since 07 March 2023 and revoked the Operating Instructions (OIs) issued to Licensed Banks (LBs) on "Managing Intraday Volatility of the Exchange Rate" on 12 May 2022, considering the improvement of the forex liquidity in the market. This measure also supported the requirement under the IMF-EFF arrangement. Moreover, in March 2023, the Central Bank proceeded with the revocation of OIs issued to LBs on mandatory sale of forex to the Central Bank and discontinued the acquisition of forex, voluntarily surrendered by LBs to facilitate the import of coal and fuel. Thereafter, a significant trend of appreciation of the exchange rate with occasional volatility was observed during the first half of 2023. In this context, the Central Bank actively engaged in monitoring and guiding the domestic forex market, while curtailing the excessive volatility in exchange rate and augmenting the Gross Official Reserves (GOR).

The second half of 2023 witnessed some upward pressure on the exchange rate because of heightened demand for forex from LCBs to cover the shortfall in foreign currency due to rupee settlement of Sri Lanka Development Bonds (SLDBs) under the DDO. With effective communication by the Central Bank with LBs and other stakeholders, coupled with prompt interventions through the provision of forex to the market when required to curtail any undue pressure, a noticeable stabilisation of the exchange rate was observed. Meanwhile, to facilitate the absorption of the exchange of SLDBs into LKR denominated bonds as per DDO, measures were taken to temporarily revise the

Net Forex Open Position (NOP) limits applicable to respective LBs on a case-by-case basis in 2023.

In terms of dissemination of information on the developments of exchange rate, the Central Bank, recommenced to publish the indicative exchange rate for the US dollar along with indicative exchange rates for other selected world currencies from March 2023, instead of the previously published middle exchange rate with a prescribed variation margin. The Central Bank also published the average Telegraphic Transfer (TT) buying and selling exchange rates of selected LBs against LKR for nine major currencies on a daily basis.

The enactment of the CBA in September 2023 asserts the Central Bank's role of maintaining a flexible exchange rate regime. The flexible exchange rate regime allows the exchange rate to be determined by the market demand and supply conditions. The Central Bank intervention in the domestic forex market is limited to smoothing excessive volatility in the exchange rate and to building GOR as appropriate.

Foreign Reserves Management

The Central Bank is entrusted with the responsibility of holding as well as prudently and effectively managing official international reserves of the country, consistent with international best practices and the rules made by the Governing Board having regard to the safety, liquidity and return objectives, as empowered by the provisions of the CBA. In 2023, international reserves were managed in accordance with a model based scientific framework stemming from the asset and liability structure whilst assessing performance on a total return approach including the financial

risks covering credit and market risks, ensuring compliance with Investment Policy Statement (IPS), Strategic Asset Allocation (SAA) and Investment Guideline (IG) relating to international reserve management activities.

Owing to the steady pace of growth in international reserves during 2023, the Central Bank re-commenced the investment activities of international reserves, which had been restrained during the previous two years amidst constrained forex liquidity levels. Moreover, the Central Bank faced many challenges in dealing with the international financial markets due to the adverse sovereign rating profile of the country leading to foreign counterparts discontinuing their trading lines for Sri Lanka. Amidst these difficulties, banking on the rapid restoration of macroeconomic stability in the economy with the support of the IMF programme, the Central Bank exerted extensive efforts to reinstate the reserve management function in full force with a view to reaping possible benefits from the global high interest environment with due regard for liquidity and safety concerns. Accordingly, investment activities were expanded mainly to the fixed income securities and money market products, whilst adding a twist of sustainable financing to the investment portfolios, in line with the current momentum of international capital markets.

Compilation of Data for Monetary Policy Decision Making

The Central Bank collects forward-looking data through primary and secondary sources, which are used as inputs in compiling economic indicators to provide timely information for the data-driven decision-making process. Structured surveys are the main source of obtaining primary data, while secondary data is collected

from external institutions. In terms of primary data collection and usage, the Central Bank continued to compile a wide array of forward-looking indicators using data collected through regular business surveys including, Purchasing Managers' Index (PMI) Surveys, Business Outlook Survey (BOS), Condominium Market Survey (CMS), Credit Supply Survey (CSS), Credit Demand Survey (CDS), and other surveys including the Inflation Expectations Survey (IES) and the Annual Public Sector Employment Survey. Moreover, the Country Wide Data Collection System (CWDCS) continued its operation in 2023, with the engagement of Teacher Investigators (TIs) to collect retail prices of consumer goods, producer prices of agricultural commodities and building materials, daily wages of the informal sector workers, inflation expectations, and retail sales volumes of selected categories of goods, thereby providing timely inputs for the Central Bank's policymaking processes. Further, asking price indices for real estate properties and vehicles, and formal and informal sector wage rate indices are also compiled along with regional statistics such as Provincial Gross Domestic Product.

Moreover, the Central Bank automated the compilation of several weighted average interest rates, while the lead time for the compilation of monetary data was reduced, which improved the availability and timeliness of data for monetary policy decision making in 2023. Also, to assess and ensure the transmission of monetary policy, bank wise data on lending interest rates was tracked closely on a regular basis, and appropriate actions were taken to enhance passthrough and banks' compliance, whenever the required market adjustments fell short of the Central Bank's expectations. In addition to the above, the Central Bank continued with its in-depth analysis of credit extended to the private

sector monthly to assess the transmission of monetary policy into the financial markets and the real economy. To understand the usage of credit, sectoral analyses of credit distribution were conducted on a quarterly basis, which provided useful information for decision-making purposes. Furthermore, the Central Bank continued to compile a range of high frequency indicators covering several key segments of the economy, including energy, agriculture, manufacturing, ports, and telecommunications, among others, to gauge the pace and trajectory of economic activity in the near to medium term, which supported the monetary policy decision making process. During the year, the Central Bank accomplished significant progress in the implementation of the International Transactions Reporting System (ITRS), to collect and compile granular level information on cross border foreign currency transactions that take place through the banking sector. With the current level of completion of the ITRS, more comprehensive reports are now available for policy making. The ITRS would enrich BOP statistics by making more detailed and accurate data available on service sector inflows and outflows, which improves the availability and timeliness of data.

Way Forward

Following the commencement of monetary policy easing in June 2023, the Central Bank continued its easing cycle amidst low levels of demand-driven inflationary pressures and anchored inflation expectations. Continuation of the accommodative monetary policy stance may be warranted as the economy is operating below potential. However, monetary policy stance will continue to be data-driven and adjust appropriately as new data becomes available.

To improve the transmission of monetary policy and signaling of the monetary policy perspective, the Central Bank is considering adopting a single policy interest rate, instead of the current mechanism of two policy interest rates. The Central Bank is also expecting to enhance the effectiveness of statutory reserve requirement framework following international best practices. Further, the Central Bank is expecting to develop an advanced user-friendly infrastructure for smooth functioning of OMOs. Moreover, It will continue to improve its in-house modelling and forecasting capacity by streamlining the model-based Forecasting and Policy Analysis System (FPAS).

The continuation of the flexible exchange rate regime is anticipated to support trade competitiveness and external sector stability in the coming years, as well as medium-term economic stability. The discussions with the ACI Financial Markets Association and market participants are expected to enable the Central Bank to implement the FX Global Code (FXGC) in the domestic forex market by the end of 2024. The purpose of implementing the FXGC in the domestic foreign exchange market is to provide a common set of guidelines to promote a robust, fair, liquid, open, and appropriately transparent market, in which market participants can confidently and effectively transact at competitive prices that reflect available market information.

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ENSURING FINANCIAL SYSTEM STABILITY

The Central Bank is tasked with the crucial objective of ensuring the stability of the financial system, as mandated by the CBA. A robust financial system is instrumental in aggregating savings and channeling them towards productive investments, effectively managing risks, and facilitating seamless payment settlements. Importantly, it should be able to withstand economic shocks and stressful circumstances without significantly impacting economic growth and the welfare of the populace. This pivotal role contributes to fostering an enabling environment for efficient financial intermediation, thereby stimulating investments, and fostering economic growth.

Preserving Financial System Stability in 2023

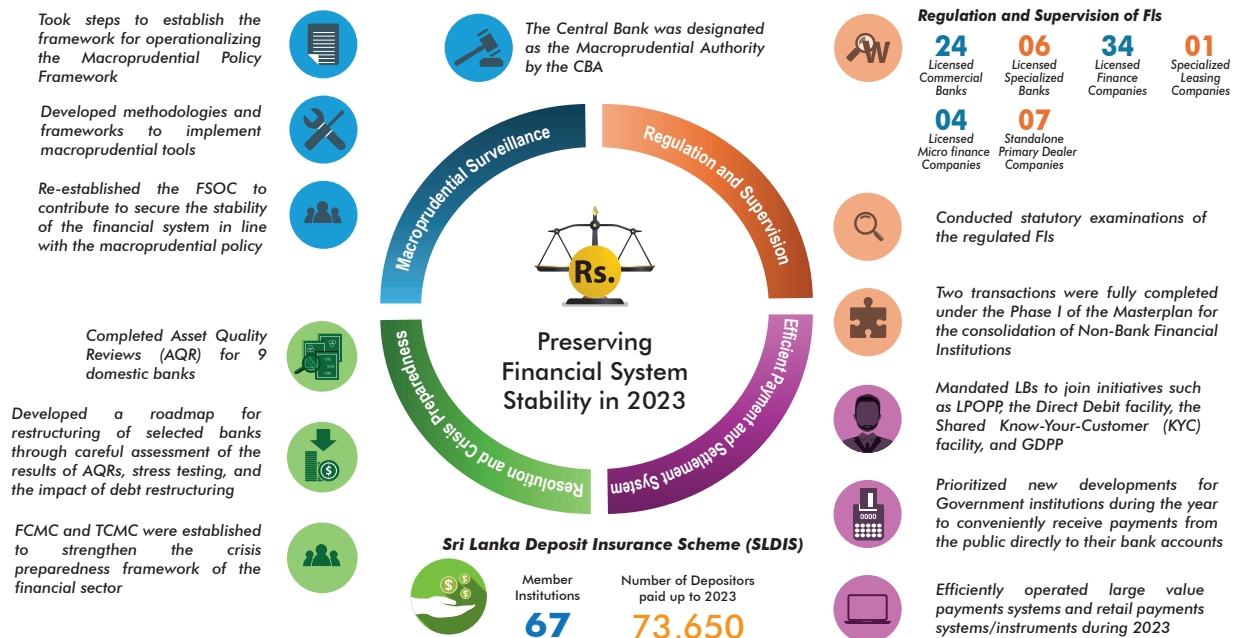
Amidst multifaceted challenging conditions such as macroeconomic adversities, external debt standstill, and domestic debt optimization (DDO) in 2023, the country's financial system faced

significant strain. However, the Central Bank prioritised preserving financial system stability through enhanced crisis preparedness and management. It effectively steered the financial system by implementing policies to bolster resilience, maintaining vigilant oversight, and regulating financial institutions. The holistic and proactive approach by the Central Bank ensured financial system stability enabling the financial system to safely navigate through numerous challenges that transpired during 2023.

Mitigating Risks Emanating from the Economic Crisis and Enhancing Crisis Preparedness

The Central Bank actively engaged with IMF and other multilateral agencies such as the World Bank and the Asian Development Bank on implementing necessary reforms to ensure stability of the financial system.

Preserving Financial System Stability in 2023



The Central Bank made a significant contribution to the DDO programme in 2023 which was announced by the Ministry of Finance to meet the debt sustainability targets agreed under the IMF-EFF. In this process, preserving financial system stability was prioritized and timely and effective communications assisted in ensuring public confidence in the financial system. Further, independent Asset Quality Reviews (AQRs) for 9 domestic banks which account for more than 90 per cent of the domestically owned bank assets, were completed during 2023. Further, the Central Bank developed a roadmap for restructuring and capital enhancement of selected banks through careful assessment of the results of AQRs, forward-looking stress testing based on macro-financial scenarios, and the impact of domestic and external debt restructuring followed by a recapitalization strategy to meet the potential capital shortfalls. The completion of the AQR and the Recapitalization Roadmap ensures a well-capitalized banking system towards ensuring financial system stability. Furthermore, the Central Bank is in the final stage of enacting the amendments to the Banking Act which was another structural benchmark under the IMF-EFF program, with the view to further strengthen and streamline the provisions of the existing Banking Act, No. 30 of 1988, and to ensure that the provisions thereof are in line with the international standards. In this regard, the approval in principle for the key amendments to the Banking Act was obtained from the Cabinet of Ministers in June 2023. Further, the consultation paper on the amendments to the Banking Act was issued in the second half of 2023 for the observations and comments of the relevant stakeholders. Amendments to the Banking Act were drafted in the later part of 2023 incorporating the stakeholder comments, as appropriate.

The Financial Sector Crisis Management Committee (FCCMC) and the Technical Committee on Financial Sector Crisis Management (TCCMC) were established with the officials of both the Central Bank and the Ministry of Finance, to strengthen the crisis preparedness framework of the financial sector. The objectives of these committees are identifying potential systemic crisis in the financial sector and its effects on the real economy, thereby addressing issues, minimising the possible damages to the financial sector while providing support through inter-agency coordination and communication.

Continuous Supervision and Regulation of Financial Institutions

The Central Bank was vigilant on resilience of the financial institutions (LBs, Licensed Finance Companies (LFCs), Specialised Leasing Companies (SLCs), Licensed Micro Finance Companies (LMFCs) and Primary Dealer Companies (PDCs)) regulated and supervised by the Central Bank to ensure financial system stability amidst prevailing macroeconomic challenges. During 2023, the Central Bank issued Directions, Determinations, and Circulars on prudential and regulatory requirements.

During 2023, the Central Bank conducted statutory examinations of LBs under risk based consolidated framework. Further, spot examinations were conducted on several LBs, inter-alia, to verify matters relating to customer complaints, corporate governance, verification of LKR liquidity positions and concerns over the FX transactions of exchange houses. Moreover, the Central Bank conducted statutory examinations of LFCs and PDCs during 2023 and recommendations on key supervisory concerns and the Time Bound Action Plans to rectify such

concerns were communicated to the respective companies for necessary corrective actions. Further, spot examinations were also conducted on LFCs to assess the process of submission of regulatory information via the FinNet system. The Central Bank intensified continuous supervision of financial institutions under its purview during 2023 through close monitoring of early warning indicators and reporting, to ensure safety and soundness.

Further, the Central Bank examined the operations of Authorised Money Brokers who perform an intermediary role in the money, domestic foreign exchange and Government securities markets to ensure their ethical conduct in the process of efficient price discovery. Moreover, the Central Bank conducted on-site supervision and off-site surveillance to ensure the smooth functioning of the services of Payment Cards and Mobile Payment Systems and continued to monitor the compliance of the Mobile Payment Application Providers with the Guidelines issued on minimum compliance standards for payment-related mobile applications that ensures mobile payment and banking apps to meet specific security requirements to minimize risks of using mobile payment applications when conducting financial transactions.

Masterplan for the Consolidation of Non-bank Financial Institutions

The Central Bank implemented a Masterplan in 2020 for the consolidation of Non-Bank Financial Institutions aimed at creating robust and resilient LFCs/SLCs over the medium term. This initiative is driven by the goal of safeguarding the interests of depositors within the sector and ensuring the overall stability of the financial system. Under

Phase I of the Masterplan, two transactions were fully completed during 2023.

Establishing the Macroprudential Authority

The Central Bank is designated as the Macroprudential Authority of Sri Lanka under the CBA by expanding the Central Bank's mandate and scope in securing financial system stability. Macroprudential policy measures enhance the resilience of the financial system by mitigating systemic risk, thereby reducing the likelihood of a financial crisis that could exacerbate an economic downturn and lead to significant welfare losses.

With the enactment of the CBA, the Central Bank took steps to operationalize its macroprudential mandate. This included establishing the framework of operationalising the macroprudential mandate in line with international best practices, tailored to the domestic context. Accordingly, a rigorous review of current macroprudential approaches was conducted and steps were taken to re-establish the Financial System Oversight Committee (FSOC) and the Macroprudential Surveillance Department (MSD) with updated mandates in line with the CBA.

The Central Bank continued updating the systemic risk monitoring processes by expanding the surveillance arena and adapting the stress testing processes to evaluate the realized or possible impact of challenging macrofinancial conditions that transpired.

The CBA has equipped the Central Bank with powers and a set of tools which could be utilised to achieve its macroprudential objectives of maintaining the resilience of the financial

system. Therefore, the Central Bank developed methodologies and frameworks to implement macroprudential tools such as the Counter Cyclical Capital Buffer (CCyB), Loan to Value (LTV) ratio on housing loans and Debt Service to Income (DSTI) ratio. The Central Bank will implement these tools when macrofinancial conditions turn favourable for the introduction of such policies, or conditions in the financial system warrant the implementation of such tools in the future.

Effective communication of financial stability policies highlighting the main objectives and elements of such policies and/or changes to policies introduced from time to time is important. Further, clear communication of financial stability aspects can facilitate market participants to assess market risks with reliable information, which improves understanding of financial sector developments resulting in behavioural changes that support financial stability. Therefore, the Central Bank formulated an effective strategy to communicate macroprudential policies and other aspects of financial stability. Accordingly, the Central Bank published the Financial Stability Review (FSR) and conducted a press conference in launching the FSR and Financial Soundness Indicators (FSI) in 2023.

Efficient and Smooth Operation of Payments and Settlement Systems

The payment and settlement systems of the country were operated smoothly and efficiently during the year 2023. The Central Bank efficiently operated large value payments systems such as Real Time Gross Settlement System (RTGS) and retail payments systems/instruments including the Common Electronic Fund Transfer Switch (CEFTS) for instant interbank transfers, Lanka Pay

Online Payment Platform (LPOPP) which enables customers to pay government institutions directly from their bank accounts, LANKAQR and JustPay for payments through linking multiple bank accounts to any JustPay enabled mobile app.

The Central Bank prioritized new developments for Government institutions and corporate entities during the year to conveniently receive payments from the public directly to their bank accounts, instantly. Since many Government institutions, especially at local government level, do not possess internal IT systems presently, LankaPay (Pvt) Ltd, under the guidance of the Central Bank has implemented the Government Digital Payment Platform (GDPP), to enable such institutions to receive payments digitally from the public. To further improve the adoption of digital transaction channels, the Central Bank mandated LBs to join initiatives such as LPOPP, the Direct Debit facility, the Shared Know-Your-Customer (KYC) facility, and GDPP.

Enhancing the Resolution Framework and Sri Lanka Deposit Insurance

A sound resolution framework coupled with a deposit insurance scheme enhances the public confidence in the financial system and are crucial in ensuring stability of the financial system. Therefore, the Banking (Special Provisions) Act, No. 17 of 2023 (BSPA) which defines the resolution authority and powers of the Central Bank was enacted in 2023. The BSPA introduced financial safety net mechanisms, new resolution measures to be implemented in consultation with the Government and included provisions for establishment of a separate department within the Central Bank to exercise its Resolution Authority. Extension of the resolution measures

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which are applicable for LBs to LFCs, as and when appropriate, is also enabled under the BSPA.

