

PART II

PART II

ACCOUNTS AND OPERATIONS OF THE CENTRAL BANK OF SRI LANKA

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1. ACCOUNTS AND FINANCE

Central Bank of Sri Lanka Management Statement For the period ended 31 December 2013

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

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

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

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

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

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



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கணக்காய்வாளர் தலைமை அறிப்பி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය }
துலைவா } FB/K/CBSL/FA/2013
My No }

මගේ අංකය }
உமது இல }
Your No. }

දිනය }
திகதி } 27 March 2014
Date }

The Honourable Minister of Finance

Report of the Auditor General on the Financial Statements of the Central Bank of Sri Lanka (CBSL) for the year ended 31 December 2013 in terms of Section 42(2) of the Monetary Law Act (Chapter 422)

The audit of Financial Statements of the Central Bank of Sri Lanka for the year ended 31 December 2013 comprising the Statement of Financial Position as at 31 December 2013 and the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory 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 Section 13(1) of the Finance Act No.38 of 1971 and Section 42 (2) of the Monetary Law Act (Chapter 422). In carrying out this audit, I was assisted by a firm of Chartered Accountants in public practice to examine the compliance with International Financial Reporting Standards.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these Financial Statements in accordance with International Financial Reporting Standards, and for such internal control as Management determines is necessary to enable the preparation of Financial Statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these Financial Statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the Financial Statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the Financial Statements. Sub-sections (3) and (4) of the Section 13 of the Finance Act, No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

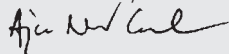
In my opinion, the Financial Statements give a true and fair view of the financial position of the Central Bank of Sri Lanka as at 31 December 2013 and of its Financial Performance and Cash Flows for the year then ended in accordance with International Financial Reporting Standards.

H. A. S. Samaraweera
Auditor General

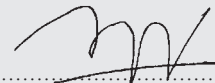
Central Bank of Sri Lanka
Statement of Financial Position
As at 31 December 2013

	Note	2013 Rs. 000	Restated 2012 Rs. 000	Restated 2011 Rs. 000
Assets				
Foreign Currency Financial Assets				
Cash & Cash Equivalents		425,676,763	235,278,133	303,551,702
Securities at Fair Value through Profit & Loss	5	94,137,368	169,312,604	106,006,361
Available for Sale Investments	5	357,531,750	386,761,690	270,664,801
Derivative Financial Instruments	6	5,670,258	3,989,701	2,794,334
IMF Related Assets	7	85,400,764	81,352,282	73,090,517
Other Receivables		591	8,243,512	19,361,831
Total Foreign Currency Financial Assets		968,417,494	884,937,922	775,469,546
Local Currency Financial Assets				
Sri Lanka Government Securities	8	15,853,513	175,251,772	183,885,564
Provisional Advances to Government	9	109,167,071	111,291,843	94,743,013
Loans to Banks	10	1,375,396	1,844,237	2,313,533
Other Receivables		1,829,712	2,970,099	2,924,028
Equity Investments in Financial and Other Institutions	11	41,095	41,095	41,211
Other Assets	12	6,443,534	5,573,731	4,695,913
Total Local Currency Financial Assets		134,710,321	296,972,777	288,603,262
Total Financial Assets		1,103,127,815	1,181,910,699	1,064,072,808
Foreign Currency Non-Financial Assets				
Gold	13	95,601,221	77,688,838	43,819,156
Local Currency Non-Financial Assets				
Inventories	14	3,103,281	2,942,193	2,484,681
Other Receivables and Prepayments		29,910,697	2,296,826	1,980,518
Property, Plant and Equipment	15	14,228,915	13,913,077	9,996,697
Intangible Assets	16	35,598	24,153	13,723
Pension and other Post Employment Benefit Plans	43	-	-	1,020,925
Total Non-Financial Assets		142,879,712	96,865,087	59,286,346
Total Assets		1,246,007,527	1,278,775,786	1,123,359,154
Liabilities and Equity				
Foreign Currency Financial Liabilities				
Banks and Financial Institutions	17	21,504,196	2,619,847	937,712
Derivative Financial Instruments	6	16,183,282	3,257,119	1,041,597
Asian Clearing Union	18	37,301,553	28,953,955	90,032,085
IMF	19	422,032,012	467,642,196	328,772,419
Other	20	47,221,119	64,520,662	58,621,764
Total Foreign Currency Financial Liabilities		544,242,162	566,993,779	479,405,577
Local Currency Financial Liabilities				
Deposits of Banks and Financial Institutions	21	148,809,893	166,288,378	146,269,185
Deposits of Government and Governmental Entities	22	416,230	699,628	1,799,030
Securities Sold Under Repurchase Agreements	23	84,601,000	7,015,000	14,089,000
Balances of Employee Benefit Plans	24	2,419,087	1,341,268	875,124
Other Payables	25	5,659,718	31,934,646	28,041,215
Total Local Currency Financial Liabilities		241,905,928	207,278,920	191,073,554
Total Financial Liabilities		786,148,090	774,272,699	670,479,131
Other Liabilities				
Currency in Circulation	26	339,770,981	318,060,142	293,233,361
Deferred Grants	27	1,449	2,389	3,468
Pension and Other Post Employment Benefit Plans	43	4,936,339	3,832,688	-
Miscellaneous Liabilities and Accruals	28	243,455	143,916	884,048
Total Other Liabilities		344,952,224	322,039,135	294,120,877
Total Liabilities		1,131,100,314	1,096,311,834	964,600,008
Equity				
Capital Funds		35,000,000	35,000,000	25,000,000
Reserves		79,907,213	147,463,952	133,759,146
Total Equity		114,907,213	182,463,952	158,759,146
Total Liabilities and Equity		1,246,007,527	1,278,775,786	1,123,359,154

The Governor and the Chief Accountant of the Central Bank of Sri Lanka authorised these financial statements for issue on 28 February 2014 for and on behalf of the Monetary Board.



Ajith Nivard Cabraal - Governor



M.I. Sufiyani - Chief Accountant

The accounting policies and notes on pages 7 through 52 form an integral part of the Financial Statements.

Central Bank of Sri Lanka
Income Statement
Year ended 31 December 2013

	Note	2013 Rs. 000	2012 Rs. 000
Operating Income :			
Income from Foreign Currency Financial Assets			
Interest Income	31	18,505,656	13,571,866
Gain/(Loss) from Unrealized Price Revaluations		(27,892,406)	296,049
Gain from Realized Price Changes		13,389,159	16,770,494
Total Income from Foreign Currency Financial Assets		4,002,409	30,638,409
Expenses on Foreign Currency Financial Liabilities			
Interest Expense	32	(4,447,401)	(5,769,658)
Total Expenses on Foreign Currency Financial Liabilities		(4,447,401)	(5,769,658)
Net Foreign Exchange Revaluation Gain /(Loss)		(26,758,639)	25,181,713
Foreign Currency Investment Income		(27,203,631)	50,050,464
Income from Local Currency Financial Assets			
Interest Income	31	14,450,134	25,957,602
Interest Expense	32	(2,979,850)	(1,091,540)
Total Income from Local Currency Financial Assets		11,470,284	24,866,062
Other Income	33	2,919,260	976,019
Total Net Operating Income / (Expense)		(12,814,087)	75,892,545
Operating Expenses:			
Personnel Expenses:	34		
- Salaries and Wages		(3,138,445)	(2,865,544)
- Defined Contribution Plan Costs		(447,626)	(426,622)
- Additional Contribution to Post Employment Benefit Plan Costs		(1,988,525)	(344,328)
		(5,574,596)	(3,636,494)
Depreciation & Amortization		(365,644)	(322,622)
Cost of Inventory		(1,476,937)	(1,816,933)
Provision for Slow Moving Currency Inventory		(20,000)	-
Administration Expenses	35	(1,997,048)	(1,378,295)
Net Losses on Revaluation of Fixed Assets		-	(3,963)
Total Operating Expenses		(9,434,225)	(7,158,307)
Profit/(Loss) Before Income Tax		(22,248,312)	68,734,238
Taxation	36	(2,016,217)	(2,525,694)
Net Profit/(Loss) for the Year		(24,264,529)	66,208,544

The accounting policies and notes on pages 7 through 52 form an integral part of the Financial Statements.

Central Bank of Sri Lanka
Statement Of Comprehensive Income
Year ended 31 December 2013

	2013 Rs. 000	Restated 2012 Rs. 000
Net Profit/(Loss) for the Year	(24,264,529)	66,208,544
Other Comprehensive Income		
Net Fair Value Gain /(Loss) on Available for Sale Securities	(13,904,065)	1,835,087
Gain on Revaluation of Property, Plant & Equipment	-	3,280,575
Transfer of revaluation gain on retirement of Property, Plant & Equipment	(40)	-
Post Employment Benefit Plans cost recognized in Other Comprehensive Income	(592,417)	(4,619,242)
Total Comprehensive Income/(Loss)	(38,761,051)	66,704,964

The accounting policies and notes on pages 7 through 52 form an integral part of the Financial Statements.

Central Bank of Sri Lanka
Statement Of Changes In Equity
Year ended 31 December 2013

	Contributed Capital Rs.000	Reserves Appropriated as Capital Rs.000	Revaluation Reserve Rs.000	Other Reserves (Note 29) Rs.000	Retained Earnings Rs.000	Total Rs.000
Reported Previously as at 1 January 2012	15,000	24,985,000	2,706,067	82,890,980	48,132,745	158,729,792
Adjustment as per IAS 19					29,354	29,354
Restated As at 1 January 2012	15,000	24,985,000	2,706,067	82,890,980	48,162,099	158,759,146
Net Profit	-	-	-	-	66,208,544	66,208,544
Transfer to RTGS Sinking Fund	-	-	-	153,751	(153,751)	-
Transfer to General Reserve	-	-	-	10,142,076	(10,142,076)	-
Transfer to Market Valuation Reserve	-	-	-	4,884,031	(4,884,031)	-
Transfer of Net Foreign Exchange Revaluation Gain	-	-	-	25,181,686	(25,181,686)	-
Transfer to CBSL Specific Reserve	-	-	-	93,084	(93,084)	-
Transfer to Fixed Asset Revaluation Reserve	-	-	3,280,575	-	-	3,280,575
Other Comprehensive Income	-	-	-	1,835,087	-	1,835,087
Transfer of funds to CBSL Employees & Pension Disaster Relief Fund	-	-	-	-	(158)	(158)
Transfer of Balance Profit to Government – 2011	-	-	-	-	(10,000,000)	(10,000,000)
Transfer of Interim Profits to Government – 2012	-	-	-	-	(33,000,000)	(33,000,000)
Transfer to Pension Fund Reserve	-	-	-	1,000,000	(1,000,000)	-
Transfer to Reserve appropriated as capital	-	10,000,000	-	(10,000,000)	-	-
Post Employment Benefit Plans cost recognized in Other Comprehensive Income	-	-	-	-	(4,619,242)	(4,619,242)
As at 1 January 2013	15,000	34,985,000	5,986,642	116,180,695	25,296,615	182,463,952
Net Profit/ (Loss)	-	-	-	-	(24,264,529)	(24,264,529)
Transfer to RTGS Sinking Fund	-	-	-	191,428	(191,428)	-
Transfer to General Reserve	-	-	-	126,315	(126,315)	-
Transfer to Gratuity Fund & Medical Fund	-	-	-	595,490	(523,602)	71,888
Post Employment Benefit Plans cost recognized in Other Comprehensive Income	-	-	-	-	(592,417)	(592,417)
Transfer of Net Foreign Exchange Revaluation loss	-	-	-	(26,758,628)	26,758,628	-
Transfer to CBSL Specific Reserve	-	-	-	91,317	(91,317)	-
Transfer of Funds from MBS & Gratuity Reserve to respective liability	-	-	-	(1,511,789)	-	(1,511,789)
Transfer of Revaluation Gain on retirement of Fixed Assets	-	-	(40)	40	-	-
Other Comprehensive Income	-	-	-	(13,904,065)	-	(13,904,065)
Transfer of funds to CBSL Employees & Pension Disaster Relief Fund	-	-	-	-	(122)	(122)
Net Transfer of Market Revaluation Reserve to Retained Earnings	-	-	-	(6,703,951)	6,703,951	-
Transfer of Balance Profit to Government – 2012	-	-	-	-	(2,355,705)	(2,355,705)
Transfer of Interim Profits to Government – 2013	-	-	-	-	(25,000,000)	(25,000,000)
As at 31 December 2013	15,000	34,985,000	5,986,602	68,306,848	5,613,763	114,907,213

The accounting policies and notes on pages 7 through 52 form an integral part of the Financial Statements.

Central Bank of Sri Lanka
Statement Of Cash Flows
Year ended 31 December 2013

	Note	2013 Rs. 000	2012 Rs. 000
Cash Flow from Operating Activities			
Receipts:			
Interest Received - Foreign Currency		21,656,589	8,920,505
Interest Received - Local Currency - Others		513,044	485,687
Liquidity Management and Trading Income		13,389,159	16,770,494
Realised Exchange Gain / (Loss)		(13,638,407)	(2,713,634)
Other Income Received		1,175,609	967,667
		<u>23,095,994</u>	<u>24,430,719</u>
Disbursements:			
Interest Paid - Foreign Currency		4,681,100	3,236,655
Interest Paid - Local Currency		2,827,328	1,095,513
Payments to Employees		3,947,528	3,017,754
Payments to Suppliers		29,596,753	483,137
Income Tax Paid		2,016,217	2,525,694
		<u>43,068,926</u>	<u>10,358,753</u>
Net Cash Flow from/(used in) Operating Activities	37	<u>(19,972,932)</u>	<u>14,071,966</u>
Cash Flows from Investing Activities			
Receipts:			
Net (Increase) /Decrease in Other Local Currency Financial Assets		(858,623)	(1,252,418)
Principal Recoveries from the Loans and Advances to Other Institutions		1,448,949	1,466,198
Disposal /Redemption of Investments in Financial and Other Institutions		-	117
Sale of Property, Plant and Equipment		2,268	74,343
Net Increase /(Decrease) in Securities Purchased under Agreement to Re-sell		77,586,000	(7,074,000)
		<u>78,178,594</u>	<u>(6,785,760)</u>
Disbursements:			
Net Increase /(Decrease) in Foreign Currency Securities		(101,781,795)	95,692,569
Net Increase /(Decrease) in Other Foreign Currency Financial Assets		1,407,072	(266,442)
Net Increase /(Decrease) in Other Foreign Currency Financial Liabilities		(1,510,810)	80,569,162
Net Increase /(Decrease) in Other Local Deposits and Payables		(722)	130
Purchase of Property, Plant and Equipment net of Grants		694,982	957,284
Net Increase /(Decrease) in Gold Inventory		55,585,071	29,842,972
Loans and Advances granted to other Institutions		980,109	996,902
		<u>(44,626,093)</u>	<u>207,792,577</u>
Net Cash Flow from/(used in) Investing Activities		<u>122,804,687</u>	<u>(214,578,337)</u>
Cash Flow from Financing Activities			
Receipts :			
Issue of Circulating Currency		(237,929,416)	(357,381,008)
Withdrawal of Circulating Currency		259,640,254	382,207,833
Net Issue of Circulating Currency		<u>21,710,838</u>	<u>24,826,825</u>
Less:			
Net Withdrawals of Circulation Currency on Government Transactions	38	(175,136,711)	(16,427,265)
Net Withdrawals of Circulation Currency on Transactions with Banks and Financial Institutions	39	<u>17,284,956</u>	<u>(19,325,888)</u>
Net Withdrawals of Circulating Currency		<u>(157,851,755)</u>	<u>(35,753,153)</u>
Net Increase/(Decrease) in Circulating Currency		<u>179,562,593</u>	<u>60,579,978</u>
Disbursements:			
Repayment of Foreign Currency Term Liabilities		59,020,350	(97,544,268)
Payments to Other Funds		122	158
Transfer of Profits to Consolidated Fund		26,350,000	43,000,000
		<u>85,370,472</u>	<u>(54,544,110)</u>
Net Cash Flow from Financing Activities		<u>94,192,121</u>	<u>115,124,088</u>
Net Increase/(Decrease) in Cash and Cash Equivalents		<u>197,023,876</u>	<u>(85,382,283)</u>
Exchange Rate Effect on Cash and Cash Equivalents		(6,625,246)	17,108,714
Cash and Cash Equivalents at the Beginning of the Year		<u>235,278,133</u>	<u>303,551,702</u>
Cash and Cash Equivalents at 31 December	40	<u><u>425,676,763</u></u>	<u><u>235,278,133</u></u>

The accounting policies and notes on pages 7 through 52 form an integral part of the Financial Statements.

Central Bank of Sri Lanka

Notes To The Financial Statements

Year ended 31 December 2013

1. REPORTING ENTITY AND STATUTORY BASE

The Central Bank of Sri Lanka ("Bank" or "CBSL") is an institution established under the Monetary Law Act No. 58 of 1949 of Sri Lanka as amended ("MLA"), as the authority responsible for the administration, supervision and regulation of monetary, financial and payment system of Sri Lanka. Central Bank of Sri Lanka is domiciled in the Democratic Socialist Republic of Sri Lanka and situated at No. 30, Janadhipathi Mawatha, Colombo 01.

These financial statements were authorised for issue by the Governor and Chief Accountant for and on behalf of the Monetary Board on 28 February 2014.

2. ACCOUNTING POLICIES

2.1 Basis of Preparation

The financial statements are prepared on the historical cost basis, except for land & buildings, gold and certain financial assets that have been measured at fair value as identified in specific accounting policies below.

2.1.1 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 activities. In the Statement of Financial Position, assets & liabilities are presented broadly in order of liquidity within such distinguished category. The bank considers that this reporting approach provide appropriate reporting of the bank's activities which are more fully described in Note 4.

2.1.2 Statement of Compliance

These financial statements of the Central Bank of Sri Lanka for the period ended 31 December 2013 have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements prepared in accordance with the Monetary Law Act (MLA) are audited by the Auditor General and gazetted as required by the law. Due to certain requirements in the IFRS, the classifications, and hence the amounts in the gazetted financial statements would be different from those in these financial statements.

2.1.3 Currency of Presentation

The Financial Statements are presented in Sri Lankan Rupees (Rs.) and all the values are rounded to nearest Rupees thousands, except when otherwise indicated.

2.2 Significant Accounting Judgements and Estimates

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.

2.2.1 Impairment of Available for Sale Investments

The bank determines that Available for Sale Investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement.

2.2.2 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 are disclosed in Note 43.

2.2.3 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, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as volatility for longer-dated derivatives.

2.3 Changes in Accounting Policies and Disclosures

2.3.1 IAS 19 Employee Benefits (Revised 2011)

The Bank applied IAS 19 (Revised 2011) retrospectively in the current period in accordance with the transitional provisions set out in the revised standard. The opening statement of financial position of the earliest comparative period presented (1 January 2012) and the comparative figures have been accordingly restated.

IAS 19 (Revised 2011) changes, among other things, the accounting for defined benefit plans. Some of the key changes that impacted the Bank include the following:

All past service costs are recognised at the earlier of when the amendment/curtailment occurs or when the related restructuring or termination costs are recognised. As a result, unvested past service costs can no longer be deferred and recognised over the future vesting period.

The bank previously recognised only the net cumulative unrecognized actuarial gains and losses of the previous period, which exceeded 10% of the greater of the defined benefit obligation and the fair value of the plan assets in accordance with IAS 19.

As a consequence, the Bank's statement of financial position did not reflect a significant part of the unrecognized net actuarial gains and losses.

This method is no more allowed under revised IAS 19 and hence Bank has changed its accounting policy to recognised actuarial gains and losses in the period in which they occur in total in other comprehensive income statement.

IAS19 (Revised 2011) also requires more extensive disclosures. These have been provided in Note 43 and has been applied retrospectively, with the following permitted exception:

- The carrying amounts of other assets have not been adjusted for changes in employee benefit costs that were included before 1 January 2012.

Sensitivity disclosures for the defined benefit obligation for comparative period (year ended 31 December 2012) have not been provided.

The amendments to IAS 19 remove the option to defer the recognition of actuarial gains and losses, i.e., the corridor mechanism. All changes in the value of defined benefit plans will be recognised in profit or loss and other comprehensive income. The effective date of the standard is 1 January 2013.

The Bank applied IAS 19 (Revised 2011) for the first time in the current year, which requires restatement of previous Financial Statements. According to the transitional provisions set out in the standard, the earliest comparative period presented is 1st January 2012 and the comparative figures have been accordingly restated in the statement of Financial Position.

Some of the key changes that impacted the financial statements include the following.

Recognize the Unrecognised Actuarial (gains)losses in the Other Comprehensive Income (OCI) Rs. 592.4 Mn (2012 - Rs 4,619.2 Mn).

Restated previously reported balances (2012):	Restated Rs. 000	Previously Rs. 000
Pension and other Post Employment Benefit Plans liability	3,832,688	-
Pension and other Post Employment Benefit Plans asset	-	964,379
Reserves	147,463,952	152,053,840
Amount recognize in OCI	4,619,242	-
Restated previously reported balances (2011):	Restated Rs. 000	Previously Rs. 000
Pension and other Post Employment Benefit Plans liability	-	-
Pension and other Post Employment Benefit Plans asset	1,020,925	991,571
Reserves	133,759,146	133,729,792
Amount recognize in OCI	(29,354)	-

2.3.2 IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS.

IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Bank re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the Bank. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 44.

2.4 Standards, Interpretations and Amendments to Published Standards that are not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

2.4.1 IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work though the adoption date is subject to the recently issued Exposure Draft on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the Board will

address impairment and hedge accounting. The Bank will quantify the effect of the adoption of the first phase of IFRS 9 in conjunction with the other phases, when issued, to present a comprehensive picture.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Foreign Currency Conversions

The Bank's functional and presentation currency is Sri Lanka Rupees (Rs). Transactions in foreign currencies are initially recorded in the functional currency prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange prevailing at the Statement of Financial Position date. All differences are taken to the Income Statement. For the purposes of retranslation the following Sri Lanka Rupee exchange rates for major currencies were used:

Currency	2013 Rs.	2012 Rs.
1 Australian Dollar	116.6709	132.2409
1 Canadian Dollar	122.7324	127.8255
1 Euro	180.4522	168.1257
1 Japanese Yen	1.2459	1.4799
1 Special Drawing Rights (SDR)	201.3550	195.311
1 Sterling Pound	215.5790	205.4728
1 United States Dollar	130.7530	127.1608
1 Chinese Yuan (Offshore)	21.5800	20.4373

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rates at the dates of initial transactions.

3.2 Fair value measurement

The Bank measures financial instruments such as foreign securities, derivatives, non-financial assets such as Land and Building at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 44.

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 to 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, maximising the use of relevant observable inputs and minimising 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.

3.3 Financial Assets and 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.

All financial assets are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the

investment. Subsequent measurement bases after initial recognition are described below. All regular way purchases and sales of financial assets 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.

3.3.1 Securities 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". 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), this is reported as "Gain / (Loss) from realised Price Revaluations"

3.3.2 Foreign Currency Available-for-Sale Investments

Foreign currency Available For Sale investments are subsequently valued at quoted market prices. Changes in market value are recognised as an increase or decrease in the value of the Available For Sale securities in the Statement of Financial Position.

Gains and losses arising from changes in the market value of foreign currency Available-For-Sale investments 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.

3.3.3 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 Unrealised Price Revaluations'.

3.3.4 'Day 1' Difference

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 Unrealised 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.

3.3.5 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. Exchange gains and losses arising on revaluation of IMF assets and liabilities at the exchange rate applying at Statement of Financial Position 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.

3.3.6 Cash and Cash Equivalents

Cash and cash equivalents comprise cash at foreign banks and financial institutions and short-term deposits.

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 by the bank 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 37 and Note 38 to these Financial Statements.

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

3.3.7 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 disclosed 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 Agreements to Re-sell). Both repurchase and reverse-repurchase transactions are reported at the transaction value inclusive of any accrued income or expense.

3.3.8 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. The difference between the issue price and the face value is recorded as an expense in the Income Statement.

3.3.9 Sri Lanka Government Securities

Sri Lanka Government Securities consists of Treasury bills purchased from GOSL. The portfolio is recorded in the Statement of Financial Position at amortised cost since they represent loans provided to the GOSL.

3.3.10 Advances to Government

Advances to Government represents direct provisional advances made to GOSL under Section 89 of the Monetary Law Act No. 58 of 1949 of Sri Lanka, as amended.

3.3.11 Loans to Other Institutions

Loans granted to Other Institutions are recognised and carried at the original granted amount less an allowance for any uncollectible amounts. An allowance for doubtful debts (for loan impairment) is established if there is

objective evidence that the bank will not be able to collect all amounts due. The amount of the allowance is the difference between the carrying amount and the estimated recoverable amount. Bad debts are written off when identified.

3.3.12 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 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.

3.3.13 Staff Loans

Bank employees are entitled to loan facilities under concessionary interest rates. These loans are fair valued as per IAS 39 using discounted cash flows.

Discount rate - The rate compiled by the Economic Research Department of CBSL (ERD) based on the long term inflation target on USD –Commercial Interest Reference Rate (CIRR) plus 1 per cent added for the risk premium as agreed by the Audit Committee of the Bank is used as the discount rate and it varies with the period of the loans.

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

Assumptions used for computation of fair valuation

- The staff loans granted from 2008 are considered.
- The date of staff loan granted is considered as 1 January.
- There were no amendments or early settlements.

Central Bank with a view to simplify the loan management

system, consolidated and reschedule computer loans and two loans under Category B into a single loan per borrower, with a total loan limit of Rs. 300,000.00 and for a repayment period of ten years. Further, under this category outstanding loan balance together with the new loan will be rescheduled whenever a new loan is granted.

3.3.14 Impairment of Financial Assets

The Bank assesses at each Statement of Financial Position date whether a financial asset is impaired.

3.3.15 Impairment of Assets Carried at Amortised Cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in the Income Statement.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the Income Statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

3.3.16 Impairment of Available-for-Sale Investments

If an Available-For-Sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the Income

Statement. Reversals in respect of equity instruments classified as Available-For-Sale are not recognized in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

3.3.17 Foreign Currency Term Liabilities

Foreign currency term liabilities are subsequently reported at the amortised cost of the liabilities. Changes in the value of these liabilities are recognised as an increase or decrease in the value of the term liabilities in the Statement of Financial Position. Gains and losses arising from changes in value of foreign currency term liabilities are recognised immediately as expenses in the Income Statement. Where the liability is still owed, the gain or loss is reported as (Gain) /Loss from Unrealised Price Revaluation. Where the gain or loss has been realised (through repayment of the liability), this is reported as (Gains) /Losses Realised from Price Changes.

3.3.18 Financial Guarantees

Financial Guarantees are initially recognised in the financial statements at fair value. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

3.3.19 Other Financial Assets and Liabilities

Local and foreign currency cash, deposits and short-term advances are recognised on trade date.

3.4 Other Assets and Liabilities

3.4.1 Gold

Section 67 (1) of the Monetary Law Act which specifies the composition of the International Reserve indicates that gold may be held by the CBSL as part of this Reserve. Hence, CBSL holds Rs. 115.6 Bn (Allocated - Rs. 95.6 Bn and Non Allocated - Rs. 20 Bn) in gold as part of its International Reserves as at 31 December 2013. 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 unrealised gains or losses from gold are transferred to the relevant reserve account.

3.4.2 Inventories

Inventories are carried at lower of cost and net realisable value. Cost is determined on a weighted average basis. Allowance is made for slow moving inventories.

3.4.3 Property, Plant and Equipment

Property, Plant and Equipment is stated at cost, excluding the costs of day-to-day servicing, 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 fair value less depreciation on Buildings and impairment charged subsequent to the date of the revaluation.

Except for the freehold land, depreciation is calculated on a straight-line method over the following estimated useful life.

Class of Asset	Useful Life
Buildings on Freehold Land	Over 50 Years
Buildings on Leasehold land	Over the Lease Period
Plant & Plant Integrals	20 Years
Furniture & Equipment	10 Years
Motor Vehicles	5 Years
Computer Hardware	4 Years
Others	3 Years

The carrying values of Plant and Equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Initial recognition at cost, Land and Buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on Buildings and subsequent accumulated impairment losses.

Policy for revaluation of Land & Building of the bank is at least once in five 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 life and methods are reviewed, and adjusted if appropriate, regularly.

3.4.4 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 based on a useful life of 4 years.

3.4.5 Receivables

Receivables are carried at expected realizable value after making due allowance for doubtful debts, based on objective evidence.

3.4.6 Sundry Assets

Other sundry assets are carried at expected realisable values.

3.4.7 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.

3.4.8 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.

3.4.9 Currency in Circulation

Currency issued by the CBSL 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.

3.4.10 Pension and Other Post Employee Benefit Plans

Pension and other Post Employment Benefit Plans operated by the Bank are disclosed in Note 43.

3.4.11 Defined Benefit Plans

The 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. Actuarial valuations are carried out once in every three years.

3.4.12 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.

3.4.13 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.

3.4.14 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.

3.4.15 Operating Leases

Where the Bank is the lessee, the lease rentals payable on operating leases are recognised in the Income Statement over the term of the lease on a basis consistent with the expected benefits derived from the leased assets.

