

HON. MINISTER OF FINANCE
MINISTRY OF FINANCE
COLOMBO, 00100.

Dear Sir,

Section 35 of the Monetary Law Act (Chapter 422) requires the Monetary Board of the Central Bank of Sri Lanka to submit an Annual Report to the Minister of Finance on the state of the economy, the condition of the Central Bank and a review of the policies and measures adopted by the Monetary Board, within four months after the end of each financial year. The Fifty Third Annual Report of the Monetary Board of the Central Bank, in respect of the year 2002, is submitted herewith in fulfilment of this obligation.

Yours sincerely,

A. S. JAYAWARDENA
Governor

Central Bank of Sri Lanka
30, Janadhipathi Mawatha
Colombo, 00100.

30 April 2003

CENTRAL BANK OF SRI LANKA

INCOME STATEMENT

For the year ended 31 December 2002

| | Note | 2002 (IAS Basis) (Rs. '000) | 2001 (IAS Basis) (Rs. '000) | 2001 (SLAS Basis) (Rs. '000) |
|---|------|-----------------------------------|-----------------------------------|------------------------------------|
| Operating Income: | | | | |
| Income from Foreign Currency Financial Assets | | | | |
| Interest Income | 1 | 8,958,028 | 13,263,983 | 13,961,091 |
| Interest Expense | 2 | (5,042,311) | (9,623,360) | (9,623,360) |
| | | <hr/> | <hr/> | <hr/> |
| Gain (Loss) from Unrealised Price Revaluations | | 3,915,717 | 3,640,623 | 4,337,731 |
| Gain (Loss) Realised from Price Changes | | 3,793,359 | 1,483,959 | 1,260,365 |
| | | <hr/> | <hr/> | <hr/> |
| Total Income from Foreign Currency Financial Assets | | 10,351,811 | 6,398,428 | 6,991,570 |
| Expenses on Foreign Currency Financial Liabilities | | | | |
| Interest Expense | | (966,346) | (826,088) | (826,088) |
| Derivatives in a loss position | | - | (5,016) | - |
| | | <hr/> | <hr/> | <hr/> |
| Total Expenses on Foreign Currency Financial Liabilities | | (966,346) | (831,104) | (826,088) |
| Net Foreign Exchange Revaluation Gain | | <hr/> | <hr/> | <hr/> |
| | | 3,466,518 | 699,601 | 453,307 |
| Foreign Currency Investment Income | | <hr/> | <hr/> | <hr/> |
| | | 12,851,983 | 6,266,925 | 6,618,789 |
| Income from Local Currency Financial Assets | | | | |
| Interest Income | 3 | 7,403,230 | 12,240,067 | 12,008,693 |
| Interest Expense | | (540,766) | - | - |
| | | <hr/> | <hr/> | <hr/> |
| Total Income from Local Currency Financial Assets | | 6,862,464 | 12,240,067 | 12,008,693 |
| Dividend Income | 4 | 49,172 | 38,758 | 30,008 |
| Miscellaneous Income | | 272,061 | 690,046 | 128,091 |
| | | <hr/> | <hr/> | <hr/> |
| Total Net Operating Income | | 20,035,680 | 19,235,796 | 18,785,581 |
| Operating Expenses: | | | | |
| New Currency Issue Expenses | 5 | (661,867) | (570,247) | (579,006) |
| Bad & Doubtful Debts | 6 | (22,328) | (406,406) | (262,574) |
| Decrease resulting from Revaluation of Property, Plant and Equipment | | (721,284) | - | - |
| Provision | 7 | (2,206) | (428,655) | - |
| Administration | 8 | (872,409) | (430,019) | (488,779) |
| Personnel Expenses | 9 | (1,069,059) | (3,328,250) | (2,333,624) |
| Cost of VRS borne by CBSL | | - | (435,611) | - |
| Depreciation | 10 | (168,647) | (233,543) | (216,258) |
| | | <hr/> | <hr/> | <hr/> |
| Total Operating Expenses | | (3,517,800) | (5,832,731) | (3,880,241) |
| Profit from Operating Activities before Income Tax | | <hr/> | <hr/> | <hr/> |
| | | 16,517,880 | 13,403,065 | 14,905,340 |
| Income Tax | | (529,069) | - | - |
| | | <hr/> | <hr/> | <hr/> |
| Net Profit from Ordinary Activities | | 15,988,811 | 13,403,065 | 14,905,340 |