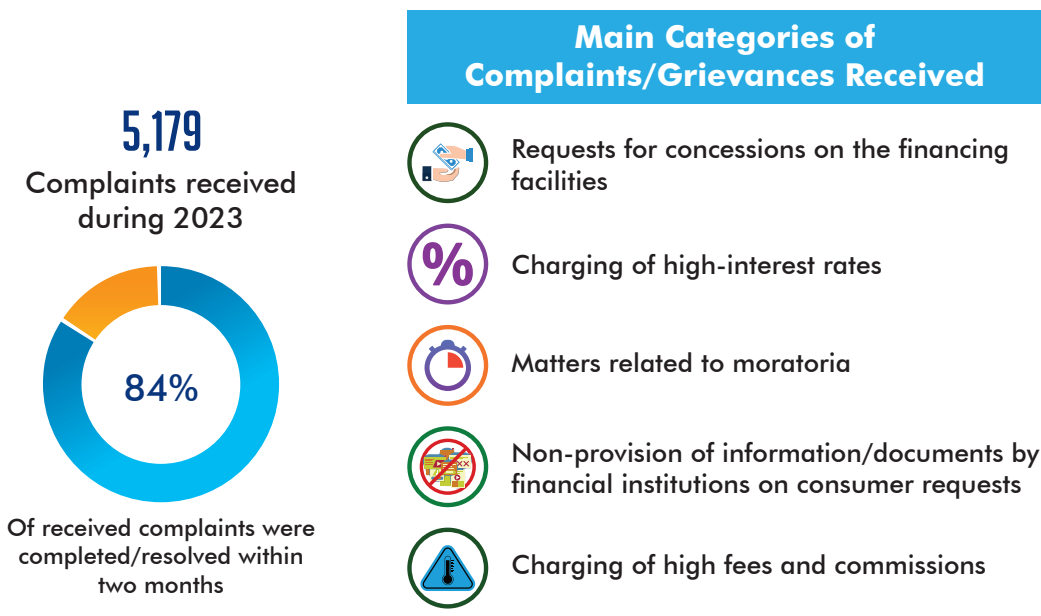
The Sri Lanka Deposit Insurance Scheme (SLDIS) was legally instituted through the BSPA, to uphold public confidence in the financial system and to promote and contribute to the stability of the financial system. As at end 2023, the SLDIS comprised 67 member institutions. The Central Bank has launched a web page named 'the Sri Lanka Deposit Insurance Scheme' including frequently asked questions (FAQs) to improve public awareness on deposit insurance. Further, measures were taken to initiate establishment of fiscal backstop funding arrangements with the Ministry of Finance, while making necessary adjustments to strengthen the organizational structure of SLDIS. Overall, up to end 2023, SLDIS has paid Rs. 31 billion to 73,650 depositors

of LFCs whose licenses have been cancelled. The quantum of compensation paid was 87.9 per cent of the total insured value of Rs. 35.3 billion.

Enhancing Financial Consumer Protection

In 2023, the Central Bank implemented measures aimed at protecting financial consumers and fostering fair and ethical practices among financial service providers. Notably, in August 2023, the Central Bank issued comprehensive regulations on the Financial Protection Framework. These regulations establish a robust framework for safeguarding the interests of financial consumers. Additionally, such regulations provided the Central Bank the requisite authority to carry out market conduct supervision an effective mechanism for protecting the interests of financial consumers.

Handling of Customer Complaints and Inquiries



The Central Bank maintains a Contact Centre with a dedicated Hotline facility and tri-linguistic capacity to answer telephone inquiries of the public



57,498 | Telephone inquiries were answered with a very high response rate

Throughout 2023, the Central Bank continued to address complaints and grievances raised by financial consumers, providing an alternative dispute resolution avenue aimed at facilitating amicable settlements between concerned financial institutions and affected parties. Over the course of the year, the Central Bank processed a total of 5,179 complaints and grievances. Furthermore, the Central Bank operates a Contact Centre equipped with a dedicated Hotline facility and trilingual capacity to address telephone inquiries from the public. In 2023, the Contact Centre fielded more than 57,000 telephone inquiries, boasting an impressively high response rate.

Investigating Unauthorised Finance Business and Prohibited Schemes

Unauthorized finance business and prohibited schemes pose significant challenges to public confidence in the financial system. Therefore, the Central Bank continued to monitor such developments and take prompt actions against such schemes. During 2023, the Central Bank handled 143 investigations on unauthorized deposit taking and financing businesses based on the complaints and information received. Further, the Central Bank obtained extensions in 2023, from the High Court of Colombo for freezing orders issued under Section 44 of Finance Business Act with respect to 4 investigations. Moreover, the Central Bank obtained orders from the relevant Magistrate Courts to suspend overseas travel of concerned parties of 8 entities subject to investigations. In addition, the Central Bank concluded 8 investigations in relation to prohibited schemes in 2023, and reports were forwarded to the Attorney General's Department for necessary legal actions. Further, to raise awareness and prevent public victimization, the

Central Bank issued press notices as and when required and conducted awareness programs for school children, law enforcement authorities and the public across the country.

Sustainable Finance Activities of the Central Bank

During the year 2023, the Central Bank engaged in a series of activities related to the implementation of the Roadmap for Sustainable Finance in Sri Lanka. Subsequent to the issuance of Sri Lanka Green Finance Taxonomy in 2022, a need for building capacities in the financial sector was raised as a timely intervention. Hence multiple programmes were conducted in 2023, with the collaboration of international agencies such as UNESCAP, IFC and SBFN. Further, as an initiative to address the need of the regulated financial institutions in clarifying the technical issues related to the Green Finance Taxonomy, the Central Bank appointed an external panel of experts with technical expertise in the sectors identified by the Taxonomy. Sri Lanka became the twentieth member on the International Platform for Sustainable Finance (IPSF) represented by the Central Bank, which is an international platform for developing capacity in the area and learn from the member country experiences at multiple discussion forums being organised by the Platform. Moreover, the Central Bank continued to work closely with international agencies, and other relevant stakeholder groups both locally and globally in promoting sustainable financing initiatives in the country.

Details of development of the financial sector is given in the section of Financial Sector Developments of the Annual Economic Review 2023.

Way Forward

The Central Bank will ensure the financial system stability while continuously contributing to the economic recovery of the country. Supervision and regulation of financial institutions will be further strengthened by the Central Bank through issuing, reviewing, and amending prudential regulations in line with the domestic and international regulatory & market developments and best practices. Further, it is expected to strengthen the risk-based supervision through improving Bank Sustainability Rating Indicator and continuous surveillance by intensifying early warning and monitoring framework of the Central Bank.

In addition, Phase II of the Masterplan of non-bank financial institutions will be implemented by the Central Bank in the medium term to ensure long term sustainability of vulnerable and small to medium scale LFCs.

The Central Bank will closely follow-up with the financial institutions to support the expansion of digital payments in an efficient, safe and stable manner and continue conducting public awareness sessions on digital payment systems/

methods during the year 2024, since lack of digital financial literacy in the country has created a major challenge to persuade customers to shift away from cash usage in payments.

Moreover, it is expected to implement the regulations and market-conduct supervision gradually, ensuring a smooth transition for all stakeholders. Further, plans are underway to extend the reach of the financial consumer awareness campaign through mass media channels in 2024, ensuring widespread dissemination of crucial information to consumers across Sri Lanka.

Appropriate macroprudential instruments will be introduced by the Central Bank when conditions warrant to mitigate any buildup of systemic risk, so that the resilience of the financial system will be enhanced. The Central Bank will continue to update the macroprudential approach to keep abreast of international best practices in macroprudential surveillance and policy formulation.

The detailed outlook of the financial sector is given in the section of Domestic Economic Outlook of the Annual Economic Review 2023.

PROMOTING A PROGRESSIVE AND INCLUSIVE FINANCIAL SYSTEM

The current policy focus of financial inclusion is broader than merely providing easy and affordable access to financial products and services. It has transitioned from the traditional perspective of increasing access to finance to a more holistic approach, which also involves enhancing the quality of financial services. This policy shift was recognized by the country's very first national level policy framework to promote financial inclusion: "National Financial Inclusion Strategy of Sri Lanka" (NFIS 2021-2024), introduced as a multi-stakeholder effort led by the Central Bank and being implemented in collaboration with the relevant national level stakeholders.

Promoting Financial Inclusion in 2023

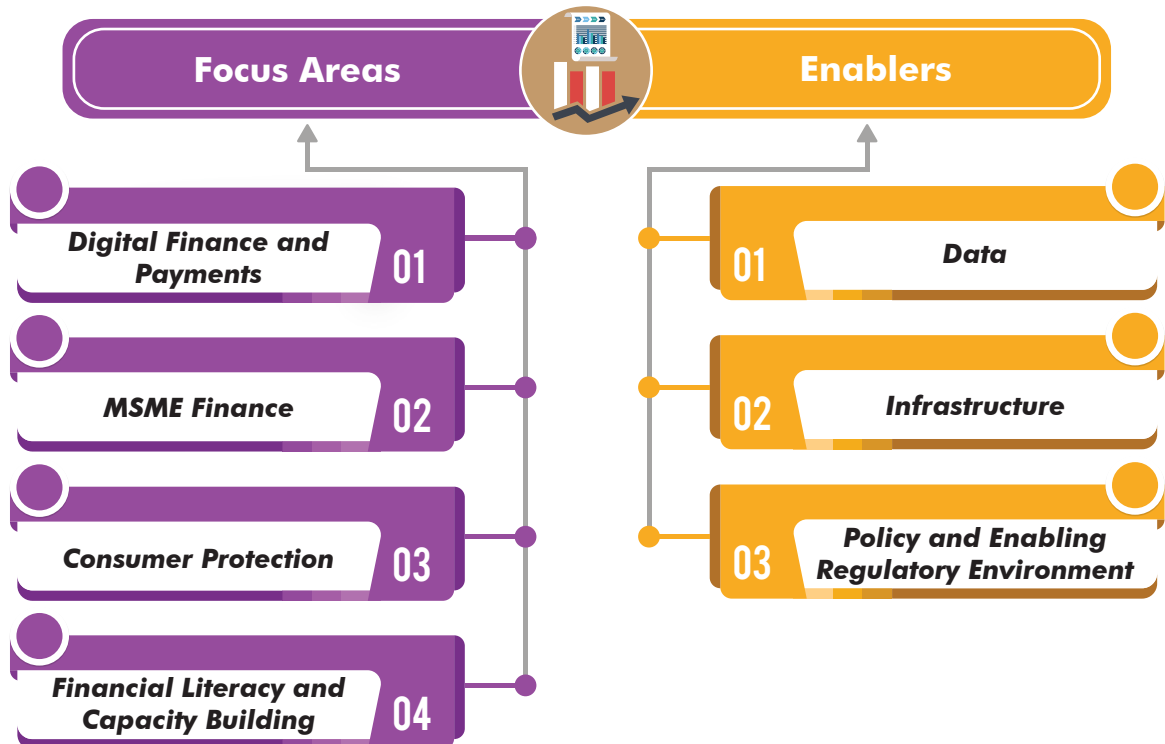
The year 2023 marked the 3rd year of implementation of the NFIS launched in

2021 with an aspiring vision of "Better Quality Inclusion for Better Lives", where all individuals and enterprises in Sri Lanka are well-informed and have fair, and equitable access to a range of high-quality, appropriate, secure, and affordable financial products and services, thereby contributing to economic growth and improving living standards.

The Central Bank collaborated with 20 national level stakeholders to implement the Action Plan of the NFIS, which is focused on four key thematic areas. The NFIS Action Plan consists of 80 actions designed to achieve 26 broad financial inclusion objectives. As of the end of 2023, the overall level of performance of the Action Plan is identified as 75.9 per cent.

In 2023, the Central Bank further enhanced the strategic orientation guided by the NFIS towards promoting the financial system to support a more

Focus Areas and Enablers of the National Financial Inclusion Strategy of Sri Lanka



digitalized, diversified, inclusive, and financially resilient economy. Reinforcing this long-term venture, "Promoting Financial Inclusion" was recognized as a statutory responsibility of the Central Bank by the CBA.

Advancing Digitalisation in Financial Services

Being entrusted with the responsibility of ensuring the safety, efficiency and reliability of the payment and settlement systems, the Central Bank undertook and implemented many initiatives in the country's digital journey to contribute towards a more inclusive and progressive financial system. These initiatives evidently increased public confidence of cashless transactions and growth in transactions of electronic retail payment systems and instruments.

In addition to the initiatives taken in line with the Government's Digital Economy Agenda, in 2023, LBs were directed to enable real-time transaction notifications, facilitate digital transactions in remote areas, promptly update credit card settlements through digital channels, and enforce mandatory reference fields for digital transactions. Moreover, LBs acting as Financial Acquirers were instructed not to pass the Merchant-Discount-Rate (MDR) to customers, as this practice tends to deter payment card usage, emphasizing consumer convenience and affordability in digital transactions.

International Collaborations of LankaPay

The Central Bank granted approval for LankaPay to join with several regional and country payment networks authorized and regulated by the respective country or authority. Facilitating this process, the Central Bank informed all

LBs to enable LANKAQR merchants to accept payments from mobile applications linked to international payment networks.

While increasing the outreach of digital payment systems, the Central Bank further focused on ensuring safety and resilience in Payment Systems. Accordingly, the Central Bank initiated proactive measures to address growing consumer concerns surrounding digital transactions. This included the introduction of a trilingual web form to collect feedback on potential risks in payment services, highlighting transparency and accountability. Additionally, to tackle fraud risks in mobile app transactions, the Central Bank mandated LBs facilitating "JustPay" transactions to enforce extra security measures, such as One-Time Passwords (OTPs) for transactions exceeding Rs. 10,000.00 aiming to bolster consumer confidence and safety in high-value mobile payments.

In 2023, the Central Bank carried out the financial inclusion product risk assessment as a part of the National Risk Assessment with the aim of assessing the risk of Money Laundering and Terrorist Financing arising from existing as well as emerging financial inclusion products.

During the year 2023, e-KYC guidelines were issued to promote financial inclusion. Further, the Central Bank is in the process of incorporating the necessary amendments to Financial Transactions Reporting Act, including provisions to conduct simplified due diligence for low-risk customers/products.

Enhancing Access to Financial Products and Services

Efficient and effective access to financial services provided by formal institutions is a pre-requisite for an inclusive financial system.

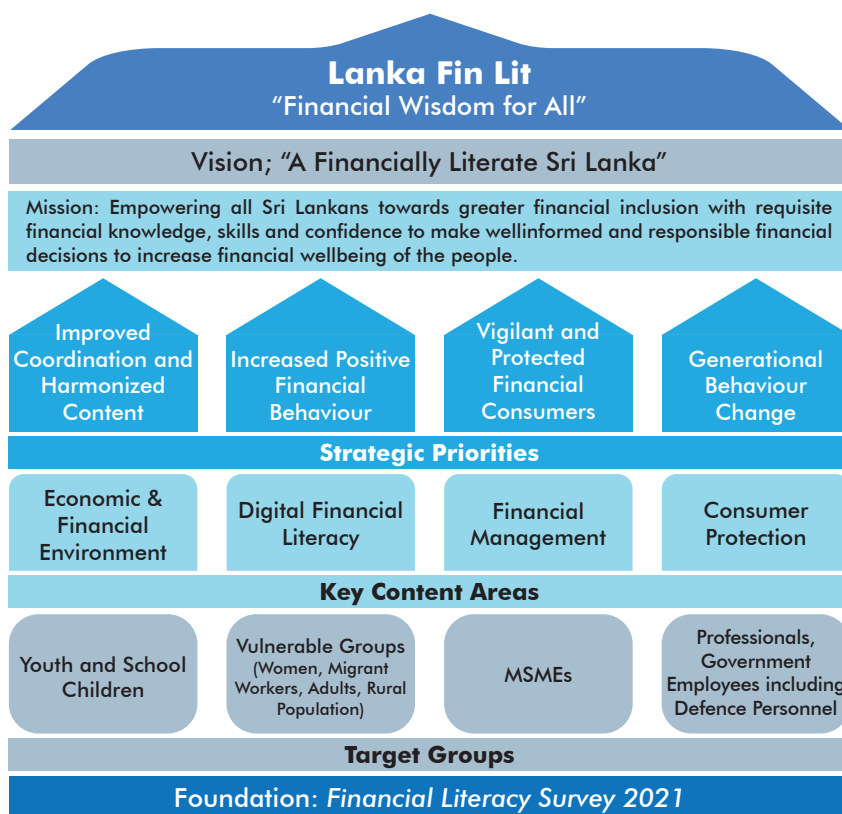
In response to the need of financially excluded and underserved segments, the Central Bank persistently promotes and facilitates the Registered Financial Institutions to open new bank branches, student savings units and self-service machines such as Automated Teller Machines, Cash Deposit Machines and Cash Recycling Machines in rural and unbanked areas.

To support the individuals and Micro, Small and Medium Entrepreneurs (MSMEs) adversely affected by the macroeconomic conditions, LFCs and SLCs were requested to grant appropriate financial concessions on a case-by-case basis considering credit worthiness of the customers. In August 2023, interest rate caps were imposed on certain Sri Lanka Rupee denominated products of LBs.

Empowering Sri Lankans through Enhanced Financial Literacy

During the year 2023, the Central Bank conducted a number of programs to uplift the financial literacy of the public. These included comprehensive media campaigns, which were tailored to educate public on budgeting, investing, credit and debt, planning for savings and retirement, digital means of payments, navigating financial institutions and products and their rights and responsibilities in the financial landscape. Furthermore, the Central Bank conducted several capacity-building programs and technical assistance programmes aimed at relevant stakeholders including the registered financial institutions.

Framework of the Financial Literacy Roadmap



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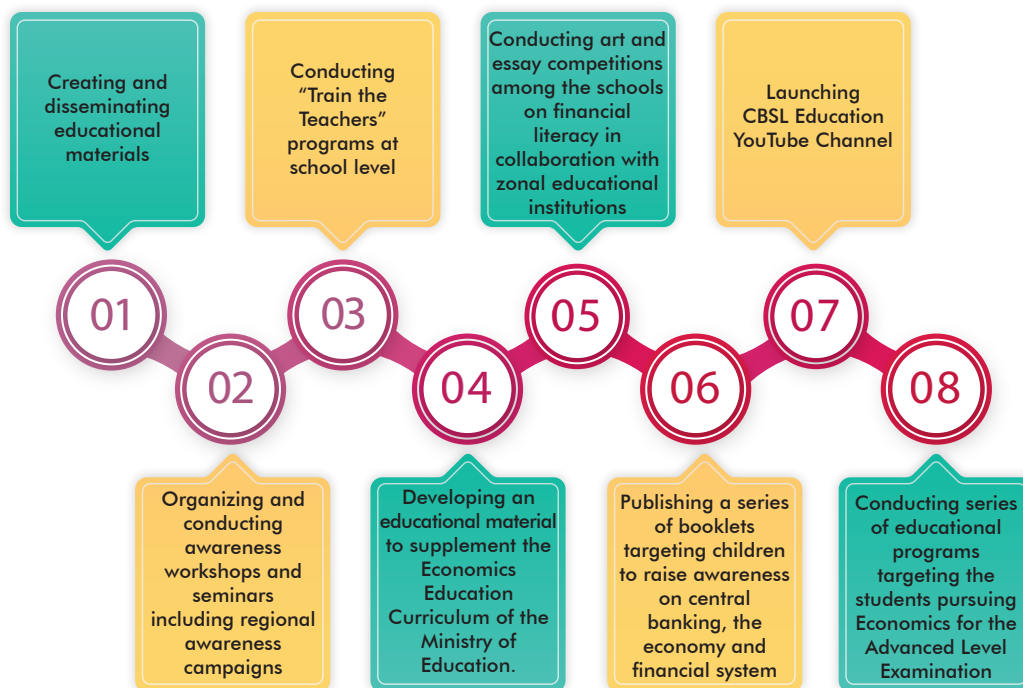
In order to streamline the existing financial literacy efforts by different stakeholders, the Financial Literacy Roadmap of Sri Lanka (the Roadmap), led by the Central Bank in collaboration with multiple stakeholders, was developed as a part of the NFIS. This groundbreaking initiative provides evidence-based guidance to all stakeholders involved in financial literacy with the primary objective of enhancing the financial behavior and capabilities of Sri Lankans, enabling them to take more informed financial decisions. The Financial Literacy Roadmap of Sri Lanka will be launched during the first half of 2024 with the inspiring vision of “Financially Literate Sri Lanka”. To operationalize the Roadmap, a comprehensive Action Plan was developed by the stakeholders for a period of 5 years starting from 2024.