3.4.16 Taxation

The income of the Bank is exempt from tax under section 118 of the Monetary Law Act 58 of 1949 as amended.

Further Bank is exempt from ESC as per the Economic Service Charge (Amendment) Act, No. 6 of 2013 and exempted from Value Added Tax on supply of financial services as per Value Added Tax (Amendment) Act No. 17 of 2013.

3.4.17 Revenue & 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:

3.4.17.1 Interest

Interest income and expenses 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.

3.4.17.2 Dividends

Dividend income is recognised when the shareholder's right to receive the payment is established.

3.4.17.3 Miscellaneous

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.

3.4.18 Contingent Liabilities and Commitments including Off Statement of Financial Position Items

All guarantees of indebtedness, forward foreign exchange transactions and other commitments, which represent Off Statement of Financial Position items are shown under respective headings recognised as Off Statement of Financial Position items. Where applicable, such amounts are measured at best estimates.

4. NATURE AND EXTENT OF ACTIVITIES

The Monetary Board of the CBSL is, in addition to determining the policies or measures authorized to be adopted or taken under Monetary Law Act No. 58 of 1949 of Sri Lanka as amended, vested with the powers, duties

and functions of the CBSL and be generally responsible for the management, operations and administration of the Bank. The Bank is primarily responsible for the administration supervision, regulation of monetary, financial, and payment system of Sri Lanka and also acts as the fiscal agent of the Government. The activities of the Bank mainly include:

- Implementing monetary and exchange rate policies.
- Issuing of currency.
- Facilitating free competition and stability in the financial system.
- Licensing and supervision of defined financial institutions.
- Organization and management of the inter-bank settlement system and promotion of the smooth functioning of the payments system.
- Providing loans and advances to the Government, bank and financial institutions under various facilities.
- Acting as a depository of the Government under specific arrangements with Government and agencies acting on behalf of the Government.

The activities carried out in order to achieve its objective of economic, price and financial system stability with a view to encouraging and promoting the development of the productive resources of Sri Lanka can be broadly segregated into foreign currency and local currency activities. Results of these activities are taken to mean Operating Activities in the context of the Income Statement.

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

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

4.2 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 Sri Lanka government securities to support Open Market Operation requirements. The Bank's policy is to hold these investments for monetary operations and not for trading.

4.3 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.

5. INVESTMENT IN FOREIGN SECURITIES

	2013 Rs. 000	2012 Rs. 000
Securities at Fair Value through Profit & Loss	94,137,368	169,312,604
Available for Sale Investments	357,531,750	386,761,690
Total Financial Assets	451,669,118	556,074,294

6. DERIVATIVE FINANCIAL INSTRUMENTS

- a) 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 the year end and are indicative of neither the market risk nor the credit risk.

	2013			2012		
	Assets	Liabilities	Notional Amount	Assets	Liabilities	Notional Amount
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Currency SWAPS	5,670,258	4,703,881	360,929,041	3,989,701	3,250,937	205,552,318
Forward Forex	-	451	180,452	-	6,182	1,027,364
Embedded Derivatives - Currency Options	-	11,478,950	119,808,712	-	-	-
Total	5,670,258	16,183,282	480,918,205	3,989,701	3,257,119	206,579,682

- b) The above derivatives consisting of cross currency swaps, currency options and forward foreign exchange contracts were used for the purpose of managing certain risks in international reserves held by the Bank to facilitate the statutory objectives of maintenance of international reserves and not for speculative purposes to gain by trading and keeping open positions in such derivatives. 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.

- c) Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments may involve a high degree of risks to profit and reserves in the event of high exposure to speculative portfolio of derivatives. In such a situation, even a relatively small movement in the value of the asset or the rate or index underlying a derivative contract may have a significant impact on the profit. Over-the-counter derivatives may involve risks in the absence of an exchange market to close out a significant open position.
- d) The exposure is closely monitored as part of the overall management of the Bank's market risk in international reserves to ensure expected benefits from such derivatives.
- e) A significant part of derivatives portfolio of the Bank consists of currency swaps entered into as a strategy to enhance international reserves. Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts in relation to movements of a specified underlying index such as an interest rate, foreign currency rate or equity index. In a currency swap, the Bank pays a specified amount in one currency and receives a specified amount in another currency.

7. IMF RELATED ASSETS

	2013 Rs. 000	2012 Rs. 000
Holding in Special Drawing Rights	2,032,177	491,322
IMF Quota	83,240,157	80,741,567
Deposits with IMF	128,430	119,393
Total IMF Related Assets	85,400,764	81,352,282

a). Holding of Special Drawing Rights (SDR)

Holding of Special Drawing Rights (SDR) is potentially a claim on the freely usable currencies of IMF members, in that 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 Statement of Financial Position dates.

b). 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 percent of its quota in widely accepted foreign currencies or SDRs, and the remaining 75 percent in its own currency.

- (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 percent 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. Each IMF member has 250 basic votes plus one additional vote for each SDR 100,000 of quota.
- (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 200 percent of its quota annually and 600 percent cumulatively. Access may be higher in exceptional circumstances and to meet specific problems.
- (iv) **SDR allocations:** Members' shares of SDR allocations are established in proportion to their quotas.

IMF quota therefore represents an asset, and the Bank transacting with the IMF in its own right rather than as an agent for the GOSL, reflects IMF Quota as an asset in its financial statements. The amounts payable in respect of the IMF Quota is shown under the heading Quota Liability in Note 19.

c). 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. 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.

8. SRI LANKA GOVERNMENT SECURITIES

Portfolio of short-term government securities maintained as per the provisions vested on the CBSL under Section 90 (2) of the Monetary Law Act (MLA).

9. PROVISIONAL ADVANCES TO GOVERNMENT

As per Section 89 of the Monetary Law Act No. 58 of 1949 of Sri Lanka, as amended, the Central Bank may make direct provisional advances to the Government of Sri Lanka (GOSL) to finance expenditure authorised to be incurred out of the Consolidated Fund, provided that every such advance shall be repayable within a period not exceeding six months, and the total outstanding at any time shall not exceed ten percent of the estimated revenue of the GOSL for the financial year in which they are made. The balance represents such advances made by the Bank.

10. LOANS TO BANKS

	2013 Rs. 000	2012 Rs. 000
Medium & Long Term Credit Scheme (MLTC)		
- Related Parties	37,377	39,510
- Others	546	607
Susahana Tsunami Loan Scheme Phase I & II:		
- Related Parties	104,576	191,982
- Others	17,794	63,301
Provincial Development Credit Loan Scheme - Related Parties	1,242,405	1,576,139
Less:		
Provision for Doubtful Receivables	(27,302)	(27,302)
Net Receivable	1,375,396	1,844,237

Movement in Provision for Doubtful Receivables is as follows:

	2013 Rs. 000	2012 Rs. 000
At the beginning of the year	27,302	27,302
Write Off of Doubtful Debts	-	-
At the end of 31 December	27,302	27,302

11. EQUITY INVESTMENTS IN FINANCIAL AND OTHER INSTITUTIONS

(a) Section 105 A of the Monetary Law Act No. 58 of 1949 of Sri Lanka authorises the Bank to acquire and hold shares in any company, which in the opinion of the Monetary Board was formed for the advancement and promotion of human resources and technological development in the banking and financial sector or to facilitate clearance of transactions among commercial banks operating in Sri Lanka.

(b) Based on the above requirements, the Bank holds the following investments as at the Statement of Financial Position date.

Entity	Nature of the Business	% Holding	
		2013	2012
Lanka Clear (Private) Limited	Automated Clearing	19.66	19.66
Fitch Ratings Lanka Limited	Credit Rating	10	10
Lanka Financial Services Bureau Limited	Automated Fund Transfers	7.5	7.5
Credit Information Bureau of Sri Lanka Limited	Provision of Credit Information	19.3	19.3

(c) The carrying value of investments in the respective entities are as follows:

	2013 Rs. 000	2012 Rs. 000
Credit Information Bureau of Sri Lanka Limited	5,845	5,845
Lanka Clear (Private) Limited	29,500	29,500
Fitch Ratings Lanka Limited	3,500	3,500
Lanka Financial Services Bureau Limited	2,250	2,250
Total Investments in Financial and Other Institutions	41,095	41,095

12. OTHER ASSETS

	2013 Rs. 000	2012 Rs. 000
Investment of Internal Funds	2,034,546	1,799,394
Staff Loans at Amortized Cost	4,400,751	3,767,064
Investment in Debentures at Amortized Cost	8,237	7,273
	6,443,534	5,573,731

Investment in Debentures represents debentures received by the Bank in part settlement of refinance loans obtained by Mercantile Credit Limited during the period of 1990 - 1992 from the Bank, which was written off in 2011, pending proceeds from the liquidation of the company as the company is in the liquidation process.

A total value of Rs. 10,839,500/- debentures of Sri Lanka Savings Bank Ltd. received by the Bank is stated at the amortized cost. The debentures are 10 years unsecured, subordinated and redeemable and carry an interest at 5% per annum or one year Treasury Bill yield rate whichever is less to be accrued annually.

13. GOLD

As per Section 67 (1) of the Monetary Law Act (MLA), Gold is held as part of the International Reserve of the Bank. The Monetary Board shall endeavor to hold at least a nuclear reserve in gold or currencies freely convertible by the Central Bank, whether directly or indirectly, in to gold as per the Section 67(2) of the MLA.

14. INVENTORIES

	2013 Rs. 000	2012 Rs. 000
Notes for Circulation	2,035,994	2,171,534
Coins for Circulation	732,232	706,071
Notes in Transit from the Supplier	109,233	-
Coins in Transit from the Supplier	233,897	51,564
	<u>3,111,356</u>	<u>2,929,169</u>
Less: Allowance for Slow Moving Items	(45,000)	(25,000)
	<u>3,066,356</u>	<u>2,904,169</u>
Stationery and Sundry Inventory	36,776	37,908
Medical Center Stock	149	116
Total Inventories at Lower of Cost and Net Realizable Value	<u>3,103,281</u>	<u>2,942,193</u>

16. INTANGIBLE ASSETS

	2013 Rs. 000	2012 Rs. 000
Computer Software:		
Cost:		
As at 1 January	614,997	595,731
Additions	23,023	19,266
As at 31 December	<u>638,020</u>	<u>614,997</u>
Amortization and Impairment:		
As at 1 January	590,844	582,008
Amortization Charge for the year	11,578	8,836
As at 31 December	<u>602,422</u>	<u>590,844</u>
Net Book Value:		
As at 1 January	24,153	13,723
As at 31 December	<u>35,598</u>	<u>24,153</u>

15. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings Rs.000	Plant & Plant Integrals Rs.000	Furniture & Equipment Rs.000	Vehicles Rs.000	Computers Rs.000	Others		2013 Total Rs.000	2012 Total Rs.000
						Reading Materials Rs.000	Construction In progress Rs.000		
Cost									
As at 01 January	12,332,079	1,144,261	764,765	400,719	720,374	49,047	633,906	16,045,151	12,414,835
Revaluation								-	2,746,379
Additions	2,401	21,472	42,573	-	78,087	1,357	546,306	692,196	1,709,550
Reclassification	-	-	-	-	-	-	-	-	-
Disposals / Transfers	(2,000)	(211)	(11,948)	-	(936)	-	(20,343)	(35,438)	(825,613)
As at 31 December	<u>12,332,480</u>	<u>1,165,522</u>	<u>795,390</u>	<u>400,719</u>	<u>797,525</u>	<u>50,404</u>	<u>1,159,869</u>	<u>16,701,909</u>	<u>16,045,151</u>
Depreciation									
As at 01 January	125,436	537,262	543,550	248,686	647,470	29,670	-	2,132,074	2,418,138
Revaluation	-	-	-	-	-	-	-	-	(541,949)
Depreciation for the year	174,663	57,486	36,828	41,115	43,776	1,348	-	355,216	312,070
Disposals	(1,398)	(92)	(11,872)	-	(934)	-	-	(14,296)	(56,185)
As at 31 December	<u>298,701</u>	<u>594,656</u>	<u>568,506</u>	<u>289,801</u>	<u>690,312</u>	<u>31,018</u>	<u>-</u>	<u>2,472,994</u>	<u>2,132,074</u>
Net Book Value	<u>12,033,779</u>	<u>570,866</u>	<u>226,884</u>	<u>110,918</u>	<u>107,213</u>	<u>19,386</u>	<u>1,159,869</u>	<u>14,228,915</u>	<u>13,913,077</u>

The book values of Land and Buildings are recorded at fair value. The latest independent valuation was performed as at 31 March 2012 by P. B. Kalugalagedara (Chartered Valuer), which was recorded as at 30 April 2012.

Composition of Land and Buildings

	Carrying Value 2013 Rs. 000	Carrying Value 2012 Rs. 000
Freehold Land	5,243,100	5,180,100
Buildings on Freehold Land	6,705,474	6,939,096
Buildings on Leasehold Land	85,205	87,447
	<u>12,033,779</u>	<u>12,206,643</u>

The carrying amount of revalued Land & Building that would have been included in the financial statements had they been carried at cost less depreciation is Rs. 9,305.235 Mn (2012- Rs. 9,464.544 Mn).

17. BANKS AND FINANCIAL INSTITUTIONS

	2013 Rs. 000	2012 Rs. 000
Payable to Foreign Banks	20,863,380	1,485,466
Payable to other Foreign Financial Institutions	640,816	1,134,381
	<u>21,504,196</u>	<u>2,619,847</u>

18. ASIAN CLEARING UNION

The Asian Clearing Union (ACU) was established in 1974 under the auspices of the Economic and Social Commission for Asia and the Pacific as a mechanism for settlement of payments among participating countries' Central Banks. Sri Lanka is one of the participants. The other participants are Bangladesh, the Islamic Republic of Iran, Nepal, Pakistan, India, Bhutan and Myanmar. This is a clearing facility to settle, on a multilateral basis, payments for current international transactions among territories of participants. Net position as at end of each month is settled or received, after two-month credit period. Interest between 0.05 % and 0.17 % in USD (2012- 0.01% and 0.17%) & Interest between 0.00 % and 0.00 % in EUR (2012 - 0.00% and 0.01 %) is paid by net debtors to the facility and transferred to net creditors on daily balances outstanding between settlement dates. The balances represent the amounts due to ACU at the respective Statement of Financial Position dates.

19. IMF

	2013 Rs. 000	2012 Rs. 000
Interest Bearing Loans - Non Current	173,416,994	260,727,978
Interest Bearing Loans - Current	95,379,347	58,278,166
Allocation of Special Drawing Rights	79,627,890	77,237,728
Other Amounts Payable to IMF	48,517,078	48,432,045
Quota Liability	25,090,703	22,966,279
	<u>248,615,018</u>	<u>206,914,218</u>
Total IMF Related Liabilities	<u>422,032,012</u>	<u>467,642,196</u>

- a). Interest bearing loans consist of Poverty Reduction & Growth Facility (PRGF), Extended Fund Facility (EFF) and Stand By Arrangement (SBA) obtained from the IMF from time to time.
- b). **PRGF**, previously known as Enhanced Structural Adjustment Facility (ESAF), is a scheme to provide long-term financing facility to member countries in lower income-earning category to help reduce poverty and promote high growth on a sustainable basis leading to higher living standards. The interest rate levied on PRGF loans is 0.5 percent per annum. The repayment period given for such loans by IMF is over a maximum period of 10 years. The Final Repayment of the loan (SDR 3,839,000) was done on 30 th April 2013.

c). **EFF** is an IMF financing facility to support medium term programs of member countries to overcome Balance of Payment difficulties stemming from macroeconomic imbalances and structural problems. This is an extended facility of ESAF. The interest rate levied on EFF loan is 0.5 percent per annum. The repayment period is 10 years with a grace period of 4 ½ years. The Final repayment of the loan (SDR 1,722,500) was done on 24 April 2013.

d). **SBA** is also a balance of payments support financing facility provided by the IMF subject to certain conditions on macroeconomic management of the borrowing countries. The IMF approved a SBA facility of SDR 1.65 Bn (USD 2.6 Bn) for Sri Lanka in July 2009 as a balance of payments (BOP) support. The SBA was successfully completed in 2012 with the final tranche received in July 2012. This loan facility is repayable within 4 years and the repayments commenced in October 2012. The rate of interest payable is composed of two components; the service charge and a fixed margin. The service charge is calculated weekly, based on the SDR interest rate. The fixed margin is 1 per cent per annum for the outstanding loan amount up to 300 percent of the quota with the IMF. When the outstanding loan amount exceeds 300 percent of the quota, a surcharge of 2 percent per annum will be levied on the outstanding in excess of 300 percent. The first repayment of SDR 25.8 mn was made on 25th October 2012. Total amount of SDR 292.83 Mn of repayments were done during the year 2013 and the outstanding balance as at 31st December 2013 was SDR 1,334.938Mn.

The amounts expected to be settled before and after 12 months in connection with Interest Bearing Loans are as follows:

	Effective interest rate %	Maturity	2013 Rs. 000	2012 Rs. 000
Current				
EFF			-	336,423
PRGF 2	0.50		-	749,799
SBA			95,379,347	57,191,944
			<u>95,379,347</u>	<u>58,278,166</u>
Non-current				
SBA		2017	173,416,994	260,727,978
			<u>173,416,994</u>	<u>260,727,978</u>
Total Interest bearing Loans			<u>268,796,341</u>	<u>319,006,144</u>

e). **The Special Drawing Right (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, created

SDRs. 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 7. 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.

- f). **Other Amounts Payable to IMF** represent amounts owed by the Bank to IMF on account of operational and administrative transactions.
- g). **Quota Liability** : The amounts payable in respect of the IMF Quota as described in Note 7 is shown under the heading Quota Liability.

20. OTHER

	2013 Rs. 000	2012 Rs. 000
Amount due to China Development Bank Corporation (CDB) under Escrow Agreement	29,052,050	43,324,799
EIB/DFCC Global Loan II	36,264	35,268
Moragahakanda Development Project Loan	15,657,844	19,056,691
Other Foreign Liabilities	2,474,961	2,103,904
	<u>47,221,119</u>	<u>64,520,662</u>

a). Amount due to CDB under Escrow Agreement

A Facility Agreement between China Development Bank Corporation (CDB) and Government of Sri Lanka was signed on 31st March 2011 for USD 500 Million. The funds of this Facility Agreement are used for the improvement and rehabilitation of priority roads. As per the Facility Agreement, the Bank has been appointed as the Escrow Agent. According, an Escrow Account has been opened in the Bank for the sole purpose of depositing the loans and disbursing such received monies to the Road Project, and this account shall be jointly operated by the lender (CDB) and the borrower (GOSL) pursuant to this Agreement.

The first tranche of Escrow Funds USD 326 mn was received on 29th June 2011 and second tranche of USD 174 mn was received on 28th October 2011.

The lender instructs the Escrow Agent to disburse the Escrowed Funds to the account specified in the Disbursement Request by sending a Notice of Approval.

After receiving a Notice of Approval from the CDB, first disbursement has been made on 18th October 2011 amounting to USD 1.768 Mn.

Thereafter during the year 2011 & 2012 USD 157.5 Mn was disbursed according to the CDB's request and USD 340.7 Mn was remained in the Escrow account at the end of 2012.

USD 118.52 Mn was disbursed in 2013 and the remaining balance as at 31st December 2013 is USD 222.190 Mn.

b). EIB / DFCC Global Loan 2

As per the EURO 50 million loan agreement, the loan has been received in EURO for the purpose of micro financing from the European Investment Bank. However, later part of the loan received in US Dollar. As per the request of the Treasury Operations Department, Bank has opened a Special Dollar account in its General Ledger to channel funds to DFCC Bank under EIB/DFCC Global Loan 2. On 3rd Feb 2012, USD 12.7 million was received from European Investment Bank as the first dollar installment to the account no 4897. As the second installment US \$ 19.2 million was received on 01 June 2012. First disbursement was made on 1st March 2012, US \$ 4,002,299.29. Another two disbursements of US \$ 6,573,500 & 2,142,170.71 were made on 3rd May 2012. On 14th August 2012, US \$ 12,342,500 & 6,171,250 amounts of disbursements were made by CBSL according to the request made by TOD. Another disbursement of US \$ 473,368.81 was made on 19 Nov 2012. The remaining balance as at 31st December 2013 is USD 0.277 Mn.

c). Moragahakanda Development Project Loan

This Loan Agreement was signed between China Development Bank (as lender) and The Government of Sri Lanka (as borrower) on 28th June 2012 for USD 214.2Mn . The purpose of this loan agreement is to provide facility for financing the construction of a hydroelectric power station at Moragahakanda. This Project has been implemented by the Ministry of Irrigation and Water Resources Management. The Bank has to opened an account in its General Ledger, as the banker to this agreement, according to the the instructions of the Department of External Resources for the purpose of receiving and disbursing the loan. On 29th of June 2012 US \$ 214.2 million was received from CDB and first disbursement of US \$ 64,337,066.36 was done on 24th August 2012.

During the year 2013, USD 30.1 Mn was disbursed and the remaining balance as at 31st December 2013 is USD 119.751 Mn.

21. DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS

Under the mechanism of Real Time Gross Settlement System (RTGS), participants which include Licensed

Commercial Banks, Primary Dealers and the Employee Provident Fund, can obtain the required funds for honoring payments under an interest free, fully collateralized intra-day liquidity facility. The participants are required to pledge tradable Government Securities to obtain such intra-day liquidity facility. Advances under Intra-day Liquidity Facility represents such amounts advanced against tradable Government Securities, which stood at zero as at both year ends.

	2013 Rs. 000	2012 Rs. 000
Deposits by Banks :		
- Related Parties	77,899,164	84,679,924
- Others	70,906,573	81,572,604
	<u>148,805,737</u>	<u>166,252,528</u>
Deposits by Financial Institutions		
- Related Parties	202	242
- Others	3,954	35,608
	<u>4,156</u>	<u>35,850</u>
Total Deposits by Banks and Other Financial Institutions	<u>148,809,893</u>	<u>166,288,378</u>

22. DEPOSITS OF GOVERNMENT AND GOVERNMENT ENTITIES

	2013 Rs. 000	2012 Rs. 000
Government Deposits	27,766	340,506
Government Agencies and Funds	388,464	359,122
	<u>416,230</u>	<u>699,628</u>

23. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

	2013 Rs. 000	2012 Rs. 000
Government Securities	84,601,000	7,015,000
	<u>84,601,000</u>	<u>7,015,000</u>

Repurchase agreements created by the Bank in exercising Open Market Operations (OMO) under the powers vested on it under Sections 90 and 91 of MLA. These repurchase agreements have been backed up by the securities from the own holdings of the Bank as well as securities obtained under the securities borrowing program of the Bank approved by the Monetary Board.

24. BALANCES OF EMPLOYEE BENEFIT PLANS

The Bank as a part of normal activities provide current account facilities for its Employee Benefit Plans. The amounts held in credit of these separately administered Employee Benefit Plans of the Bank, are as follows:

	2013 Rs. 000	2012 Rs. 000
CBSL Employee Provident Fund	429,932	150,895
CBSL Employee Retirement Pension Scheme	600,119	694,165
Widows' /Widowers' & Orphans' Pension Schemes	1,440	1,113
Payable in respect of Gratuity Scheme	90,398	63,104
Payable in respect of Medical Benefit Scheme	1,297,198	431,991
Total	<u>2,419,087</u>	<u>1,341,268</u>

25. OTHER PAYABLES

	2013 Rs. 000	2012 Rs. 000
Domestic Interest Payable	161,223	1,445
Provision and Charges	610,465	502,892
Deposit by RDD	1,880,078	1,869,662
Liability against Abandoned Properties Received	2,335,466	1,962,473
Payable to a Foreign Central Bank on SWAP Facility	-	27,473,460
Other Payables	672,485	124,714
Total	<u>5,659,717</u>	<u>31,934,646</u>

Payable in respect of Abandoned Properties represents the amounts collected from the Licensed Banks & Financial Institutions under the Banking Act Directions 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.

26. 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 balance sheet dates are as follows:

Denomination Coins:	2013 Rs. 000	2012 Rs. 000
1 cent	3,631	3,631
2 cent	5,702	5,702
5 cent	23,245	23,245
10 cent	39,211	39,209
25 cent	120,566	120,732
50 cent	185,798	185,378
1 rupee	714,252	702,536
2 rupee	1,013,765	998,102
5 rupee	3,035,467	2,981,784
10 rupee	1,672,674	1,275,959
Commemorative coins	574,663	572,256
	<u>7,388,974</u>	<u>6,908,534</u>

Notes:		
1 rupee	4,981	4,981
2 rupee	26,698	26,698
5 rupee	37,198	37,198
10 rupee	1,638,800	1,735,340
20 rupee	3,725,554	3,350,440
50 rupee	4,041,101	3,779,318
100 rupee	15,332,034	14,978,744
200 rupee	138,465	144,531
500 rupee	23,668,137	23,317,647
1000 rupee	105,385,676	101,046,102
2000 rupee	87,798,698	109,370,204
5000 rupee	90,584,665	53,360,405
	<u>332,382,007</u>	<u>311,151,608</u>
Total Currency in Circulation	339,770,981	318,060,142

27. DEFERRED GRANTS

	2013 Rs. 000	2012 Rs. 000
As at 01 January	2,389	3,468
Amortization during the year	(940)	(1,079)
As at 31 December	1,449	2,389

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.

28. MISCELLANEOUS LIABILITIES AND ACCRUALS

Miscellaneous liabilities and accruals include the balances payable in the accounts payable, contract retention, deposits taken as refundable tender deposits and the penalties payable by the Exchange Control Department.

29. EQUITY

a). Nature of Equity Items

Capital Funds

- Contributed Capital** - The capital account represents the capital of the Bank in accordance with section 6 of the Monetary Law Act.
- Reserves Appropriated as Capital** : This Reserve is made up by transferring Rs.24,985 Mn out of the General Reserves in 2008, as per the Monetary Board decision of MB/F/22/12/2008. During March 2012 Rs. 10 Bn also has been transferred out of General Reserve as per MB decision MB/F/5/17/2012.

b).Fixed Asset Revaluation Reserve – This reserve is made up of the revaluation surpluses of Property, Plant and Equipments as per IAS 16.

c). Other Reserves Comprise the Following;

- International Revaluation Reserve (IRR)** : International Revaluation Reserve is a reserve established in accordance with section 41 of the Monetary Law Act which requires that any unrealised gain or loss arising from the revaluation of net assets and liabilities of CBSL in gold or foreign currency shall not be considered in computing the net profit of the bank, instead such profit or loss should be transferred to the International Reserve Revaluation.
- Market Revaluation Reserve (MRR)**: Market Revaluation Reserve (MRR) 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 CBSL.
- Other Reserves** : Other reserves include General reserve, Building Reserve and Credit Guarantee. General Reserve includes the amounts set aside from the retained earnings by the Monetary Board.
- Net Fair Value/(Loss) on Available for Sale Securities and Allocated Gold Accounts** : For the year ended 31 March 2012, unrealized gains and losses on the revaluation of securities designated as available for sale & un-allocated gold accounts, have been transferred to this reserve.
- RTGS Sinking Fund** : This fund is built up with the charges collected from the participants for use of the RTGS system. The fund is limited to investments in Treasury bills and bonds.
- Pension Fund Reserve** : This reserve is made up by transferring an additional Rs.3 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.
- 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 CBSL i.e., GL, RTGS,TDRMS,or,SSS.
- Provincial Development Credit Scheme** – During 2010 bank has commenced a refinance credit scheme for medium & long term development purposes for provinces by creating a fund from the profits, amounting to Rs. 2.9 Bn. Such loans are granted through Bank of Ceylon & Peoples' Bank.

The movements in the other reserves are as follows:

	Medium and Long Term Credit Reserve Rs. 000	Market Revaluation Reserve Rs. 000	Other Reserves Rs. 000	CBSL Specific Reserves Rs. 000	RTGS Sinking Fund Rs. 000	IRR Rs. 000	Net Fair Value/(Loss) on Available for Sale Securities Rs. 000	Pension Fund Reserves Rs. 000	Technical Advance-ment Reserves Rs. 000	Provincial Develop-ment Credit Scheme Fund Rs. 000	Total Rs. 000
As at 1 January 2013	11,425,000	11,354,757	9,852,383	824,982	627,598	67,593,177	6,577,798	4,000,000	1,000,000	2,900,000	116,180,695
Transfer of RTGS Income to RTGS Fund	-	-	-	-	191,428	-	-	-	-	-	191,428
Transfer of CBSL MBS Fund	-	-	-	84,852	-	-	-	-	-	-	84,852
Transfer of CBSL Gratuity Fund	-	-	-	6,465	-	-	-	-	-	-	6,465
Transfer of Profits to General Reserve & Building Reserve	-	-	126,315	-	-	-	-	-	-	-	126,315
Transfer to Gratuity Fund Reserve & Medical Fund Reserve	-	-	-	595,490	-	-	-	-	-	-	595,490
Transfer of Funds from MBS & Gratuity Reserve to respective liability	-	-	-	(1,511,789)	-	-	-	-	-	-	(1,511,789)
Transfer of Net Foreign Exchange Revaluation Loss	-	-	-	-	-	(26,758,632)	-	-	-	-	(26,758,632)
Net Fair value Loss on Available for sale Securities & Gold	-	-	-	-	-	-	(13,904,065)	-	-	-	(13,904,065)
Revaluation gain on retirement of Fixed Assets	-	-	40	-	-	-	-	-	-	-	40
Net Transfer of Market Revaluation Reserve to Retained Earnings	-	(6,703,951)	-	-	-	-	-	-	-	-	(6,703,951)
As at 31 December 2013	<u>11,425,000</u>	<u>4,650,806</u>	<u>9,978,738</u>	<u>-</u>	<u>864,026</u>	<u>40,834,545</u>	<u>(7,346,267)</u>	<u>4,000,000</u>	<u>1,000,000</u>	<u>2,900,000</u>	<u>68,306,848</u>

30. TRANSFER OF NET PROFITS

Under section 39 (c) of the Monetary Law Act No. 58 of 1949, as amended, the Bank's net profit, as determined in accordance with the Act, is paid to the government after making necessary appropriations to Reserves under section 38 of the Monetary Law Act. During the period the Bank transferred Rs.2.35 Bn in respect of 2012 and Rs. 25 Bn in respect of 2013 to the Government.