BALANCE SHEET AS AT 31 DECEMBER 2002

| | Note | Year Ended | Year Ended | Year Ended |
|--|------|-------------------------------------|-------------------------------------|-------------------------------------|
| | | 31st December 2002 (Rs. '000) | 31st December 2001 (Rs. '000) | 31st December 2001 (Rs. '000) |
| | | (IAS Basis) | (IAS Basis) | (SLAS Basis) |
| Foreign financial assets | | | | |
| Cash balances | 11 | 55,873,107 | 34,545,000 | 34,996,680 |
| Trading securities | 12 | 90,851,682 | 67,362,354 | 66,434,843 |
| Gold | 13 | 7,114,912 | 6,520,080 | 6,584,657 |
| IMF related assets | 14 | 54,588,730 | 47,253,415 | 47,253,415 |
| Receivables | 15 | 91,046 | 1,075,868 | 1,029,653 |
| | | 208,519,477 | 156,756,717 | 156,299,248 |
| Local financial assets | | | | |
| Treasury bills and bonds | 16 | 52,859,539 | 62,385,731 | 59,455,392 |
| Treasury bills and bonds (reverse repurchase) | 16 | - | 1,500,000 | 1,968,684 |
| Loans to government | 17 | 31,033,000 | 30,126,600 | 39,275,047 |
| Loans to other institutions | 18 | 30,000 | 43,849 | 149,533 |
| Receivables | 19 | 398,145 | 58,742 | 3,669,422 |
| Investment in Financial and other institutions | 20 | 663,091 | 973,030 | 973,030 |
| | | 84,983,775 | 95,087,952 | 105,491,108 |
| Other assets | | | | |
| Inventory | | 760,345 | 567,258 | 560,986 |
| Gold inventory | | 425,780 | 430,537 | 430,537 |
| Sundry assets | | 1,335,085 | 1,778,133 | 6,363,909 |
| Property, plant and equipment | 21 | 8,127,448 | 8,021,398 | 8,022,116 |
| | | 10,648,658 | 10,797,326 | 15,377,548 |
| Total assets | | 304,151,910 | 262,641,995 | 277,167,904 |
| LIABILITIES | | | | |
| Foreign financial liabilities | | | | |
| Payables | 22 | 349,710 | 54,550 | 54,550 |
| IMF related liabilities | 23 | 87,378,407 | 69,275,213 | 69,275,213 |
| Amounts payable to ACU | | 13,029,377 | 9,849,836 | 9,999,354 |
| Other foreign liabilities | | 122,969 | 176,944 | 171,928 |
| | | 100,880,463 | 79,356,543 | 79,501,045 |
| Local financial liabilities | | | | |
| Balances with banks and financial institutions | | 38,085,775 | 35,951,929 | 35,951,929 |
| Balances with Government and Government entities | 24 | 769,005 | 4,572,294 | 4,310,368 |
| Treasury bills and bond repurchases | | 11,155,684 | 2,715,179 | 2,715,179 |
| Other Deposits | | 193,848 | 2,850,777 | 2,976,155 |
| Payables | | 459,844 | 1,668,964 | 1,670,261 |
| | | 50,664,156 | 47,759,143 | 47,623,892 |
| Other liabilities | | | | |
| Currency in circulation | 25 | 88,307,773 | 76,561,172 | 76,561,172 |
| Provisions | | 335,804 | 1,706,312 | - |
| Other liabilities | 26 | 362,966 | 259,271 | 8,650,616 |
| | | 89,006,543 | 78,526,755 | 85,211,788 |
| Shareholder's equity | | | | |
| Capital & Reserves | 27 | 63,600,748 | 56,999,554 | 64,831,179 |
| Total shareholders equity | | 63,600,748 | 56,999,554 | 64,831,179 |
| Total equity and liabilities | | 304,151,910 | 262,641,995 | 277,167,904 |