The Central Bank, under its Communication Strategy, promoted financial literacy and nationwide empowerment through various electronic and digital media platforms. Having identified the importance of real time feedbacks and the profound impact, Central Bank extensively utilized the social media platforms to enhance the Central Bank's outreach and to deliver of specific messages to various segments of the public more effectively.

Way Forward

In the backdrop of Central Bank being vested with the statutory obligation to promote financial inclusion under the CBA, the path ahead is very promising for advocating more financial inclusion initiatives at national level touching across both supply and demand side of the financial sector. Continuous integration with national development policy objectives, adaptation

Communication Strategy of the Central Bank to Improve Financial Literacy Landscape of Sri Lanka



to the changing financial environment and financial needs, strengthening partnerships and implementing of robust mechanisms for monitoring and evaluation are the prospects of the Central Bank.

The implementation of the NFIS Phase I will be completed by the end of 2024. By evaluating the overall progress and the impact, the Central Bank anticipates formulating and implementing the NFIS Phase II from 2025 onwards, with special

focus on "Inclusive Green Finance" to support mitigating and building resilience against the negative impacts of climate change.

The Action Plan of the Financial Literacy Roadmap will be operationalized from mid-2024 to fulfill the persistent need of creating a financial behavior change among Sri Lankans by improving financial literacy to make informed financial decisions and to be financially resilient.

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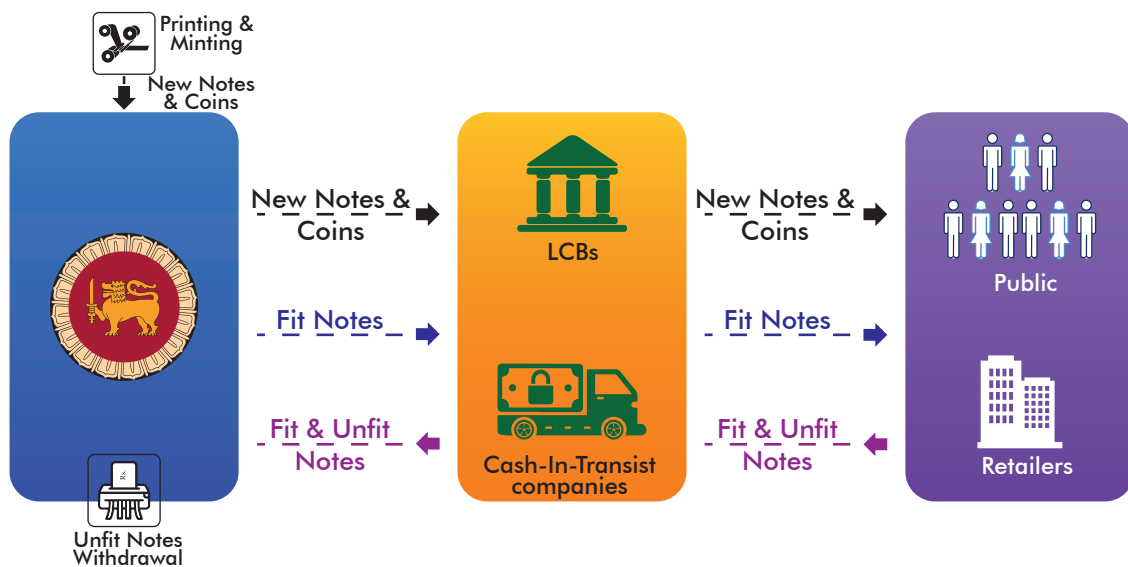
MANAGING CURRENCY OPERATIONS

The Central Bank has been given the sole authority under the CBA to issue and manage the currency of Sri Lanka. The Currency Department (CRD) of the Central Bank is entrusted with the responsibility of currency management: a process which involves managing the entire 'lifecycle' of currency from the stage of planning to issuing and handling of currency notes and coins deposited at the Central Bank by Licensed Commercial Banks. Along with this responsibility, falls the onus to maintain a suitable standard for the currency notes in circulation and thereby process and withdraw currency that does not meet the standard. The Central Bank also advocates counterfeit deterrence through law enforcement authorities and the courts. Therefore, the Central Bank works closely with LCBs and relevant authorities to maintain a smooth currency management process.

Accordingly, the Central Bank placed orders for 250 million pieces of new currency notes in 2023. The Central Bank issues stocks of currency notes and coins to the LCBs upon their request, directly or through authorized Cash-In-Transit (CIT) companies. During the year 2023, the Central Bank issued currency notes for the value of Rs. 469.28 billion and coins for the value of Rs. 571.95 million into circulation. The Central Bank continued to maintain adequate reserves at several secure vaults as a contingency measure and to ensure the availability of sufficient stocks.

In 2023, the Central Bank accepted guarantee deposits of serviceable (fit) and unserviceable (unfit) currency notes from LCBs to the value of Rs. 311.49 billion. These deposits are accompanied

Managing Currency Operations



Currency Operations

As the sole issuer of currency, the Central Bank must ensure the availability of a sufficient supply of notes and coins to meet public demand.

with a guarantee letter issued by LCBs agreeing to correct any discrepancy identified when counted in the presence of the officers of the respective bank.

ANNUAL OPERATIONAL DATA – CURRENCY NOTES

	Rs. 5,000	Rs. 1,000	Rs. 500	Rs. 100	Rs. 50	Rs. 20	Total
Issues (Rs. bn)	375.23	66.51	20.17	6.08	0.71	0.58	469.28
Deposits (Rs. bn)	229.28	60.14	15.26	5.45	0.89	0.47	311.49
Destruction (Rs. bn)	28.15	34.55	10.24	5.44	0.91	0.47	79.76

ANNUAL ISSUING DATA – COINS

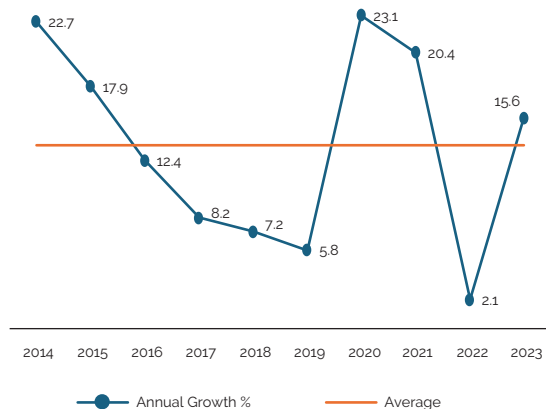
Denomination	Rs. 10	Rs. 5	Rs. 2	Rs. 1	Total
Issues (Rs. mn)	425.44	104.33	22.88	19.30	571.95

The Central Bank processes currency note deposits using several currency processing machines. During this process, currency notes are authenticated and sorted according to the fitness standards set by the Central Bank. Currency notes that do not meet the sorting standards would be deemed unfit and withdrawn from circulation. In 2023, the Central Bank destroyed unfit currency notes for the value of Rs. 79.8 billion.

Currency in Circulation

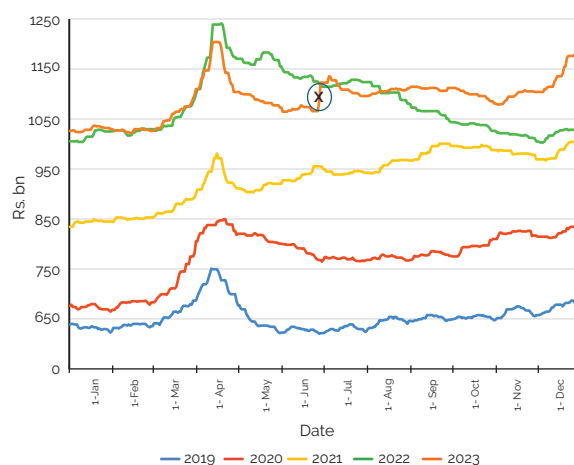
Sri Lanka's Currency in Circulation (CIC) grew by 15.6 per cent to Rs. 1,186.5 billion in 2023 compared to 2.1 per cent growth in 2022.

Annual Growth of CIC



Apart from the usual seasonal variations in April and December, a noteworthy spike has been reported which could be attributed to the Domestic Debt Optimisation program of the Government of Sri Lanka in July 2023.

CIC Movements from 2019 to 2023



Combating Counterfeiting

The Central Bank works with the relevant authorities, specifically the Counterfeit Currency Bureau of the Criminal Investigation Department (CID), to minimize the spreading of counterfeit notes in the country and preserve public confidence in the Sri Lankan Rupee.

In 2023, there were 1,769 counterfeit notes detected. The current rate of detection of counterfeit notes is 1.4 notes per million notes in circulation, indicating a significantly low level of incidence compared to the global average of 15 notes per million notes. The Central Bank has issued 97 certificates as conclusive evidence for the imitation of currency notes to facilitate court proceedings in terms of Section 57 of the CBA and attended 11 court cases relating to counterfeiting during the year.

In addition, the Central Bank also periodically conducts awareness campaigns for the public, school students and law enforcement officials, to enhance knowledge on the identification of counterfeit notes and promote good handling practices to maintain the quality of currency in circulation.

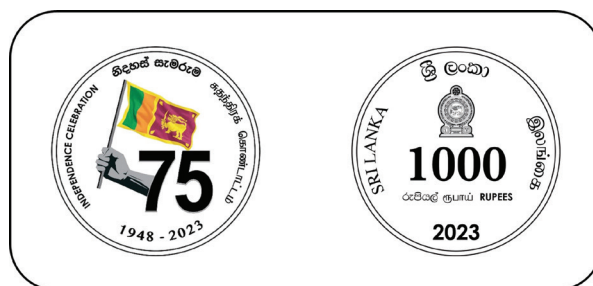
Commemorative Coin Issuance

The CBA has given the authority to the Central Bank to issue commemorative coins and notes to mark significant events and/or people who have contributed to the betterment of the country, with the approval of the Minister of Finance.

- **Celebrating the 75th Anniversary of Sri Lanka Regaining Independence**

In 2023, the Central Bank issued a commemorative coin to celebrate Sri Lanka's 75th anniversary of regaining independence. The issued coin was an

uncirculated commemorative coin with a face value of Rs. 1000 minted by the Royal Dutch Mint of the Netherlands. These coins were sold at a price of Rs.6,000 per coin from 09 March 2023 onwards through the Central Bank Cash Counters, Economic History Museum and the Central Bank Regional Offices.



Way Forward

The Central Bank plans to revamp its existing currency operations to address several operational shortcomings. This revamping project includes increasing the currency note processing capacity by means of acquiring new equipment, improving operational efficiency by streamlining processes, introducing new software systems, and enhancing the safety and security standards in operational areas. The project is expected to be completed by the year 2025.

INTERNATIONAL ENGAGEMENTS

In 2023, the Central Bank focused its foreign engagements mainly on financial sector stability and reforms, fortifying the financial sector safety net, acquiring technical assistance and exchanging knowledge.

Program for Financial Sector Stability and Reforms

Under the Financial Sector Stability and Reforms Programme, which adopts a policy-based loan modality with two subprograms of US dollars 200 million each, the Central Bank and the Asian Development Bank (ADB) collaborated to ensure the necessary flexibility and to properly sequence reforms while implementing multi-year policy reforms during a crisis. Additionally, the ADB has consented to provide technical support to the Central Bank to fortify the resolution structure.

Project to Strengthen the Safety Net for the Financial Sector

With emphasis on the Sri Lanka Deposit Insurance Scheme (SLDIS), the World Bank, the Central Bank, and the Government of Sri Lanka are working together on the Financial Sector Safety Net Strengthening Project. In January 2024, a loan agreement was signed for US dollars 150 million in finance for this project. The project's goal is to increase SLDIS's institutional and financial capacity in accordance with global best practices for effective deposit insurance systems.

Currency SWAP Agreements with Central Banks

A Special Swap Agreement was signed with the Reserve Bank of India for US dollars 2.6 billion in October 2023, in addition to the rolling over of the swap arrangement with the People's Bank of China.

Financial Stability Board (FSB) Regional Consultative Group for Asia (RCG Asia)

The Governor of the Central Bank, and the Chief Executive of the Hong Kong Monetary Authority (HKMA), co-chaired the meeting of the FSB Regional Consultative Group for RCG Asia which convened on 29 November 2023 in Hong Kong SAR. Vulnerabilities stemming from non-bank financial intermediation, the increasing nexus between sovereigns and banks in certain emerging market and developing economies, and strategies to regulate and supervise crypto-asset related risks effectively were extensively discussed at the meeting. Members exchanged insights on identifying, monitoring, and mitigating these risks, expressing appreciation for the FSB's sustained efforts to bolster financial system resilience.

Alternate Executive Director of the IMF

Central Bank officers continued to serve as the Alternate Executive Director of the IMF in recognition of their extensive expertise in macroeconomic policies, and international economic affairs. With a deep understanding of the intricacies of central banking and a proven track record of effective leadership, the officer is well-equipped to represent the interests of the constituency comprising Sri Lanka, India, Bangladesh, and Bhutan on the global stage. This appointment reflects the IMF's confidence in the Central Bank's ability to contribute valuable insights and perspectives to discussions on global economic and financial policies.

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International Cooperation on Sustainable Finance

As the Secretariat for the implementation of the Sustainable Finance Roadmap, Macroprudential Surveillance Department of the Central Bank engaged in a series of bilateral, multilateral engagements during 2023 with agencies including UNESCAP, IFC, SBFN, UNDP, EU, and the International Platform for Sustainable Finance (IPSF). These engagements were mostly aimed at developing and implementing policy frameworks for sustainable financing in the country and building technical and regulatory capacities of the financial sector for undertaking sustainable finance activities in their respective financial institutions. Moreover, Sri Lanka became the 20th member of IPSF which is a platform for sharing knowledge on sustainable finance. Sri Lanka was also featured as 'Emerging markets best practice case study' by SBFN for developing sustainable finance roadmap and an officer participated at the Sustainable Finance Week held in Mongolia in June 2023 to share the Sri Lankan experience.

Engagement with International Rating Agencies

The Central Bank engaged with international rating agencies, i.e., Moody's, S&P and Fitch, to provide them with comprehensive economic data and policy updates required for their reviews. This engagement is essential for regaining Sri Lanka's access to global capital markets by allowing such rating agencies to accurately assess Sri Lanka's creditworthiness and risk profile. These efforts play a crucial role in attracting foreign investment and maintaining investor confidence in Sri Lanka's economy.

Elevated Degree of Global Involvement by the Governor

During the IMF and the World Bank Spring and Annual meetings in April and October 2023, respectively, the Governor of the Central Bank and the delegation had productive discussions with the IMF, the World Bank, and rest of the international community on bilateral and multilateral basis.

The Governor served as the co-chair of the Regional Consultative Group (RCG) for Asia of Financial Stability Board (FSB) and attended the meeting in Hong Kong in November 2023.

The Governor shared his experience in managing the Sri Lankan economy during the crisis as well as the Bank's views on the outlook for the economy at several international fora, including the 14th South Asia Economic Summit in Bangladesh, the Marrakesh Economic Festival on Sovereign Debt Distress in the Global South in Morocco, the Kautilya Economic Conclave in India, the Economic Dialogue in Germany, and the High-Level Seminar on "Climate Issues" in Thailand. Further, the Governor delivered keynote speeches in the virtual events organized by the Federation of Indian Chambers of Commerce and Industry, HSBC and the Oxford Global Society.

The Governor consistently engaged with various diplomats to deliberate on the country's experiences with economic crises, assess the extent of recovery, and bolster international relations.

A delegation of Sri Lanka headed by the Governor, in his capacity as the Chairman of the NCC, and three senior officials of the FIU attended the 2023 APG Annual Plenary held in July 2023 in Vancouver, Canada. The Governor

held discussions with several multilateral AML/CFT technical assistance (TA) providers in relation to furthering TA in Sri Lanka.

Enhancing Technical Knowledge and Gaining Hands-on Experience

The Central Bank partnered a Knowledge Partnership Programme (KPP) with the Bank of Korea (BOK) in 2023 through a study on "Money Market Development in Sri Lanka". Gaining practical experience and improving technical knowledge of international best practices in money market operations were made possible by this research project.

The IMF South Asian Research and Technical Assistance Centre (SARTTAC) provided a Technical Assistance (TA) Mission on 'Introducing Improvements to the Liquidity Forecasting Framework of the Central Bank of Sri Lanka' in 2023, with the objective of enhancing technical knowledge on the liquidity forecasting framework, which will strengthen the monetary policy implementation process in Sri Lanka.

The Central Bank received TA from the IMF on operationalising the macroprudential mandate of the Central Bank, as per the CBA and development and calibration of macroprudential tools.

In addition to these initiatives, the Central Bank has benefited from numerous other TA programs.

International Seminars, Conferences, Workshops, and Training Sessions

The Centre for Banking Studies (CBS) conducted a SEACEN course on "New Tools in Supervisory Monitoring and Examination" in Colombo in June 2023.

For the fourth consecutive year, the Central Bank organised a joint annual international research workshop in collaboration with the Asian Development Bank Institute (ADBI) and Asia Pacific Applied Economic Association (APAEA) focusing on emerging issues for macroeconomic stability in October 2023. At this workshop, the Central Bank staff presented three research papers prepared jointly with researchers from APAEA.

The Central Bank through the CBS and in collaboration with the Financial Stability Institute (FSI) of the Bank for International Settlements (BIS) and the European Supervisor Education Initiative (ESE) organized a virtual seminar on "Pillar 2 and Stress Tests," exclusively for its officers.

A virtual training in collaboration with Deutsche Bundesbank was conducted by the CBS on "Automation, Digitalization, and Sustainability Concerning Cash Management," exclusively for the Central Bank officers.

Two special programmes on "Achieving Excellence in Branch Management" for KFA Business School in Nepal and an overview of the functioning of the Central Bank of Sri Lanka for officers of Nepal Rastra Bank were conducted.

In addition, four senior officers of the FIU participated as assessors of Mutual Evaluations (MEs) for Lao PDR, Nepal, Brunei and Timor-Leste. Another two FIU officers are currently engaged in country assessments of Nauru and the Republic of the Marshall Islands being nominated as external reviewers for the ME of these countries.

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REGULATING AND SUPERVISING OF FOREIGN EXCHANGE TRANSACTIONS

The Central Bank, as the agent of the Government, is responsible for implementing the provisions of the Foreign Exchange Act, No. 12 of 2017 (FEA), which came into effect on 20 November 2017 to ensure the proper promotion and regulation of foreign exchange in Sri Lanka. Accordingly, the Central Bank facilitates the Hon. Minister in charge of the subject of the Central Bank in issuing Regulations and Orders to general public and issues Directions to Authorized Dealers (ADs) (i.e., licensed banks in Sri Lanka) to carry out foreign exchange transactions in terms of the FEA and monitors the compliance and conducts investigations on non-compliances. Further, the Central Bank appoints and monitors Restricted Dealers (RDs) (i.e., largely authorized money changers) and other persons to dealing in foreign exchange. Moreover, the Central Bank assesses requests for special approval which are not permitted under the general permissions in terms of the FEA considering the merits of such requests and related implications, and also issue clearances for outward capital transactions which satisfy the specified requirements.