31. INTEREST INCOME FROM FINANCIAL ASSETS

	2013 Rs. 000	2012 Rs. 000
Interest Income from Foreign Currency Financial Assets		
Cash and Cash Equivalents	2,048,673	1,934,021
Financial Assets	9,634,528	9,566,537
IMF Related Assets	5,147	4,616
SWAP Gain	6,817,308	2,066,692
Total Interest Income from Foreign Currency Financial Assets	<u>18,505,656</u>	<u>13,571,866</u>
Interest Income from Local Currency Financial Assets		
Sri Lanka Government Securities	13,897,078	25,441,705
Other Loans and Advances	553,056	515,897
Total Net Interest Income from Local Currency Financial Assets	<u>14,450,134</u>	<u>25,957,602</u>
Total Interest Income from Financial Assets	<u>32,955,790</u>	<u>39,529,468</u>

32. INTEREST EXPENSE ON FINANCIAL LIABILITIES

	2013 Rs. 000	2012 Rs. 000
Interest Expense on Foreign Currency Financial Liabilities		
Amount Payable to Asian Clearing Union	18,220	36,919
IMF Related Liabilities	4,298,227	4,639,495
SWAP Cost	113,672	972,897
Other Foreign Payable	17,282	120,347
Total Interest Expense on Foreign Currency Financial Liabilities	<u>4,447,401</u>	<u>5,769,658</u>
Interest Expense on Local Currency Financial Liabilities		
Securities Sold Under Agreements to Repurchase - Treasury Bills	2,033,328	897,233
- Treasury Bonds	707,838	-
Fees Paid on Bond Borrowing	20,853	-
Abandoned Property	217,831	194,307
Total Interest Expense on Local Currency Financial Liabilities	<u>2,979,850</u>	<u>1,091,540</u>
Total Interest Expense on Financial Liabilities	<u>7,427,251</u>	<u>6,861,198</u>

a). Bank has entered into a SWAP facility with a Foreign Central Bank from February 2009 for USD 200 Mn. A total sum of Rs 199.374 Mn (2012 – Rs.824.574 Mn) included in the SWAP Cost represent the cost incurred for SWAP facility with the Foreign Central Bank.

b). Bank has incurred a net cost (Gain) of Rs. (4,219.018 Mn) as sterilization gain (2012- Rs. 1,695.884 Mn) in its activities to absorb the excess liquidity in the market. The sterilization gain is composed of the interest expenses incurred on securities sold under agreement to repurchase, fees paid on bond borrowing and CBSL securities netted off with interest income earned on the securities purchased under agreement to resale (Reverse Repurchase) included under interest income from Sri Lanka Government Securities and USD/LKR SWAP gain included in the SWAP gain under interest income from foreign currency financial assets, as discussed below:

	2013 Rs. 000	2012 Rs. 000
Interest expenses incurred on securities sold under agreement to repurchase	2,741,167	897,233
Fees Paid on Bond Borrowing	20,853	-
Less:		
Interest income earned on the securities purchase under agreement to resale	(244,788)	(1,139,067)
USD / LKR SWAP Gain	(6,736,250)	(1,454,050)
	<u>(4,219,018)</u>	<u>(1,695,884)</u>

33. OTHER INCOME

	2013 Rs. 000	2012 Rs. 000
Dividend Income - Related Party	14,811	-
Others	525	14,792
Gain on Disposal of Property, Plant & Equipment	(731)	17,287
Gain on Disposal of Investments in Financial and Other Institutions	-	3,793
Amortization of Deferred Grant	940	929
Reversal of Post Employment Benefit Plan Cost	1,736,376	-
Miscellaneous Income	1,167,339	939,218
Total Other Income	<u>2,919,260</u>	<u>976,019</u>

Miscellaneous Income includes amortization gain of Rs.0. 964 Mn (2012- Nil) on Debentures in Sri Lanka Savings Bank Ltd, received on 03 December 2012 in part settlement of refinance loans obtained by the Mercantile Credit Limited from the Bank (Note 12) and Rs. 5.372 Mn (2012- Nil) of gain on amortization of PRGF Deposit of SDR 788,783 with IMF over remaining period of 05 years (Note 07).

34. PERSONNEL EXPENSES

	2013 Rs. 000	2012 Rs. 000
Wages and Salaries including EPF,ETF etc	3,138,445	2,860,792
Defined Contribution Plan Costs	447,626	426,622
Post Employee Defined Benefit Plan Costs	1,988,525	344,328
Impairment Loss due to reschedulement of Staff Loans	-	4,752
Total Personnel Expenses	<u>5,574,596</u>	<u>3,636,494</u>

35. ADMINISTRATION EXPENSES

	2013 Rs. 000	2012 Rs. 000
Repairs and Maintenance	692,701	575,873
Operating Expenses for Rueters, Bloomberg, SWIFT etc.	115,981	133,642
Travelling	109,846	87,628
Rental Expenses	5,309	8,015
Printing	30,740	30,999
Audit Fees	7,822	7,658
Remuneration to Members of the Monetary Board	1,020	900
Interest Subsidy on CBSL Provident Fund	433,842	147,174
Miscellaneous Expenses	599,787	386,406
Total Other Operating Expenses	<u>1,997,048</u>	<u>1,378,295</u>

36. TAXATION

Bank is not liable for the income tax as per the Inland Revenue (Amendment) Act No. 10 of 2006 section 7b (xvi) and the With Holding Tax paid by the Bank is treated as the final tax paid to Inland Revenue Department (IRD). From 2013 Bank is not liable to pay Economic Service Charge.

As per the Inland Revenue (Amendment) Act, No. 10 of 2007, dividend or interest will be liable to 10% withholding tax at the time of payment or crediting. The withholding tax on the interest income on the Government Securities is based on the weighted average yield rate of the closest primary auction adjusted to the days to maturity.

During the period an amount of Rs. 1,986.217 Mn (2012 – Rs. 2,405.694 Mn) was expensed in relation to such withholding tax, payable on interest income of Rs. 13,897.078 Mn (2012 – Rs. 25,441.705 Mn) & dividend income of Rs. 15.336 Mn (2012 – Rs. 14.792 Mn). In addition, the Bank paid Economic Service Charge amounting to Rs. 30 Mn during the year of 2013 (2012 – Rs. 120 Mn).

41. CONCENTRATIONS OF FUNDING

The Bank's significant end-of-year concentrations of funding were as follows.

As at 31 December 2013	Total Rs. 000	Sri Lanka Government Rs. 000	Sri Lanka Public Rs. 000	Sri Lanka Commercial Banks Rs. 000	Supranational Financial Institutions Rs. 000	Other Rs. 000
Foreign Currency Financial Liabilities						
Banks and Financial Institutions	21,504,196	-	-	-	693,218	20,810,978
Derivative Financial Instruments	16,183,282	-	-	15,003,873	-	1,179,409
Asian Clearing Union	37,301,553	-	-	-	-	37,301,553
IMF	422,032,012	-	-	-	422,032,012	-
Other	47,221,119	44,709,894	-	1,784,046	685,825	41,354
Total Foreign Currency Financial Liabilities	544,242,162	44,709,894	-	16,787,919	423,411,055	59,333,294
Local Currency Financial Liabilities						
Deposits of Banks and Financial Institutions	148,809,893	-	-	148,805,736	-	4,157
Deposits of Government and Government Entities	416,230	416,176	54	-	-	-
Securities Sold Under Repurchase Agreements	84,601,000	-	-	84,601,000	-	-
Balances of Employee Benefit Plans	2,419,087	-	-	-	-	2,419,087
Other Payables	5,659,719	24,834	-	182,000	-	5,452,885
Total Local Currency Financial Liabilities	241,905,929	441,010	54	233,588,736	-	7,876,129
Total Financial Liabilities	786,148,091	45,150,904	54	250,376,655	423,411,055	67,209,423
Other Liabilities						
Currency in Circulation	339,770,981	-	339,770,981	-	-	-
Deferred Grants	1,449	-	-	-	-	1,449
Pension and Other Post - Employment Benefit Plans	4,936,339	-	-	-	-	4,936,339
Miscellaneous Liabilities and Accruals	243,455	22,602	-	-	-	220,853
Total Other Liabilities	344,952,224	22,602	339,770,981	-	-	5,158,641
Total Liabilities	1,131,100,315	45,173,506	339,771,035	250,376,655	423,411,055	72,368,064
Comparative Figures as at 31 December 2012 are as follows;						
As at 31 December 2012	Total Rs. 000	Sri Lanka Govern- ment Rs. 000	Sri Lanka Public Rs. 000	Sri Lanka Commercial Banks Rs. 000	Supranational Financial Institutions Rs. 000	Other Rs. 000
Foreign Currency Financial Liabilities						
Banks and Financial Institutions	2,619,847	-	-	-	839,009	1,780,838
Derivative Financial Instruments	3,257,119	-	-	3,207,000	-	50,119
Asian Clearing Union	28,953,955	-	-	-	-	28,953,955
IMF	467,642,196	-	-	-	467,642,196	-
Other	64,520,662	62,381,490	-	1,547,781	551,034	40,357
Total Foreign Currency Financial Liabilities	566,993,779	62,381,490	-	4,754,781	469,032,239	30,825,269
Local Currency Financial Liabilities						
Deposits of Banks and Financial Institutions	166,288,378	-	-	166,252,528	-	35,850
Deposits of Government and Government Entities	699,628	698,965	663	-	-	-
Securities Sold Under Repurchase Agreements	7,015,000	-	-	7,015,000	-	-
Balances of Employee Benefit Plans	1,341,268	-	-	-	-	1,341,268
Other Payable	31,934,646	31,168	-	182,000	-	31,721,478
Total Local Currency Financial Liabilities	207,278,920	730,133	663	173,449,528	-	33,098,596
Total Financial Liabilities	774,272,699	63,111,623	663	178,204,309	469,032,239	63,923,865
Other Liabilities						
Currency in Circulation	318,060,142	-	318,060,142	-	-	-
Deferred Grants	2,389	-	-	-	-	2,389
Pension and Other Post Employment Benefit Plans	3,832,688	-	-	-	-	3,832,688
Miscellaneous Liabilities and Accruals	143,916	14,172	-	-	-	129,744
Total Other Liabilities	322,039,135	14,172	318,060,142	-	-	3,964,821
Total Liabilities	1,096,311,834	63,125,795	318,060,805	178,204,309	469,032,239	67,888,686

42. RISK MANAGEMENT

The Central Bank together with the Monetary Board has two statutory objectives, i.e., economic and price stability and financial system stability and it has wide statutory powers to implement economic and financial policies to secure its objectives. Therefore, the effectiveness of the risk management or performance of the Bank cannot be measured by the amount of its profit as the Bank has policy-making powers to acquire financial assets by printing money and to influence interest rates, exchange rate and credit. Therefore, the profit or loss is only a neutral financial outcome of the activities of the Bank and its operations and policies are not geared at profit. However, in the course of carrying out its functions, the Bank is faced with risks such as reputational risks, financial risks and operational risks. The Bank's management seeks to ensure that strong and effective risk management and control systems are in place for assessing, monitoring and managing risk exposure.

The Monetary Board is ultimately responsible for identifying and controlling risks. The Board has delegated this task to several committees and units/departments to ensure effective management and controlling of risk takes place.

The high level Risk Management Committee, chaired by the Governor comprises all Deputy Governors, Assistant Governors and heads of key departments involved in the risk management function. The Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible to ensure that mechanisms are in place to identify potential risks and to take appropriate actions to mitigate such risks. The Committee also seeks to ensure that all necessary internal controls are in place and the risks related to the automated systems used by the Bank, such as the Real-Time Gross Settlement System (RTGS), the Script less Securities Settlement System (SSS), the General Ledger System and the Treasury Dealing Room Management System (TDRMS) are controlled.

The reputational risks mainly arise from the Bank's policy-making functions in the event such policies are not effective enough to yield benefits to the economy or the general public. For example, its reputation risks are high during the times of high inflation or failures of financial institutions under its regulation. The Bank provides human and other resources to the departments responsible for economic and financial policies to ensure that the policies are implemented effectively and such policies are communicated adequately.

The main financial risks to which the Central Bank is exposed to are credit risk, foreign exchange risk and interest rate risk. A significant proportion of these risks arise from the management of foreign reserves of the Bank. The International Operations Department (IOD)

of the Bank manages the foreign currency portfolio. The Middle Office of the IOD is responsible for the monitoring and management of financial risks relating to the Banks' foreign assets portfolio.

The Foreign Reserves Management Committee appointed by the Monetary Board has the responsibility for ensuring that the foreign reserves management function is carried out effectively and efficiently. All policy measures including those in relation to risk management is considered by the Committee and recommended to the Monetary Board for adoption. A comprehensive set of guidelines incorporating risk mitigation policies have been issued to the dealers involved in the reserves management function.

A Counterparty Credit Risk Management System is used by the IOD to manage the credit risk of the foreign assets portfolio based on the credit ratings of the investments and the counterparties. Interest rate risk or the exposure of the Bank's foreign assets portfolio to movements in the interest rate is managed through the appropriate adjustments of the duration of the portfolio. The foreign exchange risk or the capital loss as a consequence of fluctuations in the exchange rates is managed mainly through diversification of investment currencies. In the management of foreign reserves, minimizing liquidity risk is the prime consideration in order to maintain an effective foreign exchange intervention capability. Policies for managing the credit, interest rate, foreign exchange and liquidity risks are outlined in sections 42.1, 42.2, 42.3 & 42.4, respectively.

The internal controls and the risk management processes are audited annually by the Internal Audit Department (IAD) of the Bank. It examines the adequacy of the procedures and the Bank's compliance with the procedures. All departments are subject to periodic internal audit review. The IAD reports directly to the Governor and reports its findings and recommendations to the Audit Committee.

The Audit Committee chaired by a Monetary Board member, oversees the auditing arrangements by the IAD as well as the external auditors. The Committee reviews the internal audit function and has direct access to the external auditor. The primary functions of the Audit Committee is to advise and assist the Monetary Board in managing an internationally acceptable financial reporting system, in order to provide accurate, appropriate and timely information to the general public. The Committee reports to the Monetary Board on its activities on a regular basis.

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

42.1 Credit Risk

(a) The Bank's significant end-of-year concentrations of credit exposure by geographical area (based on the entity's country of ownership) were as follows:

Concentrations of credit Exposure by geographical area	2013 Rs. 000	2012 Rs. 000
Sri Lanka	140,373,807	299,357,182
USA	213,281,074	307,264,213
Japan	78,023,705	98,907,157
Britain	139,059,208	145,154,489
Europe	117,118,354	101,744,534
Supranational	196,757,857	140,089,264
Other	218,513,810	89,393,860
Total Financial Assets	1,103,127,815	1,181,910,699

(b) Concentrations of Credit Exposure

The Bank's significant end-of-year concentrations of credit exposure by Institution type were as follows:

	2013 Rs. 000	2012 Rs. 000
Governments	638,446,787	916,429,708
Supranational Financial Institutions	196,757,857	140,089,264
Foreign Banks and Financial Institutions	255,318,467	116,674,935
Sri Lanka Banks & Financial Institutions	7,731,366	4,235,915
Other	4,873,338	4,480,877
Total Financial Assets	1,103,127,815	1,181,910,699

(c) Credit Exposure by Credit Rating

The following table presents the credit ratings of respective financial assets or issuers, based on the ratings of Standard and Poor's, Fitch Ratings and Moody's 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 para meters, ratings lower than AAA can be modified by + or - signs to indicate relative standing within the major categories. NR indicates Standard and Poor's have not rated the entity, Moody's or Fitch.

Credit Exposure by Credit Rating**Cash & Cash Equivalents**

Federal Reserve Bank - USA/Reserve Bank of Australia/Bank for International Settlements/Bank of Japan/Deutsche Bundesbank/Bank of England/SRB/BC/RBNZ

Credit Rating	2013 Rs.000	%	2012 Rs.000	%
	226,880,575	20.57%	192,558,429	16.29%
AA	-	0.00%	284,060	0.02%
AA-	118,832,685	10.77%	26,457,182	2.24%
A+	79,727,931	7.23%	15,875,460	1.34%
A	95,905	0.01%	157	0.00%
BBB+	31,729	0.00%	29,561	0.00%
NR	107,938	0.01%	73,284	0.02%
	425,676,763	38.59%	235,278,133	19.91%
	235,865	0.02%	-	-
AAA	164,474,689	14.91%	297,153,071	25.14%
AA+	171,570,378	15.55%	196,972,123	16.67%
AA-	20,121,914	1.82%	10,347,101	0.88%
A+	17,281,309	1.57%	19,184,259	1.62%
A	3,624,296	0.33%	-	0.00%
A-	3,692,426	0.33%	-	0.00%
BBB+	1,233,964	0.11%	-	0.00%
NR	49,461,563	4.48%	17,621,979	1.49%
	431,696,404	39.13%	541,278,533	45.80%

Foreign Currency Trading/ Available for Sale Securities

Federal Reserve Bank - USA/Reserve Bank of Australia/Bank for International Settlements/ Bank of Japan/Deutsche Bundesbank/Bank of England/SRB/BC/RBNZ

Securities at Fair Value Through Profit & Loss	AA-	19,972,714	1.81%	14,795,761	1.25%
		19,972,714	1.81%	14,795,761	1.25%
Derivative Financial Instruments					
Federal Reserve Bank - USA/Reserve Bank of Australia/Bank for International Settlements/ Bank of Japan /Deutsche Bundesbank/Bank of England /SRB/BC/RBNZ		-	0.00%	0	0.01%
	AA-	6,773	0.00%	-	-
	NR	-	0.00%	1,605,296	0.15%
Locally Rated	AAA	3,103,634	0.28%	1,064,600	0.09%
	AA+	260,648	0.02%	37,250	0.00%
	AA	866,706	0.08%	630,600	0.05%
	AA-	1,029,765	0.09%	599,325	0.05%
	A	-	0.00%	52,630	0.00%
	A-	325,982	0.00%	-	-
	BBB	76,750	0.00%	-	-
		5,670,258	0.48%	3,989,701	0.34%
IMF Related Assets	AAA	85,400,764	7.74%	81,352,282	6.88%
		85,400,764	7.74%	81,352,282	6.88%
Other Receivables	AAA	590	0.00%	600	0.00%
	AA+	-	-	-	0.00%
	AA	-	0.00%	46,231	0.00%
	A+	-	-	-	0.00%
	BBB	-	0.00%	2,529,308	0.21%
	B+	1	0.00%	-	0.00%
	NR	-	0.49%	5,667,373	0.49%
		591	0.00%	8,243,512	0.70%
Total Foreign Currency Financial Assets		968,417,494	87.79%	884,937,922	74.87%
Local Currency Financial Assets					
Sri Lanka Government Securities	B+	15,853,513	1.44%	175,251,772	14.83%
Provisional Advances to Government	B+	109,167,071	9.90%	111,291,843	9.42%
Loans to Banks	AA+	1,350,298	0.12%	1,756,213	0.15%
	AA-	17,795	0.00%	62,921	0.01%
	A-	6,213	0.00%	23,572	0.00%
	BBB+	-	0.00%	1	0.00%
	BB+	-	0.00%	440	0.00%
	NR	1,090	0.00%	1,090	0.00%
Other Receivable	B+	1,398,221	0.13%	2,501,728	0.21%
	NR	431,491	0.04%	468,371	0.04%
Equity Investments in Financial and Other Institutions	NR	41,095	0.00%	41,095	0.00%
Other Assets	B+	6,435,297	0.58%	1,794,642	0.15%
	NR	8,237	0.00%	3,779,089	0.32%
Total Local Currency Financial Assets		134,710,321	12.21%	296,972,777	25.13%
Total Financial Assets		1,103,127,815	100.00%	1,181,910,699	100.00%

42.1 Credit Risk (Continued)					
(d) Summary by Major Credit Category					
	Credit Rating	2013 Rs.000	%	2012 Rs.000	%
Foreign Currency Financial Assets					
Federal Reserve Bank - USA/Reserve Bank of Australia/Bank for International Settlements/ Bank of Japan /Deutsche Bundesbank/Bank of England /SRB/BC/RBNZ					
		227,116,440	20.59%	192,558,429	16.29%
IMF Related Assets		85,401,354	7.74%	81,352,282	6.88%
	AAA	164,474,689	14.91%	297,153,671	25.14%
	AA+/-	330,504,464	29.96%	234,106,698	19.81%
	A+/-	104,421,867	9.47%	49,855,636	4.22%
	BBB+/-	1,265,693	0.11%	2,558,869	0.22%
	B+/-	1	0.00%	-	0.00%
	NR	49,569,501	4.49%	24,967,932	2.12%
Locally Rated	AAA	3,103,634	0.28%	1,064,600	0.09%
	AA+	260,648	0.02%	37,250	0.00%
	AA	866,706	0.08%	630,600	0.05%
	AA-	1,029,765	0.09%	599,325	0.05%
	A	-	0.00%	52,630	0.00%
	A-	325,982	0.00%	-	0.00%
	BBB	76,750	0.00%	-	0.00%
Total Foreign Currency Financial Assets		968,417,494	87.75%	884,937,922	74.87%
Local Currency Financial Assets					
	AA+	1,350,298	0.12%	1,756,213	0.15%
	AA-	17,795	0.00%	62,921	0.01%
	A-	6,213	0.00%	23,572	0.00%
	BBB+	-	0.00%	1	0.00%
	BB+	-	0.00%	440	0.00%
	B+	132,854,102	12.04%	290,839,985	24.61%
	NR	481,913	0.04%	4,289,645	0.36%
Total Local Currency Financial Assets		134,710,321	12.21%	296,972,777	25.13%
Total Financial Assets		1,103,127,815	100.00%	1,181,910,699	100.00%

42.2 Interest Rate Risk

(a) Foreign Currency Interest Rate Sensitivity

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

The interest rate sensitivity of the Fixed Income Securities portfolio measured by the potential loss incurred due to a rise in interest rate by 10 basis points is another risk measure used by the Bank. Sensitivity of the risk exposure of the segmented Fixed Income Securities Portfolio is given below.

Portfolio Segment	Potential Loss (USD Mn)	
	2013	2012
Trading	3.11	7.1
Available for Sale	11.69	16.54
Total	14.80	23.64

The Middle Office of International Operation Department 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 the interest rates on the foreign assets portfolio, CBSL 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 given 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 Bank. As a general practice the upper limit for foreign exchange reserve holdings of Central Banks is specified around 2.5(overall), while it could vary downward depending on the market outlook and risk appetite of the Central Bank. By maintaining the MD within the upper limits set by the Bank, the interest rate risk and the duration risk of the foreign asset portfolio is managed. The MDs of the foreign assets portfolio, are tabulated below:

Modified Duration

Investment Segment	Modified Duration	
	2013	2012
Money Market (Fixed and call deposits)	-	0.01
Capital Market (Fixed Income Securities)	4.64	5.55
Overall	-	3.58

ii) Since the modified duration 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, divided by the security's prices. A security exhibits positive convexity when its price rise more for a downward move in its yield than its price decline for an equal upward move in its yield.

Convexity of the segmented Fixed Income Securities portfolio

Portfolio Segment	Potential Loss (US\$ Mn)	
	2013	2012
Trading	0.42	0.45
Available for Sale	0.32	0.42
Total	0.34	0.43

iii) Value at Risk

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.

Loss: VaR gives us a number, in terms of money, which can be aggregated across risks and positions.

Probability: If there is a 5% probability of actual losses being greater than VaR, losses will exceed VaR only on 5 out of 100 'normal' trading days. This means that, VaR is the smallest amount that could be lost on those 5 days. It does not measure the worst possible loss, because that is not calculable.

Target Horizon: Should correspond to the longest period needed for orderly portfolio liquidation. Thus, Portfolio is frozen for the horizon. From the various methods of calculating VaR for a portfolio, the Bank uses Montecarlo simulation method to calculate VaR number for 2 weeks period at 99% confidence interval. This strategy was implemented by the Bank from March 2011.

Portfolio Segment	Value at Risk (VaR) US\$ Mn	
	2013	2012
Trading	10.78	17.01
Available for Sale	37.20	36.62
Total	47.98	53.63

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 local Treasury bills portfolio is recorded in the Statement of Financial Position of the CBSL at amortized cost as it represents loans provided to the Government of Sri Lanka. This portfolio is not an investment portfolio, as the Bank does not purchase Treasury bills with the intention of earning an interest income. The Bank purchases or sells Treasury bills 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, namely maintaining economic and price stability. Hence, the volume of Treasury Bills in the Bank's portfolio is determined by its monetary policy operations. In addition, the basic interest rates in the rupee market, namely, the Repo rate and the Reverse Repo rate are policy rates determined by the Bank in the course of implementing its monetary policy. Moreover, the Banks 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 Treasury Bill portfolio, which arise from changes in the volume of the Bank's Treasury Bill portfolio, as well as changes in interest rates, are primarily a consequence of the Bank's monetary policy actions, rather than due to investment decisions. Therefore, the Bank does not consider interest rate sensitivities arising from local currency assets.