NOTE OF THE AUDITOR GENERAL

The accounts of the Central Bank of Sri Lanka for the year ended 31st December 2002 were audited under my direction in pursuance of provisions in Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13 of the Finance Act, No.38 of 1971 and Section 42(1) of the Monetary Law Act, No.58 of 1949.

I am of opinion that the financial statements have been satisfactorily prepared to present fairly in all material respects, the financial position of the CBSL as at 31 December 2002 and the results of its operations for the year then ended in accordance with the International Accounting Standards (IAS) and the stated accounting policies as set out in Notes 1 to 27 to the financial statements.

In terms of Section 42(2) of above Monetary Law Act, my comments and observations on these accounts are contained in my report of even date addressed to the Minister of Finance.

Auditor General's Department
Colombo 7.
28th March 2003

S. C. Mayadunne
Auditor General

A. S. Jayawardana
Governor

D. L. Katuwawala
Chief Accountant

NOTES

| | 2002 <i>(IAS Basis)</i> <i>(Rs. '000)</i> | 2001 <i>(IAS Basis)</i> <i>(Rs. '000)</i> | 2001 <i>(SLAS Basis)</i> <i>(Rs. '000)</i> |
|---|---|---|--|
| 1. Net Interest Income – Foreign Currency | | | |
| Interest Income | | | |
| Cash and short term funds | 1,148,303 | 1,008,698 | 1,779,513 |
| Trading Securities | 7,731,377 | 12,227,175 | 12,153,468 |
| International Monetary Fund | 78,348 | 28,110 | 28,110 |
| Sub total | 8,958,028 | 13,263,983 | 13,961,091 |
| 2. Interest Expense | | | |
| Foreign Securities | 5,042,311 | 9,623,360 | 9,623,360 |
| Sub total | 5,042,311 | 9,623,360 | 9,623,360 |
| Total | 3,915,717 | 3,640,623 | 4,337,731 |
| 3. Net Interest Income – Local Currency | | | |
| Interest Income from | | | |
| Trading Securities – Government Treasury Bills | 7,295,716 | 11,944,957 | 11,901,856 |
| Loans and advances | 107,514 | 295,110 | 106,837 |
| | 7,403,230 | 12,240,067 | 12,008,693 |
| 4. Dividend income – Local Investments | | | |
| Shares held in RDBs and other related institutions | 49,172 | 38,758 | 30,008 |
| | 49,172 | 38,758 | 30,008 |
| 5. New Currency Issue Expenses | | | |
| Expenses on issue of new Notes and coins | 661,867 | 570,247 | 579,006 |
| | 661,867 | 570,247 | 579,006 |
| 6. Bad & Doubtful Debt Expenses | | | |
| Loans and advances to customers | – | – | – |
| Specific credit risk provisions | – | 406,406 | 240,223 |
| Write Off of Unrecoverable Balances | 22,328 | – | 22,351 |
| | 22,328 | 406,406 | 262,574 |
| 7. Provisions | | | |
| Provision for Impairment of Property, Plant and Equipment | 2,206 | 69,855 | – |
| Provision for slow moving inventories | – | 64,700 | – |
| Provision for credit guarantee claims | – | 294,100 | – |
| | 2,206 | 428,655 | – |
| 8. Administrative Expenses | | | |
| Repairs and Maintenance | 79,015 | 39,722 | 53,722 |
| Information | 53,809 | 68,404 | 68,404 |
| Operational Travel | 13,781 | 16,013 | 16,013 |
| Rental Expenses | 22,355 | 36,849 | 31,954 |
| Printing | 41,127 | 18,833 | 18,833 |
| Audit Fees Payable to Auditor General | 750 | 750 | 750 |
| Provision for Irrecoverable Cash Balances | 20,093 | 10,611 | – |
| Remuneration to Members of the Monetary Board | 287 | 226 | 226 |
| Miscellaneous | 641,192 | 238,611 | 298,877 |
| | 872,409 | 430,019 | 488,779 |
| 9. Staff Costs | | | |
| Wages and salaries etc. and PAYE paid | 626,779 | 1,013,012 | 1,366,617 |
| Pension costs-defined contribution plans | 246,020 | 1,765,635 | 152,865 |
| Pension costs-defined benefit plans | 196,260 | 549,603 | 814,142 |
| | 1,069,059 | 3,328,250 | 2,333,624 |