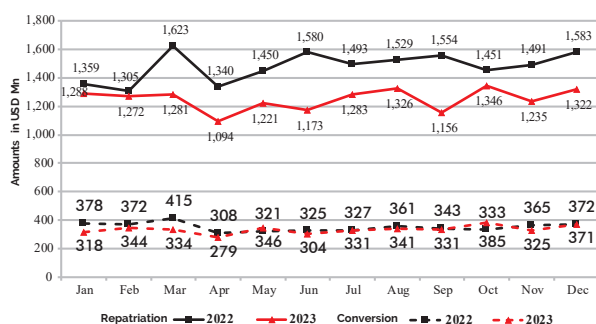
Additionally, the Central Bank monitors the export proceeds repatriation into Sri Lanka and residual conversions in compliance with the Rules issued under the repealed Monetary Law Act No. 59 of 1949 which is continued in terms of the enabling provisions of the CBA.

The Central Bank during 2023 issued two Orders under Section 22 of the FEA in order to progressively ease some of the suspensions/limitations relating to capital and current transactions, on 28 June 2023 and 20 December 2023. Further, directions were issued permitting ADs to open and maintain "Special Foreign Currency Accounts (SFCA) - Investee", out of proceeds received, being an investment into the share capital of the company from a non-resident investor. The directions were issued in relation to the Business Foreign Currency Accounts (BFCAs) and Accommodations to BFCAs facilitating certain foreign currency transactions between business entities engaged in marine fuel (bunker), transport and logistics, respectively.

Way forward

The Central Bank expects to amend the FEA to rectify several issues and concerns identified in respect of implementing the current provisions of the Act, including strengthening regulatory powers to curb unauthorized foreign exchange transactions. Accordingly, the concurrence of the Minister for the proposed amendments to FEA has already been obtained by the Central Bank.

Comparison of the Yearly Repatriation and the Conversion of Export Proceeds - 2022 to 2023 (Goods and Services)



PUBLIC DEBT MANAGEMENT

AGENCY FUNCTIONS

As per the Section 132 of the CBA, the Central Bank continues to act as the agent of the Government in respect of issuance of securities of the Government for the account of the Government and management of the public debt, until such date as the relevant law relating to public debt management agency or office comes into operation. Accordingly, the Central Bank continued to perform its key functions of ensuring that the Government's financing needs are met at the lowest possible cost at a prudent level of risk while adhering to best standards and practices, developing and maintaining an efficient government securities market, ensuring availability of required information for market participants and the public, maintaining the registry for securities issued by the Government, and servicing government debt on time in line with relevant policies.

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

a) Amidst persistently challenging macroeconomic and market conditions, the General Treasury's financing requirement was financed mainly through the domestic sources while adhering to prudent debt management measures and ensuring orderly market conditions. Access to any external

commercial funding continued to remain restrictive in 2023.

- b) In the domestic front, the funding requirement was raised through the issuance of shorter tenure Treasury bills and Treasury bonds prior to the announcement of the DDO programme reflecting the market reluctance for longer term investments that was largely due to the uncertainties in the debt restructuring perimeter. Finalisation of the DDO programme together with improved fiscal performance, steady rebound in domestic economic activities, well-anchored inflation expectations and prudent debt management measures adopted in concurrence with the Ministry of Finance including the build-up of a buffer fund, garnered positive market sentiments and gradually dissipated the substantive risk premia pertaining to the Government securities.
- c) These developments prompted a substantive downward adjustment in the yield rates of Government securities by end 2023 which continued into 2024 as well, thereby facilitating more conducive market conditions to raise Government's funding requirement.
- d) Meanwhile, necessary actions were taken to off-load Treasury bills held by CBSL to ensure

Issuance of Treasury bills and Treasury bonds - 2022 and 2023

Instrument	2022				2023			
	Issuances Rs. billion	WAYR (%)	ATM (Years)	No. of Auctions	Issuances Rs. billion	WAYR (%)	ATM (Years)	No. of Auctions
Treasury bills (a)	9,942.8	25.21	0.33	52	15,446.3	22.36	0.34	52
Treasury bonds	2,373.0	21.24	5.15	24	7,614.52	21.00 (b)	8.56	14

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

(a) Gross Treasury bill issuance including Treasury bills issued to the Central Bank.

(b) Excludes Treasury bonds issued under the Domestic Debt Optimization Programme

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the achievement of the relevant Net Credit to the Government (NCG) targets pertaining to the Central Bank under the IMF-EFF programme.

- e) An abridged table of activities under each of the source of funds is given above.

Domestic Debt Optimization Programme

The Ministry of Finance on 04 July 2023 announced its policy on the DDO programme, with a view of restoring Sri Lanka's public debt sustainability which was one of the key objectives under the IMF-EFF programme approved on 20 March 2023. Therein, among others, eligible Treasury bonds held by eligible holders, Treasury bills held by the Central Bank, provisional advances made by the Central Bank to the Government of Sri Lanka (GoSL), Sri Lanka Development Bonds (SLDBs) except those held by individual investors and local law foreign currency denominated bank loans of the GoSL were expected to be converted/ exchanged into longer term Treasury bonds, as applicable.

The DDO programme was executed by the Central Bank in several stages in collaboration with GoSL. Under DDO, the eligible SLDBs denominated in USD were converted into Rs. 252.2 billion worth of new LKR denominated Treasury bonds, on 15 August 2023 and accumulated interest on past due SLDBs were settled in LKR. In addition to the settlements made under the Exchange Memorandum issued for SLDBs, the Ministry of Finance in collaboration with the Central Bank executed a settlement option for the remaining holders of SLDBs. As such, by end November 2023, there were no outstanding SLDBs.

The Treasury bond exchange was executed on 14 September 2023 exchanging Rs. 3,204.5 billion worth of Treasury bonds, thereby replacing 49 eligible bonds with 12 new Treasury bonds. Individual investors were excluded from the eligible investors and the superannuation funds were incentivised to participate for the exchange via the introduction of a tax incentive by the Government. In accordance with Section 129(2) of the CBA, the outstanding credits of the Central Bank to the Government and outstanding securities purchased on the primary market as at the appointed date of 15 September 2023 amounting to Rs. 2,713.1 billion, were converted into ten step-down fixed coupon new Treasury bonds and to 12 existing Treasury bills on 21 September 2023.

The DDO programme together with the ongoing fiscal consolidation process, is expected to contribute towards restoring the debt sustainability via achieving the envisaged debt sustainability targets as identified under the IMF-EFF programme, in the medium to long term. Meanwhile, the Central Bank continued assisting the Government and its financial and legal advisors in their efforts to restore the sustainability of public debt.

Establishment of a Public Debt Management Office (PDMO)

The Government had identified establishing an independent PDMO as one of the key institutional reforms, as set out in the Interim Budget Speech for 2022. Further, as per the Memorandum of Economic and Financial Policies agreed by the Government under the IMF-EFF programme in March 2023, the Government has committed to establish a PDMO that (i) will report to and be accountable to the Ministry of Finance but have significant operational autonomy; (ii)

assume overall policy responsibility for debt management by formulating medium-term debt strategies and annual borrowing plans; and (iii) direct the implementation of annual borrowing plans including taking decisions on auction cut-offs. Once established, the PDMO is expected to oversee all domestic and international market-based financing decisions and participate in the evaluation of all debt, derivatives, and guarantees.

In this connection, a Public Debt Management Act (PDMA) that would provide for overall Government debt management functions including the legal framework for establishment of the PDMO, is expected to be enacted in due course. The Central Bank provided inputs for drafting of the PDMA and will continue to engage with the Ministry of Finance in relation to transferring knowledge, expertise and relevant infrastructure accumulated over time, to the envisaged PDMO, as applicable.

Maintenance of the Title Registry in Government Securities and Servicing of Government Debt

The Title Registry of scripless Government securities is recorded in the Central Depository System (CDS) maintained at the Central Bank. CDS together with the Scripless Security Settlement System (SSSS) constitute the LankaSecure system. SSSS provides the settlement services for the primary and secondary market transactions in government securities. The total holdings in scripless securities recorded in CDS as at end 2023 amounted to Rs. 16,136.8 billion in face value comprising Rs. 4,092.5 billion in Treasury bills and Rs. 12,044.4 billion in Treasury bonds. The

number of registered CDS accounts holders as at end 2023 was recorded at 139,180. By end 2023, the LankaSecure system consisted of 32 Dealer Direct Participants (24 Licensed Commercial Banks, one Licensed Specialised Bank, and seven Primary Dealers) and three Direct Participants. LankaSecure system facilitates several safety features of Government securities investments viz a viz (i) e-statements, (ii) Real-time notifications and (iii) online viewing facility. All such facilities have been continued successfully in 2023.

Total debt service payments amounting to Rs. 4,263.3 billion were facilitated during 2023 which included domestic and foreign debt service payments amounting to Rs. 3,792.9 billion and Rs. 470.5 billion, respectively. Therein, external debt servicing was executed in line with the Government's interim policy on servicing of external public debt dated 12 April 2022. Regarding servicing of foreign currency denominated domestic debt, an alternative settlement mechanism and the policy on DDO programme announced by the Ministry of Finance were followed, as applicable.

Debt Management Initiatives and Market Developments in 2023

(a) **Managing Offering Volumes at Primary Auctions and Facilitating to Maintain an Adequate Cash Buffer.** In the latter part of 2023, the Central Bank proactively collaborated with the Ministry of Finance on managing offering volumes at primary auctions and maintaining an adequate cash buffer. These measures, together with the improved fiscal performance and lower inflation expectations, helped reduce the substantive risk premia thereby effecting a

swift and significant downward adjustment in the yield rates of Government securities. Maintenance of the cash buffer is expected to be further streamlined to continue addressing any unwarranted interest rate fluctuations and the Central Bank is expected to facilitate the Ministry of Finance in this endeavour, as and when required.

(b) Initiation of the LankaSecure e-statement

Facility. Full conversion of the LankaSecure periodic statements into e-statement facility was initiated to provide participants an efficient, hassle-free way of receiving their statements at their convenience.

(c) Initiating One-to-One Meetings with Primary

Dealers (PDs). Recognising the importance of assessing market sentiments and perceptions in formulating debt management strategies particularly post DDO, one-to-one meetings with PDs were initiated. Specific systems/operations in place within each PD in dealing with customers and other market development initiatives, among others, were also discussed at these meetings.

(d) Execution of a Web-based Treasury bill Issuance System and web-based Direct Issuance Window (DIW) for Treasury bonds.

With the publication of applicable Directions, the Central Bank introduced a web-based Treasury bill issuance system for Treasury bills and a web-based DIW for Treasury

bonds w.e.f. 21 June 2023 and 20 September 2023, respectively.

Way forward

Early completion of external debt restructuring as envisaged will strengthen the positive fiscal outlook and investor sentiments, thereby causing spill over effects in the domestic market leading to a further downward adjustment in yield rates. Given the positive developments in the fiscal front particularly in relation to revenue collection, financing requirement is expected to be relatively subdued and, Treasury bill and Treasury bond issuance arrangements are expected to be streamlined, accordingly. Measures are in place to explore the feasibility of offering new variable and multiple step-down coupon Treasury bonds at primary issuances along with the existing bonds to develop a vibrant secondary market for Government securities. Meanwhile, early enactment of the PDMA leading to the establishment of the envisaged PDMO with significant operational autonomy and adaptation of a holistic debt management approach through such PDMO is crucial to consolidate the recent positive developments observed in the debt management front and achieve the desired sustainability in the public debt, going forward.

In terms of the provisions of the Employees' Provident Fund Act, No.15 of 1958 (EPF Act), the general administration of the Employees' Provident Fund (EPF/Fund) is vested with the Commissioner of Labour, while the authority over the management of the fund are vested with the Monetary Board of the Central Bank of Sri Lanka, now recognized as the Central Bank of Sri Lanka as per the CBA. The Central Bank having the custody of the moneys of the Fund, holds a pivotal role in ensuring its effective operation.

The Employees' Provident Fund Department (EPF Department) carries out activities relating to the powers and functions to be exercised or discharged by the Central Bank as per the EPF Act. Its primary responsibilities encompass receiving all sums paid under the EPF Act as contributions, surcharges, and fees, as well as the income from the investment of money. The department is tasked with ensuring the safety of the moneys of the Fund, maintaining separate accounts for each member, and paying the individuals certified by the Commissioner of Labour the benefits entitled to them under the Act. Additionally, it is responsible for investing moneys of the Fund not immediately required, maintaining books of accounts, preparing financial statements, transmitting a copy of the financial statements to the Minister in charge of

Labour, and submitting the same to the Auditor General.

Maintaining General Accounts of the Fund and the Member Accounts

The total value of the Fund as at end 2023 amounted to Rs. 3,857.4 billion, reflecting an 11.5 per cent increase compared to Rs. 3,459.9 billion recorded at the end 2022, mainly due to the income generated from investment activities. Total liability to the members (member balances) reached Rs. 3,817.9 billion at the end of 2023, recording a 12.9 per cent increase from the Rs.3,380.6 billion reported at the end of 2022.

Receiving Contributions and Payment of Benefits

In 2023, the total member contributions received amounted to Rs. 210.6 billion, indicating an 8.2 per cent increase from Rs. 194.6 billion recorded in 2022. Simultaneously, total refunds made to the members and their legal heirs increased to Rs. 215.9 billion, marking a substantial 32.4 per cent increase from Rs. 163 billion in 2022. Accordingly, the net contribution reported a negative value of Rs. 5.3 billion in 2023, in contrast to the positive Rs. 31.6 billion recorded in 2022.

Selected Key Information of the Fund

Item	2022	2023 (a)	Change (%)
Total value of the Fund (Rs. bn)	3,459.9	3,857.4	11.5
Total liability to members (Rs. bn)	3,380.6	3,817.9	12.9
Total contributions (Rs. bn)	194.6	210.6	8.2
Total refunds (Rs. bn)	163.0	215.9	32.4
Net contribution (Rs. bn)	31.6	(5.3)	(116.8)

(a) Provisional

Source: EPF Department,
Central Bank of Sri Lanka

Investment Activities of the Fund

Throughout 2023, the EPF Department diligently carried out its fund management activities within the established governance framework, guided by the objective of delivering long-term positive real returns to members while ensuring the safety of member contributions. As at end 2023, the investment portfolio, totalling Rs. 3,867.6 billion, comprised 96.2 per cent in Government securities, 2.7 per cent in equity, 0.4 per cent in corporate debentures, and the remaining 0.7 per cent in reverse repurchase agreements.

Payment of Interest on Member Balances

Based on the profits available for distribution, a reasonable rate of interest to its members for their balances as at end 2023 will be paid as approved by the Governing Board, with the concurrence of the ministers of Finance and Labour.

Issuing of Statements of Member Accounts

In complying with the requirements specified in the EPF Act, actions were taken to distribute the Statements of Member Accounts (SMAs) of contributing members, communicating the balances in their accounts, through the respective employers. Accordingly, the SMAs relating to the first and second halves of 2022 were distributed during 2023. The press notices were published subsequent to the distribution of SMAs for the information of the members of the Fund.

Issue of Member Account Statements		
Period	No. of Employers	No. of Statements (Contributing Members)
2022 1 st half	63,831	2,176,751
2022 2 nd half	72,000	2,579,208

Source: EPF Department,
Central Bank of Sri Lanka

Publishing the Annual Financial Statements of the Fund

The Annual Financial Statements of the EPF for 2022 has been published on its official website, subsequent to the receipt of the report of the Auditor General.

Provision of Services to Members and other Stakeholders

The EPF Department continued to provide its services to meet the requirements of its members and other stakeholders in a more efficient and effective manner, in 2023.

Issuing of Certificates of Guarantee to facilitate obtaining Housing Loans

EPF Department has issued 13,784 certificates of loan guarantees on behalf of members of the Fund in 2023 enabling them to obtain housing loans from participating lending institutions amounting to Rs. 10,240 million. Further, nearly Rs. 4,236 million was deducted from the relevant member accounts and remitted to the participating lending institutions in 2023 to settle the overdue loans for the year 2022.

Pre-Retirement Refund Scheme

A total of Rs.25.8 billion has been released to 42,603 members during the year 2023 under the pre-retirement benefit scheme of 30 per cent withdrawal from the member balance, came into operation from 1 July 2015.

Record Amendments

In the year 2023, the EPF Department processed approximately 105,627 EPF record amendments pertaining to member accounts. Notably, among these amendments, 97,998 were related to Name/National Identity Card amendments and 7,629 were on account amendments. This encompassed a substantial volume of 23,571 requests for amendments received through regional offices of the Central Bank.

Handling Inquiries

The Public Relations and Inquiries Counter of EPF Department has provided a valuable service to the stakeholders of EPF fund by fulfilling the service requests of visiting members/employers and attended to all other queries submitted via telephone, post and emails.

Improving Awareness of EPF's Activities among the Stakeholders

To enhance awareness of EPF services among stakeholders, the department organized a range of programs in 2023. These initiatives included mobile services and public exhibitions held in collaboration with institutions like the Chamber of Construction Industry of Sri Lanka and the Ministry of Trade Commerce and Food Security, in conjunction with the Department of Labor. Furthermore, awareness activities were tailored for employers, members, and other stakeholders through diverse communication mediums including posters, leaflets, video clips, and presentations.

Challenges Encountered in 2023

In 2023, the EPF Department navigated through challenging market conditions by prioritizing investments in Government securities, particularly Treasury bills, in response to uncertainties surrounding the sovereign debt restructuring process. Given the heightened

Provision of Services to Members and Other Stakeholders by EPF - 2023

Housing Loan Guarantees
 Certificates Issued : 13,784
 Loan Amount : Rs. 10,240mn
 Overdue Settlement : Rs. 4,236mn

Handling Inquiries
 Service request: 184,403
 Phone inquiries: 79,183
 e-mail inquiries: 18,959
 Letters: 1,978

Pre - Retirement Refund
 Amount Released : Rs. 25.8bn
 Beneficiaries : 42,603

Collaborations
 Department of Labour
 Ministry of Trade Commerce & Food Security
 Chamber of Construction Industry

Record Amendments
 Name/National ID : 97,998
 Account Amendments : 7,629
 Regional Offices : 23,571

Communication Mediums
 Posters
 Leaflets
 Video Clips
 Presentations

Mobile Services
 Provided EPF member services at their doorsteps.

Public Exhibitions
 Marked the presence of EPF at national level public exhibitions

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volatility in equity markets, a cautious approach was adopted regarding equity investments. The adverse macroeconomic conditions led to limited investment opportunities in corporate debentures.

On 04 July 2023, the Ministry of Finance announced the Government's Domestic Public Debt Optimization (DDO) strategy, offering the super-annuation funds two alternatives. Under the first option, EPF had the opportunity to exchange a minimum required amount of its existing Treasury bonds for 12 new series maturing between 2027 and 2038. This exchange would subject the EPF to an income tax rate of 14 per cent per annum on its taxable income derived from the Treasury bond portfolio. Alternatively, if the EPF opted not to exchange its existing Treasury bonds, a fixed 30 per cent tax rate would be applied to the taxable income generated from its Treasury bond portfolio. After careful consideration of these options, the Monetary Board acting as the custodian of the Fund, chose to pursue the Debt Exchange offer. This decision, made with a long-term perspective and in the best interest of the members of the Fund, involved the EPF tendering Rs. 2,667.5 billion face value of Treasury bonds for Debt Exchange.

Further, with EPF's assets approaching Rs. 3.9 trillion, diversifying the investments effectively,

especially in a relatively small and less liquid domestic financial markets was a challenge. Additionally, the EPF had to put an extra effort to maintain service efficiency amidst resource constraints to cater to the increased activity levels, particularly in refund requests and member inquiries.