42.2 Interest Rate Risk (Continued)							
(c) Assets and liabilities will mature or re-price within the following Periods							
Foreign Currency Interest Rate Sensitivity Gap:	Weighted Avg. Int. Rate %	2013 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	0.76	425,676,763	425,676,763	-	-	-	-
Securities at Fair Value through Profit and Loss and Available for Sale Investments	2.19	431,696,404	12,292,861	23,856,111	63,591,175	121,712,081	210,244,176
IMF related assets	0.12	11,668,079	11,668,079	-	-	-	-
Total Interest Sensitive Foreign Currency Financial Assets		869,041,246	449,637,703	23,856,111	63,591,175	121,712,081	210,244,176
Non Interest Sensitive Foreign Currency Financial Assets							
IMF Related assets		73,732,685	-	-	-	128,430	73,604,255
Derivative Financial Instruments		5,670,258	5,670,258	-	-	-	-
Receivables		591	591	-	-	-	-
Securities at Fair Value through Profit and Loss		19,972,714	19,972,714	-	-	-	-
Total non Interest Sensitive Foreign Currency Financial Assets		99,376,248	25,643,563	-	-	128,430	73,604,255
Total Foreign Currency Financial Assets		968,417,494	475,281,266	23,856,111	63,591,175	121,840,511	283,848,431
Interest Sensitive Foreign Currency Financial Liabilities							
IMF	0.0000	268,796,339	45,088,418	50,290,928	72,835,137	100,581,856	-
Asian Clearing Union	0.07	37,301,553	37,301,553	-	-	-	-
Total Interest Sensitive Foreign Currency Financial Liabilities		306,097,892	82,389,971	50,290,928	72,835,137	100,581,856	-
Non Interest Sensitive Foreign Currency Financial Liabilities							
Banks and Financial Institutions		21,504,196	21,504,196	-	-	-	-
Derivative Financial Instruments		16,183,282	16,183,282	-	-	-	-
IMF		153,235,673	-	-	-	-	153,235,673
Commercial Banks' Capital in Foreign Currency		1,784,046	-	-	-	-	1,784,046
Other Foreign Liabilities		45,437,073	45,437,073	-	-	-	-
Total non Interest Sensitive Foreign Currency Financial Liabilities		238,144,270	83,124,551	-	-	-	155,019,719
Total Foreign Currency Financial Liabilities		544,242,162	165,514,522	50,290,928	72,835,137	100,581,856	155,019,719
Foreign Currency Interest Rate Sensitivity Gap		562,943,354	367,247,732	(26,434,817)	(9,243,962)	21,130,225	210,244,176

42.2 Interest Rate Risk (Continued)							
	Weighted Avg. Int. Rate %	2013 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	9.36	2,923,513	2,923,513	-	-	-	-
Treasury Bills and Bond Reverse Repo	8.50	12,930,000	12,930,000	-	-	-	-
Loans to Banks	7.52	1,375,396	378,840	361,206	513,530	121,820	-
Other assets - Staff Loans	4.18	4,400,751	45,406	46,435	96,054	315,483	3,897,373
- Others	7.65	2,042,783	779,988	60,760	369,112	832,923	-
Total Interest Sensitive Local Currency Financial Assets		23,672,443	17,057,747	468,401	978,696	1,270,226	3,897,373
Non Interest Sensitive Local Currency Assets							
Provisional Advances to Government		109,167,071	109,167,071	-	-	-	-
Other Receivables		1,829,712	1,829,712	-	-	-	-
Investment in Equity Securities - Available for Sale		41,095	-	-	-	-	41,095
Total non Interest Sensitive Local Currency Assets		111,037,878	110,996,783	-	-	-	41,095
Total Local Currency Assets		134,710,321	128,054,530	468,401	978,696	1,270,226	3,938,468
Interest Sensitive Local Currency Financial Liabilities							
Securities sold under Repurchase Agreements	7.25	84,601,000	84,601,000	-	-	-	-
Total Interest Sensitive Local Currency Financial Liabilities		84,601,000	84,601,000	-	-	-	-
Non Interest Sensitive Local Currency Liabilities							
Deposits of Banks and Financial Institutions		148,809,893	148,809,893	-	-	-	-
Deposits of Government and Government Entities		416,230	416,230	-	-	-	-
Balances of Employee Benefit Plans		2,419,087	2,419,087	-	-	-	-
Other Payables		5,659,719	5,659,719	-	-	-	-
Total Non Interest Sensitive Local Currency Financial Liabilities		157,304,929	157,304,929	-	-	-	-
Total Local Currency Financial Liabilities		241,905,929	241,905,929	-	-	-	-
Local Currency Interest Rate Sensitivity Gap		(60,928,557)	(67,543,253)	468,401	978,696	1,270,226	3,897,373

42.2 Interest Rate Risk (Continued)							
(c) Assets and liabilities will mature or re- price within the following periods							
Comparative figures as at 31 December 2012 were as follows							
Foreign Currency Interest Rate Sensitivity Gap:	Weighted Avg. Int. Rate %	2012 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	0.59	235,278,133	235,278,133	-	-	-	-
Securities at Fair Value through Profit and Loss and Available for Sale Investments	1.32	541,278,533	8,317,820	13,352,336	30,504,343	182,321,351	306,782,683
IMF related assets	0.02	9,837,987	9,837,987	-	-	-	-
Total Interest Sensitive Foreign Currency Financial Assets		786,394,653	253,433,940	13,352,336	30,504,343	182,321,351	306,782,683
Non Interest Sensitive Foreign Currency Financial Assets							
IMF Related assets		71,514,295	-	-	-	-	71,514,295
Derivative Financial Instruments		3,989,701	3,989,701	-	-	-	-
Receivables		8,243,512	8,243,512	-	-	-	-
Securities at Fair Value through Profit and Loss		14,795,761	14,795,761	-	-	-	-
Total non Interest Sensitive Foreign Currency Financial Assets		98,543,269	27,028,974	-	-	-	71,514,295
Total Foreign Currency Financial Assets		884,937,922	280,462,914	13,352,336	30,504,343	182,321,351	378,296,978
Interest Sensitive Foreign Currency Financial Liabilities							
IMF	0.0023	319,006,144	21,271,614	37,006,552	92,516,379	168,211,599	-
Asian Clearing Union	0.17	28,953,955	28,953,955	-	-	-	-
Total Interest Sensitive Foreign Currency Financial Liabilities		347,960,099	50,225,569	37,006,552	92,516,379	168,211,599	-
Non Interest Sensitive Foreign Currency Financial Liabilities							
Banks and Financial Institutions		2,619,847	2,619,847	-	-	-	-
Derivative Financial Instruments		3,257,119	3,257,119	-	-	-	-
IMF		148,636,052	-	-	-	-	148,636,052
Commercial Banks' Capital in Foreign Currency		1,547,781	-	-	-	-	1,547,781
Other Foreign Liabilities		62,972,881	62,972,881	-	-	-	-
Total Non Interest Sensitive Foreign Currency Financial Liabilities		219,033,680	68,849,847	-	-	-	150,183,833
Total Foreign Currency Financial Liabilities		566,993,779	119,075,416	37,006,552	92,516,379	168,211,599	150,183,833
Foreign Currency Interest Rate Sensitivity Gap		438,434,554	203,208,371	(23,654,216)	(62,012,036)	14,109,752	306,782,683

42.2 Interest Rate Risk (Continued)

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

Comparative figures as at 31 December 2012 were as follows;

	Weighted Avg. Int. Rate %	2012 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	11.95	148,672,772	138,508,882	10,163,890	-	-	-
Treasury Bills and Bond Reverse Repo	9.50	26,579,000	26,579,000	-	-	-	-
Loans to Banks	7.27	1,844,237	387,906	358,126	665,457	432,748	-
Other Assets - Staff Loan	4.00	3,767,064	67,431	68,566	140,707	452,432	3,037,928
- Other	7.32	1,806,667	240,892	77,207	596,426	884,869	7,273
Total Interest Sensitive Local Currency Financial Assets		182,669,740	165,784,111	10,667,789	1,402,590	1,770,049	3,045,201
Non Interest Sensitive Local Currency Assets							
Provisional Advances to Government		111,291,843	111,291,843	-	-	-	-
Other Receivables		2,970,099	2,970,099	-	-	-	-
Investment in Equity Securities - Available for Sale		41,095	-	-	-	-	41,095
Total non Interest Sensitive Local Currency Assets		114,303,037	114,261,942	-	-	-	41,095
Total Local Currency Assets		296,972,777	280,046,053	10,667,789	1,402,590	1,770,049	3,086,296
Interest Sensitive Local Currency Financial Liabilities							
Securities sold under Repurchase Agreements	7.50	7,015,000	7,015,000	-	-	-	-
Total Interest Sensitive Local Currency Financial Liabilities		7,015,000	7,015,000	-	-	-	-
Non Interest Sensitive Local Currency Liabilities							
Deposits of Banks and Financial Institutions		166,288,378	166,288,378	-	-	-	-
Deposits of Government and Government Entities		699,628	699,628	-	-	-	-
Balances of Employee Benefit Plans		1,341,268	1,341,268	-	-	-	-
Other Payables		31,934,646	31,934,646	-	-	-	-
Total non Interest Sensitive Local Currency Financial Liabilities		200,263,920	200,263,920	-	-	-	-
Total Local Currency Financial Liabilities		207,278,920	207,278,920	-	-	-	-
Local Currency Interest Rate Sensitivity Gap		175,654,740	158,769,111	10,667,789	1,402,590	1,770,049	3,045,201

42.3 Foreign Currency Risk

Foreign currency activities result mainly from the Bank's holding of foreign currency assets under its foreign reserves management function. Volatility of the foreign exchange markets may expose the Bank to exchange risk. The Monetary Board and Foreign Reserves Management Committee (FRMC) have set percentage holdings of different currencies in its International

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

Net Exposure to Foreign Currencies

As at 31 December 2013, the Central Bank of Sri Lanka's net exposure to major currencies was as follows.

As at 31 December 2013	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	Other Currencies Rs. 000	
Foreign Currency Financial Assets								
Cash & Cash Equivalents	(55,000,132)	(1,747,078)	56,010,411	(16,772,840)	-	123,785,851	319,400,551	425,676,763
Securities at Fair Value through Profit and Loss and Available for Sale Investments	180,357,566	70,242,132	25,488,744	75,000,363	-	77,770,996	22,809,317	451,669,118
Derivative Financial Instruments	6,773	-	-	-	-	-	5,663,485	5,670,258
IMF Related Assets	-	-	-	-	85,400,764	-	-	85,400,764
Other Receivables	-	-	1	-	590	-	-	591
Total Foreign Currency Financial Assets	125,364,207	68,495,054	81,499,156	58,227,523	85,401,354	201,556,847	347,873,353	968,417,494
Proportion	13%	7%	8%	6%	9%	21%	36%	100%
Foreign Currency Financial Liabilities								
Banks and Financial Institutions	29,115	9,051,040	2,478,696	2,397	608,315	9,334,633	-	21,504,196
Derivative Financial Instruments	1,179,409	-	-	-	-	-	15,003,873	16,183,282
Asian Clearing Union	37,156,289	145,264	-	-	-	-	-	37,301,553
IMF	-	-	-	-	422,032,012	-	-	422,032,012
Other	46,530,204	-	-	-	-	-	690,915	47,221,119
Total Foreign Currency Financial Liabilities	84,895,017	9,196,304	2,478,696	2,397	422,640,327	9,334,633	15,694,788	544,242,162
Proportion	16%	2%	0	0	78%	2%	0	100%
Net Foreign Currency Exposure	40,469,190	59,298,750	79,020,460	58,225,126	(337,238,973)	192,222,214	332,178,565	424,175,332

Cash & Cash Equivalents include the foreign transactions entered into for buying and selling of various currencies 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 2013	Sri Lanka Rupees Rs. 000	United States Dollars Rs. 000	Euro Rs. 000	Sterling Pound Rs. 000	Japanese Yen Rs. 000	Australian Dollars Rs. 000
Purchases	314,641,828	55,095,905	-	-	-	-
Sales	(2,411,633)	(312,230,195)	(25,277,612)	(29,818,293)	-	-
As at 31 December 2012						
Purchases	209,694,909	14,188,614	-	2,060,425	1,267,999	16,313,617
Sales	(4,333,349)	(214,670,483)	-	(14,407,127)	-	(10,114,605)

42.3 Foreign Currency Risk (Continued)

As at 31 December 2012, the Central Bank of Sri Lanka's net exposure to major currencies was as follows.

As at 31 December 2012	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	Other Currencies Rs. 000	
Foreign Currency Financial Assets								
Cash & Cash Equivalents	114,524,648	7,020,467	68,061,818	3,294,152	-	40,866,045	1,511,003	235,278,133
Securities at Fair Value through Profit and Loss and Available for Sale Investments	242,692,634	69,668,432	33,212,068	125,259,746	-	70,515,587	14,725,827	556,074,294
Derivative Financial Instruments	1,605,296	-	-	-	-	-	2,384,405	3,989,701
IMF Related Assets	-	-	-	-	81,352,282	-	-	81,352,282
Other Foreign Receivables	2,529,308	3,613,310	-	2,100,294	600	-	-	8,243,512
Total Foreign Currency Financial Assets	361,351,886	80,302,209	101,273,886	130,654,192	81,352,882	111,381,632	18,621,235	884,937,922
Proportion	41%	9%	11%	15%	9%	13%	2%	100%
Foreign Currency Financial Liabilities								
Banks and Financial Institutions	958,779	172,754	1,485,866	2,093	-	355	-	2,619,847
Derivative Financial Instruments	43,937	-	-	-	-	6,182	3,207,000	3,257,119
Asian Clearing Union	28,943,027	10,928	-	-	-	-	-	28,953,955
IMF	-	-	-	-	467,642,196	-	-	467,642,196
Other	64,520,662	-	-	-	-	-	-	64,520,662
Total Foreign Currency Financial Liabilities	94,466,405	183,682	1,485,866	2,093	467,642,196	6,537	3,207,000	566,993,779
Proportion	17%	0%	0%	0%	82%	0%	0%	100%
Net Foreign Currency Exposure	266,885,481	80,118,527	99,788,020	130,652,099	(386,289,314)	111,375,095	15,414,235	317,944,143

42.4 Contractual maturities of un-discounted cash flows of Financial Assets and Liabilities						
As at 31 December 2013	Less than 6 months	6 Month -1 Yr	1-2 Yrs	2-5 Yrs	Over 5 Yrs	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Foreign Currency Financial Assets						
Cash & Cash Equivalents	425,676,763	-	-	-	-	425,676,763
Securities at Fair Value through Profit and Loss	104,105,563	-	-	-	-	104,105,563
Available for Sale Investments	12,929,296	20,413,029	67,917,803	136,130,521	161,748,684	399,139,332
IMF Related Assets	11,668,079	-	-	128,430	73,604,255	85,400,764
Other Receivables	591	-	-	-	-	591
Total un-discounted Foreign Financial Assets	554,380,292	20,413,029	67,917,803	136,258,951	235,352,939	1,014,323,013
Local Currency Financial Assets						
Sri Lanka Government Securities	15,985,640	-	-	-	-	15,985,640
Provisional Advances to Government	109,167,071	-	-	-	-	109,167,071
Loans to Banks	429,931	399,568	552,877	144,913	-	1,527,289
Other Receivables	1,829,712	-	-	-	-	1,829,712
Equity Investments in Financial and Other Institutions	-	-	-	-	41,095	41,095
Other Assets	721,285	92,126	555,410	1,270,660	3,910,923	6,550,404
Total un-discounted Local Financial Assets	128,133,639	491,695	1,108,287	1,415,573	3,952,018	135,101,211
Total un-discounted Financial Assets	682,513,931	20,904,724	69,026,090	137,674,524	239,304,957	1,149,424,225
Foreign Financial Liabilities						
Banks and Financial Institutions	23,181,098	1,281,220	1,806,400	1,249,856	1,038,652	28,557,225
Asian Clearing Union	37,301,553	-	-	-	-	37,301,553
IMF	45,088,418	50,290,928	72,835,137	100,581,856	153,235,672	422,032,012
Other	-	-	-	-	1,784,046	1,784,046
Total un-discounted Foreign Financial Liabilities	105,571,069	51,572,148	74,641,537	101,831,712	156,058,369	489,674,836
Local Currency Financial Liabilities						
Deposits of Banks and Financial Institutions	148,809,893	-	-	-	-	148,809,893
Deposits of Government and Governmental Entities	416,230	-	-	-	-	416,230
Securities Sold Under Repurchase Agreements	84,601,000	-	-	-	-	84,601,000
Balances of Employee Benefit Plans	2,419,087	-	-	-	-	2,419,087
Other Payables	5,659,719	-	-	-	-	5,659,719
Total un-discounted Local Financial Liabilities	241,905,929	-	-	-	-	241,905,929
Total un-discounted Financial Liabilities	347,476,998	51,572,148	74,641,537	101,831,712	156,058,369	731,580,765
Net un-discounted Financial Assets/ (Liabilities)	335,036,932	(30,667,424)	(5,615,447)	35,842,812	83,246,587	417,843,460
Foreign Currency Conversions						
	Less than 6 months	6 Month -1 Yr				
As at 31 December 2013	Rs. 000	Rs. 000				
Derivative Financial Assets	272,936,121	96,790,456				
Derivative Financial Liabilities	(270,565,621)	(92,955,576)				

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

42.5 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 & Treasury Bonds as collateral. It manages the daily liquidity position of the banking system by way of infusing or absorbing liquidity from the system, using instruments such as repo / reverse repo, CBSL securities & USD /LKR Swaps.

43. PENSION AND OTHER POST EMPLOYMENT BENEFIT PLANS

The Bank operates five defined benefit plans which cover all eligible employees. Under the Employees' Retirement Pension Scheme, employees who joined the Bank prior to 1 January 1998 and complete 10 years of service become eligible. The Pension Scheme is a non-contributory pension scheme 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. Employees eligible under these plans contribute 5% of the monthly basic salary, who were recruited before 1 August 1994 & 10% of monthly basic salary who were recruited on or after 01 August 1994.

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 Scheme. In order to meet this liability, a provision is carried forward in the Balance Sheet, 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 or their spouses and by widows/widowers.

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

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

The total fair value of plan assets of Rs.28,575.636 Mn (2012 – Rs. 26,122.416 Mn) fall short the total present value of all benefit obligations of Rs.33,511.975 Mn (2012 – Rs. 29,955.104 Mn) at the end of the reporting period resulting in a deficit of Rs. 4,936.339 Mn (2012 – Rs. 3,832.688 Mn).

2013

Benefit Liability/(Asset)	Employee Retirement Pension Scheme Rs. 000	Widows' and Orphans' Pension Scheme Rs. 000	Widowers' and Orphans' Pension Scheme Rs. 000	Gratuity Scheme Rs. 000	Medical Benefit Scheme Rs. 000	Total 2013 Rs. 000
Present Value of Benefit Obligation	26,890,798	4,012,787	659,706	184,040	1,764,644	33,511,975
Fair Value of Plan Assets	(21,381,994)	(4,504,946)	(1,394,026)	(105,787)	(1,188,883)	(28,575,636)
Unrecognised net Actuarial Gains /(Losses)	-	-	-	-	-	-
Benefit Liability/ (Asset) non-current	5,508,804	(492,159)	(734,320)	78,253	575,761	4,936,339

43.1 Pension and Other Post Employment Benefit Plans (Continued)						
Movement in the Benefit Liability /(Asset)	Employee Retirement Pension Scheme Rs. 000	Widows' and Orphans' Pension Scheme Rs. 000	Widowers' and Orphans' Pension Scheme Rs. 000	Gratuity Scheme Rs. 000	Medical Benefit Scheme Rs. 000	Total 2013 Rs. 000
At 1 January 2013	4,576,066	(650,436)	(646,013)	70,224	482,847	3,832,688
Benefit Expense	919,024	(65,044)	(64,601)	33,325	106,613	929,317
Amount recognized in Other Comprehensive Income	335,057	247,277	(14,080)	(5,586)	29,749	592,417
Contribution Paid	(321,343)	(23,956)	(9,626)	(19,710)	(43,448)	(418,083)
At 31 December 2013 - non-current	5,508,804	(492,159)	(734,320)	78,253	575,761	4,936,339
Benefit Expense	Employee Retirement Pension Scheme Rs. 000	Widows' and Orphans' Pension Scheme Rs. 000	Widowers' and Orphans' Pension Scheme Rs. 000	Gratuity Scheme Rs. 000	Medical Benefit Scheme Rs. 000	Total 2013 Rs. 000
Interest Cost on Benefit Obligation	457,606	(65,044)	(64,601)	7,022	48,285	383,268
Expected Return on Plan Assets	-	-	-	-	-	-
Net Actuarial (Gain) /Loss recognized during the year	-	-	-	-	-	-
Transitional Adjustment	-	-	-	-	-	-
Net Current Service Cost	461,418	-	-	26,303	58,328	546,049
Past Service Cost	-	-	-	-	-	-
Net Benefit Expense	919,024	(65,044)	(64,601)	33,325	106,613	929,317
Actual Return on Plan Assets	2,677,443	610,533	187,353	11,693	170,945	3,657,967
Actual Return on Plan Assets as a % of Average Balance	13.06%	14.19%	14.39%	12.9%	14.92%	13.38%
Excess of Interest Earned Over Benefit Paid	1,425,146	382,691	174,056	10,599	42,645	2,035,137
Expected Earning as per IAS 19 for Next Year	2,138,199	450,495	139,403	10,579	118,888	2,857,564
Expected Payout Next Year	1,223,134	249,140	25,319	7,303	135,485	1,640,381
Changes in Fair Value of Plan Assets	Employee Retirement Pension Scheme Rs. 000	Widows' and Orphans' Pension Scheme Rs. 000	Widowers' and Orphans' Pension Scheme Rs. 000	Gratuity Scheme Rs. 000	Medical Benefit Scheme Rs. 000	Total 2013 Rs. 000
Fair Value of Plan Assets at the beginning of the year	19,635,505	4,098,299	1,210,344	75,478	1,102,790	26,122,416
Actual Return on Plan Assets	2,677,443	610,533	187,353	11,693	170,945	3,657,967
Contribution Received	321,343	23,956	9,626	19,710	43,448	418,083
Benefits Paid	(1,252,297)	(227,842)	(13,297)	(1,094)	(128,300)	(1,622,830)
Fair value of Plan Assets at the end of the year	21,381,994	4,504,946	1,394,026	105,787	1,188,883	28,575,636
2012						
Benefit Liability/(Asset)	Employee Retirement Pension Scheme Rs. 000	Widows' and Orphans' Pension Scheme Rs. 000	Widowers' and Orphans' Pension Scheme Rs. 000	Gratuity Scheme Rs. 000	Medical Benefit Scheme Rs. 000	Total 2012 Rs. 000
Present Value of Benefit Obligation	24,211,571	3,447,863	564,331	145,702	1,585,637	29,955,104
Fair Value of Plan Assets	(19,635,505)	(4,098,299)	(1,210,344)	(75,478)	(1,102,790)	(26,122,416)
Benefit Liability/ (Asset) non-current	4,576,066	(650,436)	(646,013)	70,224	482,847	3,832,688

43.1 Pension and Other Post Employment Benefit Plans (Continued)						
Movement in the Benefit Liability/(Asset)	Employee Retirement Pension Scheme Rs. 000	Widows' and Orphans' Pension Scheme Rs. 000	Widowers' and Orphans' Pension Scheme Rs. 000	Gratuity Scheme Rs. 000	Medical Benefit Scheme Rs. 000	Total 2012 Rs. 000
At 1 January 2012	1,630,200	(2,015,903)	(773,683)	35,238	103,223	(1,020,925)
Benefit Expense	334,040	(201,591)	(77,369)	19,710	29,071	103,861
Contribution Paid	(398,608)	369,983	172,232	(14,362)	1,265	130,510
Amount recognized in Other Comprehensive Income	3,010,434	1,197,075	32,807	29,638	349,288	4,619,242
At 31 December 2012 - non-current	4,576,066	(650,436)	(646,013)	70,224	482,847	3,832,688
Benefit Expense	Employee Retirement Pension Scheme Rs. 000	Widows' and Orphans' Pension Scheme Rs. 000	Widowers' and Orphans' Pension Scheme Rs. 000	Gratuity Scheme Rs. 000	Medical Benefit Scheme Rs. 000	Total 2012 Rs. 000
Interest Cost on Benefit Obligation	1,63,020	(201,591)	(77,369)	3,524	10,322	(102,094)
Net Current Service Cost	171,020	-	-	16,186	18,749	205,955
Net Benefit Expense	334,040	(201,591)	(77,369)	19,710	29,071	103,861
Actual Return on Plan Assets	1,112,722	(46,328)	75,266	6,699	54,208	1,202,567
Changes in Fair Value of Plan Assets	Employee Retirement Pension Scheme Rs. 000	Widows' and Orphans' Pension Scheme Rs. 000	Widowers' and Orphans' Pension Scheme Rs. 000	Gratuity Scheme Rs. 000	Medical Benefit Scheme Rs. 000	Total 2012 Rs. 000
Fair Value of Plan Assets at the beginning of the year	19,281,669	4,724,335	1,320,757	54,417	1,177,086	26,558,264
Actual Return on Plan Assets	1,112,722	(46,328)	75,266	6,699	54,208	1,202,567
Contribution Received	398,608	(369,983)	(172,232)	14,362	(1,265)	(130,510)
Benefits Paid	(1,157,494)	(209,725)	(13,447)	-	(127,239)	(1,507,905)
Fair value of Plan Assets at the end of the year	19,635,505	4,098,299	1,210,344	75,478	1,102,790	26,122,416
The principal assumptions used in determining Employee Benefit Obligations for all the plans are shown below:						
	2013	2012				
Discount Rate	10.00%	10.00%				
Expected Rate of Return on Assets	10.00%	10.00%				
Future Salary Increases	8.50%	8.50%				
Future Pension Increases	7.50%	7.50%				
Average Remaining years of Service						
CBSL Pension	27 Years	27 Years				
W & OP Pension Scheme	27 Years	27 Years				
WR & OP Pension Scheme	27 Years	27 Years				
Gratuity Scheme	21 Years	21 Years				
CBSL Medical Benefit Scheme	31 Years	31 Years				
Retirement Age	60 years	60 years				

43.1 Pension and Other Post Employment Benefit Plans (Continued)

Pensions and other Post Employment Benefit Plans	2013					Total Rs. 000
	Pension Rs. 000	W&OP Rs. 000	WR&OP Rs. 000	Gratuity Rs. 000	Medical Rs. 000	
Net Employee Defined Benefit Asset/Liability:	5,508,804	(492,159)	(734,320)	78,253	575,761	4,936,339
Net Benefit Expense 2013 (recognised in profit or loss)	-	-	-	-	-	-
Current Service Cost	461,418	-	-	26,303	58,328	546,049
Interest Income/ Cost on Defined Benefit Asset/Obligation	457,606	(65,044)	(64,601)	7,022	48,285	383,268
	<u>919,024</u>	<u>(65,044)</u>	<u>(64,601)</u>	<u>33,325</u>	<u>106,613</u>	<u>929,317</u>

Changes in the Present Value of the Defined Benefit Obligation are as follows:

	Pension Rs. 000	W&OP Rs. 000	WR&OP Rs. 000	Gratuity Rs. 000	Medical Rs. 000	Total Rs. 000
Defined Benefit Obligation at 01 January	24,211,571	3,447,863	564,331	145,702	1,585,637	29,955,104
Interest Cost	2,421,157	344,786	56,433	14,570	158,564	2,995,510
Current Service Cost	461,418	-	-	26,303	58,328	546,049
Benefits paid from the Fund	(1,252,297)	(227,842)	(13,297)	(1,094)	(128,300)	(1,622,830)
Actuarial Gains/Losses on Obligations	1,048,949	447,980	52,239	(1,441)	90,415	1,638,142
Defined Benefit Obligation at 31 December	<u>26,890,798</u>	<u>4,012,787</u>	<u>659,706</u>	<u>184,040</u>	<u>1,764,644</u>	<u>33,511,975</u>

The Major Categories of Plan Assets of the Fair Value of the Total Plan Assets are as follows:

	2013					Total Rs. 000
	Pension Rs. 000	W&OP Rs. 000	WR&OP Rs. 000	Gratuity Rs. 000	Medical Rs. 000	
Investments quoted in active markets						
Government Bonds	20,899,505	4,474,898	1,371,874	105,787	1,188,883	28,040,947
Fixed Deposits	169,949	2,478	1,432	-	-	173,859
Unquoted investments						
Debentures	312,540	27,570	20,720	-	-	360,830
	<u>21,381,994</u>	<u>4,504,946</u>	<u>1,394,026</u>	<u>105,787</u>	<u>1,188,883</u>	<u>28,575,636</u>

	2012					Total Rs. 000
	Pension Rs. 000	W&OP Rs. 000	WR&OP Rs. 000	Gratuity Rs. 000	Medical Rs. 000	
Investments quoted in active markets						
Government Bonds	19,634,960	4,097,978	1,210,344	61,262	1,105,278	26,109,822
Fixed Deposits	-	-	-	-	-	-
Unquoted investments						
Debentures	-	-	-	-	-	-
	<u>19,634,960</u>	<u>4,097,978</u>	<u>1,210,344</u>	<u>61,262</u>	<u>1,105,278</u>	<u>26,109,822</u>

The principal assumptions used in determining Defined Benefit Obligation for the group are shown below:

	2013				
	Pension Rs. 000	W&OP Rs. 000	WR&OP Rs. 000	Gratuity Rs. 000	Medical Rs. 000
Discount Rate	10.00%	10.00%	10.00%	10.00%	10.00%
Future salary increment rate	8.50%	8.25%	8.50%	8.50%	8.50%

A Quantitative Sensitivity Analysis for significant assumptions as at 31 December 2013 is shown below:

	DISCOUNT RATE									
	Pension		W&OP		WR&OP		Gratuity		Medical	
	increase	decrease	increase	decrease	increase	decrease	increase	decrease	increase	decrease
Sensitivity level	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Impact on Defined Benefit Obligation (Rs. 000)	(1,419,645)	1,554,063	(218,458)	241,353	(49,187)	55,115	(12,926)	14,323	(68,166)	73,738

The following payments are expected contributions to the Defined Benefit Plan Obligation in future years

	Pension Rs. 000	W&OP Rs. 000	WR&OP Rs. 000	Gratuity Rs. 000	Medical Rs. 000	Total Rs. 000
Within the next 12 months	1,223,134	249,140	25,319	7,303	135,485	1,640,381
Between 2 and 5 years	6,746,844	1,100,891	125,415	33,545	643,398	8,650,093
Between 5 and 10 years	14,293,628	1,625,952	226,390	97,425	1,065,869	17,309,264
Total expected payments	22,263,606	2,975,983	377,124	138,273	1,844,752	27,599,738

44. FINANCIAL INSTRUMENTS

a) Fair Value of Financial Instruments

The fair value of financial instruments is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms-length transaction. When a financial instrument is traded in an organised and liquid market that is able to absorb a significant transaction without moving the price against the trader, quoted market values represent the fair value.