(The average number of persons employed by the Bank during the year 1,315)

| | 2002 (IAS Basis) (Rs. '000) | 2001 (IAS Basis) (Rs. '000) | 2001 (SLAS Basis) (Rs. '000) |
|---|-----------------------------------|-----------------------------------|------------------------------------|
| 10. Depreciation | | | |
| Office Furniture & Equipments | 19,068 | - | 14,208 |
| Computer & Computer Equipment | 11,379 | - | 25,040 |
| Motor Vehicles | 5,712 | - | 6,206 |
| Fixture & Fittings | 38 | 1,679 | 3,838 |
| Library Books | - | - | 1,833 |
| Automated Equipments | 13,827 | 13,510 | 10,351 |
| Buildings | 114,504 | 148,499 | 148,499 |
| AS 400 Mainframe | 4,119 | 69,855 | 6,283 |
| | <u>168,647</u> | <u>233,543</u> | <u>216,258</u> |
| FOREIGN FINANCIAL ASSETS | | | |
| 11. Cash Balances | | | |
| Cash Balances | 10,095,566 | 4,792,731 | 5,244,411 |
| Foreign Notes & Coins | 164 | 218 | 218 |
| Time Deposits | 45,777,377 | 29,752,051 | 29,752,051 |
| | <u>55,873,107</u> | <u>34,545,000</u> | <u>34,996,680</u> |
| 12. Trading Securities | | | |
| Foreign Government Securities | 52,782,487 | 55,517,855 | 55,517,856 |
| Foreign Government Treasury Bills | 29,658,870 | 6,365,654 | 6,365,654 |
| Foreign Securities - Non Government | 8,410,325 | 5,478,845 | 4,551,333 |
| | <u>90,851,682</u> | <u>67,362,354</u> | <u>66,434,843</u> |
| 13. Gold | | | |
| Gold / Certificates held for trading | 7,114,912 | 6,520,080 | 6,584,657 |
| | <u>7,114,912</u> | <u>6,520,080</u> | <u>6,584,657</u> |
| 14. IMF Related Assets | | | |
| Holding of SDR with IMF | 210,034 | 77,629 | 77,629 |
| IMF Quota | 50,382,377 | 47,175,786 | 47,175,786 |
| Balance as per valuation on IMF representative rate | 50,592,411 | | |
| Add : Exchange valuation gain based on year end exchange rate | 3,996,319 | | |
| | <u>54,588,730</u> | <u>47,253,415</u> | <u>47,253,415</u> |
| 15. Receivables | | | |
| Interest Receivable on Holding of SDR | 10,107 | 13,226 | 13,226 |
| World Bank Reimbursement of VRS Expenses | - | 1,007,284 | 1,016,427 |
| Interest Receivable on F/Deposits | 71,080 | 32,390 | |
| Interest Receivable on Gold Balances | 6,832 | 8,715 | |
| Interest Receivable on F/Bank Accounts | 1,799 | 2,695 | |
| Interest Receivable on Call Accounts - Euro & GBP | 1,228 | 11,558 | |
| | <u>91,046</u> | <u>1,075,868</u> | <u>1,029,653</u> |
| LOCAL FINANCIAL ASSETS | | | |
| 16. Treasury Bills and Bonds held for Trading | | | |
| Sri Lanka Government Treasury Bills | 52,859,539 | 62,385,731 | 59,455,392 |
| Sri Lanka Government Treasury Bills (Reverse Repo) | - | 1,500,000 | 1,968,684 |
| | <u>52,859,539</u> | <u>63,885,731</u> | <u>61,424,076</u> |
| 17. Loans to Government | | | |
| Revolving Credit | 31,033,000 | 30,126,600 | 30,126,600 |
| Special Advances | - | - | 9,148,447 |
| | <u>31,033,000</u> | <u>30,126,600</u> | <u>39,275,047</u> |
| 18. Loans to Other Institutions | | | |
| Capital Outstanding | 2,656,684 | 2,733,095 | 2,733,095 |
| Add: Interest Receivable | 3,967,675 | 3,577,713 | 3,577,713 |
| Total Receivable | 6,624,359 | 6,310,808 | 6,310,808 |
| Less: Interest in Suspense | (3,967,675) | (3,577,713) | (3,577,713) |
| Provision for Doubtful Debts | (2,626,684) | (2,689,246) | (2,583,562) |
| | <u>30,000</u> | <u>43,849</u> | <u>149,533</u> |