Way forward

The EPF Department aims to adopt and leverage technology to address increased work volumes, member accounts, and reporting requirements. In this endeavor one such measure is to procure a comprehensive ICT solution for its core businesses including Member Liability Management, Accounting and Investment of which the initial steps have already been completed with the support of an external consultancy. Other areas of focus include implementation of digitalized/electronic methods for collecting member contributions and individual details, re-registration of EPF members to maintain a unique identification system through verification of National Identity Card. On the investment side, the gradual deepening of capital markets is expected to create diverse investment products which would enable the EPF to diversify its investment portfolio in an effective manner.

The Financial Intelligence Unit of the Central Bank of Sri Lanka (FIU-Sri Lanka) was designated as the Financial Intelligence Unit for the purpose of the Financial Transactions Reporting Act, No. 06 of 2006 (FTRA) by the order of H.E. the President in his capacity as the Minister of Finance. Since 2007, the FIU-Sri Lanka has functioned as an independent department within the administrative structure of the Central Bank of Sri Lanka, efficiently discharging its statutory powers and duties.

Information Analysis and Intelligence Management

The FIU-Sri Lanka receives Suspicious Transaction Reports (STRs) from Reporting Institutions (RIs) and the public. STRs are referred to Law Enforcement Agencies (LEAs) and Regulatory Authorities (RAs) after analysis for further investigations, where necessary. In 2023, the FIU-Sri Lanka received 1,369 STRs and 236 STRs were referred to LEAs and RAs for further investigations.

Financial Data Management

The FIU-Sri Lanka receives threshold reports made by the RIs. The RIs reported 5.4 million (provisional) Cash Transactions (CTs), 13.4 million (provisional) Electronic Fund Transfers (EFTs), and 0.5 million (provisional) International Fund Transfers (IFTs) above the prescribed threshold through the 'goAML' reporting system in 2023.

Risk-Based Anti Money Laundering/Countering the Financing of Terrorism (AML/CFT) Supervision

The FIU-Sri Lanka carries out examinations of RIs, i.e., Financial Institutions, and Designated Non-Financial Businesses and Professions. The

FIU-Sri Lanka collaborates with RAs of RIs to take actions to enforce compliance and to facilitate any investigation anticipated by the FIU-Sri Lanka or an LEA. The FIU-Sri Lanka conducted 23 onsite examinations, 06 onsite spot examinations, one offsite spot examination and 4 thematic reviews on FIs during 2023.

The National Money Laundering/Terrorist Financing (ML/TF) Risk Assessment

The country's second National Risk Assessment (NRA) on ML/TF was successfully conducted during 2021/2022 and concluded in 2023. The sanitized report of the NRA 2021/2022, which highlights the most significant ML/TF threats, vulnerabilities, and risks faced by Sri Lanka, was published on the website of the FIU-Sri Lanka. The Cabinet of Ministers approved the country's National AML/CFT Policy prepared for 2023-2028 based on the findings of the NRA 2021/2022.

The Secretariat to the National Coordination Committee and the Cabinet Appointed Task Force on AML/CFT

The FIU-Sri Lanka functions as the Secretariat to the National Coordination Committee (NCC), which is the advisory body for the AML/CFT framework for Sri Lanka. The NCC comprises of representatives from key stakeholders. The FIU-Sri Lanka also functions as the Secretariat to the Cabinet appointed Task Force on AML/CFT since December 2023. The Task Force is expected to monitor the progress of the Cabinet approved Action Plans of 24 stakeholders in preparation for the AML/CFT Mutual Evaluation in 2025.

Conducting Awareness Programs

In 2023, the FIU-Sri Lanka continued to conduct training programmes for the relevant sectors and agencies on the outcome of the second NRA, the national AML/CFT policy, key areas such as AML/CFT compliance and legal framework, prohibited schemes and scams, cryptocurrency investigations, reporting to goAML system and also carried out awareness sessions for the general public.

Way Forward

Ensuring Sri Lanka's preparedness for the mutual evaluation in March 2025 on the AML/CFT framework, the FIU-Sri Lanka coordinates the implementation of the stakeholder-wise action plans. In this regard, the NRA will be updated to reflect the ML/TF risk profile of the country and the national AML/CFT policy will be implemented. The FIU-Sri Lanka intends to complete the

proposed amendments to the main laws involving its functions, i.e., Prevention of Money Laundering Act, No. 5 of 2006, Financial Transactions Reporting Act, No. 6 of 2006, and the Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005. The legislative amendments will strengthen the sanctions regime to be more proportionate and dissuasive. In line with the evolving international AML/CFT standards. The FIU is assisting in amending other relevant statutes and bringing in new legislations, i.e, the Companies Act, No. 07 of 2007, the Trust Ordinance, No. 09 of 1917, the Construction Industry Development Act, No. 33 of 2014, the proposed Gaming Regulatory Authority bill, and the proposed bill for the Proceeds of Crimes Act. Further, FIU-Sri Lanka will continue to conduct operational and strategic analysis to produce actionable intelligence. Furthermore, FIU-Sri Lanka will carry out risk-based supervision on RIs to ensure the AML/CFT compliance obligations of RIs are met.

RISK MANAGEMENT AND COMPLIANCE

In the dynamic landscape of central banking, effective risk management, compliance, and internal controls form the bedrock of stability and policy solvency. Accordingly, the Central Bank is committed to upholding the highest standards of risk management, compliance, and internal control practices. Through a proactive approach to identifying, assessing, and mitigating risks, coupled with compliance measures and resilient internal controls, the Central Bank seeks to safeguarding the interests of stakeholders, ensuring transparency, and maintaining the trust and confidence of the public. Moreover, initiatives are underway to introduce novel strategies and technologies aimed at strengthening capabilities in governance, risk, and compliance landscape.

Risk Governance Framework of the Central Bank

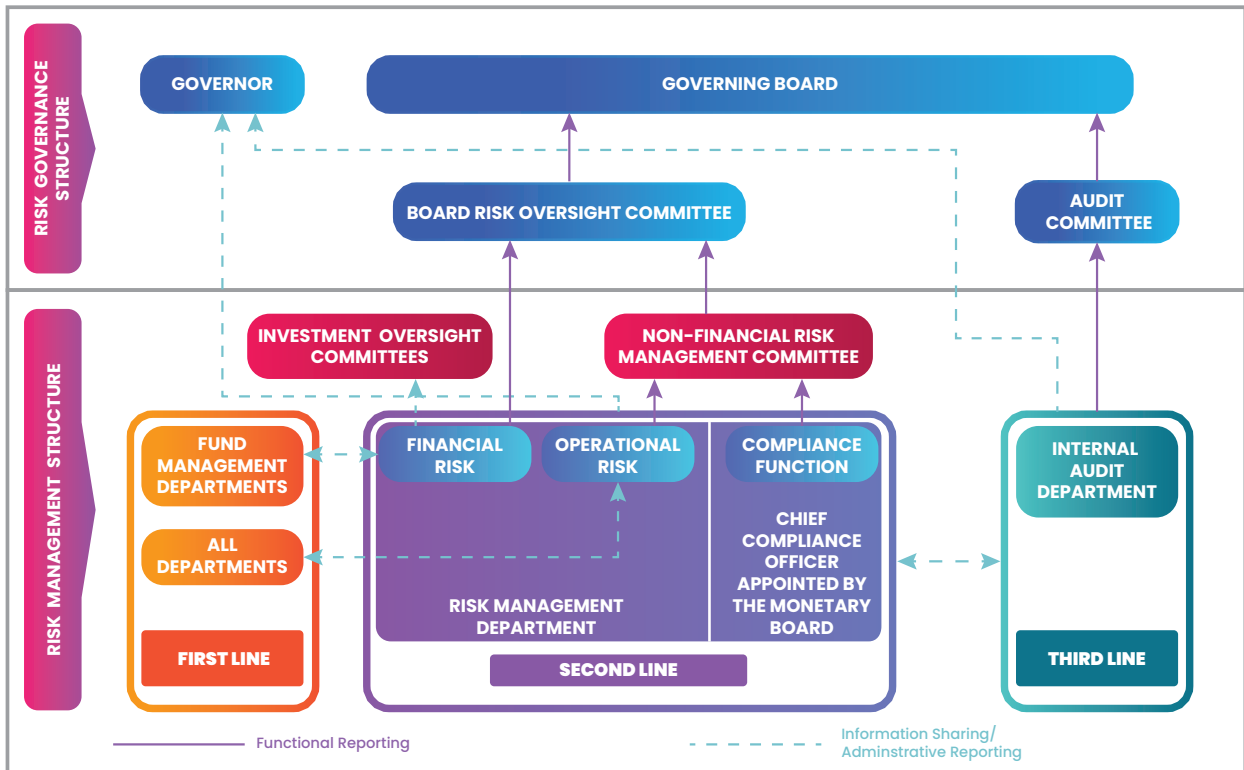
The risk governance framework comprises two main layers:

The **risk governance structure** outlines the roles and responsibilities of the Governing Board (GB), Board Risk Oversight Committee (BROC) and Audit Committee (AC). It establishes a transparent framework for accountability and decision-making.

The **risk management structure** encompasses a comprehensive suite of guidelines, procedures, and tools designed to identify, assess, mitigate, and monitor risks across all activities of the Central Bank. The risk management structure outlines the roles and responsibilities of the Non-Financial Risk Management Committee (NFRMC) and Investment Oversight Committees (IOCs).

The Central Bank adopts three lines model to reinforce its risk management structure. The first line involves departments responsible for risk-taking activities, which are accountable for identifying, assessing, and managing risks within

Risk Governance Framework of the Central Bank



their respective areas of operation. The second line comprises risk management functions, such as compliance and risk oversight, which provide independent oversight and guidance to ensure effective risk management practices are implemented across the Bank. The third line consists of Internal Audit, which conducts independent assessments of risk management processes and controls to provide assurance to the management regarding the effectiveness of the risk management framework. By adhering to the principles of the three lines model, the Central Bank aims to strengthen its risk management capabilities and enhance overall resilience in the face of various uncertainties and challenges.

Managing Risks

Within the second line, the Central Bank employs a dedicated risk management function, primarily centred on focusing the financial and operational risks associated with the activities. The Central Bank adheres to strong risk management practices to ensure the integrity of its operations, meet regulatory requirements, and uphold accountability and transparency standards. Management of various financial risks such as credit, market and liquidity risks, and operational risks are facilitated by the risk management department. Transparent communication and

reporting help make informed decisions and support effective risk governance. Looking ahead, specific initiatives are taken to enhance the risk assessment system, implement risk appetite frameworks, deploy an automated governance, risk, and compliance system, and conduct regular stress testing on the balance sheet of the Central Bank.

Compliance: Monitoring and Reporting

The compliance function of the Central Bank is expected to compile, analyze and report the legal and regulatory compliance requirements and possible non-compliances. Further, a culture of compliance is promoted in the Central Bank to implant regulatory compliance principles throughout the organization and ensure responsible market conduct at all levels. This involves proactive efforts to raise awareness about regulatory obligations, provide comprehensive compliance training for staff, and cultivate a strong commitment to integrity and accountability. By instilling a culture of compliance, the Central Bank aims to create a work environment where regulatory adherence is ingrained in the organizational culture and embraced as a core value.

The internal audit function provides risk-based and objective assurance, advice, and insight to enhance and protect the values of the Central Bank and assists the Bank to accomplish its objectives through bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes. While functioning as the third line of the Risk Management Framework, the Internal Audit provides independent and objective assurance and recommendations to add value and improve the operations of the Bank. The Chief Internal Auditor (CIA), Head of Internal Audit Department (IAD) reports functionally to the Governing Board through the Audit Committee (AC) and administratively to the Governor to ensure the independence of the internal audit function of the Central Bank.

The purpose and mission, standards, scope of work, authority, responsibility, independence and objectivity of internal audit function have been defined in the board approved Internal Audit Charter. It helps to ensure the effectiveness and integrity of the internal audit process while promoting consistency in audit practices fostering trust among stakeholders reflecting the commitment to transparency and sound governance.

Structural Reforms of Internal Audit Function under the Central Bank Act No. 16 of 2023

The significance of the internal audit function has duly acknowledged in section 102 of the CBA. Accordingly it provides provision to GB to appoint CIA to exercise, perform and discharge powers, duties and functions of the internal audit in the Audit Charter of the Central Bank inline with International Professional Practices Framework (IPPF).

Conduct of Audits, Reporting of Audit Progress and Follow-up of Implementation Status of the Audit Recommendations

IAD annually prepares its Risk-Based Strategic Audit Plan for the next 04 years and Annual Audit Plan for the next year by updating the Audit Universe (all auditable activities) of the Central Bank through a comprehensive risk-based methodology. Accordingly, during 2023, IAD executed its Risk-based Annual Audit Plan ensuring the coverage of critical functions of the Central Bank and provided audit recommendations to improve the operations of the Bank to achieve its strategic objectives covering the policy, compliance, operational, legal and other related risk areas.

The Progress of the audit assignments conducted, and the implementation status of the audit recommendations were reported to the AC and Monetary Board/Governing Board.

Quality Assurance and Improvement Program (QAIP)

The internal audit function of the Central Bank adheres to globally recognized standards and frameworks to ensure its effectiveness and alignment with best practices. Adopting and following the IPPF of Institute of Internal Auditors (IIA), IAD maintains the highest standards of professionalism, integrity, and ethical conduct in executing its operations.

To ensure compliance with the IPPF, Internal Assessments were conducted with ongoing monitoring of the performance and periodic self-assessment of the internal audit activity in 2023 and the results were communicated to the Governing Board through AC.

In 2023, internal audit function of Central Bank underwent a rigorous External Quality Assessment (EQA) conducted by a team of internal audit experts from Armenia and the Netherlands. This assessment served as a comprehensive evaluation of the Central Bank's internal audit practices against the IPPF. The outcome of this assessment unequivocally endorsed the Central Bank's internal audit function, affirming its full conformance with the IPPF.

Further, in order to improve the stakeholder familiarization with the internal audit process, an awareness program for representatives from all the departments was conducted.

Audit Committee Facilitation

The CIA functions as the Assistant Secretary to the AC and provided secretarial facilitation to the AC. Accordingly, following up of the implementation of the AC recommendations was carried out periodically and reported during the year.

HUMAN CAPITAL AND GENERAL ADMINISTRATION

As a responsible employer, the Central Bank acknowledges the essential contribution of its dedicated workforce to the economy and the financial system. With 1,226 employees spread across 29 departments, the Bank's success hinges upon their unwavering professionalism, technical expertise, integrity, and enthusiasm.

In 2023, the Central Bank faced considerable challenges, including increased attrition rates and early retirements, which placed significant strain on the existing workforce and hampered operational efficiency. To address these challenges, the Central Bank implemented several measures to expedite recruitment processes while enhancing employee satisfaction.

Talent Acquisition

In order to uphold the Central Bank's pivotal role in achieving and maintaining domestic price stability and securing financial system stability, the Central Bank follows a meticulous talent acquisition strategy to attract and recruit individuals who are highly qualified and well-suited for its talent pool.

The Central Bank's talent acquisition efforts prioritize identifying candidates who possess not only exceptional academic qualifications but also a demonstrated aptitude for critical thinking,

problem-solving, and adaptability. These attributes are deemed essential for navigating the complexities of economic policy formulation and maintaining stability of the financial system.

In the backdrop of increased staff attrition since 2022, the Central Bank accelerated the process of recruiting Management Trainees and promoting internal candidates as Probationary Staff Officers in 2023.

Further, during 2023, a total of 163 staff members were granted promotions across various categories under different employee promotion schemes, ensuring their career progression.

Training and Development

The Central Bank continuously carried out capacity development activities during 2023 for the staff of Central Bank as well as the financial sector through Centre for Banking Studies (CBS), the training arm of the Central Bank. Moreover, the Human Resources Department provided opportunities to the Central Bank staff to enhance their skills, knowledge and professional competencies through facilitating scholarships to pursue postgraduate studies and acquire professional qualifications relevant to the Central Bank. Further, the Central Bank staff attended training sessions/workshops/seminars

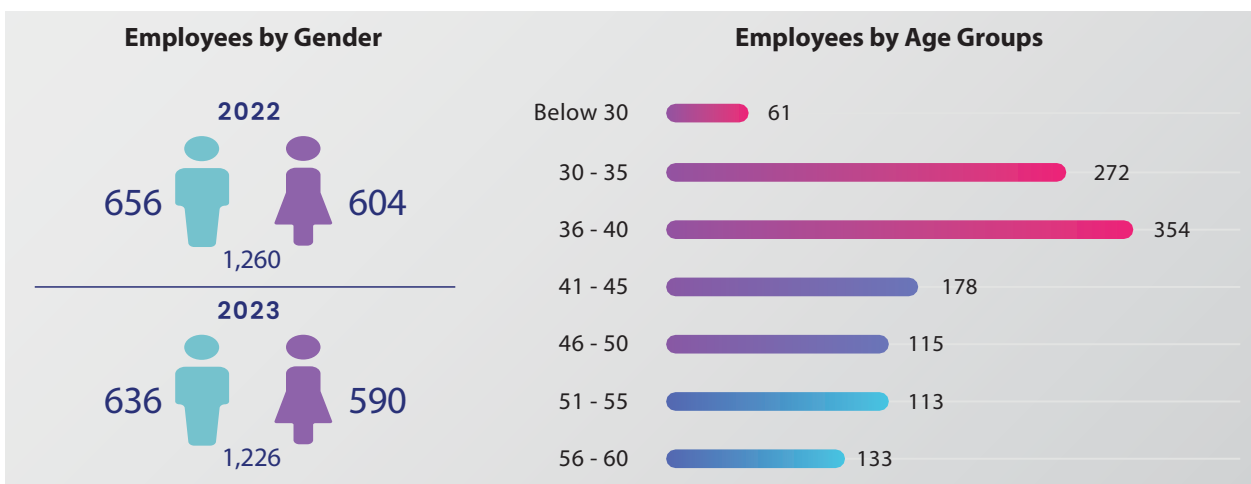
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conducted by local as well as international agencies on subjects relevant to Central Bank to stay updated with the latest knowledge.

Employee Wellness Initiatives

Retaining talented staff has been a significant challenge for the Central Bank over the last few years due to competitive job markets abroad and the economic conditions prevalent in the country. To effectively address these challenges and minimize its potential impact on critical operations of the Bank, the management of the Central Bank implemented strategies focusing on improving employee satisfaction, providing opportunities for professional growth and development, and enhancing overall workplace culture to foster loyalty and commitment among the workforce. As part of the management commitment for employee satisfaction, benefits including medical and staff loan facilities continued to be offered to the employees under the Bank's staff benefit schemes. Salaries of the Central Bank employees are revised once in three years under the Collective Agreement signed between the Monetary Board (currently the Governing Board) and Trade Unions operating in the Central Bank. Accordingly, in 2023 the Central Bank initiated negotiations with trade unions, and after several rounds of negotiations collective agreement for 2024-2026 was signed in Jan 2024. This salary revision is currently under review by an independent committee appointed by His Excellency the President in his capacity as the Minister of Finance in line with the recommendations of the Parliament Committee on Public Finance.

Overall Corporate Administration

During the year 2023, overall corporate administration was performed in line with the applicable regulations, ensuring accountability and other key attributes of good governance.

Activities under corporate administration consist of procurement, comprehensive insurance coverage for all the properties of the Central Bank, postal services, event organization, conducting of Board of Survey and contract management.

Facilities Management

Facilities Management covers a broad spectrum of duties focused on creating a conducive working environment for employees and stakeholders while maintaining operational efficiency and cost-effectiveness. Accordingly, activities under facilities management in 2023 included space management, infrastructure maintenance, transportation, and energy efficiency.

Protection of People and Property

Robust security protocols are in place to ensure the safety of both personnel and assets of the Central Bank. These protocols encompass various measures such as access control, surveillance systems, security personnel deployment, and emergency response procedures. By ensuring security, the Central Bank not only safeguarded its operations but also fostered public trust and confidence.