The Bank uses the following hierarchy for determining

and disclosing the fair value of financial instruments by valuation technique :

Level 1: Quoted (un-adjusted) prices in active markets for identical assets or liabilities;

Level 2 : Other techniques for which all inputs which have a significant effect on the recorded fair value are observable , either directly or indirectly;

Level 3 : Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data;

The following table shows an analysis of financial instruments recorded at fair value hierarchy:

31 December 2013

Financial Assets

Securities at Fair Value through Profit or Loss
Available for Sale Investments
Derivatives

	Level 1 Rs. 000	Level 2 Rs. 000	Level 3 Rs. 000	Total Rs. 000
Securities at Fair Value through Profit or Loss	94,137,368	-	-	94,137,368
Available for Sale Investments	357,531,750	-	-	357,531,750
Derivatives	-	5,670,258	-	5,670,258
	<u>451,669,118</u>	<u>5,670,258</u>	<u>-</u>	<u>457,339,376</u>

Foreign Currency Non-Financial Assets

Gold

Gold	95,601,221	-	-	95,601,221
	<u>95,601,221</u>	<u>-</u>	<u>-</u>	<u>95,601,221</u>

Other Non-Financial Assets

Land
Building

Land	-	-	5,433,100	5,433,100
Building	-	-	7,707,380	7,707,380
	<u>-</u>	<u>-</u>	<u>13,140,480</u>	<u>13,140,480</u>

Financial Liabilities

Embedded Derivatives - Currency Options
Derivatives

Embedded Derivatives - Currency Options	-	-	10,162,977	10,162,977
Derivatives	-	6,020,305	-	6,020,305
	<u>-</u>	<u>6,020,305</u>	<u>10,162,977</u>	<u>16,183,282</u>

31 December 2012

Financial Assets

Securities at Fair Value through Profit or Loss
Available for Sale Investments
Derivatives

	Level 1 Rs. 000	Level 2 Rs. 000	Level 3 Rs. 000	Total Rs. 000
Securities at Fair Value through Profit or Loss	169,312,604	-	-	169,312,604
Available for Sale Investments	386,761,690	-	-	386,761,690
Derivatives	-	3,989,701	-	3,989,701
	<u>556,074,294</u>	<u>3,989,701</u>	<u>-</u>	<u>560,063,995</u>

Foreign Currency Non-Financial Assets

Gold

Gold	77,688,838	-	-	77,688,838
	<u>77,688,838</u>	<u>-</u>	<u>-</u>	<u>77,688,838</u>

Other Non-Financial Assets

Land
Building

Land	-	-	5,180,100	5,180,100
Building	-	-	7,151,979	7,151,979
	<u>-</u>	<u>-</u>	<u>12,332,079</u>	<u>12,332,079</u>

Financial Liabilities

Derivatives

Derivatives	-	3,257,119	-	3,257,119
	<u>-</u>	<u>3,257,119</u>	<u>-</u>	<u>3,257,119</u>

44. FINANCIAL INSTRUMENTS (Contd.)**Land & Building****Valuation Method**

Discounted Cash Flow (DCF) method is used in valuing the Head Office building considering its highly commercial nature. Other buildings are valued by calculating the current cost of replacing the subject improvements and subtracting an approximate amount for depreciation.

Land is valued by obtaining the current market value. It is assumed that carrying value of the New York building is equal to the Fair value.

Assumptions Used for Valuation

The principal assumptions used in Sensitivity Analysis of Land & Building are shown below:

Discounting Rate	6.5%
Rental Growth	5%
Outgoings	45%

Sensitivity Analysis for Head Office Land & Building

Discounting Rate	Rental Growth	Outgoings	Land Rs.000	Building Rs.000
5%	5%	45%	3,548,316	6,386,765
6%	5%	45%	2,906,605	5,231,722
7%	5%	45%	2,453,546	4,416,242
7%	4%	45%	2,297,649	4,135,637
6%	4%	45%	2,714,813	4,886,508
6%	5%	45%	2,906,605	5,231,722
6%	6%	45%	3,112,269	5,601,906
6%	5%	40%	3,170,842	5,707,333
6%	5%	45%	2,906,605	5,231,722
6%	5%	50%	2,642,368	4,756,111

Embedded Derivatives - Currency Options

Fair Value of the Embedded Derivative Products was calculated using Black-Scholes model

	Level 3	
	Options Rs.000	Total Rs.000
Beginning Balance	-	-
Derivative Liabilities	10,162,977	10,162,977
Ending Balance	<u>10,162,977</u>	<u>10,162,977</u>
Total unrealised gains included in earnings	15,725,740	15,725,740

Significant unobservable inputs used

Discount Rate	10%
Volatility	6%

Sensitivity Analysis	Discount Rate		Volatility	
	9%	11%	5%	7%
	Rs.000	Rs.000	Rs.000	Rs.000

Embedded Derivatives - Currency Option	10,536,088	9,848,731	10,059,639	10,515,221
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Market Value of SWAP at the commencement

	2013 Rs.000	2012 Rs.000
Balance as at 1st January	-	-
Premium to be Amortized	(27,578,100)	-
Balance as at 31st December	<u>(27,578,100)</u>	-

b). Repurchase and Reverse-Repurchase Agreements

The reported value of repurchase and reverse-repurchase agreements is considered to approximate their fair value due to the short term nature of the agreements. The carrying value of Sri Lanka Government Securities sold under agreements to repurchase as at 31 December 2013 was Rs. 84,601 Mn (2012 – Rs 7,015 Mn) and there were no CBSL Securities sold under agreements to repurchase (2012 - Rs. Nil). The carrying value of Sri Lanka Government Securities Purchase under agreements to resold as at 31 December 2013 was Rs. 12,930 Mn (2012 – Rs 26,579 Mn)

c). Currency in Circulation

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

d.) Deposits

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

(e) Determination of Fair Value and Fair Value Hierarchy				
Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's Financial Assets and Liabilities:				
Fair values	Carrying Amount		Fair Value	
	2013 Rs. 000	2012 Rs. 000	2013 Rs. 000	2012 Rs. 000
Foreign Currency Financial Assets				
Cash & Cash Equivalents	425,676,763	235,278,133	425,676,763	235,278,133
Foreign Currency Trading/ Available for Sale Securities	451,669,118	556,074,294	451,669,118	556,074,294
Derivative Financial Instruments	5,670,258	3,989,701	5,670,258	3,989,701
IMF Related Assets	85,400,764	81,352,282	85,400,764	81,352,282
Other Foreign Receivables	591	8,243,512	591	8,243,512
Total Foreign Currency Financial Assets	968,417,494	884,937,922	968,417,494	884,937,922
Local Currency Financial Assets				
Sri Lanka Government Securities	15,853,513	175,251,772	15,810,695	175,262,622
Provisional Advances to Government	109,167,071	111,291,843	109,167,071	111,291,843
Loans to Banks	1,375,396	1,844,237	1,215,303	1,401,574
Other Receivables	1,829,712	2,970,099	1,829,712	2,970,099
Equity Investment in Financial and Other Institutions	41,095	41,095	41,095	41,095
Other Assets	6,443,534	5,573,731	3,972,492	3,226,959
Total Local Currency Financial Assets	134,710,321	296,972,777	132,036,368	294,194,192
Total Financial Assets	1,103,127,815	1,181,910,699	1,100,453,862	1,179,132,114
Foreign Currency Non-Financial Assets				
Allocated Gold	95,601,221	77,688,838	95,601,221	77,688,838
Total Foreign Currency Non-Financial Assets	95,601,221	77,688,838	95,601,221	77,688,838
Foreign Currency Financial Liabilities				
Banks & Financial Institution	21,504,196	2,619,847	21,504,196	2,619,847
Derivative Financial Instruments	16,183,282	3,257,119	16,183,282	3,257,119
Asian Clearing Union	37,301,553	28,953,955	37,301,553	28,953,955
IMF	422,032,012	467,642,196	422,032,012	467,642,196
Others	47,221,119	64,520,662	47,221,119	64,520,662
Total Foreign Currency Financial Liabilities	544,242,162	566,993,779	544,242,162	566,993,779
Local Currency Financial Liabilities				
Deposits of Banks & Financial Institutions	148,809,893	166,288,378	148,809,893	166,288,378
Deposits of Government and Government Entities	416,230	699,628	416,230	699,628
Securities Sold under Repurchase Agreements	84,601,000	7,015,000	84,601,000	7,015,000
Balances of Employee Benefits Plan	2,419,087	1,341,268	2,419,087	1,341,268
Other Payables	5,659,718	31,934,646	5,659,718	31,934,646
Total Local Currency Financial Liabilities	241,905,928	207,278,920	241,905,928	207,278,920
Total Financial Liabilities	786,148,090	774,272,699	786,148,090	774,272,699
45. COMPARATIVE INFORMATION				
a). As reported previously:		2012 Rs. 000	b). As reported previously:	
Foreign Currency Financial Assets			2012 Rs. 000	
Other Assets		5,578,483	Interest Expense On Financial Liabilities	
Local Currency Financial Liabilities			Net SWAP Cost	
Other Payables		31,939,398	(1,093,795)	
Current Presentation:			Current Presentation:	
			2013 Rs. 000	
			2012 Rs. 000	
Local Currency Financial Assets			Local Income Currency Financial Assets	
Other Assets		6,443,534	SWAP Gain	
Local Currency Financial Liabilities			6,817,308	
Other Payables		5,659,718	2,066,692	
		31,934,646	Interest Expense of Foreign Currency Financial Liabilities	
			Swap Cost	
			113,672	
			972,897	
Accumulated impairment loss on staff loans of Rs. 4.752 Mn included in Other Payables in 2012 has been set off with the Staff Loans, included in Other Assets in 2013 for better presentation.			SWAP gain Rs. 2,066.692 Mn and cost Rs. 972.897 netted off and included in the interest expenses in 2012. In 2013 SWAP gain has been included in Interest Income from Foreign Currency Financial Assets and SWAP cost included in the Interest Expenses on Foreign Currency Financial Liabilities adjusting the comparative information for better presentation.	

46. RELATED PARTIES

46.1 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	2013 Rs 000	2012 Rs 000
Transactions:		
Sri Lanka Government Securities held by CBSL, (a)	2,923,513	148,672,772
Outright sales of Government Securities	61,099,000	260,000
CBSL and Government Securities Purchased / Sold under Agreement to Repurchase / Sales	2,605,097,956	1,550,252,513
Cost of Printing currency notes, for the year ended 31 December 2013 (d)	954,259	1,205,091
Guarantees provided by CBSL, as at 31 December (Note 47.2)	2,561,264	2,306,711
Payments for Goods, Services and Taxes, during the year ended 31 December 2013 (e)	405,650	1,167,992
Paid Surplus to Government, during the year (Note 30)	25,000,000	33,000,000
Provisional Advances to Government, (Note 9)	109,167,071	111,291,843
Government Securities held for specific purposes	1,219,657	1,201,292
Gross Foreign Exchange Transactions during the year, (g)		
Sales	43,991,178	209,530,618
Purchases	40,884,447	32,975,250
SWAP	277,458,818	110,783,700
Refinance (i)	6,492,418	5,452,617
Funds Received in respect of Abandoned Property, during the year	-	136,500
Dividend Income received from Lanka Clear & CRIB	14,811	14,267
Payments made to Lanka Clear (Pvt) Ltd.	643	667
Balances:		
Loans given under Susahana phase I & II and Provincial Development Credit Scheme	1,242,405	1,711,019
RIGS Balance with Banks' Financial Institutions	77,899,164	84,679,924
Nostro Balance with BOC London	106,922	72,320
Receivable from Treasury and other Ministries	1,394,987	2,403,335
Receivable from Ceylon Petroleum Corporation (k)	333,114	480,814
Payable to Ministry of Finance & Planning (Note 20)	29,052,050	43,324,799
Current Account Balances with Government & Government Entities as at 31 December 2013	172,571	393,691
Investment in Lanka Clear (Pvt) Ltd.	29,500	29,500
Investment in CRIB	5,845	5,844
Other Transactions & Balances (l)	1,076,631	1,142,497

a) The Domestic Operations Department performs its direct functions of implementing the Bank's monetary policy mainly through open market operations as per the sections 90-92 of Monetary Law Act No 58 of 1949 as amended (MLA) and enforcing Statutory Reserve Requirement as per the sections 93-98 of MLA and functions as the banker to both commercial banks where government has shareholdings and certain other financial institutions and governmental entities. The aggregate balances arising from this function as at 31 December 2013 are given in Note 21 and 22. Interest earned on the government securities is given in Note 31.

b) Empowered by sections 28-33 of the MLA, the Bank Supervision Department of Bank carries out the regulatory and supervisory functions of the banks licensed by the Monetary Board of the Central Bank. As at 31 December 2013, 03 licensed commercial banks & 07 licensed specialised banks which had been funded by the government or has a significant influence, came under the supervision of the department.

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

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

d) The Bank has the sole right and authority to issue currency in Sri Lanka as per section 49 of the MLA. Accordingly, the Currency Department of the Bank functions as the sole issuing authority of the legal tender in Sri Lanka.

Printing of the currency notes is carried out by De La Rue Lanka Currency and Security Print (Pvt) Ltd., of which 40% shareholding is owned by the Government.

- e) 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.
- f) The Bank commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets and liabilities on behalf of government, trusts, retirement benefit plans and other institutions, as explained in Note 48.
- g) In accordance with the Provisions of MLA, International Operations Department of the Bank monitors the development in the domestic foreign exchange market and overnight net foreign exchange open positions of commercial banks. In monitoring the domestic foreign exchange market developments, the Bank is on both sides of the market to moderate the excessive volatility in the exchange rate of Sri Lanka Rupee. The amounts of purchases and sales of foreign exchange represents results of such monitoring activities.
- h) The Bank also had custodial arrangements with one State-controlled bank, for which no charges were levied.
- i) The Bank provides refinance loans and for which credit guarantees also provided as described in Note 47.2 of which Bank funded projects amounted to Rs. 6,492.418 Mn (2012 Rs 5,452.617 Mn) and government funded projects amounted to Rs. 3,359.770 Mn (2012 - Rs. 2,879.460 Mn)
- j) As per the circular issued by Director Bank Supervision, the banks who do not maintain the minimum advance limit of 10% to agriculture, contribute the shortfall to refinance fund operated by RDD of the Bank. During the year RDD has generated Rs. 555.071 Mn loans under the refinance scheme to Peoples Bank (Rs. 275.618 Mn), Bank of Ceylon (Rs. 55.488 Mn) Pradeshiya Sanwardana Bank (Rs.192.913 Mn) and Lankaputhra Development Bank (Rs. 31.052 Mn) & for which RDD has received an interest of Rs. 57.6042 Mn.

- k) Upon the request and recommendation made by the Hon. Attorney General as the agent of the Government & Government Agencies and in view of national interest, Bank made legal fees to foreign lawyers who appeared on behalf of Ceylon Petroleum Corporation (CPC). These payments amounting to Rs. 333.114 Mn (2012 - Rs. 480.814 Mn) considered as receivable from CPC.

Further during the year Bank has paid Rs. 25.099 Mn (2012- Rs. 27.674Mn) as legal fees for foreign lawyers who appeared in the arbitration proceedings on hedging case initiated by Deutsche Bank AG against Democratic Socialist Republic of Sri Lanka. (Note 35)

- l) Other Transactions & Balances includes the transactions and balances carried out with individual government & government departments, state control activities that are not individually significant. The nature of the transactions are Guarantees provided by Bank of Rs. 177.627 Mn (2012-Rs.155.466 Mn) GOSL of Rs.19.484 Mn (2012- Rs. 23.082 Mn), funds collected in respect of exchange control activities Rs. 22.602 Mn (2012- Rs. 14.172 Mn), Government Securities held for specific purpose Rs.

83.531 Mn (2012- Rs. 76.235 Mn), RTGS balance of NSB Fund Management amounting to Rs 0.203 Mn (2012- Rs. 0.242 Mn), Loans given under Susahana Phase 1 & 2 & Provincial Development Credit Loan Scheme Rs 142.499 Mn (2012-Rs.77.468 Mn) , Payments for Goods, Services and Taxes, during the year ended 31 December 2013 Rs. 316.460 Mn (2012- Rs. 249.309 Mn) current account balances of government & government entities of Rs. 243.659 Mn (2012- Rs. 305.937 Mn), funds received in respect of Abandoned Property Rs. 45.468Mn (2012 - Rs. 55.805 Mn) and External Legal Expenses Rs. 25.099 Mn (2012- Rs.27.674 Mn).

- m) During the year 2011, in terms of section of 09 of MLA, Bank has acquired a property in New York for the interim use of the Ministry of External Affairs for a three year period commencing 01 June 2012 at a monthly rental of USD 68,000. A sum of Rs.71.130 Mn has been accrued as the rent receivable for 8 months (May - Dec) for year 2013 and included in Sundry Assets.
- n) The Sundry Assets include Rs.88 Mn, which is receivable from the UDA. This amount represents the leasehold property at Transwork Square – Colombo 01, which was used as the Bank Car Park. This has been acquired by the lessor (UDA), before the expiration of the lease period and the Rs.88 Mn from the initial payment, applicable for the remaining lease period, has been recorded as a receivable from UDA.
- o) The Monetary Board of the Bank has entered into a Memorandum of Understanding (MOU) with Department of Wildlife Conservation on 20 November 2008, to collaborate with each other for the construction, establishment & maintenance of the Inspection Bungalow & the Wildlife Office at Somawathiya for the benefit of both parties. The cost of the Inspection Bungalow which is used by the Bank has been recorded under PPE and depreciated over the MOU period (30 years). Further, as per article 3 of MOU, CBSL has agreed to hand over the possession of the Wildlife Office to the Department of Wildlife Conservation, after construction. The cost of Rs. 6.2 Mn, incurred by the Bank to construct the Wildlife Office has been identified as the right to use the Inspection Bungalow used by the Bank and recorded under Sundry Assets & amortized over the period of MOU.

46.2 Transactions with Key Managerial Personnel

Key Managerial Personnel of the Bank are the members of the Monetary Board that includes the Governor (MLA restricts such members' positions as director, officer, employee or shareholder of any banking institution.), Deputy Governors, Assistant Governors and Director Management Audit. Particulars of transactions with Key Managerial Personnel were as follows:

46.3 Compensation to the Key Management Personnel

	2013 Rs 000	2012 Rs 000
Short Term Employee Benefits	57,534	58,189

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

46.4 Other Transactions with Key Managerial Personnel

	2013 Rs 000	2012 Rs 000
Loans to Key Management Personnel	32,076	45,458

All the loans are adequately secured and carry interest rates ranging from 2%-12% depending on the loan category and are repayable monthly.

46.5 Transactions with Post Employment Benefit Plans

	2013 Rs 000	2012 Rs 000
Contributions paid and payable	49,776	33,805

The Bank contributed various amounts to Pension and Other Post Retirement Plans as disclosed in Note 43 and paid Rs. 426.580 Mn (2012 – Rs. 147.174) 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 24.

47. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

47.1 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 2013.

47.2 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 to 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 arrangements are given below.

Local commercial banks - in respect of credit guarantees.

	Currency of Guarantee	Outstanding Guarantee Amount	
		2013 Rs. 000	2012 Rs. 000
Related Parties	Rupees		
- Bank Funded Projects		177,627	318,421
- Government Funded Projects		2,580,748	2,166,839
Others	Rupees		
- Bank Funded Projects		135,803	584,615
- Government Funded Projects		690,295	2,997,200
Total Credit Guarantees		3,584,473	6,067,075

47.3 Fiduciary Activities

The Bank carries out fiduciary activities under the provisions of Monetary Law Act. Acting in such capacity results in holding or placing of funds on behalf of various parties. However, the Bank does not expect any liability to arise on account of such activities.

47.4 Legal Claims

The Bank is a defendant in 01 case where legal actions instituted by stakeholders of entities involved, claiming Rs.35 Mn with legal interest. These cases are being contested by the Bank and no provision has been made in the financial statements.

The Bank is a plaintiff in 03 cases claiming Rs 9.495 Mn with legal interest for the damages and the Bank is expected to receive Rs.2.7Mn from 02 cases which are already terminated and no provisions for such fines have been made in the financial statements.

Further, there were a number of legal proceedings outstanding against the Bank as at 31 December 2013. No provision has been made, as the bank is of the opinion that it is unlikely that any significant loss will arise.

47.5 Commitments

a) As at 31 December 2013, the Bank has capital commitments amounting to Rs. 7.954Mn & USD 1.805Mn (2012 – Rs. 710.887 Mn), in respect of the acquisition of Property, Plant and Equipment and capital commitments amounting to Rs.103.25Mn & USD 13.486Mn (2012- nil) in respect of the acquisition of Currency Notes and Coins.

b) As at 31 December 2013 outstanding forward exchange transactions were as follows.

Forward exchange contracts	2013	2012
	000	000
Forward exchange sales		
GBP	139,000	35,000
EUR	141,000	-
USD	2,337,998	1,368,000
Forward Exchange Purchases LKR	-	25,432,160

47.6 Assets Pledged

In order to facilitate the securities settlement process, no securities (2012– GBP 25 Mn -Carrying value -GBP 25.434 Mn) were pledged by the Bank to the Euroclear Bank and obtained a credit facility of USD 30 Mn (2012 – USD 35 Mn). The pledged securities are held in a separate account at the Euroclear.

Those securities are presented in the financial statement of financial position as “Financial Assets Available For Sale”. The bank conducts these transactions under the terms that are usually based on the “Collateral Agreement Governing Secured Borrowings by Participants in the Euroclear System” and “General Conditions Governing Extensions of Credit to Participants in the Euroclear System” guidelines.

47.7 Contingent Liability against Sovereign Residencies

As per the lease agreement entered between the Monetary Board of the Bank and S.W.R.D.Bandaranayake National Memorial Foundation to operate Sovereign Residencies, the subsequent investments made by the lessee to the premises should be agreed by both parties and be recorded. In the event the agreement is terminated the Bank, as the lessor would have to pay an agreed percentage of the value of the investment based on the year of operation. At the end of the 31 December 2013 the contingent liability of the Bank as the lessor is estimated at Rs.13.159 Mn (2012 - Rs. 15.352 Mn) being the 30% of the investment value considered at the end of fifth year of operation.

47.8 Bond Borrowing

The Bank has borrowed a face value of Rs.79,500 Mn bonds from Employees’ Provident Fund during the December month at a commission of 30 basis points .

These bonds have been utilized for Repo facilities and the face value of Rs.5,940.023 Mn (Market value Rs. 3,593.676 Mn) (2012- Nil) remained unallocated for Repo facilities as at 31st December 2013.

48. TRUST AND CUSTODIAL ACTIVITIES

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

a) The Bank handles disbursements and repayments of various foreign loans and, grants under foreign funded development projects and credit schemes on behalf of the Government of Sri Lanka (GOSL). It also collects counterparty funds under various foreign loans and grants on behalf of GOSL and invests such funds in Treasury Bills on requests made by donor agencies.

b) The Bank is the custodian of the Employees’ Provident Fund (EPF). In terms of the statute, the functions of the Monetary Board consist of receiving contributions, surcharges, income from investments, maintaining proper accounts of registered members of EPF, investing surplus funds and payment of benefits to the members.

c) The Bank administered the Deposit Insurance Scheme, which was a voluntary deposit insurance scheme open 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 & with effect from 01 October 2010, funds have been transferred to the Sri Lanka Deposit Insurance Scheme which was formed as per Gazette No.1673/11 - 28 September 2010.

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

e) As per the Gazette No.1673/11 dated 28th September 2010, Bank has established a Mandatory Deposit Insurance Scheme named Sri Lanka Deposit Insurance Scheme w.e.f 01 October 2010 as an act of national interest to protect the funds of depositors. All Liscensed Commercial Banks, Liscensed Specialized Banks (LSBs) & Registered Finance Companies shall be the members of this scheme. The deposits to be insured include; the demand, time & savings, deposit liabilities of the member institutions excluding all borrowing instruments are insured with specific exclusions as per 5.2 of the said gazette notification. The Deposit Insurance Fund has been created with the transfer of Rs.331.653 Mn of the investments of Voluntary Deposit Insurance Scheme & Rs.282.337 Mn of investments made out of collections from LCB’s as abandoned property. The amount of compensation payable to a depositor shall be limited to Rs.0.2 Mn or its equivalent in the case of foreign currency deposits if such amount exceeds Rs.0.2 Mn. The payment of compensation shall not

be a liability of the Monetary Board or the Central Bank of Sri Lanka, & shall be limited to funds available or raised in the Deposit insurance fund including any borrowings permitted & contributions received. The Monetary Board & the Bank shall not be responsible for any liability that exceeds the total amount lying to the credit of the fund.

The unit established in the Bank Supervision Department, is responsible for operation & management of the scheme and maintain separate books & accounts distinctly separate from the financial statements of the Bank & the Auditor General should be the Auditor.

This scheme was renamed as "Sri Lanka Deposit Insurance and Liquidity Support Fund" with effect from 22.11.2013.

f) As per the Circular issued by Director Bank Supervision, the banks who do not maintain the minimum advance limit of 10 % to agriculture are required to, contribute the shortfall to refinance fund operated by the Regional Development Department (RDD) of the Bank. RDD refines such amounts collected through Bank of Ceylon, Peoples' Bank, Pradeshiya Sanwardena Bank and Lankaputhra Development Bank to agriculture under Viskam Refinance Scheme. The total collections outstanding as at end of the 31st December 2013 amounted to Rs. 390.686 Mn (2012- Rs. 641.433 Mn). As at end of 31st December 2013 RDD has granted Rs. 555.071 Mn loans under the refinance scheme and received an interest of Rs. 57.604Mn for loans given. RDD holds Rs. 49.105 Mn (2012- Rs. 4.117 Mn) of investments in Government securities. Further Rs.188.178 Mn (2012-Rs.188.067 Mn) of income earned from the investments.

48. TRUST AND CUSTODIAL ACTIVITIES (Continued)

g) On behalf of the Monetary Board of the Bank, Regional Development Department (RDD) acts as the exclusive agent of the Government of Sri Lanka (GOSL) with regard to the projects funded by GOSL and foreign donors. RDD also implements the CBSL funded projects.