| | 2002 | 2001 | 2001 |
|--|-------------------|-------------------|-------------------|
| | (IAS Basis) | (IAS Basis) | (SLAS Basis) |
| | (Rs. '000) | (Rs. '000) | (Rs. '000) |
| 19. Receivables (Local) | | | |
| Prepayments | - | 4,699 | |
| Sundry Receivable | 3,533 | 15,145 | |
| Interest Receivable on Debentures | 38,898 | 38,898 | |
| Staff Provident Fund Recoverable | 1,153 | | |
| Amount Receivables SIDA | 2,561 | | |
| Receivable from General Treasury – Share Transfer | 352,000 | | |
| Other | | | 3,669,422 |
| | <u>398,145</u> | <u>58,742</u> | <u>3,669,422</u> |
| 20. Investments in Financial & Other Institutions | | | |
| Regional Development Banks | 160,000 | 512,000 | 512,000 |
| Sri Lanka Export Credit Insurance Corporation | 20,000 | 20,000 | 20,000 |
| Credit Information Bureau | 12,372 | 12,463 | 12,463 |
| National Development Bank | 26,250 | 26,250 | 26,250 |
| Duff & Phelps Credit Rating Ltd. | 3,500 | 3,500 | 3,500 |
| NDB Bank | 10,500 | | |
| LankaClear Ltd. | 29,500 | | |
| Sub total | <u>262,122</u> | <u>574,213</u> | <u>574,213</u> |
| Debentures taken from the RDB's | | | |
| Ruhuna Development Bank | 107,355 | 107,355 | 107,355 |
| Kadurata Development Bank | 44,817 | 44,817 | 44,817 |
| Rajarata Development Bank | 27,892 | 25,740 | 25,740 |
| Wayamba Development Bank | 135,161 | 135,161 | 135,161 |
| Sabaragamuwa Development Bank | 85,744 | 85,744 | 85,744 |
| Sub total | <u>400,969</u> | <u>398,817</u> | <u>398,817</u> |
| Total | <u>663,091</u> | <u>973,030</u> | <u>973,030</u> |
| 21. Property Plant and Equipment | | | |
| Land & Building | 5,610,692 | 7,654,329 | 7,654,329 |
| Motor Vehicles | 51,405 | 66,832 | 55,852 |
| Office Furniture & Equipment | 169,695 | 127,872 | 127,872 |
| Fixtures & Fittings | 34,886 | 34,547 | 34,547 |
| Computer Equipment | 37,508 | 75,120 | 75,120 |
| AS 400 Mainframe | 16,476 | 25,132 | 25,132 |
| Automated Equipment | 96,714 | 110,541 | 41,403 |
| Painting | 3,964 | 3,637 | 3,637 |
| Library | 5,872 | 3,666 | 3,666 |
| Building in Progress | 494 | 494 | 494 |
| SWIFT | 64 | 64 | 64 |
| Land Account | 2,183,060 | | |
| Less: Provision For Fixed Assets | (83,382) | (80,836) | |
| | <u>8,127,448</u> | <u>8,021,398</u> | <u>8,022,116</u> |
| FOREIGN FINANCIAL LIABILITIES | | | |
| 22. Payables (Foreign) | | | |
| Interest & Charges payable on IMF Loan | 157,088 | 34,048 | 34,048 |
| Interest Payable – ACU | 16,670 | 20,502 | 20,502 |
| Payables to World Bank – VRS | 4,860 | | |
| Bank Reconciliation Clearing A/c. | 60,122 | | |
| Fixed Assets Payable | 110,970 | | |
| | <u>349,710</u> | <u>54,550</u> | <u>54,550</u> |
| 23. IMF Related Liabilities | | | |
| Quota increases | 23,842,965 | 23,842,965 | 23,842,965 |
| Allocation of SDR | 8,636,908 | 8,087,212 | 8,087,212 |
| Loans | 27,787,088 | 19,462,579 | 19,462,579 |
| Other Accounts | 20,714,669 | 17,882,457 | 17,882,457 |
| Balance as per valuation on IMF representative rate | 80,981,630 | 69,275,213 | 69,275,213 |
| Exchange Valuation loss based on year end exchange rate | 6,396,777 | | |
| | <u>87,378,407</u> | <u>69,275,213</u> | <u>69,275,213</u> |