Enhancing Information Systems and Technologies

The Central Bank's Information Systems and Technologies underwent significant enhancements in 2023 to improve operational efficiency, regulatory oversight, and support the country's financial stability goals.

These advancements include streamlined monitoring systems for export proceeds and financial schemes, automated risk-based supervision tools, and improved data collection and regulatory reporting mechanisms.

Additionally, initiatives were launched to upgrade the online recruitment process, enhance data dissemination to external entities, and to align with global standards for transmission of financial data. Further, the technological infrastructure was enhanced with the establishment of a TIA 942-B:2017 Rated 3 Data Center while strengthening cybersecurity measures.

These efforts reflect the Central Bank's commitment to leveraging technology for better governance, transparency, and resilience in the financial sector.

Litigations and Legal Reforms

In 2023, the Central Bank extensively involved in legal reforms, particularly to fulfill prior actions outlined under the IMF programme for Sri Lanka. Key legislative initiatives included the approval and enactment of the Central Bank of Sri Lanka Act, No. 16 of 2023, and the Banking (Special Provisions) Act, No. 17 of 2023, effective from 15.09.2023 and 15.11.2023, respectively.

Furthermore, the Central Bank initiated several law reforms including;

- Amendments to the Banking Act, No. 30 of 1988, passed by the Parliament in April 2024
- Amendments Finance Business Act, No. 42 of 2011
- Amendments to Finance Leasing Act, No. 56 of 2000
- Amendments to Payment and Settlement Systems Act, No. 28 of 2005
- Amendments to Foreign Exchange Act, No. 12 of 2017
- Trading Clearing and Netting Act
- Further, the Central Bank provided technical assistance to the MoF in drafting the following laws:
 - Microfinance and Credit Regulatory Authority Bill
 - Financial Asset Management Companies Act

Moreover, the Central Bank effectively represented itself in various legal matters throughout the year, with a view to safeguard the institution's interests in legal disputes. Further, the Central Bank has attended to 290 information requests, 45 appeals, and 4 inquiries under the Right to Information (RTI) Act, No. 12 of 2016, during the year.

Business Process Re-engineering

In 2023, the Central Bank embarked on a robust business process reengineering endeavor for its HR management related processes. This initiative is geared towards identifying deficiencies, evaluating potential enhancements, and streamlining HR processes to establish a more cost-effective, quantifiably superior, and operationally efficient integrated framework. The key objective is to reform the delivery of human resources management functions, ensuring optimal utilisation of resources and heightened effectiveness in meeting the objectives of the Central Bank.

Way Forward

The Central Bank has embarked on a journey, to enhance its human resources practices while addressing key imperatives critical to the human resource framework, leveraging the expertise of an international firm with exposure to central banking. The immediate expected outcomes of the project includes a strategic focus on succession planning, addressing immediate human resource challenges, and fostering employee engagement. In this regard, a comprehensive revamping of the human resource strategies of the Central Bank is underway, aiming to modernise and align Central Banks human resource practices with international standards. By addressing these vital components, the Central Bank aims to achieve a highly engaged, competent and agile talent pool in the Bank.

BOARD MEMBERS

(as at 31 March 2024)

Dr. P. Nandalal Weerasinghe

Governor / Chief Executive Officer

Current Positions at CBSL:

Chairman - Governing Board
Chairman - Monetary Policy Board

Academic Background:

PhD in Economics, Australian National University,
Australia

MSc in Economics, Australian National University,
Australia

B.Sc., University of Kelaniya, Sri Lanka

Career Summary:

Present Engagements

Dr. Weerasinghe currently serves as the 17th Governor of the Central Bank of Sri Lanka. He provides strategic leadership and oversees the country's monetary policy, financial stability, and economic growth initiatives.

Experience

Dr. Weerasinghe is an experienced central banker with a deep understanding of Monetary and Exchange Rate Policy. He held the positions of Senior Deputy Governor, Deputy Governor, Assistant Governor, and Chief Economist during his career at the Central Bank. He also brings international experience, having served as an Alternate Executive Director at the International Monetary Fund.

As an Economist, he has advised on economic matters in Cabinet Sub-Committees. Dr. Weerasinghe has also contributed to academia, serving as a Visiting Lecturer at the University of Colombo and as a Visiting Research Economist at the SEACEN Centre in Malaysia and the Australian National University.

With his extensive background and diverse contributions, Dr. Weerasinghe plays a pivotal role in advancing monetary and economic policies.

Mr. Nihal Fonseka**Current Positions at CBSL:**

Appointed Member - Governing Board
 Appointed Member - Monetary Policy Board
 Chairman - Board Risk Oversight Committee

Academic Background:

BSc., University of Ceylon, Colombo, Sri Lanka
 Fellow, Chartered Institute of Bankers, United Kingdom (FCIB)
 Honorary Fellow, Chartered Institute of Securities and Investments, United Kingdom (FCSI)

Career Summary:**Present Engagements**

Mr. Nihal Fonseka holds key positions in leading organizations. He serves as Senior Independent Director and Chairman of the Group Audit Committee at John Keells Holdings PLC. Additionally, he chairs Phoenix Industries Ltd. and serves as Non-Executive Director and Chairman of the Audit Committee at Brandix Lanka Ltd. Furthermore, he holds the position of Non-Executive Director and Chairman of the Investment Committee at Phoenix Ventures Ltd.

Experience

Mr. Nihal Fonseka has held significant roles in both the public and private sectors, contributing extensively to financial governance and development. His track record showcases his extensive leadership and experience in the financial sector. He has served as a Member of the Monetary Board of the Central Bank of Sri Lanka from 2016 to 2020. Additionally, he served as Director of the Employees' Trust Fund Board in 2016 and as a Member of the National Procurement Commission in the same year, demonstrating his commitment to public service. In the private sector, he was the Chief Executive Officer/Director of DFCC Bank from 2000 to 2013, overseeing its operations and strategic direction. Besides this, Mr. Fonseka held prominent positions as Chairman of the Association of Development Financing Institutions in Asia & Pacific in Manila from 2011 to 2012 and Chairman of the Colombo Stock Exchange from 2005 to 2009. He has contributed his expertise to various boards, including as a Director of the Commercial Bank of Ceylon PLC from 2000 to 2009. Additionally, he was a Member of the Presidential Commission on Taxation in 2009. Prior to that he was the Deputy Chief Executive Officer of HSBC Sri Lanka from 1990 to 1999.

Dr. Ravi Ratnayake**Current Positions at CBSL:**

Appointed Member - Governing Board
 Appointed Member - Monetary Policy Board
 Member - Audit Committee

Academic Background:

PhD in Economics, La Trobe University, Australia
 Post Graduate Diploma in Economic Development, University of Colombo, Sri Lanka
 Diploma in Computer Systems, NIBM
 B.A (Honours in Economics), University of Peradeniya, Sri Lanka

Career Summary:**Present Engagements**

Dr. Ratnayake is currently engaged as an International Consultant in Economics and National Business. Additionally, he serves as the Secretary-General of the Bridging the Gap Foundation (BGF).

Experience

Dr. Rathnayaka brings over 40 years of extensive international experience as Chief Economist and Director of Trade and Investment at UNESCAP, along with roles as a Professor, Senior Lecturer, and Senior Economic Researcher. He has advised governments of over 25 developing countries on macroeconomic policy, authored numerous publications, and coordinated regional projects on trade and investment policy. Dr. Rathnayaka has spearheaded the establishment of key initiatives at UNESCAP and provided consultancy services to prestigious international institutions. In Sri Lanka, he has held significant positions in trade policy formulation and negotiation.

Mr. Anushka Wijesinha**Current Positions at CBSL:**

Appointed Member - Governing Board
 Appointed Member - Monetary Policy Board
 Chairman - Ethics Committee

Academic Background:

Masters in Economics, University of Leeds, United Kingdom

BSc. in Economics, University College, London, United Kingdom

Alumnus of Harvard Kennedy School Executive Education.

Career Summary:**Present Engagements**

Mr. Wijesinha is currently engaged as Co-founder and Director of the Centre for a Smart Future (CSF), overseeing interdisciplinary public policy initiatives. He also serves on the Oversight Committee on Exports and Foreign Direct Investment (FDI) at the Presidential Secretariat. Additionally, Mr. Wijesinha holds positions as an Independent Non-Executive Director at Fairfirst Insurance Ltd. and Good Life X (Pvt) Ltd.

Experience

Mr. Wijesinha is an accomplished professional with extensive international and domestic experience. He has served as an International Consultant on advisory projects across Asia and the Middle East, and holds senior positions in the financial sector, including Senior Independent Non-Executive Director at Seylan Bank PLC and HNB Finance PLC. Mr. Wijesinha is actively involved in fostering innovation and economic development in Sri Lanka, serving on various boards and councils such as the Sri Lanka Export Development Board and the National Innovation Agency. With a background as Chief Economist at the Ceylon Chamber of Commerce and Research Economist at the Institute of Policy Studies of Sri Lanka, he brings valuable economic insights. Additionally, he has contributed to research as a Visiting Researcher at the Korea Development Institute in Seoul.

Mr. Vish Govindasamy**Current Positions at CBSL:**

Appointed Member - Governing Board
 Appointed Member - Monetary Policy Board

Academic Background:

MBA and BSc in Electrical Engineering, University of Hartford, USA

Fellow member, the Institute of Certified Professional Managers, Sri Lanka

Career Summary:**Present Engagements**

Deputy Chairman, Sunshine Holdings PLC

Experience

Mr. Govindasamy, the immediate past Chairman of both the Ceylon Chamber of Commerce and the Employers Federation of Ceylon, is widely recognized for his remarkable contributions to the business landscape. He is credited with the creation of popular tea brands such as Zesta, Watawala, and Rankhata, demonstrating his outstanding entrepreneurial vision and marketing prowess. Mr. Govindasamy's expertise extends to corporate governance, as he serves as an Independent Director on the boards of several listed companies.

Mr. Rajeev Amarasuriya**Current Positions at CBSL:**

Appointed Member - Governing Board
 Appointed Member - Monetary Policy Board
 Member - Audit Committee

Acedemic Background:

Honours Degree in Law, University of Colombo, Sri Lanka
 Attorney-at-Law of the Supreme Court of Sri Lanka
 Fellow Member, Chartered Institute of Management Accountants (UK)
 Fellow Member, Institute of Certified Management Accountants, Sri Lanka
 Chartered Global Management Accountant
 Alumnus of the Harvard Kennedy School (Executive Education)
 Raisina Fellow, Young AFGG

Career Summary:**Present Engagements**

Mr. Amarasuriya is an experienced Attorney-at-Law with a focus on Appellate Court practice in Public Law and various branches of Civil Litigation. He serves as a Board Member of the Sri Lanka Accounting and Auditing Standards Monitoring Board and as a Council Member of the University of Colombo. Additionally, Mr. Amarasuriya is a member of the Standing Committee of Legal Studies of the University Grants Commission and acts as the Sri Lanka Country Representative for the Legal Education Association. He also holds a position on the Executive Committee of LAWASIA.

Experience

Mr. Amarasuriya holds key positions across legal and professional bodies in Sri Lanka. He serves as Secretary of the Bar Association, Commissioner at the Securities and Exchange Commission, and is a member of the Council of Legal Education. Additionally, Mr. Amarasuriya contributes to arbitration and alumni engagement as a member of the Sri Lanka National Arbitration Centre and Immediate Past President of the University of Colombo Alumni Association.

Mr. Manil Jayesinghe**Current Positions at CBSL:**

Appointed Member - Governing Board
 Appointed Member - Monetary Policy Board
 Chairman - Audit Committee

Acedemic Background:

Fellow Member, Institute of Chartered Accountants of Sri Lanka
 Fellow Member, Chartered Institute of Management Accountants (UK)
 Fellow Member, Certified Management Accountants of Sri Lanka
 Member, Chartered Institute of Public Finance & Accountancy

Career Summary:**Present Engagements**

Mr. Jayesinghe holds key positions in various organizations. He is the Chairman of the Statutory Accounting Standards Committee and chairs the Accounting Standards Committee of SAFA. Additionally, he serves on the Securities & Exchange Commission of Sri Lanka and the Board of Investments of Sri Lanka. Furthermore, Mr. Jayesinghe acts as an Independent Director for several prominent companies, including DIMO and Ceylon Hospitals.

Experience

Mr. Jayesinghe has a distinguished 30-year tenure at Ernst & Young, where he has served as Partner and Country Managing Partner for Sri Lanka and Maldives. He has held key leadership roles, including Head of Assurance Practice and Profession Practice Director. Mr. Jayasinghe is an expert in International Financial Reporting Standards (IFRS) and Sri Lanka Accounting Standards (SLAS) and has made significant contributions to the accounting profession as President of the Institute of Chartered Accountants of Sri Lanka. He actively involved in professional associations such as the National Chamber of Commerce and the CMA Sri Lanka Council.

Dr. (Ms) Dushni Weerakoon**Current Positions at CBSL:**

Appointed Member – Monetary Policy Board

Acedemic Background:

PhD in Economics, University of Manchester, United Kingdom

MA & in Economics, University of Manchester, United Kingdom

BSc in Economics, Queen's University of Belfast, United Kingdom

Career Summary:**Present Engagements**

Dr. (Ms.) Weerakoon currently serves as the Executive Director of the Institute of Policy Studies of Sri Lanka (IPS). In addition to this role, she heads the Macroeconomic Policy research department at IPS, where she leads research initiatives focused on macroeconomic trends and policies.

Experience

Dr. (Ms.) Weerakoon is an accomplished professional with a diverse portfolio. She serves as an Appointed Member of the Monetary Board of the Central Bank of Sri Lanka and holds Independent Non-Executive Director positions at Cargills Ceylon PLC and Nations Trust Bank. Dr. Weerakoon also directs the Social Policy Analysis and Research Centre (SPARC) at the University of Colombo. Internationally, she advises the Centre for Development Economics and Sustainability (CDES) at Monash University, Australia, and consults for organizations like the Asian Development Bank (ADB), the World Bank, and the World Trade Organization (WTO).

Dr. Priyanga Dunusinghe**Current Positions at CBSL:**

Appointed Member - Monetary Policy Board

Acedemic Background:

Professor in Economics, Department of Economics, University of Colombo

Career Summary:**Present Engagements**

Dr. Dunusinghe is both the Head of the Department of Information Technology and a Professor in Economics at the University of Colombo, Sri Lanka.

Experience

Dr. Dunusinghe is a respected researcher specializing in macroeconomic policies and development across various sectors. He has provided consultancy services to prestigious organizations such as the UN, World Bank, and Asian Development Bank, as well as to various ministries of the Sri Lankan government. Additionally, Dr. Dunusinghe contributes to agricultural research and training as a member of the Research and Training Committee at the Hector Kobbekaduwa Agrarian Research Institute. He has also served as the Director of the Career Guidance Unit at the University of Colombo and is a regular contributor to media platforms.

Mrs. T. M. J. Y. P. Fernando

Senior Deputy Governor

Current Positions at CBSL:

Member - Monetary Policy Board
Member - Ethics Committee

Academic Background:

Master of Financial Economics, University of Colombo, Sri Lanka

Bachelor of Commerce (Special), University of Sri Jayewardenepura, Sri Lanka

Career Summary:

Mrs. Fernando, Senior Deputy Governor at the Central Bank of Sri Lanka, leads the financial system stability cluster and oversees various departments, including Bank Supervision, Non-bank Supervision, Payments & Settlements, Currency, Foreign Exchange, Finance, Regional Development, and Employees' Provident Fund. With over 34 years of experience at the Central Bank, she has extensive expertise in regulating and supervising banks and non-bank financial institutions, managing foreign exchange, overseeing currency operations, and payments and settlements systems.

Mrs. Fernando also represents the Central Bank at various outside entities, holding key positions such as Chairman of the Credit Information Bureau of Sri Lanka and Chairman of the Institute of Bankers of Sri Lanka. Additionally, she serves as a Member of the Insurance Regulatory Commission of Sri Lanka, Securities and Exchange Commission of Sri Lanka, and Api Wenuwen Api Fund's Board of Management.

Mrs. K. M. A. N. Daulagala

Deputy Governor

Current Positions at CBSL:

Member - Monetary Policy Board
Member - Ethics Committee
Information Officer - The Central Bank of Sri Lanka (Under Right to Information Act No. 12 of 2016)

Academic Background:

Master of Science Degree in Financial and Business Economics, University of Essex, United Kingdom

Master of Business Administration Degree, University of Sri Jayewardenepura, Sri Lanka

Fellow Member, Chartered Institute of Management Accountants, United Kingdom

Career Summary:

Mrs. Daulagala has over 31 years of service at CBSL in different capacities in the areas of supervision and regulation of non-bank financial institutions, macroprudential surveillance, finance, international operations, risk management, regional development, human resource management, training and development and corporate support services.

She has served as the Secretary to the Monetary Board, Secretary to the Board Risk Oversight Committee and Advisory Audit Committee of the Central Bank. She has also served as the Director-General of the Department of Public Enterprises of the Ministry of Finance.

At present, Mrs Daulagala chairs the Sri Lanka Accounting and Auditing Standards Monitoring Board.

Additionally, she has represented the Central Bank in key external entities such as the Credit Information Bureau of Sri Lanka, the Institute of Bankers of Sri Lanka, and the Insurance Regulatory Commission of Sri Lanka.

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BOARD SUB-COMMITTEES

Committee	Tasks	Members
Audit Committee (AC)	<p>Advises on the integrity of CBSL's financial statements and significant financial reporting issues and engage with the external auditor to ensure transparency and accountability in the audit process.</p> <p>Reviews and advises on the adequacy and effectiveness of internal controls and risk management systems.</p> <p>Assess internal controls related to whistleblowing, compliance, and fraud reporting mechanisms.</p> <p>Monitors the effectiveness of the central Banks's internal audit function in the context of the overall risk management system.</p>	<p>Board member nominated by Governing Board (chairman)</p> <p>Nominated Board members</p> <p>Observers: Assistant Governor in-charge of the Finance Department, Chief Compliance Officer, Chief Risk Officer, Chief Accountant, Audit Superintendent of the National Audit Office as the representative of the Auditor General</p> <p>Secretary: The Secretary to the Governing Board</p> <p>Assistant Secretary: Chief Internal Auditor</p>
Board Risk Oversight Committee (BROC)	<p>Ensure availability of appropriate framework for risk management.</p> <p>Recommend Risk Appetite Statement of CBSL.</p> <p>Review and assess the risk management function to ensure that risks are effectively managed and are within the risk appetite of CBSL.</p> <p>Review and assess the nature, role, responsibilities and authority of the risk management function and committees in the Risk Governance Framework.</p> <p>Ensure Financial/ Operational/ Compliance risks of strategic importance are conveyed to GB.</p> <p>Ensure external developments and emerging risks having impacts/ prospective impacts to CBSL, are considered in the Risk Management Process.</p> <p>Ensure CBSL's risk management capabilities are sufficiently robust and effective to fully support its objectives and all its risk-taking activities.</p> <p>Provide an independent and objective oversight and view on the information submitted to the Committee.</p> <p>Ensure availability of a robust Business Continuity/Crisis Management Plan for CBSL.</p>	<p>Independent board member nominated by the Board (Chairperson),</p> <p>Two independent external experts</p> <p>Observers: Senior Deputy Governor, Deputy Governors, Chief Compliance officer, Chairperson-Business Continuity Planning Committee, Chief Internal Auditor, Chief Information Security Officer</p> <p>Secretary: Secretary to the Governing Board</p> <p>Observer/Converner/Assistant Secretary: Director Risk Management (Chief Risk Officer)</p>

Committee	Tasks	Members
Ethics Committee (EC)	<p>Deals with matters related to the Code of Conduct for Employees of Central Bank of Sri Lanka, which was effective from 30 June 2018 and the Code of Conduct for the Members of the Monetary Board & Monetary Board Appointed Advisory/ Sub-Committees, which was effective from 01 January 2019.</p> <p>(The above said Codes of Conducts were issued in terms of Section 8 (1) of the Monetary Law Act No. 58 of 1949 and currently it must be read with Section 133 of the Central Bank of Sri Lanka Act No. 16 of 2023.)</p>	<p>An Appointed Member of the Board as may be nominated by the Board(Chairman)</p> <p>An external member nominated by the Board</p> <p>Senior Deputy Governor and all Deputy Governors</p> <p>Secretary to the Governing Board (acts as the Secretary to the EC)</p>

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Activity Report of the Monetary Board Advisory Audit Committee Relating to the Financial Year 2023

1. Introduction

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

2. Composition of AAC

According to the AAC Framework, AAC was chaired by an appointed member of the Monetary Board and comprises of two audit /accounting professionals.