Concluded Projects

Name of the Project	Total Allocation of the Fund (Mn.)		Purpose of the Loan	Refinance Granted to PFIs (Rs. Mn.)	Salient Features	Warranties & Assurance	General Conditions	Special Conditions
Tea Development Project	USD	24.50	To increase tea small holders' income and improve the natural environment in the project areas	2,550.90	Collection of recoveries from PFIs as per scheduled date to be transferred to DST	No warranties and assurances	Financial Statements should be audited by external auditors	The rights and obligations of the agreements will not be assigned, amended, abrogated or waived without the agreement of all relevant parties
Second Perennial Crop Development Project	SDR	11.56	Commercialization of the perennial crop sector, increase production, nursery development post harvest handling, processing and marketing	1,453.11				
Plantation Sector Reform Project	USD	40.00	To support policy and institutional reforms in the plantation subsector to increase the productivity and profitability and maintain the competitive advantage of the plantation industry of Sri Lanka.	5,200.00				
Susahana Finance & Leasing Company	LKR	352.69	To provide credit facilities to the resumption of enterprises affected by Tsunami	351.06				
Small Business Revival Programme	LKR	2,656.00	To provide credit facilities to the resumption of SMEs affected by Tsunami	2,663.40				
Small business Revival Programme – Revolving Fund	LKR	150.00	To provide credit facilities to the resumption of SMEs affected by Tsunami	122.72				
Skill Development Project	LKR	94.31	To improve quality and relevance of skill training programmes to build high quality workforce and address skill mismatching	94.59				
Urban Environment Infrastructure Development Project	USD	4.00	To improve environmental facilities, health and sanitary conditions of the people living in urban and semi – urban areas.	369.15				
Housing Guarantee Low Income Housing Shelter Project	USD	25.00	To assist low income community in the country to build houses, and renovate and expand their residences.	1,362.00				
Urban Development Low Income Housing Project	SDR	15.10	To provide capital to support low income households for housing improvement	1,915.76				
North Western Province Water Resource Development Project	USD	1.80	To improve economic, social and nutritional well-being of the people living in the project areas	102.76				
Mathale Regional Economic Advancement Project	SDR	2.00	Permanent arising and sustaining of income of small entrepreneurs	249.06				
Mid Country Perennial Crop Development Project	SDR	11.56	To provide credit facilities to the production of perennial crops in the mid country area.	642.00				
Agriculture Rehabilitation Project	SDR	17.05	To rehabilitate persons and property affected by the civil disturbances in the Northern and Eastern Provinces and five bordering districts.	843.00				
Small Holder Tea Development Project	USD	12.60	To develop small holder tea sector and rehabilitate tea facilities.	645.93				
Poverty Alleviation Microfinance Project	YEN	1,155.50	Setting up of an effective credit delivery mechanism for channeling formal credit to income generating activities	1,031.28				
Small Farmers Landless Credit Project	USD	17.40	To establish a cost effective and sustainable micro credit delivery system to generate employment and improve saving habits among the low income receiving people	345.69				
Kegalle Integrated Rural Development Project	SDR	1.50	To uplift the standard of living of the people in the project areas by promoting income generating activities	148.00				
Southern Province Rural Development Project	SDR	27.90	To improve the quality of life of the people in the Southern Province	564.00				
Construction Sector Development Project	EUR	9.00	To strengthening the financial and technical capacities of private local businesses to effectively participate in construction and public works in post Tsunami reconstruction.	1,399.73				
Dry Zone Livelihood Support & Partnership Programme	LKR	252.95	To provide facilities to income generating activities in Anuradhapura, Moneragala, Kurunegala and Badulla Districts.	252.92				
Second Perennial Crops Development Project - Revolving Fund	LKR	1,200.00	To provide credit facilities to develop the perennial crops sector in the country.	1,200.00				
Matale Regional Economic Advancement Project - Revolving Fund	LKR	77.00	To raise the income of rural and farm families and to provide funds for medium scale entrepreneurs to create non-farm enterprises and to expand existing projects as well in the Matale District.	77.00				
Sabaragamuwa Province Integrated Rural Development Project - Revolving Fund	LKR	100.00	To enhance and start new income generating activities in the Sabaragamuwa Province.	100.00				
Sabaragamuwa Province Integrated Rural Development Project - Phase II	LKR	70.00	To enhance and start new income generating activities in the Sabaragamuwa Province.	70.00				

EIB Contract B	EUR	10.00	Restruction of SMEs directly affected by Tsunami	1,553.27			
Viskam (Special Loan Scheme for Agriculture Sector Development)	LKR	1,325.6	To ensure the availability of credit for investment, diversification and improvement of commercial agri-business in the country.	882.01	When the Mandatory requirements are fulfilled by contributory Banks, funds will be returned		
Susahana	LKR	3,000.00	To provide credit facilities to resume MSMEs affected by Tsunami.	2,750.00	Collection of recoveries from PFIs as per scheduled date to be transferred to FD		
Susahana Phase II	LKR	500.00	To provide credit facilities to resume MSMEs affected by the Tsunami	105.54			
Provincial Development Credit Scheme	LKR	2,900.00	To provide credit facilities to medium and long term projects in the SME sector in the country.	2,900.00			
Awakening North	LKR	2,000.00	To extend credit to agriculture, livestock, micro and small enterprises in the Northern Province.	2,000.00	Collection of recoveries from PFIs as per scheduled date to be transferred to relevant accounts of the RDD		
Resumption of Economic Activities in the Eastern Province	LKR	1,000.00	Granting loans to SME sectors' activities in the Eastern Province.	1,000.00			
Resumption of Economic Activities in the Eastern Province - Phase II	LKR	1,000.00	To extend credit to agriculture, livestock, micro and small enterprises in the Eastern Province.	1,000.00			

Ongoing Projects

Name of the Project	Total Allocation of the Fund (Mn.)		Purpose of the Loan	Refinance Granted to PFIs (Rs. Mn.)	Salient Features	Warranties & Assurance	General Conditions	Special Conditions
Tea Development Project – Revolving Fund	LKR	1,100.00	To provide credit facilities to develop the tea sector in the country.	925.44	Collection of recoveries from PFIs as per scheduled date to be transferred to DST			
Self Employment Promotion Initiative	LKR	250.00	To provide financial assistance to trained youth who passed out from recognized vocational training institutions in the country for establishment of their own self employment projects.	153.37				
Small Plantation Entrepreneurship Development Project	SDR	1.75	To enhance the living standard of the low income communities in Moneragala, Kandy, Kegalle and Nuwera Eliya.	249.63	Collection of recoveries from PFIs as per scheduled date to be transferred to relevant accounts of the RDD			
Poverty Alleviation Micro finance Project II - (Probodini)	YEN	2,100.00	Enhancement of the living standard of households whose monthly income less than Rs. 15,000/= in project location.	2,880.07				
Poverty Alleviation Micro finance Project II - Revolving fund	LKR	1,901.62	Enhancement of the living standard of households whose monthly income less than Rs. 15,000/= in project location.	956.07				
Post Tsunami Coastal Rehabilitation Resource Management Project	LKR	190.80	To assist communities adversely affected by Tsunami disaster to recover their assets and re-establish the foundation of their usual economic activities, while diversifying into new profitable income generating activities.	190.77				
Small Farmers and Landless Credit Project - Revolving Fund	LKR	345.69	To establish a cost effective and sustainable micro credit delivery system to generate employment and improve saving habits among the low income receiving people.	1,025.24				
Dry Zone Livelihood Support & Partnership Programme - Revolving Fund	LKR	252.95	To promote the intensification of agricultural production by small farmers and the establishment of small scale non- farming rural enterprises	123.43				
Poverty Alleviation Micro finance Project – Revolving Fund	LKR	1,031.28	Enhancement of the living standard of households whose monthly income less than Rs. 15,000/= in project location.	2,529.78				
Saubagya	LKR	7,960.00	To extend credit to MSMEs and disaster affected MSMEs.	7,959.12				
Awakening North – Phase II	LKR	2,000.00	To extend credit to agriculture, livestock, micro and small enterprises in the Northern Province.	1,438.26				
Resumption of Economic Activities in the Eastern Province – Phase III	LKR	1,000.00	To extend credit to agriculture, livestock, micro and small enterprises in the Eastern Province.	428.43				
Repair of Damaged Houses in the North and East	LKR	600.00	To provide credit facilities for repairing the damaged houses that were damaged during the conflict in the Northern and Eastern Provinces.	295.51				
Sri Lanka Handicraft Board	LKR	200.00	To meet the working capital requirements of Sri Lanka Handicraft Board	200.00				
National Agribusiness Development Programme	USD	32.90	To assist smallholders, producers and the landless, especially the youth by increasing the income of the beneficiaries in the market/ value chain development and providing financing and training for employment to the landless especially the youth to improve their income	113.13				

49. INTEREST IN OTHER ENTITIES

The Loan Schemes Susahana, Susahana Phase II, Provincial Development Loan Scheme operated by Regional Development Department (RDD) are funded by the Bank and the balance capital and interest due are recorded as assets of the Bank and income is taken to income of the Bank.

The Bank also earns a stated percentage, to cover administrative expenses form some GOSL funded projects operated by RDD.

The contingent liabilities arising out of Bank issuing credit guarantees for the projects operated by RDD are disclosed in Note 47.2

50. EVENTS OCCURRING SUBSEQUENT TO REPORTING DATE

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

2. BANK SUPERVISION

In terms of Section 28 of the Monetary Law Act (MLA), the Bank Supervision Department (BSD) is entrusted with continuous supervision and periodical examination of banks. Accordingly, the Monetary Board, the Director of Bank Supervision and the examiners of BSD are empowered under provisions of the MLA as well as the Banking Act, No. 30 of 1988, to supervise and regulate licensed commercial banks (LCBs) and licensed specialised banks (LSBs) including enforcing regulatory actions and resolution of weak banks. Further, LCBs and LSBs are required to obtain prior approval of the Monetary Board or the Director of Bank Supervision to carry out certain activities/operations. The Monetary Board also issues new banking licences and prudential directions, determinations and other instructions under the provisions of the Banking Act. Continuous supervision and periodic examinations of banks are conducted in keeping with the key objectives of ensuring stability of the banking sector to face the challenges in the growing business environment and strengthening the regulatory framework to enhance public confidence in the sector. The supervision of banks is performed based on internationally accepted principles/standards for bank supervision set out by the Basel Committee on Banking Supervision.

2.1 As at the end of 2013, the banking sector in Sri Lanka comprised 24 LCBs and 9 LSBs. The names of these banks are provided in Annex I. A summary of the main activities performed by BSD during 2013 is provided below.

2.1.1 Issuance of Prudential Regulations

Details of the prudential regulations issued are provided in Part III of this Report. A summary of the major prudential regulations is given below.

- (a) **Preparation, Presentation and Publication of Annual Audited Accounts and Publication of Quarterly Financial Statements of Licensed Banks:** Subsequent to the significant changes taken place in financial reporting due to convergence with international financial reporting standards (IFRS) in Sri Lanka, new sets of formats for the preparation, presentation and publication of Annual Audited Accounts and publication of Quarterly Financial Statements of Licensed Banks were introduced.
- (b) **Risk Management Standards on Exposure to the Stock Market by Licensed Banks:** All banks were requested to establish appropriate risk management frameworks, in order to mitigate any potential risks arising from the respective exposures. Board of Directors of Licensed Banks are instructed to approve the risk management standards and policies prior to the implementation and assess the related information on an on-going basis.
- (c) **Restriction on Sale, Transfer, Assign or Disposal of Immovable Assets:** Previous Direction, which

required the prior written approval of the Monetary Board for sale, transfer, assign or disposal of immovable assets of the LSBs below its market value or increase the value of such assets above their market value was amended to permit banks to carry out such activities with the prior written approval of the Director of Bank Supervision.

- (d) **Definition of Liquid Assets:** Investments by banks in Gilt Unit Trusts and in International Sovereign Bonds issued by the Government of Sri Lanka were determined as liquid assets for the purpose of meeting the Statutory Liquid Asset Ratio, subject to conditions.
- (e) **Corporate Governance:** Considering that there are no differences in the level of responsibilities of Directors of a Specified Business Entity or otherwise, the existing Corporate Governance Directions on Licensed Banks were amended to withdraw the restriction on holding office as a director in more than 10 Specified Business Entities.
- (f) **Foreign Borrowings of Licensed Commercial Banks:** In order to facilitate the implementation of proposals of Budget 2013, approval was granted for foreign borrowings of LCBs up to US dollars 50 million each during 2013 to 2015 and further borrowings of US dollars 250 million by National Development Bank PLC. Further, non-agricultural credit facilities granted by banks through the utilisation of above funds were exempted when computing mandatory lending to the agricultural sector.
- (g) **Investment Fund Account:** The utilisation of the Investment Fund Account was broadened to include housing development projects focusing on building low cost houses, investments in sustainable energy sources and women entrepreneurship venture capital projects.
- (h) **Mandatory Lending to the Agriculture Sector:** The existing guidelines on Mandatory Lending to the Agriculture sector were amended as follows:
 - (i) Allowing banks to include loans granted to manufacturing companies using domestic agricultural product and companies that act as intermediaries for the agricultural sector.
 - (ii) Allowing banks to include loans granted to other banks and financial companies for the purpose of agricultural lending, provided a suitable monitoring mechanism is in place to identify such lending is maintained by the respective banks.
 - (iii) Excluding loans and advances granted, outside Sri Lanka by offshore banking unit/overseas branches and direct financing to large government and other infrastructure projects promoted by the government.

- (i) **Interest Rates on Credit Cards and Other Loans and Advances:** Given the reduction in policy rates and other monetary policy easing mechanisms adopted recently, licensed banks were requested to reduce the interest rates on credit card advances and all other loans and advances, as such rates were relatively higher than prevailing market rates. At the same time, licensed banks were requested to reduce the penal interest rates charged on all loans and advances, including credit facilities already granted, to a level not exceeding 2 per cent per annum for the amount in arrears during the overdue period.
- (j) **Financial Accommodation to Finance Companies:** Considering the prudential developments in the regulation and supervision of licensed finance companies (LFCs), the restriction imposed on LCBs from providing financial accommodation to LFCs against Government Securities, Central Bank of Sri Lanka Securities and Fixed Deposits without the prior approval of the Director of Bank Supervision, was withdrawn.
- (k) **Implementation of Supervisory Review Process, Pillar 2 of Basel II:** A Direction on Supervisory Review Process (Pillar 2 of Basel II) was issued requiring licensed banks to implement an Internal Capital Adequacy Assessment Process and to maintain adequate capital above the minimum regulatory capital requirement under Pillar 1 to cover their exposure to all risks.
- (l) **Publication of Financial Statements and Other Disclosures on the Websites:** Licensed banks were requested to publish the annual audited report/ financial statements, quarterly financial statements and qualitative disclosures of the bank's risk management required under Integrated Risk Management Framework in their websites.
- (m) **Misleading and Unethical Advertisements:** Licensed Banks were instructed to comply with previous circular dated 06 November 2008 and refrain from publishing misleading and unethical advertisements while giving due prominence to all important information.
- (n) **Permitting Investments in International Sovereign Bonds:** Off-shore banking units of LCBs were permitted to invest in International Sovereign Bonds issued by the Government of Sri Lanka.

2.1.2 Approvals for Banks, Branches and other Banking Outlets

- (a) During 2013, approvals were granted for opening 119 new branches and 247 Student Savings Units, opening 13 mobile banking units, relocating 91 branches, and installing 114 off-site Automated Teller Machines (ATMs). These include approvals for opening 5 branches in the Northern and

Eastern Provinces. Accordingly, as at the end of 2013, there were 3,433 branches, 3,039 student savings units and 2,508 ATMs in operation.

- (b) Approval was granted to issue a banking licence to the Cargills Bank Ltd subject to obtaining the approval of the Hon. Minister of Finance and Planning. Further, an Addendum was issued to the existing licence of Indian Overseas Bank to recommence offshore banking business.

2.1.3 Continuous Supervision of Banks

BSD continued to carry out supervision of banks on a continuous basis to assess their financial soundness and identify early warning signs, which may adversely affect an individual bank or the banking system as a whole. An internal supervisory rating system for individual banks is also in place to supplement the continuous supervision process. In addition, the progress on addressing the supervisory concerns identified during the statutory examinations by each bank is being evaluated on a quarterly basis to ensure that banks have implemented corrective measures to address the respective concerns within the agreed time target. Several meetings were also held with external auditors, and banks' Board of Directors and the senior management to ensure proper oversight and implementation of timely corrective actions.

Requests for other regulatory approvals were also processed by BSD during the year as part of continuous supervision and approvals were granted for banks to amend the Articles of Association, include subordinate debentures in Tier II capital, grant facilities exceeding the maximum amount of accommodation, borrow from overseas sources, engage in mobile banking operations, invest in subsidiaries and other companies, expand business in foreign countries, outsource business operations, appoint directors, Chief Executive Officers (CEOs) and key management personnel and acquire material interest in banks.

In addition to the reports on monthly performance of banks and the quarterly performance of the banking industry, several reports on specific matters such as analysis of the deposit interest rates, penal interest rates, performance of pawning portfolio, non performing advances and loan to value ratios of banks in Sri Lanka were prepared to facilitate policy decisions during 2013.

2.1.4 Examination of Banks

In terms of the provisions of the MLA and the Banking Act, statutory examinations of 29 banks were completed in 2013 through formal discussions with the management of the respective banks and submission of reports to the Monetary Board, while 09 examinations were in the process of completion. Examinations conducted during 2013 included 12 banks that continued from the previous year and examinations of 26 banks that commenced in 2013. The risk focused approach adopted to concentrate on identification of risks,

management of risks and assessment of resources to mitigate risks, highlighted concerns mainly in the areas of credit risk management, treasury operations, operational risk management, integrated risk management, compliance function, corporate governance, adoption of new accounting standards and non-compliances with statutory requirements. In addition, several examinations of limited scope were carried out on specific issues. Progress on corrective action taken to address key supervisory concerns was followed up, quarterly.

2.1.5 Meetings of Banks' Chief Executive Officers

BSD continued to function as the secretariat for the Governor's monthly meetings with the CEOs of licensed banks that serve as a forum for discussing and exchanging views between the Central Bank and the banking sector. During these meetings, CEOs were continuously informed of the domestic economic and monetary developments, the performance of the banking sector, and developments in the global environment that can potentially impact the banking sector. In addition, discussions were held on the regulations adopted in 2013, including implementation of the Supervisory Review Process, streamlining the Regulations on the exposure of the banking sector to the stock market, aligning of the preparation and presentation of financial statements of the banks and the other disclosure requirements in accordance with the new Sri Lanka Accounting Standards (SLAS) and Sri Lanka Financial Reporting Standards (SLFRS), reduction of the interest rates including the penal rates on loans and advances in line with the low interest rate regime prevailing in the country, liberalisation of foreign borrowings of LCBs, permitting licensed banks to invest in Sovereign Bonds issued by the Government of Sri Lanka. In addition, regulations to be adopted in 2014 and beyond, including, migration to the advanced approach under the Basel II capital adequacy framework requirements, adoption of Basel III capital standards, regulatory framework for valuation of immovable property of licensed banks were also discussed.

Further, discussions were held on the requirements under the Foreign Accounts Tax Compliance Act (FATCA) of the United States of America, appointment of LCBs as primary dealers, legal certainty of land titling issued under the 'Bim Saviya' programme, reproduction of Sri Lanka currency notes and clean note policy, cessation of issuing and encashing of Travelers' cheques by banks, establishment of common baseline IT security standards, Online payment system for EPF through the banking system, discontinuation of lotteries offered by banks to attract deposits, misleading and unethical advertisements, introducing superannuation Schemes, subscription by foreign investors in debentures issued by banks, lending rates on EPF backed housing loans and other refinance schemes and facilitating the implementation of the Official Language Policy.

2.1.6 Meetings of Banks' Chairmen and Chairpersons

CBSL considering the importance of regular dialog with the Chairmen and Chairpersons of banks, continued convening quarterly meetings with Chairmen and Chairpersons, chaired by the Governor. At these meetings, Chairmen and Chairpersons were apprised of the banking sector performance, developments in the local and global regulatory frameworks and economic and monetary developments to facilitate their decision making. The key matters discussed at these meetings include monetary and financial sector policies for 2013 and beyond, challenges faced by the banking sector from local and international markets in 2012 and the way forward, developments in the global capital market and the domestic experiences, strengthening the governance practices in banks, reviewing the Direction on Corporate Governance, ensuring Basel II and Basel III requirements in the planning process of banks, addressing the group-wide risks to reduce spillover effects, strengthening of macroprudential regulations to address systemic risk, the need for consolidation through mergers and acquisition of banks and financial institutions and facilitating foreign exchange inflows.

2.1.7 Administering the Sri Lanka Deposit Insurance and Liquidity Support Scheme

In terms of the Sri Lanka Deposit Insurance Scheme Regulation, No.1 of 2010, the Deposit Insurance Unit (DIU) in BSD is responsible for the operational and management arrangements of the deposit insurance scheme.

DIU continued to ensure timely collection of premia and due penalties from member institutions and investment of funds received, in Government securities. Accordingly, during 2013, a sum of Rs. 4.3 billion was collected as premium and penalty from member institutions.

In addition, to ensure smooth functioning of the scheme, DIU has examined the data/information submitted by the LFCs, assessed the effectiveness of their data submission procedures/processes on the depositor-wise details of eligible deposits and reviewed and improved DIUs internal policies, procedures and guidelines.

With a view to publicise the availability of liquidity support under the Scheme and thereby to further enhance the public confidence on the financial system and strengthen the overall financial stability of the country, the "Sri Lanka Deposit Insurance Scheme" was renamed the "Sri Lanka Deposit Insurance and Liquidity Support Scheme" and the "Deposit Insurance Fund" was renamed the "Sri Lanka Deposit Insurance and Liquidity Support Fund" with effect from 22 November 2013. The Sri Lanka Deposit Insurance and Liquidity Support Scheme also received an exemption from income tax, effective from 01 April 2013.

As at 31 December 2013, the Scheme comprised 81 member institutions. The financial assets and the Deposit Insurance and Liquidity Support Fund amounted to approximately Rs. 12.7 billion and Rs. 12.5 billion, respectively.

2.1.8 Other Activities

(a) Handling litigation

Litigation of 19 cases with regard to affairs of the defaulted Pramuka Savings and Development Bank Limited, exchange control, disputed oil hedging transactions, alleged prohibited schemes and inappropriate banking practices were handled by BSD with the assistance of the Attorney General's Department and the law enforcement agencies.

(b) Inter Regulatory Institutions Council (IRIC)

IRIC was formed with the core objective of ensuring the formation of appropriate policy directions for the orderly development of the financial sector and for all regulatory agencies to coordinate and exchange information in the interest of wider financial system stability. All financial sector regulators of the country are members of this committee, which works towards financial system stability by supervisory corporation and through exchange of information. BSD continued to facilitate meetings of IRIC. The Council deliberated and finalised the draft Act on 'Sharing Information among Financial Sector Regulators'. Further, minimum capital requirement for stock brokers, share ownership limits of licensed banks, development of the corporate debt market, major financial groups, role of regulators in crisis resolution frameworks, strengthening corporate governance of licensed institutions and, improving financial reporting and streamlining the role of auditors were also discussed.

(c) Awareness Programmes and Capacity Building

The sixth consecutive Bank Directors' Symposium was conducted in December 2013, on the theme "Beyond a Ten Trillion Banking Sector", with a view to sharing new developments in the regulatory environment, locally and globally, in order to strengthen banks' resilience to meet challenges. The role of banks in balancing the expansion and resilience and, the changing role of a bank director were given main focus during discussions. In addition, a technical session was conducted for Directors and key management personnel of licensed banks for the purposes of enhancing knowledge and, sharing experience on risk management practices and new SLAS. Several meetings were convened with the auditors of licensed banks to apprise them of their respective roles and responsibilities in carrying out audit functions of banks. The staff of BSD has participated as resource persons for many training programmes conducted by other Departments of the Central Bank and outside agencies.

During 2013, public awareness campaigns were conducted by BSD along with the Department of Supervision of Non-Bank Financial Institutions to educate the general public on dangers in

engaging in prohibited schemes. Several notices in newspapers were also published listing names of banks and finance companies that are licensed by the Central Bank to accept deposits from the public.

BSD also continued issuing press releases to disseminate information on changes and developments taken place in the regulatory arena.

(d) Provision of Data and Technical Assistance

BSD continued to provide information and technical know-how to other departments and agencies including the Financial System Stability Committee (FSSC), the Financial System Stability Consultative Committee (FSSCC), the National Payment Council and Sovereign rating updates.

2.2 During the year 2013, BSD effectively carried out its supervisory activities to ensure that LCBs and LSBs conducted their business in a manner that would not jeopardise their obligations to their depositors or other creditors.

Annex II-1

List of Licensed Banks

Licensed Commercial Banks

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

Licensed Specialised Banks

25. DFCC Bank
26. Housing Development Finance Corporation Bank of Sri Lanka
27. Lankaputhra Development Bank Ltd
28. MBSL Savings Bank Ltd
29. National Savings Bank
30. Pradeshiya Sanwardana Bank
31. Sanasa Development Bank PLC
32. Sri Lanka Savings Bank Ltd
33. State Mortgage & Investment Bank

3. CENTRE FOR BANKING STUDIES (CBS)

The Centre for Banking Studies (CBS) is the training arm of CBSL. It is entrusted with the responsibility of enhancing knowledge and improving skills of CBSL officers and professionals in the financial industry in Sri Lanka and the region. It designs and conducts training programmes, seminars and workshops. Participants include members of the banking and financial sector, including regional institutions. CBS also conducts public seminars on issues of contemporary importance. Special programmes are conducted in collaboration with the Ministry of Education to upgrade knowledge on practical economics among school teachers and children, and also among university students.

The focus of CBS during 2013 was towards raising the standard of its programmes and facilities to be on-par with international standards. In a highly evolving financial world, CBS identified the need to provide up-to-date knowledge via innovative means in a comfortable learning environment. The results of these changes were evident in its performance for 2013.

CBS conducted seminars, workshops and conferences in the areas of Banking Operations and Regulations, Financial Management, Economics, Rural Sector Development, Human Resource and General Management, Information Technology, Languages and Communication Skills. A wide array of programmes was developed with the intention of comprehensively addressing the training needs of financial institutions both in terms of their core activities and support services. CBS also continued to broaden its presence by expanding its links with other global resource centers. The commencement of the International Diploma in collaboration with the International Compliance Association and the University of Manchester was a highlight in such development.

During 2013, CBS conducted 60 calendar programmes, 73 special programmes (based on the demand from financial institutions and knowledge gaps identified by CBS), 12 International Programmes, 03 Diploma Programmes, 04 Certificate Programmes and 02 Training of Trainer programmes. In addition, knowledge sharing events in the form of 12 public lectures, 03 evening presentations, 61 school programmes and 06 programmes for university students were conducted at CBS in 2013. A total of 6,832 participants including 191 foreign participants patronised these events. The television series titled "Takshilawa", targeting Advanced Level students in Sri Lanka was held in 2013 as well under the purview of CBS.

CBS also commenced a series of regional level programmes in collaboration with the Provincial Offices Monitoring and the Regional Development Department of CBSL. A total of 09 such programmes were conducted involving all the 05 provincial offices during 2013. The subject areas ranged from core banking activities such as Lending and Credit Evaluation to ancillary services, such as Pawn Broking.

CBS also designed its calendar and special programmes for 2014 and beyond in line with the theme of "Raising the Quality and Outreach" for CBS to be a centre of excellence in the region for enhancing knowledge and skills. CBS also restarted publishing series of occasional papers based on public lectures conducted by eminent resource persons.

4. COMMUNICATIONS

2013 was a noteworthy year for the Communications Department (CMD) as the first phase of the "Economic History Museum of Sri Lanka" (EHMSL) was setup under CMD's wings during the year. The museum, established in the "Central Point Building" (CPB) at Chatham Street, opposite the Central Bank's Head Office building, is the latest public relations portal of the Bank. Plans are underway to make EHMSL a fully-fledged museum of the economic history of Sri Lanka, bringing the entire story of the country's economic past under one roof.

The "Exhibition of Currencies", which is part of the first phase of the museum was established at the CPB by relocating the Currency Museum situated at the Centre for Banking Studies (CBS) Rajagiriya. The renovated CPB and the "Exhibition of Currencies" housed there were ceremonially declared open by the President of Sri Lanka, His Excellency The President Mahinda Rajapaksa on 11 November 2013. The exhibition contains three sections; the "Exhibition of Currencies" section, the Commonwealth Countries section, and the "Retrospect" section, which provides a retrospective glance on the important events that took place in the country's economic, financial, cultural and political spheres since the establishment of CBSL in 1950.

A book on the history of Sri Lankan coinage was especially published in all three languages to coincide with the opening of the museum. The EHMSL is a landmark project of CMD, which reiterates the commitment of the department to increase public awareness on economic and financial matters of the country while preserving such knowledge for the benefit of future generations.

While shouldering a mammoth project like EHMSL, CMD continued its routine communications with internal and external stakeholders with high quality and in a timely manner.

4.1 External Communication

The Central bank's corporate website, www.cbsl.gov.lk, continued to secure its place this year as the most prominent external communication gateway of CBSL recording 83.6 million visits during 2013, which is a 23.5 per cent increase over the 67.7 million visits recorded during the previous year.

CMD utilised the power of social media for its external communications in an effective manner during the year by making 714 posts in the Facebook and 786 tweets on Twitter. The 40 videos uploaded to the YouTube

during the year attracted 17,780 viewers. The posts on Facebook and Twitter show clear indications of the popularity of CBSL's presence in social networks.

To ensure continuous commitment to improve the fast flow of accurate information to the masses, CMD introduced an e-mail alert system through the Bank's corporate website, during the year. Opportunity is now available through the website for visitors to the site to subscribe to the e-mail subscription list for receiving routine information issued by the CBSL, such as Treasury bill and Treasury bond announcements, daily exchange rates, inflation figures etc. This is a free service provided by CBSL to the general public. As of now, there are 684 subscribers to this service.

The number of subscribers to the SMS alert system, which was introduced in 2012, increased to 840 from the 435 recorded at the end of the previous year. The system is useful for journalists, people dealing with financial markets and the general public at large who requires market information as soon as they are published.

While improving communications on non-conventional platforms like e-mail, SMS and social media, CMD was successful in maintaining its regular traditional communications as well, issuing 1,792 press releases and 22 gazette notifications during the year under reference.

Five media conferences and 28 media arrangements on various matters were held during 2013. In addition to this, CMD organised events including the presentation of Road Map of CBSL, launch of "Lankapay" – the common ATM facility, Governor's lecture at the 18th Annual Tax Oration, inauguration of the Dairy Development loan Scheme, Central Bank's 63rd Anniversary Oration, opening of the Economic History Museum, Bank Directors' Symposium to name a few. A campaign was also organised with local TV networks to support the coin recollection drive launched by the Currency Department.

As in the past, CMD participated in the "Deyata Kirula" exhibition, which was held in Ampara, and the Colombo International Book Fair held at the Bandaranayake International Conference Hall, representing the Bank at these two important national events.

4.2 Internal Communication

This year too, the intranet site run by the department, "cbstdaily", continued to retain its popularity as an information portal for CBSL employees. The site had 495 SLIBOR and exchange rate updates and 169 press releases during the year. The site serves as a news site, a notice board as well as a gateway to the intranet. Six volumes of the official internal newsletter, "Kavuluwa" were published during the year. The media monitoring division submitted 1,392 news clips, articles and public opinions collected from 15 national news papers that

are published in three languages, to update the senior management with current affairs on the economy and matters relevant to the Central Bank.

4.3 Public Awareness

Facilitating a widespread public awareness drive on economics and financial literacy is among the top priorities of CMD. The department manifested its commitment to this cause by coordinating 30 seminars for school teachers and students in different parts of the country, including remote areas of the Eastern and Southern Provinces. Further, CMD participated in four national level exhibitions representing the CBSL during 2013, providing the general public with the opportunity of purchasing CBSL publications and commemorative coins.

Sales of CBSL publications declined during the year, compared to the previous years, due to publications being available online through CBSL website. However, CMD distributed 16,335 copies of different publications, including the Annual Report 2012, free of charge among school children and teachers, and organised 30 public awareness/educational programmes targeting Advanced Level students, school teachers, and trainees of armed forces and officers, during the year.

4.4 Tamil Translation Services

The Tamil translation unit continued to contribute its share to the department's task of providing information equally in all three languages.

4.5 Printing Press

A total of 145 printing assignments of highest quality standards were undertaken by the Printing Press during 2013. The printing assignments completed during the year included CBSL Diary 2014, Directions books for LCBs, LSBs, LFCs and SLCs, Step by Step Guide to Foreign Exchange Transactions, Strategic Plan of CBSL 2014-2018, five issues of the ERD Bulletin, all three versions of Economic and Social Statistics of Sri Lanka and the Public Debt Management Bulletin.

Several Central Bank publications including the "Interest Rates Theory and Practice" authored by Dr. W M Hemachandra, Assistant Governor of the Central Bank, "Arthika Vidya Muladharmam and Prathipatti" and "Mulika Arthika Vidya Muladharmam Vighraya" (Sinhala/Tamil) authored by Mr. P Samarasiri, Assistant Governor of the Central Bank, "An introduction to Economic Principles" authored by Mr. C P A Karunatileke, Director, Centre for Banking Studies, Financial System Stability Report - 2013, "Sendewa", "Kauluwa", "Satahana", Economic and Social Statistics, the Governor's oration on Tax and Doing Business, 5th edition are some of the publications printed and delivered in a timely manner by the Printing Press.