| | 2002 (IAS Basis) (Rs. '000) | 2001 (IAS Basis) (Rs. '000) | 2001 (SLAS Basis) (Rs. '000) |
|---|-----------------------------------|-----------------------------------|------------------------------------|
| LOCAL FINANCIAL LIABILITIES | | | |
| 24. Balances with Government & Government Entities | | | |
| Government Deposits | 200,749 | 4,562,948 | 4,301,022 |
| Government Agencies | 568,256 | 9,346 | 9,346 |
| | <u>769,005</u> | <u>4,572,294</u> | <u>4,310,368</u> |
| 25. Currency in Circulation | | | |
| Notes | 85,023,029 | 73,463,680 | 73,463,680 |
| Coins | 3,284,744 | 3,097,492 | 3,097,492 |
| | <u>88,307,773</u> | <u>76,561,172</u> | <u>76,561,172</u> |
| 26. Other Liabilities | | | |
| Suspense Creditors | 16,316 | 245,915 | 5,040,157 |
| Others | 346,650 | 13,356 | 3,610,459 |
| | <u>362,966</u> | <u>259,271</u> | <u>8,650,616</u> |
| 27. Capital and Reserves | | | |
| Capital of the Bank is fixed at Rs.15 million in terms of Section 6 of the Monetary Law Act (MLA) | 15,000 | 15,000 | 15,000 |
| General Reserve | 36,771,696 | 22,304,283 | 17,775,880 |
| Building Reserve | | | 4,562,739 |
| Credit Guarantee Reserve | | | 500,000 |
| Medium & Long Term Credit Fund | 4,925,000 | 4,925,000 | 4,925,000 |
| Profit & Loss A/c. | 15,988,811 | 13,403,065 | 14,905,340 |
| Surplus | 985,000 | 985,000 | 985,000 |
| Capital Contribution A/c. | 577,859 | 577,859 | |
| International Revaluation Reserve | 3,675,000 | 14,789,347 | 19,723,526 |
| Fixed Assets Revaluation A/c. | 662,382 | | |
| Other Reserves | | | 1,438,694 |
| | <u>63,600,748</u> | <u>56,999,554</u> | <u>64,831,179</u> |