Composition of the AAC was as follows:

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

The Secretary to the Monetary Board was the Secretary to the AAC, and the Director of the Internal Audit Department (IAD) was the Assistant Secretary to the AAC. IAD provided secretarial facilitation to the AAC. The Assistant Governor in-charge of the Finance Department, Chief Compliance Officer, Chief Accountant, and Chief Risk Officer of the Central Bank and Superintendent of Audit of the National Audit Office as the representative from the Auditor General attended the AAC Meetings as Observers. As and when necessary, the AAC invited the Central Bank Heads of Department for discussions and to respond to audit queries. The engagement partner of the Audit Firm appointed by the Auditor General to carry out the external audit of the Central Bank also attended the AAC meetings by invitation when the financial statements of the Central Bank were discussed. The AAC was required to meet at least six times a year. The quorum for a meeting was two, including the Chairperson.

3. Structural Changes as per The Central Bank of Sri Lanka Act No. 16 of 2023.

In compliance with section 103 of the Central Bank of Sri Lanka Act No. 16 of 2023, Composition, Powers, Duties and the Functions of the Audit Committee have been transformed in line with the new Governance Structure of the CBSL. Accordingly, the Governing Board of the CBSL at its meeting No. 6/2024 held on 21.02.2024 appointed the New Audit Committee comprising of three appointed members from the Governing Board.

3.1. Composition of the new Audit Committee was as follows:

- i. Mr. Manil Jayesinghe - Chairman
- ii. Dr. Ravi Ratnayake - Member
- iii. Mr. Rajeev Amarasuriya - Member

* Resigned from the Monetary Board effective from 12.09.2023

4. Activities performed by the AAC during the year 2023.

The AAC held seven (07) meetings from 01.01.2023 to 15.08.2023 and the following activities were carried out at the said meetings in 2023.

4.1. The AAC reviewed Financial Reporting and External Audit as follows:

- i. Interim Management Letter and the Final Management Letter submitted by M/s. EY relating to the audit of the Financial Statements of the Central Bank for the year ended 31.12.2022 and the comments of the management.
- ii. Financial Statements of the Central Bank for the year ended 31.12.2022.
- iii. Financial Statements for the year ended 31.12.2022 and the Proposed Profit Distribution Policy of EPF.
- iv. Report of the Auditor General on the Financial Statements of the EPF for the year ended 31.12.2022.
- v. Financial Statements of six Superannuation 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, Central Bank Provident Fund) of the Central Bank as at 31.12.2022.

4.2. Internal Controls

- i. Reviewed and advised on internal controls of the Central Bank including ongoing IT Projects and the internal controls in Currency Department.
- ii. Reviewed the implementation progress of the AAC recommendations provided to respective stakeholders.

4.3. Internal Audit

- i. Reviewed the progress of audits conducted by IAD.
- ii. Reviewed the implementation status of Internal audit recommendations provided to process owners.
- iii. Reviewed the progress of the Annual Audit Plan.
- iv. Reviewed the reports on Ongoing Monitoring of Internal Audit Activity and Periodic Self-Assessment for the year 2022.
- v. Reviewed the results of Internal Audit Client Feedback Survey.
- vi. Recommended the Internal Audit Certification Program, prepared by IAD as recommended by the IMF.
- vii. Reviewed the arrangements made to conduct External Quality Assessment.

4.4. Other Activities

- i. The AAC reviewed its activities carried out during the year 2022.
- ii. Reviewed the AAC Framework for further improvements.

5. Activities performed by the New Audit Committee relating to the financial year 2023.

The New Audit Committee held four (04) meetings during 2024 and reviewed;

- i. Financial Statements of the Employees' Provident Fund for the financial year 2023.
- ii. Financial Statements of the Central Bank for the year ended 31.12.2023.

Activity Report of the Board Risk Oversight Committee during the Financial Year 2023

1. Introduction

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

2. Composition of the BROC

The BROC is chaired by an Appointed Member of the Governing Board (GB), formerly MB, and comprises of two other Independent External Experts with relevant expertise, who have not been involved in the Financial Services Sector for at least one year, prior to their appointments.

The composition of the BROC during the year 2023 was as follows:

- i. Mr. Sanjeeva Jayawardena*, President's Counsel - Appointed Member of the MB
- ii. Mr. Nihal Fonseka, Appointed Member of the GB (Chairman - appointed on 23/11/2023)
- iii. Mr. Trevine Jayasekara (Independent External Member - appointed on 23/07/2022)
- iv. Mr. H A Karunaratne (Independent External Member - appointed on 23/07/2022)

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

All Deputy Governors, Chairman of the Business Continuity Planning Committee, Chief Compliance Officer of the CBSL and Chief Internal Auditor of the CBSL attend the BROC meetings in the capacity of Observers.

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

3. Activities carried out during the financial year 2023

The BROC held two meetings in 2023 and the major activities carried out are as follows:

- i. Reviewed the Departmental Risk Registers and made recommendations to the MB/GB in order to expedite the mitigation of operational risks highlighted.
- ii. Guided the implementation of the Risk Appetite Framework on a phased-out basis.
- iii. Reviewed Key Risk Indicators on Human Resources and Information Technology.
- iv. Reviewed incidents reported by RMD extracted through the Incident Reporting System.

* Resigned from the Monetary Board effective from 05.11.2023

- v. Reviewed the risk management and compliance updates pertaining to funds managed by the CBSL (International Reserves, Internal Investment Funds and Employees' Provident Fund), to ensure that such funds are managed within the stipulated parameters.
- vi. Reviewed the impact of credit risk arising from voluntary Domestic Debt Optimisation for Internal Investment Funds and Employees' Provident Fund, and on Central Bank Balance Sheet.

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PRINCIPAL OFFICERS

(as at 31 March 2024)

Governor/ Chief Executive Officer

Dr. P. Nandalal Weerasinghe

Deputy Governors

Mrs. T. M. J. Y. P. Fernando
(Senior Deputy Governor)

Mr. K. M. M. Siriwardana
(Released to Ministry of Finance,
Economic Stabilisation and
National Policies)

Mrs. K. M. A. N. Daulagala

Assistant Governors

Mr. J. P. R. Karunaratne

Mr. A. A. M. Thassim
Secretary to the Governing Board
and Monetary Policy Board

Mr. K. G. P. Sirikumara
Chief Compliance Officer

Mr. C. P. S. Bandara

Dr. C. Amarasekara

Mrs. W. A. Dilrukshini

Dr. P. K. G. Harischandra
(Released to International
Monetary Fund)

Mrs. D. S. W. Samaratunga
Deputy Secretary to the
Governing Board

Mrs. E. H. Mohotty

Mrs. R. D. T. Gunasekera

Heads of Departments

Bank Supervision Department

Mrs. R. R. S. De Silva Jayatillake
Director

Mrs. S. Ketawala
Additional Director

Mr. S. G. S. D. Jayasekara
Additional Director

Centre for Banking Studies

Dr. E. W. K. J. B. Ehelepola
Director

Communications Department

Mr. G. D. P. D. Jayathilake
Director

Mrs. M. K. Jayawardena
Additional Director

Currency Department

Mr. P. D. R. Dayananda
Superintendent

Mr. D. A. M. A. L. B. Deegala
Additional Superintendent

Mr. M. C. D. De Silva
Additional Superintendent

Department of Foreign Exchange		
Mrs. A. P. Liyanapatabendi Director	Mr. W. S. Prasanna Additional Director	
Department of Supervision of Non-Bank Financial Institutions		
Mrs. R. M. C. H. K. Jayasinghe Director	Mrs. V. E. I. W. Weerasinghe Additional Director	
Deposit Insurance and Resolution Department		
Mrs. D. R. Karunaratne Director		
Domestic Operations Department		
Dr. R. A. A. Perera Director	Mr. K. S. A. K. Senanayake Additional Director	Mrs. T. M. U. K. Tennakoon Additional Director
Economic Research Department		
Dr. (Mrs.) S. Jegajeevan Director	Dr. L. R. C. Pathberiya Additional Director	
Employees' Provident Fund Department		
Mr. D. L. Nihal Superintendent	Mrs. S. M. L. Siriwardane Additional Superintendent	Mrs. R. M. D. C. M. Rajapakse Additional Superintendent
Facilities Management Department		
Mr. R. M. Jayawardena Director	Mr. S. K. P. Vitharana Additional Director	
Finance Department		
Mrs. D. S. L. Sirimanne Chief Accountant	Mrs. K. P. K. Weerasekara Additional Chief Accountant	
Financial Consumer Relations Department		
Mr. J. D. S. J. Nanayakkara Director		
Financial Intelligence Unit		
Dr. (Mrs.) W. G. S. S. J. Keerthiratne Director	Dr. H. P. A. I. Ariyasinghe Additional Director	
Human Resources Department		
Mr. W. G. Prabath Director	Mrs. R. K. P. M. Warakagoda Additional Director	
Information Technology Department		
Mr. H. M. P. B. Herath Director	Mr. C. C. Gamage Additional Director	

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International Operations Department

Dr. (Ms.) D. S. T. Wanaguru Director	Mr. S. Obeysekera Additional Director
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Internal Audit Department

Mrs. D. K. Mayadunna
Chief Internal Auditor

Legal Department

Dr. (Mrs) A. A. I. N. Wickramasinghe
Director

Macroprudential Surveillance Department

Dr. B. H. P. K. Thilakaweera Director	Dr. L. Sritharan Additional Director
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Payments and Settlements Department

Mr. K. V. K. Alwis Director	Ms. S. M. Wimalasuriya Additional Director
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Policy Review and Monitoring Department

Mrs. W. L. S. W. Jayasundera
Director

Public Debt Department

Mr. N. D. Y. C. Weerasinghe
Superintendent & Registrar

Regional Development Department

Mr. G. C. A. Ariyadasa
Director

Risk Management Department

Mr. W. R. M. K. Fernando
Director

Secretariat Department

Mrs. K. N. N. M. Bandara Secretary	Mr. W. M. Priyankara Additional Secretary
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Security Services Department

Mr. A. J. Amerasinghe Director	Mr. M. D. S. N. Gunatilleka Additional Director
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Staff Services Management Department

Mr. J. M. Ameer
Director

Statistics Department

Dr. (Mrs) H. K. J. Ekanayake Director	Mrs. D. G. D. I. Ekanayake Additional Director
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OTHER COMMITTEES

Committee	Tasks	Members
Monetary Policy Committee (MPC)	<p>Evaluating macroeconomic developments and projections.</p> <p>Formulating recommendations on future monetary policy directions for the Monetary Policy Board.</p>	<p>Governor (Chairman),</p> <p>All Deputy Governors</p> <p>Assistant Governor/s in-charge of the Departments of Economic Research, Statistics, Domestic Operations, International Operations, and Bank Supervision</p> <p>Directors of the Departments of Economic Research, Statistics, Domestic Operations and International Operations.</p> <p>Additional Director of Economic Research overseeing Money and Banking</p>
Financial System Oversight Committee (FSOC)	<p>Examine the macroprudential policy to mitigate building-up of identified systemic risks affecting the financial system.</p> <p>Coordinate the implementation of macroprudential policy.</p> <p>Upon a proposal of the Central Bank under section 69 of the Central Bank of Sri Lanka Act, No. 16 of 2023, issue recommendations to relevant public authorities and financial sector authorities on corrective action in response to the risk identified and, making those recommendations public, if it deems necessary.</p> <p>Monitor compliance with its recommendations.</p>	<p>Governor of the Central Bank (Chairperson)</p> <p>Deputy Governor/s of the Central Bank in charge of Macroprudential Policy and, Regulation and Supervision</p> <p>Deputy Secretary to the Treasury nominated by the Secretary to the Treasury, Chief Executive Officer of the Insurance Regulatory Commission of Sri Lanka, Chief Executive Officer of the Securities and Exchange Commission of Sri Lanka, Another person who may be appointed by the Governing Board of the Central Bank</p>
Corporate Management Committee (CMC)	<p>Make recommendations to the Governing Board on the policy proposals that have an impact on the Bank's human capital competitiveness and sustainability.</p> <p>Solve issues relating to corporate support functions.</p>	<p>Governor (chairman),</p> <p>All Deputy Governors,</p> <p>All Assistant Governors</p>

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Committee	Tasks	Members
Stakeholder Engagement Committee (SEC)	The Committee represents the views and sentiments of the private sector and academia on economic conditions and the outlook, considering overall economic developments, particularly in the monetary and financial sectors of the economy. Further, the Committee is expected to provide feedback from the viewpoint of the stakeholders of the economy on the policy measures adopted by the Central Bank, thus enabling the Central Bank to make informed policy decisions in a more consultative manner.	Cross section of external stakeholders, including eminent professionals, academics, and private sector personnel who are experts in monetary policy, macroeconomy, and financial system
Financial System Stability Committee (FSSC)	Safeguard the stability and resilience of the financial system. Comprehensive assessments of systemic risks. Formulate proactive measures to mitigate potential threats to financial stability. Conduct monitoring mechanisms and policy interventions related to Financial System Stability Committee. Uphold public confidence in the integrity and soundness of the financial system.	The Deputy Governor in-charge of Financial Sector Regulation and Supervision (Chairman) Deputy Governors in-charge of Economic Policy Advisory and Capacity Building & Support Assistant Governors in-charge and Heads of Macprudential Surveillance Department, Bank Supervision Department, Department of Supervision of Non-Bank Financial Institutions, Economic Research Department, Foreign Exchange Department, Payments & Settlements Department, Statistics Department, International Operations Department, Domestic Operations Department, Information Technology Department, Public Debt Department, Deposit Insurance and Resolutions Department, Legal Department and Financial Intelligence Unit
Market Operations Committee (MOC)	Managing rupee liquidity in the interbank money market by determining daily direction, type and magnitude of open market operations, in order to maintain the AWCMR at a desired level consistent with the current monetary policy stance set out by the MPB. Making recommendations regarding actions to be taken during the day on exchange rate management operations in the domestic foreign exchange market in adherence to the guidance provided by the Governor.	Deputy Governor in-charge of Economic Policy Advisory Cluster (Chairperson) Assistant Governor in-charge of Economic Research Department (ERD) (Deputy Chairman) Assistant Governors in-charge of International Operations Department (IOD) and Domestic Operations Department (DOD) Directors of ERD, IOD and DOD

Committee	Tasks	Members
National Payments Council (NPC)	<p>Support CBSL to implement, administer and enforce the provisions of the Payment and Settlement Systems Act No. 28 of 2005.</p> <p>Facilitate the stability of the financial system;</p> <p>Enhance other aspects of public interest (promotion of competition, protection of payment system users);</p> <p>Provide guidance and leadership for the establishment and development of payment, clearing and settlements system in Sri Lanka;</p> <p>Facilitate the development of new methods and technologies for payments; and</p> <p>Facilitate cooperation among all participants in the evolution of payment systems and the provision of payment services.</p>	<p>Deputy Governor in charge of Payments and Settlements Department (PSD)- Chairperson, Assistant Governors in charge of PSD and Information Technology Department and Heads of other relevant Departments,</p> <p>Licensed Commercial Banks and National Savings Bank, LankaPay (Pvt) Ltd, Sri Lanka Banks' Association, Lanka Financial Services Bureau Limited, Credit Information Bureau of Sri Lanka, Colombo Stock Exchange, Treasury Operations Department of Ministry of Finance, Payment Card Industry Association, Sri Lanka Forex Association, Securities and Exchange Commission of Sri Lanka, Dialog Axiata PLC and Mobitel (Pvt) Ltd (mobile phone-based e-money service providers), Banks' CIO Forum and Association of Primary Dealers</p>
Information Technology Oversight Committee (ITOC)	<p>Provide strategic direction and alignment of Bank's ICT framework with the organisaton goals.</p> <p>Identify, review, recommend and monitor major ICT enabled business transformation projects.</p> <p>Ensure the appropriate allocation, distribution and effective use of available resources.</p> <p>Review and recommend ICT policies and procedures.</p>	<p>Deputy Governor in Charge of ITD (Chairman),</p> <p>All Assistant Governors</p>
Investment Oversight Committees (IOCs)	<p>Ensure strict adherence to investment guidelines while making broad investment decisions.</p> <p>Provide inputs to formulate and review Investment Policies, and Guidelines.</p> <p>Translating the strategic decisions of the Governing Board into operational directives.</p> <p>Oversee investment activities carried out by fund management departments.</p> <p>Approve new issuers/counterparties and monitor investment performance, risk, and compliance.</p> <p>Recommend necessary deviations from policies and guidelines, particularly in unavoidable circumstances such as breaches in stipulated limits.</p> <p>Ensure the integrity and effectiveness of the central bank's investment practices.</p>	<p>Deputy Governor (Chairperson),</p> <p>Assistant Governors overseeing the respective departments as outlined in the investment policy statements</p> <p>Observers: Heads of relevant departments and Chief Risk Officer</p>

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Committee	Tasks	Members
Non-Financial Risk Management Committee (NFRMC)	<p>Ensure an appropriate framework for Operational and Compliance risk management for CBSL is in place and recommend the same to BROC.</p> <p>Review and assess the quality, integrity, and effectiveness of the framework for Operational and Compliance risk management.</p> <p>Ensure that the framework approved by the Board for Operational and Compliance risk management is effectively implemented throughout CBSL and well understood by all stakeholders.</p> <p>Oversee Operational and Compliance risk reporting of CBSL.</p> <p>Review existing and potential Operational and Compliance risks/ incidents and decide on suitability of treatment measures and their alignment with CBSL's Risk Appetite Statement, once it is developed.</p> <p>Review Operational and Compliance risks with bank-wide impact, which do not fall under the purview of a single department.</p> <p>Ensure Operational and Compliance risks of strategic importance are escalated to GB through BROC.</p> <p>Ensure that Operational and Compliance risk awareness is created within CBSL.</p> <p>Ensure an adequate facilitation for development of staff skills required for Operational and Compliance risk management.</p> <p>Oversee the development of CBSL's Risk Appetite Statement and recommend the same to BROC for its review.</p>	<p>Deputy Governor appointed by the Governing Board (Chairperson),</p> <p>Deputy Governors and All Assistant Governors, Chief Risk Officer and Chief Compliance officer</p> <p>Observers: Chief Information Security Officer, Chief Internal Auditor</p>

PUBLICATIONS AND DATA DISSEMINATION 2023

Economic and Financial Publications

- Annual Report 2022: Central Bank of Sri Lanka (CBSL)
- Monetary Policy Report: July 2023
- Financial Stability Review 2023
- Financial Soundness Indicators: Q2 & Q3 2023
- Pamphlet on Monetary Policy Implementation in Sri Lanka

Statistical Publications

- Economic and Social Statistics of Sri Lanka 2023: Volume XLV
- Sri Lanka Socio-Economic Data 2023: Volume XLVI
- Payments Bulletin: Quarterly publications

Periodic Publications

- Satahana: Quarterly publications
- News Survey: Quarterly publications
- Vaippaham: Quarterly publications

Other Publications

- Annual Report 2022: Financial Intelligence Unit of Sri Lanka
- National Money Laundering and Terrorist Financing Risk Assessment of Sri Lanka 2021/2022
- Bi-annual Statistics as at 30th June 2023: Financial Intelligence Unit of Sri Lanka

Awareness Materials

- Financial Scams: The Hell Underneath the Heaven
- Green Finance for Sri Lankan Financial Institutions
- Children's Booklets on Financial Literacy

Data and Information Dissemination

- "Data Library", the online data base on Real, Monetary, External, Financial, and Fiscal sectors
- Economic Indicators on Key Macroeconomic Variables
- Press Conferences, Public Statements and Press Releases to inform the general public about the policies and regulatory measures taken by the CBSL
- Print, Electronic and Digital media campaigns conveying the key messages of the CBSL to the general public
- Livestreamed events/discussions through digital media channels enabling the general public to interact with the CBSL on real time basis.