4.6 Photographic Coverage of Major Events of the Bank

The Photographic Unit of CMD contributed immensely to represent CBSL in colour to the world through visual media, both still and video. The unit covered 435 events of the Central Bank, and delivered all related services including editing and printing of photographs, video editing, preparation of albums and, CDs and framing of photos, maintaining high professional standards.

4.7 Library and Information Centre

The Library and Information Centre (LIC) with a collection of 27,585 books, 18,328 reports, 1,813 CDs and 185 journal titles, and 07 online databases continued to provide facilities to the CBSL staff as well as external users on request, during the past year. Two online databases subscribed by the LIC, 'Science Direct' and EBSCO host provide access to nearly 115 and 350 full text journals/Articles in several disciplines including econometrics, economics and finance, respectively. In addition, LIC has subscribed to several other online databases on subjects that are relevant to central banking activities.

The total number of foreign and local journals subscribed to by LIC are 119 and 63 respectively. LIC continued to compile electronic publications such as Recent Additions (i.e. new books), Current Contents, News Alert, Local Press reports on Economics, Banking and Finance and disseminated them via the intranet. A selective dissemination of Information service was also maintained. The LIC continued to maintain the Economics and Banking Library Network of Sri Lanka "EbanklibnetSL" providing services to the 24 member libraries through sharing of information via e-mail. Further, the LIC continued to be an active member of the Global Central Bank Information Professionals Network (cbfa List) by sharing resources and experiences and obtaining assistance to fulfill research requests. A digital library service was maintained giving access to the CBSL staff through the library's Intranet website.

5. CURRENCY

The Monetary Board (MB) in terms of Sections 48 to 59A of the Monetary Law Act (MLA) is the authority to issue currency as a means of payment in Sri Lanka. Currency Department (CRD) was initially established in 1950 as the Department of Banking and Currency to facilitate the exercising of this authority of the Monetary Board. Accordingly, functions of CRD at present are the issue of notes and coins to meet public demand, undertaking all arrangements for printing of notes and minting of coins, issue of commemorative coins and notes as determined by the Monetary Board, conduct of currency operations with Licensed Commercial Banks (LCBs) by accepting currency deposits from them and release deposits as per requirements of LCBs, withdrawal of unfit notes and coins from circulation and assisting law enforcement authorities to deal with instances of violations of the provisions of the MLA with respect to currency.

5.1 Issue of Currency

- a) To meet the demand for currency in the country, CRD issues currency (both notes and coins) to the economy through LCBs by way of new notes and coins and re-issue of fit (serviceable) notes and coins (see Table II-1). This includes CRD issues of currency to the public through its currency exchange counters maintained at the Bank of Ceylon Pettah Branch, for the purpose of exchange of currency with the public to meet their preferred denominations. In 2013, Rs. 3,264 million worth of currency notes and Rs. 79.9 million worth of coins were issued through this counter.

Table II -1 Issue of Currency

Issues	Value			Percentage change		
	2011	2012	2013	2011	2012	2013
Notes (Rs. billion)	335.1	355.4	401.9	29.4	6.1	13.1
Coins (Rs. million)	472.4	748.7	541.3	12.7	58.5	-27.7
Total (Rs. billion)	335.6	356.1	402.4	29.4	6.1	13.0

- b) As at 31 December 2013, total currency in circulation was Rs. 339.7 billion, which is an increase of 6.8 per cent over currency in circulation at 31 December 2012 (see Table II-2). (Denomination-wise details are given in an Appendix Table in Part IV of this report). The value of currency in circulation has increased consequent to the increased volume of economic transactions. However, the share of currency in circulation held by public as a total of money supply (Broad Money) has steadily declined in the past to 7.7 per cent as at end 2013 from 10.2 per cent as at the end of 2008 due to increased financial inclusion and modern payment instruments used through the banking systems.

Table II -2 Currency in Circulation

Currency in Circulation	Value			Percentage change		
	2011	2012	2013	2011	2012	2013
Notes (Rs. billion)	287.1	311.2	332.4	14.8	8.4	6.8
Coins (Rs. billion)	6.1	6.9	7.3	7.0	13.1	5.8
Total (Rs. billion)	293.2	318.1	339.7	14.7	8.5	6.8

- c) In order to meet the demand for currency and ensure good quality currency notes in circulation, CRD made arrangements to print 189.5 million pieces of currency notes and mint 82.9 million pieces of coins during 2013. CRD also signed agreements with Mints selected through AN international tender procedure for minting of a total of 550 million pieces of Rs. 10, Rs. 5, Rs. 2 and Re.1 circulation coins for the period of 2013-2015.

- d) A commemorative note in the denomination of Rupees 500 was issued to mark the Commonwealth Heads of Government Meeting held in Sri Lanka from 15 to 17 November 2013. This is the third commemorative note issued by the Central Bank of Sri Lanka since its establishment.
- e) The minting process of a new series of Rs. 10 coins representing 25 districts of Sri Lanka with special features of such districts commenced and designs were approved by the Hon. Minister of Finance. These coins are planned to be released into circulation in 2014.

5.2 Currency Operations with LCBs

- a) CRD accepts currency deposits from LCBs, primarily to maintain the statutory reserve requirement (SRR) of LCBs. CRD accepts both fit (serviceable) and unfit (unserviceable) currency notes and coins from LCBs (see Table II-3). The fit currency deposited are reissued to circulation through LCBs while unfit currency notes are destructed.

Table II -3 Currency Deposits by LCBs

Currency Deposits	Value			Percentage change		
	2011	2012	2013	2011	2012	2013
Notes (Rs. billion)	297.9	331.2	381.0	34.1	11.2	15.0
Coins (Rs. million)	13.8	3.0	1.4	115.0	-78.3	-53.3
Total (Rs. billion)	297.9	331.2	381.0	34.1	11.2	15.0

- b) To facilitate the efficient and speedy processing of the increased volume of currency deposits and withdrawals, measures were taken for further automation of currency operations by CRD. Accordingly, action was taken to complete procurement of two automated currency note processing machines to increase efficiency in verification, counting, sorting and destruction of currency in an environment friendly manner.

5.3 Assistance Provided to Law Enforcement Authorities

Various measures were taken by CRD in 2013 to assist law enforcement authorities regarding violations of the MLA pertaining to counterfeiting of the currency as follows:

- (a) Closely co-operated with the Counterfeit Currency Bureau of the Criminal Investigation Department (CID) of the Police and law enforcement authorities pertaining to counterfeiting attempts. Counterfeit notes detected in 2013 were 5,133, which is six notes per million genuine notes in circulation, the same level as in 2012.

- (b) Issued 141 certificates with the Governor's signature as conclusive evidence of imitation of currency notes to facilitate proceedings in Courts.
- (c) Attended 18 Court cases as witnesses on currency counterfeiting cases.
- (d) Issued operational circulars to all LCBs and licensed finance companies (LFCs) for strengthening their currency operations to detect counterfeit notes to prevent counterfeit notes from getting into circulation. All LCBs and LFCs were required to have cash counting machines with counterfeit detection facilities.

5.4 Other Activities

(a) Implementation of the Clean Note Policy

The Clean Note Policy (CNP), which was initiated in March 2007 was continued more forcefully in 2013. The main objective of the CNP is to ensure circulation of good quality currency notes for better image of Sri Lanka as an economy emerging in the world's middle income category. CRD encourages good currency handling practices to extend the life span of notes and reduce the cost of printing of new notes with following measures implemented in 2013 to strengthen the CNP.

- (i) A circular was issued to all LCBs on "Parameters for Sorting of Currency Notes" between fit and unfit categories and 331 bank branches were examined to ensure adherence to the circulars.
- (ii) Conducted 4 meetings with cash managers of LCBs on currency sorting and other currency handling practices.
- (iii) Carried out checking of random samples of notes deposited by commercial banks to examine compliance with guidelines.
- (iv) Conducted extensive publicity programmes through TV advertisements, radio discussions, posters and seminars to educate the public, to encourage the public to exchange their unfit currency notes through the banking system and on best practices of handling currency notes.
- (v) Subsequent to processing of all unfit notes received by CRD, it destructed 157.7 million unfit notes with a total value of Rs. 67.7 billion in 2013.

(b) Coin Collection

Issue of coins incurs a very high minting cost each year. However, a large number of these coins were reported to be staying idle in various places such as religious establishments and tills without being in circulation. Therefore, CRD carried out comprehensive coin collection programmes to collect and re-circulate idle coins. Accordingly, 125 coin collection programmes, were island wide, were and 24.8 million pieces of coins worth Rs. 67.1 million were collected for recirculation.

(c) Public Awareness

In order to increase public awareness on security features of currency notes, use of quality notes and good handling practices of currency notes and coins, CRD continued its public awareness programmes with a series of events as highlighted below.

- (i) Conducted 47 seminars/workshops, participated in 13 Radio/TV programmes and telecasted 5 TV advertisements. The audience included bank officers, cash handlers, police officers, school children, government and private sector employees and the general public.
- (ii) Distributed information material on currency in 03 schools that joined the currency circle. Conducted a workshop in one school that had an exhibition on currency.
- (iii) Participated in the national development exhibition "Deyata Kirula – 2013" held at Ampara from 23-30 March 2013 and 5 other exhibitions along with Mobile Money Museum.
- (iv) Facilitated 15,754 visitors to the 03 money museums of CBSL.

(d) Approvals for Reproduction of Currency

Three approvals were granted for reproduction of currency notes in advertisements in terms of the Monetary Board approved policy on Reproduction of Sri Lanka Currency Notes.

(e) Establishment of the Economic History Museum

CBSL established an Economic History Museum (EHM) at its newly refurbished Central Point Building at Colombo Fort on 11 November 2013 and the Money Museum maintained at Centre for Banking Studies, Rajagiriya was shifted to the EHM. The EHM displays coins and paper currency used in Kingdoms of Anuradhapura (since 3 BC to 10th century AD), Polonnaruwa, Kotte and Kandy as well in the colonial era of the Portuguese, Dutch and British and post-independent Sri Lanka. Touch-screens were also set up in the EHM to gather information about security features of currency notes.

6. DOMESTIC OPERATIONS

The Domestic Operations Department (DOD) continued to carry out its major functions under the mandate conferred in Chapter V and VI of the Monetary Law Act for conducting Open Market Operations (OMO) enforcing Statutory Reserve Requirement (SRR) and offering banking services to commercial banks and to the government.

In 2013, the department also facilitated the maintenance of the efficient and effective domestic e-payment and settlement system, by offering Intra Day Liquidity Facility (ILF) to commercial banks and primary dealers for smooth functioning of payments and settlements under the Real Time Gross Settlement System (RTGS).

6.1 Functions of DOD

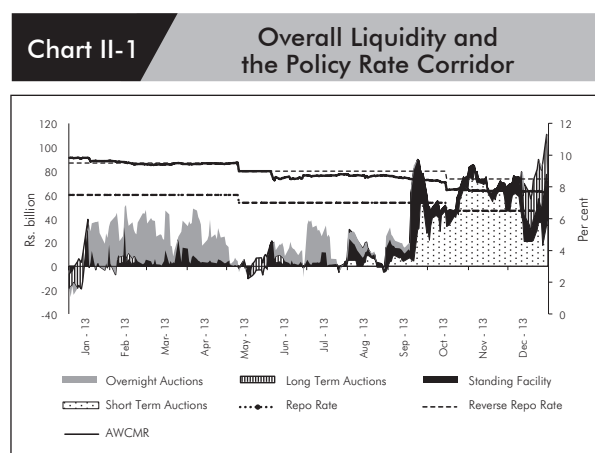
DOD conducted OMO with the objective of steering short term interest rates at the desired level within the policy interest rate corridor determined by the Monetary Board. The policy interest rates known as Repurchase and Reverse Repurchase rates are reviewed on a monthly basis by the Monetary Board and the interest rate corridor determined upon such revision, forms the basis for OMO. Standing facilities at the policy rates referred above are also offered on a daily basis, creating the floor and the ceiling for the OMO. The Current Standing Repurchase Facility was renamed as the Standing Deposit Facility (SDF), and provide the floor rate for the placement of excess funds of the banking system and Standing Reverse Repurchase Facility was renamed as the Standing Lending Facility (SLF), and provide the ceiling rate for the lending of funds to the banking system. Current policy rate corridor was also renamed as the Standing Rate Corridor and the current standing Repurchase rate and Reverse Repurchase rate were renamed as Standing Deposit Facility Rate and Standing Lending Facility Rate, respectively, with effect from 02 January 2014. The department also enforces statutory reserve requirement against the deposit liabilities of the licensed commercial banks (LCBs), as determined from time to time by the Monetary Board and act as banker to the government and commercial banks and supervise money brokers.

6.2 Implementation of Monetary Policy

In 2013, DOD conducted monetary policy operations mainly through Open Market Operations to inject and absorb liquidity to and from the market, depending on supply and demand of liquidity to maintain short term interest rates to suit the monetary policy stance during a given period.

In 2013, the domestic money market started with a liquidity deficit and turned to a surplus within the first week with the conversion of the Bank of Ceylon foreign bond proceeds by CBSL. Since then a surplus in liquidity was seen in the market almost throughout the year. The other main sources of the surplus liquidity were conversion of foreign bond proceeds of National Savings Bank (NSB) through the CBSL, reduction of SRR by 200 basis points, foreign currency outright purchases by CBSL and transfer of revenue surpluses by CBSL to the government. The excess market liquidity was mopped up through active open market operations throughout the year. Besides, overnight repo, more emphasis was given to absorb liquidity through short term repo auctions. However, term Reverse Repo auctions were also offered in addition to the overnight Reverse Repo and standing facility to supply the market liquidity requirement on a few occasions when market liquidity was in deficit. Outright auctions were conducted to absorb liquidity amounting to Rs. 128.8 billion on a permanent basis by selling Treasury bills from CBSL holding in 2013. As the Government securities holding of CBSL was insufficient to absorb excess liquidity, CBSL utilised Treasury bonds borrowed under the bond borrowing programme for open market operations.

Several measures were taken to improve liquidity management in the money market while strengthening the OMO. In May 2013, CBSL introduced a major revision to the SRR framework that prevailed since the inception of the Central Bank. Accordingly, the 7 day reserve calculation and maintenance periods was increased to twice per month, from 1st to 15th and 16th to end of each month. In line with this revision, CBSL introduced the short term auctions up to 7 days on the same day settlement basis to facilitate better market liquidity management, in August 2013. Further, CBSL removed the Rs. 100 million restriction on repo standing facility on days when CBSL offers Reverse Repo auctions. Policy rates and SRR were also revised downwards. As a result of these policy changes, the overnight Average Weighted Call Money Rate (AWCMR), which experienced considerable volatility and hovered above the policy rate ceiling at the beginning of the year continued to stabilise and descended gradually towards the middle of the policy rate corridor.



6.2.1 Open Market Operations

(a) Overnight Auctions

(i) Repo Auctions

The surplus liquidity within the banking system till 20 September 2013 was absorbed on a daily basis by conducting overnight Repo auctions. On average, about Rs. 22.4 billion Repo auction was offered per day and accepted volume represented 48 per cent of the actual surplus liquidity on days of surplus. The weighted average yield rate of overnight Repo auctions varied between 6.98 per cent and 8.50 per cent. The weighted average overnight Repo auction rate moved around the lower bound of the policy rate corridor.

(ii) Reverse Repo Auctions

In 2013, market liquidity was in deficit on a few occasions. Thus, Reverse Repurchase auctions were continued to ease off the upward pressure on overnight interest rates. On average, about Rs. 6.1 billion per day was offered at the auctions at a weighted average yield rate varying between

8.25 per cent and 9.31 per cent. Further, 51.7 per cent of the market liquidity requirement was supplied through the overnight Reverse Repo auction on days where market liquidity was in deficit.

(b) Term Transactions

(i) Short Term Repo Auctions

DOD introduced short term Repo auctions in August 2013 to sell Treasury bills as a strategy to absorb liquidity on a short term same day settlement basis. On average, Rs. 18.5 billion per day was offered for the auction, whilst Rs. 765.3 billion, representing 31.7 per cent of the actual surplus was abstract since the introduction of the short term Repo auction in August 2013. Liquidity, was absorbed from the short term repo auction. The tenure of the short term repo auction was up to one week, whilst the weighted average yield rate varied in the range of 7.00 per cent to 7.98 per cent.

(ii) Short Term Reverse Repo Auctions

DOD conducted only two short term Reverse Repo auctions to purchase Treasury bills and Treasury bonds on short term same day settlement basis. Only Rs. 5.0 billion was accepted under one auction and funds were injected to the market at a weighted average yield rate of 8.20 per cent.

(iii) Long Term Repo Auctions

CBSL absorbed Rs. 51.6 billion worth of excess market liquidity on term basis during the year. The tenure of the term Repo auctions varied between 7 days and 63 days. The weighted average yield rates were in a range of 7.45 per cent and 8.95 per cent during the year.

(iv) Long Term Reverse Repo Auctions

During the year 2013, CBSL conducted long term Reverse Repo auctions to inject liquidity to the market on a relatively longer term basis. The period of the term Reverse Repo auctions varied between 11 days and 30 days whilst the weighted average yield rate varied between 8.25 per cent and 9.56 per cent. Total volume injected throughout the year was Rs. 40.5 billion.

(c) Standing Facilities

Standing facilities were provided throughout the year at CBSL Repurchase rate and Reverse Repurchase rate to Pls who were unable to manage their short term fund requirements fully, through the interbank money market and the daily OMO auctions. The Repurchase transactions under the standing facility recorded a daily average of about Rs. 9.0 billion per day and a total of Rs. 2,192.2 billion during the year. The total Reverse Repurchase transactions under the standing facility were Rs. 105.4 billion for the year 2013.

(d) Outright Transactions

CBSL conducted outright sale auctions to absorb liquidity on a permanent basis selling Treasury bills out of its own portfolio. Total value of Treasury bills sold through outright sales auctions amounted to Rs. 128.8 billion in 2013. The tenure of the Treasury bills sold ranged from 7 days to 64 days while the yield rates ranged from 7.28 per cent to 9.10 per cent.

6.2.2 Statutory Reserve Requirement (SRR)

The SRR is a minimum reserve that each commercial bank is required to hold in terms of the regulations of CBSL in the reserve account with CBSL in proportion to the total deposit liabilities of each bank. DOD is responsible for both administration and maintenance of SRR and monitoring compliance by commercial banks. The applicable rate of SRR was decreased to 6 per cent from 8 per cent of rupee deposit liabilities of each of the commercial banks since 01 July 2013.

6.2.3 Bank Rate

The Central Bank's rate of interest (Bank Rate) on short term advances to licensed commercial banks, stipulated under Section 87 of the Monetary Law Act, remained unchanged at 15 per cent. However, this rate was only of academic interest during the year as no bank resorted to borrowing from CBSL at the Bank Rate.

6.3 Banker to Commercial Banks and the Government

6.3.1 Accounts of Financial Institutions

DOD provided current account facilities to commercial banks and primary dealers to ensure an efficient inter-bank payment and settlement system, thus facilitating the Central Bank's role of being the Banker to commercial banks. At the end of 2013, CBSL maintained accounts for 24 commercial banks and 7 primary dealers. These accounts were operated on a RTGS basis within the Automated General Ledger system of the Bank.

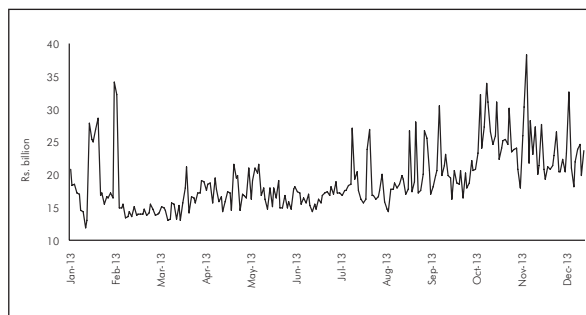
6.3.2 Government Accounts

DOD also maintained the accounts of government departments, government agencies and institutions and certain statutory boards, providing them with required banking facilities in performing its functions as the Banker to the government. The total number of accounts maintained by CBSL amounted to 55 as at end 2013. In terms of Section 89 of the Monetary Law Act, CBSL provides provisional advances to the government, free of charge, with the ceiling being 10 per cent of the estimated government revenue in a given fiscal year. During 2013, the ceiling of the provisional advance increased by Rs. 15.3 billion to Rs. 128.3 billion corresponding to the higher government revenue estimated for the year 2013 and as at end 2013 provisional advances stood at Rs. 109.2 billion compared to Rs. 111.3 billion as at end 2012.

6.4 Provision of Intra-Day Liquidity Facility (ILF)

Chart II-2

ILF drawn in 2013



DOD ensured the smooth and efficient functioning of the RTGS system by providing ILF to Pls. This facility was provided free of charge against the collateral of Treasury bills and bonds, which were valued at their current market prices with a sufficient hair cut to absorb any variations in market prices during the day.

The total value and average daily value of ILF drawn during the year amounted to Rs. 4,674.1 billion and Rs. 19.2 billion respectively. This shows an increase in ILF utilisation over that of the previous year amounting to a total of Rs. 3,692 billion with an average of Rs. 15 billion respectively.

6.5 Supervision of Money Brokers

In order to improve the operational efficiency of the domestic money and foreign exchange market, CBSL increased the coverage of monitoring activities on different types of financial institutions operating in the economy. Towards this end, to facilitate strengthening of financial system stability, "Money Broking Regulations No. 1 of 2013" (Regulations) under Section 10 (c) of the Monetary Law Act, No. 58 of 1949 was issued and came into effect from 15 February 2013. Under the new Regulations, both the existing money brokers (MBs) and the new firms/individuals who intend to enter into the money broking activities shall obtain the "Certificate of Authorisation" issued by the Monetary Board of CBSL. The Regulations cover among other things, the minimum eligibility criteria, legally permissible activities, operating requirements, authorisation process, internal policies and procedures, corporate governance, reporting requirements and penalties for non-compliance. The Regulations are expected to give credence to the operations of MBs and provide confidence for financial institutions that use their broking services. Similarly, it is also expected to improve the efficiency of price discovery process while facilitating maintenance of professional standards of the best business practices ensuring healthy development of the overall money market and foreign exchange market in the country.

7. ECONOMIC RESEARCH

Economic Research Department (ERD) was formed in 1950 at the time of the establishment of the Central Bank under the Monetary Law Act (MLA) No. 58 of 1949. As the “Economic Think Tank” of the Central Bank, ERD was conferred with the function of preparing data and conducting economic research for the purpose of guiding the Monetary Board and the Governor in formulating, implementing, and executing policies and measures and for the information of the public, in the areas of money and banking and other economic subjects of general interest. The MLA has vested the authority with the Director of Economic Research (DER) or any officer of ERD authorised by DER to require any person to furnish any information that is considered necessary for discharging the statutory responsibilities of the Department.

During the year, the Department progressed in achieving its goals of maintaining economic and price stability to sustain a high economic growth, and maintaining external sector stability to improve resilience to external shocks while strengthening investor confidence. Further, ERD continued to engage in policy research facilitating effective policy formulation and meeting statutory requirements of publication of annual report and other reports. The Department also played an active role in providing policy advice to the government and other stakeholders.

In achieving its strategic objectives, the following activities were carried out by ERD in 2013.

7.1 Maintaining Economic and Price Stability

With a view to maintaining price stability, ERD laid the foundation at the beginning of the year by setting the desired path for monetary expansion consistent with expected macroeconomic developments and thereafter closely monitored the trends and developments to ascertain deviations that would require any policy intervention. In carrying out this vital responsibility, ERD discharged its duties by compiling macroeconomic statistics pertaining to real, external, fiscal and monetary sectors and providing comprehensive analyses on domestic as well as international economic developments to the monthly meetings of the Monetary Policy Committee (MPC), the committee advising the Monetary Board on Monetary policy. ERD continued to project headline and core inflation using econometric models in order to facilitate the proactive and timely monetary policy decision making process. The Monetary Board was also continuously updated with assessment of risks arising from real, external, fiscal and monetary sectors’ developments, and the possible impact of these developments on inflation and economic growth. Further, monthly meetings were held with the Monetary Policy Consultative Committee (MPCC), which was established to strengthen the monetary policy decision making process by obtaining views of the representatives from the private sector.

The monetary policy decisions taken by the Monetary Board were communicated to the public through monthly monetary policy press releases. These press releases were helpful in effectively communicating the policy rationale to manage inflation expectations and

to build-up public confidence while maintaining policy credibility. Accordingly, ERD managed to succeed in achieving its objectives of maintaining inflation at mid-single digit levels and short term market interest rates at desired levels during the year. Further, supported by the timely implementation of appropriate monetary policy measures, which resulted in well managed inflation, the Sri Lankan economy was able to record a satisfactory economic growth amidst the slow global economic recovery and renewed uncertainties in emerging market economies.

7.2 Maintaining External Sector Stability

External stability of the country was maintained supported by greater flexibility allowed in the determination of the exchange rate. In addition to the provision of specific updates on developments in the external sector, ERD continued to identify external vulnerabilities and possible shocks to the exchange rate and the balance of payments (BOP) and provided detailed analyses with timely policy recommendations to the Monetary Board to ensure the viability and stability of the external sector. To ascertain the adequate level of foreign exchange reserves to meet the country’s foreign exchange obligations, a new risk-weighted reserve adequacy metrics was developed incorporating possible risk factors. Discussions were held with exporters about the possibility of improving the export sector and to identify the issues hindering their performance. Such initiatives helped in providing proactive policy advice to improve the performance of the external sector. ERD communicated external sector developments through the monthly external sector press releases.

With the technical assistance received from the International Monetary Fund (IMF), transition from Balance of Payments Manual (BPM) 5 to BPM6 was finalised during the year and publication of BOP statistics under BPM6 will commence with this Annual Report. Conversion to BPM6 was supported by the Annual International Investment Survey (AIIS), which was conducted to gather information on foreign assets and liabilities of 1,200 private companies in addition to the 8 annual surveys conducted on the services sector. Further, the compilation of International Investment Position (IIP) statements and Reserve Data Templates (RDT) under the BPM6 format was completed during the year. ERD also coordinated the implementation of a Tourism Satellite Account (TSA) System for Sri Lanka. A technical level working group and an advisory panel were set up to implement the TSA in Sri Lanka with the participation of the Sri Lanka Tourism Development Authority (SLTDA), the Department of Census and Statistics (DCS) and the Statistics Department of the Central Bank.

7.3 Providing Proactive Policy Advice

ERD provided policy advice on economic issues to the government and various other stakeholders. The September 15th Report examining the effects of the current fiscal policy of the government upon the ability of the Central Bank to achieve its objectives incorporating an analysis of economic performance of the first half of 2013 and the medium-term outlook along with policy proposals to be used for the preparation of the

2014 budget of the government was submitted to the Minister of Finance and Planning. ERD also provided independent views on macroeconomic implications and recommendations on 124 cabinet papers during the year. Further, observations and comments were provided on issues referred to the ERD by various government institutions as well as by other departments in the Bank. Evaluations of monetary implications on 20 foreign loans obtained by the government and observations on 25 unsolicited loan proposals submitted by the line ministries as per the requirements of the Standing Cabinet Appointed Review Committee (SCARC) were provided by ERD during the year.

Senior officials of ERD participated in various policy advisory committees set up by the government and other agencies and provided relevant policy guidance. Such representations in external committees included: Committee on Determination of Commercial Price of Fertilizer, Committee on Analysing Labour and Social Trends in Sri Lanka-2012, Sub-committee on the Establishment of a Global Business Centre, Steering committee for the Operationalisation of the Commercial Hub, Committee for Environmental Impact Assessment (EIA) of the Second Phase of Offshore Oil Exploration in the Gulf of Mannar and the Committee on Tourism Satellite Account programme.

Senior officers of the Department also provided inputs and participated in the deliberations of key internal committees such as the Market Operations Committee, Financial System Stability Committee, Domestic Debt Management Committee, Foreign Reserve Management Committee and the Risk Management Committee. Moreover, ERD officers participated and provided analyses to other internal committees/teams of the Bank, particularly, Foreign Currency Inflows Monitoring Committee, Committee for Contingency Events and Disaster Recovery for LankaSettle System, the Library Advisory Committee, Committee for the Implementation of Special Data Dissemination Standard (SDDS), team assigned with the task of Operationalising the Establishment of the Five Hubs, Working Group on National Risk Assessment on Money Laundering and Terrorist Financing, Technical Committee for Appointing a Consultant to Study the Infrastructure Capacity Gaps in the Colombo Commercial Business District and the Technical Evaluation Committee on Sovereign Bond Issuance.

7.4 Dissemination of Information through Publication of Statutory and Other Reports

The primary responsibility of preparing the statutory reports and several other reports such as "Recent Economic Developments", "Road Map", etc., in all three languages lies with the ERD. Accordingly, the Annual Report of the Central Bank for 2012 highlighting the monetary policy stance of the Central Bank, sectoral macroeconomic developments, accounts and operations of the Central Bank, and statistical appendices was prepared and presented to the Hon. Minister of Finance and Planning within the stipulated time with the assistance

of the other departments of the Bank. The publication "Recent Economic Developments-Highlights of 2013 and Prospects for 2014" was also released along with the Budget Speech-2014. The Monthly Bulletins containing a wealth of statistical details on all sectors of the economy including "events" of the month and press releases were published on the Central Bank website.