REGIONAL OFFICES

Regional Office-Matara

P.O. Box 35, Anagarika Dharmapala Mawatha,
Matara
Tel: 041 2222269
Fax: 041 2222719
Email: romatara@cbsl.lk



Regional Office-Anuradhapura

P.O Box 02, Stage 01,
Anuradhapura
Tel: 025 2222024
Fax: 025 2225689
Email: roapura@cbsl.lk



Regional Office-Matale

No 805, Trincomalee Street,
Mandandawela,
Matale.
Tel: 066 2222167
Fax: 066 2222175
Email: romatale@cbsl.lk



Regional Office - Trincomalee

No.103, Post Office Road,
Trincomalee.
Tel: 026 2226965
Fax: 026 2226967
Email: po-ep@cbsl.lk



Regional Office-Kilinochchi

Ariviyal Nagar,
Kilinochchi.
Tel: 021 2285912
Fax: 021 2285911
Email: roknc@cbsl.lk



Regional Office- Nuwara Eliya

No. 84, Badulla Road,
Nuwara Eliya.
Tel: 052 2235439
Fax: 052 2224294
Email: rone@cbsl.lk



INSTITUTIONS REGULATED AND SUPERVISED BY THE CENTRAL BANK

(as at 31 March 2024)

Authorised Financial Institutions

Licensed Commercial Banks

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

Licensed Specialised Banks

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

Representative Offices of Foreign Banks

- | | |
|----------------------------|--------------------|
| 1. JP Morgan Chase Bank NA | 3. ICICI Bank Ltd. |
| 2. MUFG Bank Ltd. | |

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Licensed Finance Companies

- | | |
|----------------------------------------------|----------------------------------------------|
| 1. Abans Finance PLC (a) | 18. Mahindra Ideal Finance Ltd. |
| 2. Alliance Finance Co. PLC | 19. Mercantile Investments & Finance PLC |
| 3. AMW Capital Leasing and Finance PLC | 20. Merchant Bank of Sri Lanka & Finance PLC |
| 4. Asia Asset Finance PLC | 21. Multi Finance PLC (c) |
| 5. Assetline Finance Ltd. | 22. Nation Lanka Finance PLC (d) |
| 6. Associated Motor Finance Co. PLC | 23. Orient Finance PLC |
| 7. CBC Finance Ltd. | 24. People's Leasing & Finance PLC |
| 8. Central Finance Co. PLC | 25. PMF Finance PLC |
| 9. Citizens Development Business Finance PLC | 26. Richard Pieris Finance Ltd. (e) |
| 10. Commercial Credit & Finance PLC | 27. Sarvodaya Development Finance PLC |
| 11. Dialog Finance PLC | 28. Senkadagala Finance PLC |
| 12. ETI Finance Ltd(b) | 29. Singer Finance (Lanka) PLC |
| 13. Fintrex Finance Ltd. | 30. Siyapatha Finance PLC |
| 14. HNB Finance PLC | 31. SMB Finance PLC |
| 15. Lanka Credit and Business Finance PLC | 32. Softlogic Finance PLC (f) |
| 16. L B Finance PLC | 33. UB Finance PLC (g) |
| 17. LOLC Finance PLC | 34. Vallibel Finance PLC |

Registered Finance Leasing Establishments

(A) Licensed Commercial Banks

- | | |
|----------------------------------|-------------------------------------|
| 1. Amana Bank PLC | 7. National Development Bank PLC |
| 2. Bank of Ceylon | 8. Nations Trust Bank PLC |
| 3. Commercial Bank of Ceylon PLC | 9. Pan Asia Banking Corporation PLC |
| 4. DFCC Bank PLC | 10. Sampath Bank PLC |
| 5. Hatton National Bank PLC | 11. Seylan Bank PLC |
| 6. MCB Bank Ltd. | 12. Union Bank of Colombo PLC |

(B) Licensed Specialised Banks

- | | |
|------------------------------------------------------------------|---------------------------------|
| 13. Housing Development Finance Corporation
Bank of Sri Lanka | 15. Sanasa Development Bank PLC |
| 14. Pradeshiya Sanwardana Bank | 16. Sri Lanka Savings Bank Ltd. |

(C) Licensed Finance Companies

- | | |
|-----------------------------------------|--------------------------------------------------|
| 17. Abans Finance PLC (a) | 24. Central Finance Co. PLC |
| 18. Alliance Finance Co. PLC | 25. Citizens Development Business Finance
PLC |
| 19. AMW Capital Leasing and Finance PLC | 26. Commercial Credit & Finance PLC |
| 20. Asia Asset Finance PLC | 27. Dialog Finance PLC |
| 21. Assetline Finance Ltd. | 28. ETI Finance Ltd. (b) |
| 22. Associated Motor Finance Co. PLC | 29. Fintrex Finance Ltd. |
| 23. CBC Finance Ltd. | 30. HNB Finance PLC |

- | | |
|----------------------------------------------|---------------------------------------|
| 31. Lanka Credit and Business Finance PLC | 41. PMF Finance PLC |
| 32. L B Finance PLC | 42. Richard Pieris Finance Ltd. (e) |
| 33. LOLC Finance PLC | 43. Sarvodaya Development Finance PLC |
| 34. Mahindra Ideal Finance Ltd. | 44. Senkadagala Finance PLC |
| 35. Mercantile Investments & Finance PLC | 45. Singer Finance (Lanka) PLC |
| 36. Merchant Bank of Sri Lanka & Finance PLC | 46. Siyapatha Finance PLC |
| 37. Multi Finance PLC (c) | 47. SMB Finance PLC |
| 38. Nation Lanka Finance PLC (d) | 48. Softlogic Finance PLC (f) |
| 39. Orient Finance PLC | 49. UB Finance PLC (g) |
| 40. People's Leasing & Finance PLC | 50. Vallibel Finance PLC |

(D) Specialised Leasing Company

51. Co-operative Leasing Co. Ltd

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. |

- (a) Due to inability of the company to comply with the minimum core capital and/or adhere to the Masterplan, restrictions have been imposed on deposits w.e.f 18.10.2023. However, the company has Complied with minimum capital adequacy ratio requirements.
- (b) The Commercial High Court of Colombo ordered on 15.12.2023, that the winding up of ETI Finance Ltd. be carried out subject to the Supervision of the Court Further, the Court ordered that Mr. Gerard Jeevananthan David, C/o, S J M S Associates, 3rd Floor, No. 11, Castle Lane, Colombo 04 be appointed as the Liquidator of ETI Finance Ltd.
- (c) The company is in the process of a merger with L B Finance PLC under the Masterplan.
- (d) Due to inability of the company to comply with regulatory capital requirements and/or adhere to the Masterplan, restrictions have been imposed on lending and deposits w.e.f. 30.08.2022 and ceased mobilizing public funds through promissory notes w.e.f. 20.12.2022 and accepting public funds in whatsoever manner w.e.f. 13.09.2023.
- (e) Due to inability of the company to comply with regulatory capital requirements and/or adhere to the Masterplan, restrictions have been imposed on deposits w.e.f. 17.10.2023.
- (f) Due to inability of the company to comply with regulatory capital requirements and/or adhere to the Masterplan, restrictions have been imposed on lending, deposits and offering of maximum interest rate. Acceptance of new deposits has been frozen w.e.f.12.08.2022. A cap was imposed for borrowings through commercial papers and similar debt instruments w.e.f.10.04.2023.
- (g) Name of the UB Finance Company Ltd has been changed to UB Finance PLC w.e.f 11.09.2023 and a cap was imposed on accepting deposits due to inadequacy of minimum core capital w.e.f 22.12.2023. Howerer the company has complied with minimum capital adequacy ratio requirements.

Authorised Primary Dealers as at 31st March 2024

- | | |
|---------------------------------------------------------|---------------------------------------------------------------|
| 1. Acuity Securities Ltd. | 8. Pan Asia Banking Corporation PLC (Primary Dealer Unit) (j) |
| 2. Bank of Ceylon (Primary Dealer Unit) | 9. People's Bank (Primary Dealer Unit) |
| 3. Capital Alliance PLC | 10. Perpetual Treasuries Ltd. (i) |
| 4. Commercial Bank of Ceylon PLC (Primary Dealer Unit) | 11. Sampath Bank PLC (Primary Dealer Unit) |
| 5. Entrust Securities PLC (h) | 12. Seylan Bank PLC (Primary Dealer Unit) |
| 6. First Capital Treasuries PLC | 13. Wealth Trust Securities Ltd. |
| 7. NSB Fund Management Co. Ltd. | |

- (h) Entrust Securities PLC was directed to refrain from participating in government securities primary auctions w.e.f. 24.07.2017. A creditor winding up was filed by one of the unsecured investors and on 17.06.2022 the winding up order was given by the courts. However, the winding up case (CHC 83/2021/CO) is still pending before the courts due to other legal proceedings.
- (i) Suspended from carrying on the business and activities of a Primary Dealer since 06.07.2017 and current suspension is effective until 05.07.2024.
- (j) Suspended carrying on the business and activities of a Primary Dealer for a period of 6 months with effect from 10.00 a.m. on 15.02.2024

Authorised Money Broking Companies as at 31st March 2024

- | | |
|--------------------------------------------|------------------------------------------|
| 1. BMR Money Brokers (Pvt) Ltd. | 6. Pigott Chapman & Company (Pvt) Ltd. |
| 2. Central Forex and Money Brokers Ltd. | 7. SMB Money Brokers (Pvt) Ltd. |
| 3. First Alliance Money Brokers (Pvt) Ltd. | 8. Taprobane Investments (Pvt) Ltd. |
| 4. George Steuart Investments (Pvt) Ltd. | 9. Vishwin Money & Exchange Brokers Ltd. |
| 5. MVS Money Brokers Ltd. | |

INSTITUTIONS AUTHORISED BY THE CENTRAL BANK OF SRI LANKA TO DEAL IN FOREIGN EXCHANGE as at 31st March 2024

List of Authorized Dealers (ADs)

Licensed Commercial Banks

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

Licensed Specialized Banks

25	National Savings Bank	26	Sanasa Development Bank PLC
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List of Restrictd Dealers (RDs)

Authorized Money Changers Permitted to Buy and Exchange Foreign Currency including Outlets

1.	Abdeen Money Changers (Pvt) Ltd	17.	Galle Money Exchange (Pvt) Ltd - Galle Fort
2.	Abilash Money Exchange (Pvt) Ltd	18.	Galle Money Exchange (Pvt) Ltd - Weligama
3.	Ariyawansa Enterprises (Pvt) Ltd	19.	George Michael Holdings (Pvt) Ltd
4.	Asian Money Exchange (Pvt) Ltd	20.	Global Village Exchange (Pvt) Ltd
5.	Bullion Money Exchange (Pvt) Ltd	21.	Golden Money Changers (Pvt) Ltd
6.	Capital Exchange (Pvt) Ltd	22.	Gold Lanka Jewellery (Pvt) Ltd
7.	Central Money Exchange (Pvt) Ltd	23.	Haifa Travels and Tours (Pvt) Ltd
8.	City Exchange (Pvt) Ltd	24.	International Exchange (Pvt) Ltd
9.	Colombo Money Exchange (Pvt) Ltd - Colombo 01	25.	Jayes Investments Limited
10.	Colombo Money Exchange (Pvt) Ltd - Colombo 06	26.	Keyser Exchange (Pvt) Ltd
11.	Crown Money Exchange (Pvt) Ltd	27.	M.P. Money Changers (Pvt) Ltd
12.	Dadigama Group (Pvt) Ltd	28.	Maruthi Money Exchange (Pvt) Ltd - Colombo 06
13.	Data Exchange International (Pvt) Ltd	29.	Maruthi Money Exchange (Pvt) Ltd - Jaffna
14.	Daya Authorized Money Changer (Pvt) Ltd	30.	Mayurie Money Changers (Pvt) Ltd
15.	Devi Forex (Pvt) Ltd		
16.	Galle Money Exchange (Pvt) Ltd - Galle		

- | | |
|-----------------------------------------------------|--------------------------------------------------------------------|
| 31. Milano Money Exchange (Pvt) Ltd | 42. Royal Money Mart (Pvt) Ltd – Aluthgama |
| 32. Narmatha Gold Centre (Pvt) Ltd – Jaffna | 43. Royal Money Mart (Pvt) Ltd - Colombo 01 |
| 33. Narmatha Gold Centre (Pvt) Ltd – Kilinochchi | 44. Shifaz Money Exchange (Pvt) Ltd |
| 34. New Natasha (Pvt) Ltd | 45. Swiss Money Exchange (Pvt) Ltd - Colombo 01 |
| 35. New Regal's Money Changer (Pvt) Ltd | 46. Swiss Money Exchange (Pvt) Ltd - Colombo 06 |
| 36. Prasanna Money Exchange (Pvt) Ltd – Colombo 01* | 47. Thomas Cook Lanka (Pvt) Ltd - Colombo 02 - Colombo City Center |
| 37. Prasanna Money Exchange (Pvt) Ltd – Colombo 06* | 48. Thomas Cook Lanka (Pvt) Ltd - Colombo 02 - One Galle Face Mall |
| 38. Pushpa Money Changers (Pvt) Ltd | 49. Thomas Cook Lanka (Pvt) Ltd – Kandy |
| 39. Rivindu Enterprises (Pvt) Ltd | 50. Unic Forex (Pvt) Ltd |
| 40. Royal Money Exchange (Pvt) Ltd - Colombo 01 | 51. Western Money Exchange (Pvt) Ltd |
| 41. Royal Money Exchange (Pvt) Ltd - Colombo 06 | 52. Windsor Money Exchange (Pvt) Ltd |

Authorised Money Changers Permitted to Buy, Sell and Exchange Foreign Currency including Outlets

- | | |
|-----------------------------------------|---------------------------------------------------------------------|
| 1. Arrujina Jewellery (Pvt) Ltd | 4. Ravi Forexae (Pvt) Ltd |
| 2. Jewel Lanka Money Exchange (Pvt) Ltd | 5. Thomas Cook Lanka (Pvt) Ltd - Bandaranaike International Airport |
| 3. Metro Forex (Pvt) Ltd | |

Licensed Finance Companies Permitted to Buy, Sell and Exchange Foreign Currency

- | | |
|----------------------------------------------|-------------------------------|
| 1. Asia Asset Finance PLC | 4. L B Finance PLC |
| 2. Citizens Development Business Finance PLC | 5. Senkadagala Finance PLC |
| 3. Lanka Credit and Business Finance PLC | 6. Singer Finance (Lanka) PLC |

Tourist Hotels Permitted to Buy Foreign Currency

- | | |
|-----------------------------------------|-----------------------------|
| 1. Pearl City Hotel | 8. Trinco Blu by Cinnamon |
| 2. Shangri-La's Hambantota Resort & Spa | 9. Cinnamon Bentota Beach |
| 3. Shangri-La Hotel Colombo | 10. Hikka Tranz by Cinnamon |
| 4. Cinnamon Red Colombo | 11. Cinnamon Bey Beruwala |
| 5. Cinnamon Citadel Kandy | 12. Cinnamon Grand |
| 6. Cinnamon Lodge Habarana | 13. Cinnamon Lakeside |
| 7. Habarana Village by Cinnamon | 14. Cinnamon Wild Yala |

Other Entities

- | | |
|-----------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|
| 1. MMBL Money Transfer (Pvt) Ltd (engaging in money transfer service) | 2. Sri Lanka Export Credit Insurance Corporation (engaging in issuing credit guarantees in foreign exchange) |
|-----------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|

*Money changing permits issued on 04.03.2024

Licensed Service Providers Licensed under the Payment Cards and Mobile Payment Systems Regulation No. 1 of 2013 as at 31st March 2024

Licensed Commercial Banks

- | | |
|--------------------------------------|------------------------------------------------------------|
| 1. Amana Bank PLC | 11. People's Bank |
| 2. Bank of Ceylon | 12. Sampath Bank PLC |
| 3. Cargills Bank PLC | 13. Seylan Bank PLC |
| 4. Commercial Bank of Ceylon PLC | 14. Standard Chartered Bank |
| 5. DFCC Bank PLC | 15. State Bank of India |
| 6. Habib Bank Ltd | 16. The Hongkong & Shanghai Banking Corporation Ltd (HSBC) |
| 7. Hatton National Bank PLC | 17. Union Bank of Colombo PLC |
| 8. National Development Bank PLC | 18. MCB Bank Ltd |
| 9. Nations Trust Bank PLC | |
| 10. Pan Asia Banking Corporation PLC | |

Licensed Specialised Banks

- | | |
|---------------------------------|----------------------------------------------------------------------|
| 19. National Savings Bank | 21. Housing Development Finance Corporation Bank of Sri Lanka (HDFC) |
| 20. Sanasa Development Bank PLC | 22. Pradeshiya Sanwardana Bank |

Licensed Finance Companies

- | | |
|-----------------------------------------------|----------------------------------------------|
| 23. Central Finance Co PLC | 28. People's Leasing & Finance PLC |
| 24. Citizens Development Business Finance PLC | 29. Senkadagala Finance PLC |
| 25. L B Finance PLC | 30. Singer Finance (Lanka) PLC |
| 26. LOLC Finance PLC | 31. Merchant Bank of Sri Lanka & Finance PLC |
| 27. Fintrex Finance Ltd | 32. Dialog Finance PLC |

Non-Financial Institutions

- | | |
|------------------------------------------------------------|-----------------------|
| 33. Global Payments Asia - Pacific Lanka (Private) Limited | 34. Dialog Axiata PLC |
| | 35. Mobitel (Pvt) Ltd |

Name

Central Bank of Sri Lanka

Logo



Legal Form

The Central Bank of Sri Lanka established as per the Central Bank of Sri Lanka Act No. 16 of 2023, enacted in September 2023.

Contact Information

Central Bank of Sri Lanka
No. 30 Janadhipathi Mawatha
Colombo 01
Sri Lanka

Telephone : +94 11 247 7000
Fax : +94 11 234 6304
E-mail : cbslgen@cbsl.lk
Web site : www.cbsl.gov.lk

SWIFT Code

CBCELKLX

Auditors

The Auditor General

Right to Information Act, No. 12 of 2016

Designated Officer

Name : Dr. P. Nandalal Weerasinghe
Designation : Governor

Information Officer

Name : Mrs. K. M. A. N. Daulagala
Designation : Deputy Governor
Address : Central Bank of Sri Lanka
No.30, Janadhipathi Mawatha, Colombo 01.
Contact Number : +94 11 247 7000
Email : rti@cbsl.lk

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