The policy statement of the Central Bank, "Road Map 2013-Monetary and Financial Sector Policies for 2013 and Beyond", was announced for the seventh consecutive year on 2nd January 2013. The Road Map was announced with the intention of enhancing the predictability and transparency of the Central Bank's policies, which would help stakeholders to design and better calibrate their own plans and strategies for the period ahead. The preparation of the Road Map 2014 was carried out during December 2013 and was announced on 02 January 2014.

In addition to the above modes, the Department disseminated economic and financial information for the benefit of the general public, through daily, weekly and monthly indicators published in the media as well as on the Central Bank website. Apart from monthly monetary policy and external sector press releases, press statements on emerging matters were released as required, to enhance public knowledge on such matters.

7.5 Engage in Policy Research and Knowledge Sharing Activities

With a view to fostering research on subjects of contemporary importance, officers of ERD undertook a number of research studies both to fulfill the Bank's requirements and on their own initiative. The "Research Advisory Panel" that was set up to facilitate research activities within the Department and to promote the research culture within the Bank continued its activities in 2013 as well. The "Macroeconomic Modelling Unit" (MMU) that was established in 2012, facilitated the ERD staff as well as officers from other departments of the Bank to carry out research activities on economics related topics. Under this initiative, four research papers were produced, which are expected to be published in 2014. Two research projects of external "Graduate Trainees" who were posted to ERD were also supervised by the MMU. In addition, senior officials of ERD continued to assist the post-graduate aspirants of the Central Bank by guiding, supervising and evaluating their research projects. Accordingly, over 25 research papers were evaluated by ERD during the year.

Staff Studies, the research publication of the Central Bank, carried three comprehensive research papers in its Volume 42, which was published in September 2013. ERD also organised the International Research Conference (IRC) in December 2013 for the sixth consecutive year. The IRC provides an opportunity to present and discuss theoretical and empirical research and to share views among researchers, particularly in

the region. Researchers from Malaysia, Pakistan and Sri Lanka presented their research findings at the IRC. As in previous years, officers in ERD engaged in conducting joint research with the South East Asian Central Banks (SEACEN) Centre. The joint research paper with the IMF based on the output gap analysis was published as a working paper in early 2014.

As a knowledge sharing and updating programme within ERD, weekly seminars were conducted by the officers in the Department, while some professionals and eminent speakers were invited to conduct lectures on timely topics to enhance the knowledge of ERD staff. Senior officers of ERD contributed immensely to share their knowledge and expertise on the subject areas of central banking and monetary policy at both local and international programmes. ERD, in collaboration with the Human Resources Department organised the “Monthly Economic Forum” by bringing in professionals from the industries to conduct lectures on subject areas of economics. Some officers attached to the Department also conducted several lectures at the “Monthly Economic Forum”. The officers of ERD worked as resource persons in various educational programmes organised by the Centre for Banking Studies, Sri Lanka Institute of Development Administration, universities, schools and various other Government and private institutions. Further, ERD staff continued to make presentations on central banking and macroeconomic developments to both local and foreign delegations visiting the Central Bank. In addition, several staff members of ERD rendered their services as resource persons at the “Thakshilawa” educational programme conducted by the Independent Television Network for the benefit of the Advanced Level students.

7.6 Strengthening the Engagement with International Organisations

ERD coordinated Sri Lanka’s relations with the IMF, the SEACEN Centre, the SEANZA group and the SAARCFINANCE group of Central Bank Governors and Finance Secretaries, while assisting the Ministry of Finance and Planning to coordinate work with the World Bank (WB), Asian Development Bank (ADB) and other multilateral and bilateral agencies. Senior officials of ERD represented the Central Bank in study groups dealing with issues relating to specific countries, regions and relating to general issues. Further, ERD staff regularly represented the Central Bank at international meetings, forums and conferences, by engaging in policy dialogues. A few of such meetings and conferences the officials attended were: SEACEN Board of Governors’ Meetings, SEACEN-CEMLA Conference, SAARCFINANCE Governors’ Symposium, SAARC Central Bank Senior Economists’ meetings, SAARCFINANCE Secretaries’ and Ministers’ meeting, SAARCFINANCE Coordinators’ meeting, SAARC Public Debt Managers’ Forum and the meeting of SEACEN-Directors of Research and Training.

The provision of economic updates by ERD to international organisations including IMF, WB, international investors, rating agencies and advisors, ambassadors and other relevant stakeholders continued on a regular basis. Meanwhile, ERD has initiated work with regard to the graduation to Special Data Dissemination Standards (SDDS) in 2014 from the current General Data Dissemination System (GDDS) of the IMF, facilitating the international agencies to obtain comparable information from the IMF website. ERD worked closely with three international sovereign rating agencies, namely, Fitch Ratings, S&P Ratings and Moody’s Ratings and three Rating Advisors to upgrade the country rating in 2013. Further, ERD undertook to address all policy related inquiries and extended all documentary support and prepared presentations with economic updates for the issuance of the sixth international sovereign bond, which was successfully completed in January 2014. Further, ERD facilitated visits from representatives of various international agencies including the “IMF Article IV” mission, “Ex-post Evaluation of the Stand-by Arrangement (SBA) Programme” mission and “Post Programme Monitoring” mission.

8. EMPLOYEES’ PROVIDENT FUND

The Employees’ Provident Fund (EPF), the largest superannuation fund in Sri Lanka, was established under the Employees’ Provident Fund Act No. 15 of 1958 to provide retirement benefits for semi government and private sector employees. In terms of the provisions of the Act, all administrative powers and functions of the fund is vested with the Commissioner of Labour while all the powers, duties and responsibilities of fund management, is vested with the Monetary Board of the Central Bank of Sri Lanka as the custodian of the fund. The Monetary Board has empowered the Employees’ Provident Fund Department of CBSL to act as the operational arm in performing its functions.

8.1 Functions of the Department

EPF Department is entrusted with responsibilities of collection of member contributions and surcharges, maintenance of member accounts, crediting interest to member accounts, payment of benefits to beneficiaries of the fund, investment of surplus funds, and charging the expenditure incurred by the Monetary Board and the Commissioner of Labour in the performance of their duties and functions. In 2013, EPF Department was engaged in the above activities as per the policies and directions approved by the Monetary Board and in close collaboration with the Commissioner of Labour.

8.2 Performance of Activities

(a) Membership, Member Balances and Refunds

Total number of member accounts reached 15.0 million by end 2013, which was an increase of 2.7 per cent compared to that of 14.6 million recorded at end 2012. The number of contributing member accounts increased marginally to 2.4 million by end 2013 from 2.3 million as at end 2012 (Table II-4).

Table II -4 Selected Key Information of the Fund

Item	2012	2013 (a)	Change (%)
Total number of member accounts (mn)	14.6	15.0	2.7
Contributing member accounts (mn)	2.3	2.4	4.3
Non-contributing member accounts (mn)	12.3	12.6	2.4
Contributing employers	68,140	70,392	3.3
Total contributions (Rs.bn)	70.2	80.5	14.7
Total refunds (Rs.bn)	48.7	50.2	3.1
Number of refunds	115,654	114,103	-1.3
Net Income (Rs.bn)	111.8	125.6	12.3
Total liability to members (Rs.bn)	1,124.5	1,281.9	14.0
Total value of the Fund (Rs.bn)	1,144.4	1,300.0	13.6

(a) Provisional

The total value of the Fund increased by 13.6 per cent to Rs. 1,300.0 billion as at end 2013 compared to that of Rs. 1,144.4 billion as at end 2012. This increase was due to both the growth in the net contributions of the members (contributions less refund payments) and the income generated through the effective and prudent management of the Fund. Total liability to the members including member interest stood at Rs.1,281.9 billion as at end 2013 recording a 14.0 per cent increase from Rs.1,124.5 billion as at end 2012 (Table II-4). The net contribution also increased to Rs. 30.3 billion compared to Rs. 21.5 billion recorded in the previous year. The total amount of refunds made to the members and their legal heirs in 2013 was Rs. 50.2 billion, which was an increase of 3.1 per cent over 2012. The net income of the Fund for 2013 increased to Rs.125.6 billion compared to that of Rs.111.8 billion during the previous year, registering a growth of 12.3 per cent.

(b) Investment of the Fund and Return

(i) **Investment Portfolio:** The total investment portfolio (book value) of the Fund grew by 13.7 per cent from Rs.1,105.5 billion in 2012 to Rs.1,257.3 billion in 2013 (Table II-5). The investment policy of the Fund continued to focus on providing a long term positive real rate of return to the members while ensuring the safety of the Fund and maintaining a sufficient level of liquidity to meet refund payments and other expenses of the Fund.

The investment portfolio consisted of 92.5 per cent in Government securities, 5.8 per cent in equity and 1.2 per cent in corporate debt and trust certificates. The remaining 0.5 per cent was in liquid assets such as Reverse Repos on Government securities to maintain day to day liquidity requirements. The maturity profile of the Government securities portfolio together with yield rates are given in Table II-6.

Table II -5 Investment Portfolio

Type of Investment	2012		2013 (a)	
	Amount (Rs.bn)	Share (%)	Amount (Rs.bn)	Share (%)
Treasury Bonds & Bills	1,012.1	91.5	1,140.5	90.7
Rupees Loans to Government	23.1	2.1	23.1	1.8
Corporate Debt	8.0	0.7	14.3	1.2
Equity	59.2	5.4	72.8	5.8
Reverse Repos	3.1	0.3	6.6	0.5
Total	1,105.5	100.0	1,257.3	100.0

(a) Provisional

Table II -6 Maturity Profile of Government Securities Portfolio (as at end of 2013)(a)

Maturity Period	Maturity Value Amount (Rs. bn)	Share (%)	Weighted Average Yield (%)
Less than 1 year	139.5	10.0	9.79
1-2 years	195.7	14.1	9.84
3-4 years	216.2	15.5	10.75
More than 5 years	842.0	60.4	11.92
Total	1,393.4	100.0	11.23

(a) Provisional

(ii) **Investment Income:** The Fund earned a total income of Rs. 136.7 billion in 2013, recording an increase of 12.6 per cent compared to that of the previous year (Table II-7). Interest income was the major source of income (76.9 per cent of the income) to the Fund. Interest income grew by 15.5 per cent from Rs. 90.9 billion in 2012 to Rs.105.0 billion in 2013. Further, income generated from equity portfolio, which included both capital gains and dividends, increased by 10.7 per cent to Rs. 3,339 million in 2013, compared to Rs. 3,016 million earned in 2012. However, amortisation gains from discounted Treasury bonds reduced by 3.0 per cent to Rs. 26.9 billion in 2013 from Rs. 27.8 billion in 2012 (Table II-7).

Table II -7 Income on Investments

Source of Income	2012		2013 (a)	
	Amount (Rs. mn)	Share (%)	Amount (Rs. mn)	Share (%)
Interest	90,904	74.9	105,038	76.9
Amortisation gain	27,792	22.9	26,956	19.7
Capital gains from Government Securities	34	-	1,019	0.7
Marked to market gain/(loss)	-388	-0.3	-45	-
Capital gains from Equity	1,020	0.8	113	0.1
Dividends	1,996	1.6	3,226	2.4
Premium - discount on redemption of mortgage	-	-	-4	-
Other	55	0.1	354	0.2
Total	121,413	100.0	136,657	100.0

(a) Provisional

(iii) **Expenditure:** Although total operational expenditure of the Fund increased by 3.3 per cent to Rs. 979 million in 2013 compared to Rs. 948 million in 2012, as a ratio of total gross income, operational expenditure was maintained at 0.72 per cent in 2013, compared to 0.78 per cent in 2012 (Table II-8). Over the years, the Fund has maintained its operational expenditure below 1 per cent of the total gross income.

Table II -8 Operational Expenditure

Item	Amount (Rs.mn)		Change (%)
	2012	2013 (a)	
Personnel Expenses	514	569	10.7
Administrative Expenses	397	364	-8.3
Other Expenses	37	46	24.3
Total	948	979	3.3
Total Expenses as a % of Gross Revenue	0.78	0.72	-

(a) Provisional

(c) Payment of Interest on Member Balances

A sum of Rs. 123.4 billion was available for distribution as interest to the members of the Fund as at end 2013, compared to Rs. 110.1 billion in 2012 (Table II-9). After transferring Rs. 3.7 billion from the reserves, the income was adequate to pay interest at 11.0 per cent on member balances in 2013 (Table II-10).

Table II -9 Payment of Interest to Members

Item	Amount (Rs.mn)		Change (%)
	2012	2013 (a)	
Gross Revenue	121,413	136,657	12.6
Total operating expenses	-948	-979	3.3
Income tax	-8,637	-10,069	16.6
Net income for the Year	111,828	125,610	12.3
Interest paid on current year refunds	-2,098	-2,233	6.4
Net income available for distribution (after payment of interest on current year refunds)	110,099	123,433	12.1
Transfers from/(to) reserves	5,700	3,700	-35.1
Net income available for distribution after transferring from/(to) reserves	115,799	127,133	9.8
Interest paid on member balances	-115,771	-126,992	9.7
Retained net income	28	141	403.6
Interest rate paid on member balances (%)	11.5	11.0	-

(a) Provisional

Table II -10 Rate of Interest Paid on Member Balances

Year	Interest Rate Paid (%)	Effective Interest Rate (%)
2002	12.10	12.26
2003	12.00	12.07
2004	9.50	9.59
2005	9.00	9.13
2006	10.10	10.30
2007	11.20	11.40
2008	13.20	13.44
2009	13.75	13.92
2010	12.50	12.65
2011	11.50	11.58
2012	11.50	11.62
2013 (a)	11.00	11.14

(a) Provisional

8.3 Member Services

(a) Member Account Statements

Issuing of account statements to the members through their employers for the first half of 2013 commenced in December, 2013. Arrangements will also be made to issue account statements for the second half of 2013 by end of May 2014.

(b) Housing Loan Facility

The Housing Loan Scheme, introduced in 1998 with the objective of facilitating the members to obtain housing loans from the participating lending institutions, viz., Housing Development and Finance Corporation Bank, State Mortgage and Investment Bank, Bank of Ceylon, People's Bank and Cooperative Rural Banks, continued in 2013 as well. EPF continued to issue certificates of guarantee to members against their EPF balances under this scheme. During the year, 16,268 member balance certificates were issued to participating lending institutions for the approval of housing loans amounting to Rs. 6,914 million (Table II-11). Further, nearly Rs. 2,178 million was deducted from relevant member accounts and was remitted to the participating lending institutions in 2013 to settle the defaulted loans during 2012.

Table II -11 Housing Loan Facility

Year	Certificates Issued (No.)	Credit Approved (Rs.mn)	Amount Remitted to Lending Institutions (Rs.mn)
2000	12,938	1,648	262
2001	16,066	2,091	381
2002	19,502	2,673	541
2003	18,689	2,792	670
2004	14,307	2,452	735
2005	14,600	2,766	900
2006	15,136	3,049	1,078
2007	12,969	2,872	1,240
2008	12,519	3,008	1,192
2009	10,383	2,680	1,552
2010	13,848	4,512	2,093
2011	20,041	6,355	1,896
2012	11,234	3,973	2,019
2013 (a)	16,268	6,914	2,178
Total	208,500	47,785	16,737

(a) Provisional

(c) Public Awareness

Conducting awareness programmes and mobile services on e-Return system, member re-registration and other member related services were major activities of the Department in 2013. Nine awareness programmes and mobile services were conducted targeting different categories of stakeholders such as members, employers, job market entrants, labour officials, rural bank officials and general public. All these awareness programmes were focused to cover entities, which are having a large member base.

Mobile services were held at MAS Intimates-Thurulia, Municipal Council-Sri Jayawardenapura Kotte, Deyata Kirula Exhibition-Ampara, Medical & Communal Hospitality Day-Moratuwa, Crystal Martin (Pvt) Ltd-Galagedera, National HR Service Providers Exhibition-Colombo, Namunukula Plantations PLC-Uva Range Passara, Lanka Tiles PLC-Padukka and Dynagro (Pvt) Ltd- Battaramulla.

Collaboration and assistance of other relevant organisations such as the Department of Labour, Department of Registration of Persons, Registrar General's Department and Police Department were obtained in providing a variety of services to members, which included the following:

- (i) Issuing of EPF balance statements to members
- (ii) Amendment of member accounts
- (iii) Re-registration of members
- (iv) Promoting registration for online member services such as SMS and Internet facilities
- (v) Counselling for members
- (vi) Issuing applications for EPF members to obtain NICs by officers of Department of Registration of Persons
- (vii) Issuing applications for EPF members to obtain Birth Certificates/Presumptive Age certificates by officers of Registrar General's Department

In addition, Public Relations and Inquiries Counter (PR & IC) and Help Desk of EPF also engaged in educating the members on EPF procedures through one-on-one discussions over the counters and telephones. During the year 2013, PR & IC and Help Desk has responded to 222,498 member inquiries, of which 118,380 members have been served over the counter, 76,916 telephone inquiries were responded, 16,057 e-mails, 10,185 letters and 960 faxes have been replied.

(d) e-Return System for EPF Payments

EPF Department has taken several initiatives step by step, on e-Return system to encourage employers to submit member contribution details electronically (e>Returns) as a replacement for the manual payment system (C and C3 returns). Submission of e>Returns, a total paperless solution, minimises the cost and delays and enhances the efficiency of the operation in order to provide a better service to the members. Further, availability of an online

system to make EPF contributions together with details of contributions is one of the prerequisites to achieve the target under the Doing Business Index, which is crucial for attracting foreign investments to the country.

The e-Return system had been in operation on a voluntary basis until 2012. In 2012, legal provisions had been incorporated to EPF Act as an amendment to the Act No. 2 of 2012 to make this system mandatory for employers. The regulations on the amendments were gazetted in May 2013.

In addition, EPF Department took steps to obtain services from licensed commercial banks by appointing them as collecting agents under this scheme. Accordingly, Commercial Bank of Ceylon PLC and Bank of Ceylon introduced electronic payment facilities to their customers with effect from October 2011 and September 2012, respectively. In 2013, People's Bank, Sampath Bank PLC and Hatton National Bank PLC introduced their systems and joined as collecting agents with EPF to provide this value added service to their customers whose employers are contributing to the fund. Thus, a number of other commercial banks too are in the process of preparing the required IT systems to provide a similar service for their customers. By end 2013, 1,868 employers had registered to send member contribution details and payments online. This facility, which currently covers 40 per cent of total Rs. 2.4 million active members, enables EPF to update member accounts immediately and accurately.

Further, Direct Debit Payment Scheme has also been introduced for employers enabling them to transfer the monthly contribution directly from their bank to EPF's bank account while sending contribution details through e-mail directly to EPF.

EPF Department conducted 19 awareness campaign programmes and workshops on the e-Return system for employers and officers of the Department of Labour during 2013. As a result, registered number of employers with the system has increased to 1,868 by end 2013 from 1,385 as at end 2012.

(e) Re-registration of EPF Members

With the intention of providing an efficient service to EPF members, EPF Department and the Department of Labour launched a special project to re-register EPF members by names as appearing in their National Identity Card (NIC) and assign NIC number as the Unique Identification (UID) Number, which enables both institutions to use a common Member Centric Database (MCD).

By end 2013, NIC details of approximately 1.4 million active EPF members (contributing members) had been collected. Of these, 79 per cent of the members accounts (1.1 million accounts) were assigned UIDs, while the details of the remaining members are being processed after verification from their employers as discrepancies between collected data and the existing data were observed.

Registering of new EPF members under NIC details on real time basis commenced in November 2010. Accordingly, a monthly monitoring system has been put in place to capture NIC details of all new members to whom member contributions are received by EPF for the first time in each month. In 2013, 130,000 new members were registered and the New Member Registry (NMR) was updated.

Linking of previous member accounts of active members to UIDs was carried out during 2013. Accordingly, 16,000 previous member accounts were linked to UIDs during the year. This facility enables members to access and view their EPF balances of their multiple accounts by providing their NIC numbers through the Internet and Short Messaging System (SMS).

In 2013, EPF created a new window to offer a facility for the members who are having inactive EPF accounts to re-register under NIC details.

(f) The Image Scanning Project (ISP)

ISP was initiated to meet one of the strategic objectives of providing an efficient and effective service to members and other EPF stakeholders by converting the existing paper-based EPF system to a near paperless system. ISP is expected to improve the operational efficiency of the Department by minimising the time, space, cost and human resources involved in handling paper work.

The project is expected to be carried out in four phases.

(i) Conversion of existing documents into electronic form

The tender for ISP was awarded to a service provider and the contract agreement was signed on 29 July 2013. According to the scheduled time plan, scanning of existing documents such as Master Files (MFs), Form D (Employer registration form) and Re-registration documents are expected to be completed in August 2014.

(ii) Real Time Scanning of Documents

The scanning of documents at the point of receipt to eliminate accumulation of paper documents will commence within the second quarter of 2014. In 2013, EPF Department was in the process of developing the Software Requirement Specification to customise the software to meet the requirements of the Department.

(iii) Establishment of the E-record Room

The tender for the procurement of hardware to establish the E-record room was closed on 12 November, 2013 and the technical evaluation is now at the final stage. The hardware will be procured within the first quarter of 2014.

(iv) Linking of the Document Management System with the existing EPF computer system

This phase will be carried out in collaboration with the IT Department after the completion of the three major phases described above.

The successful completion of the project during the year 2014 is expected to provide benefits to the Department such as decentralised simultaneous access to documents, member centric and efficient retrieval of documents and improved processes. Cost savings through the elimination of rental cost for storing of documents and other staff costs associated with handling of documents will also be benefits, which will accrue to EPF Department.

9. EXCHANGE CONTROL

The Exchange Control Department (ECD), established in 1950, continued to discharge the responsibilities entrusted to it under the Exchange Control Act (ECA) No. 24 of 1953. The key functions of ECD are formulation of policies under the provisions of the ECA on foreign exchange transactions in the interest of the economy through the issuance of Directions to Authorised Dealers (ADs), issuance of Gazette Notifications, granting of permission and licences on specific foreign exchange transactions, surveillance on various foreign exchange transactions and investigations into violations of the provisions of the ECA. (The details of the Directions and Gazette Notifications issued in 2013 are given in Part III of the Annual Report).

As in the recent past, in 2013, all these functions were focused on further relaxation of foreign exchange transactions in line with the current macroeconomic policy stance to promote the competitive advantages of Sri Lanka in global business activities resulting in the enhancement of investor confidence, strengthening of foreign reserves and stabilising the foreign exchange market.

9.1 Issuance of Directions

ECD issued twenty three new Directions to ADs during 2013 as summarised below:

(a) Foreign Exchange Earners' Account (FEEA):

Permitting to open FEEA in the form of current, savings or term deposits in any foreign currency in the name of any foreign exchange earner.

(b) Forward Sales and Purchases of Foreign Exchange:

Removing the time restrictions and stipulating new terms and conditions with regard to forward contracts for the sales and/or purchases of foreign exchange.

(c) Non-Resident Foreign Currency (NRFC) Accounts:

Permitting to credit an NRFC account with the funds transferred from a Securities Investment Account (SIA) of the same account holder.

(d) Special Foreign Investment Deposit Account (SFIDA): Permitting to credit an SFIDA with the funds transferred from a SIA of the same account holder.

(e) Resident Non National Foreign Currency (RNNFC) Accounts: Permitting to credit an RNNFC account with the funds transferred from a SIA of the same account holder.

- (f) **Non-Resident Non National Foreign Currency Account (NRNNFA):** Permitting to credit an NRNNFA with the funds transferred from a SIA of the same account holder.
- (g) **Inward Investment Account (IIA):** Rescinding the previously issued Direction on IIA, ADs were informed that accounts opened under the aforesaid Direction shall continue to be operated as Sri Lankan Rupee accounts.
- (h) **Foreign Exchange Earners' Account (FEEA):** Permitting to open a FEEA in the names of the eligible borrowers who have borrowed under the External Commercial Borrowing Scheme (ECBS).
- (i) **External Commercial Borrowing Account (ECBA):** Permitting to credit the proceeds of loans obtained under ECBS, into any bank account and removing the necessity of opening an ECBA.
- (j) **Investment in Unit Trusts by Investors Resident outside Sri Lanka:** Informing ADs to facilitate transactions as per the Gazette (Extraordinary) No. 1795/39 dated 31 January 2013 issued with regard to investments in Unit Trusts by Non-Residents.
- (k) **Foreign Exchange Earners' Account (FEEA):** Revising the reporting requirement of FEEA.
- (l) **Entrepot Trade:** Stipulating conditions for which the ADs should adhere to when facilitating requests for import and export of goods for entrepot trade.
- (m) **Sale of Foreign Exchange to Emigrants:** Permitting ADs to issue an initial migrant allowance up to US dollars 150,000 per individual emigrant and to transfer funds from the Migrant Blocked Account (MBA) out of the eligible amount to the credit of an NRFC account or to an account maintained outside Sri Lanka by the emigrant as per the instructions given by the MBA holder.
- (n) **Resident Foreign Currency (RFC) Accounts:** Permitting to open new RFC accounts utilising funds transferred from existing RFC accounts maintained with another AD, irrespective of the currency type.
- (o) **Opening and Maintaining of Nostro Accounts by Authorised Dealers:** Permitting to open and maintain Nostro accounts by ADs with banks incorporated outside Sri Lanka or branches of such banks established outside Sri Lanka.
- (p) **Securities Investment Account (SIA):** Stipulating new terms and conditions with regard to opening and operating SIA, with a view to offering more flexible avenues to receive and repatriate funds into and out of SIA.
- (q) **Issuance of Foreign Currency Notes to Sri Lankans Travelling Abroad:** Permitting to issue foreign currency notes as a part of the travel allowance for Sri Lankans travelling abroad, up to US dollars 5,000 or its equivalent in any other convertible foreign currency.
- (r) **Repatriation of Sale Proceeds of Immovable Property held by Non-Residents:** Permitting to credit sales proceeds including capital gains if any, received upon sale of immovable property in Sri Lanka by non-residents, to a SIA or an account maintained outside Sri Lanka.
- (s) **Accommodations to Holders of Foreign Exchange Earners' Accounts (FEEA):** Permitting to extend accommodations in foreign currency from the Domestic Banking Unit (DBU) to persons who maintain FEEA.
- (t) **Non-Resident Foreign Currency (NRFC) Accounts:** Permitting to credit NRFC accounts with funds transferred from MBA and to open new NRFC accounts utilising funds transferred from existing NRFC accounts maintained with another AD, irrespective of the currency type.
- (u) **Opening and Maintaining of Nostro Accounts by Authorised Dealers:** Informing ADs that it is no longer required to forward the details of Nostro accounts to ECD.
- (v) **Purchase of Sri Lanka Sovereign Bonds in the Secondary Market by LCBs appointed as Authorised Dealers:** Permitting ADs to acquire, hold and transfer international sovereign bonds issued outside Sri Lanka by the Government of Sri Lanka in 2010, 2011 and 2012, in the secondary market.
- (w) **Re-designation of the Foreign Currency Account maintained by a Foreign Shipping Line/Airline Agent as the Foreign Currency Account for an Agent of Foreign Shipping Line/Airline (FCAASA):** Renaming the foreign currency accounts of agents of shipping lines and airlines operating in Sri Lanka as "Foreign Currency Account for an Agent of Foreign Shipping Line/Airline (FCAASA)" and stipulating the terms and conditions relating to opening and operating of FCAASA.

9.2 Issuance of Gazette Notifications

ECD issued eight new Gazette Notifications during 2013.

- (a) **External Commercial Borrowing Scheme (ECBS) (Gazette No. 1791/15 dated 01 January 2013):** Permitting to borrow from a person resident outside Sri Lanka under ECBS, subject to certain conditions.
- (b) **Permission to Accept Payments in Foreign Currency (Gazette No. 1791/16 dated 01 January 2013):** Permitting a person resident in Sri Lanka to accept payments in foreign currency in respect of goods and services supplied by such person to a person resident outside Sri Lanka.

- (c) **Permission to Issue and Transfer Sri Lankan Rupee denominated Redeemable Preference Shares (Gazette No. 1791/43 dated 04 January 2013):** Permitting to issue and transfer rupee denominated redeemable preference shares to approved country funds, approved regional funds, corporate bodies incorporated outside Sri Lanka and individuals resident outside Sri Lanka subject to certain conditions.
- (d) **Amendments to the Gazette Notification No.1681/10 dated 22 November 2010 (Gazette No. 1792/28 dated 10 January 2013):** Amending the Gazette Notification No. 1681/10 dated 22 November 2010 by substituting "IIA" of the words "SIA" for the purposes therein.
- (e) **An Amendment to the Gazette No. 1719/24 dated 18 August 2011 (Gazette No. 1795/32 dated 30 January 2013):** Extending the general permission that has been granted to persons in Sri Lanka for making payments in LKR to non-resident Sri Lankans to Sri Lankan origin.
- (f) **Permission to Issue and Transfer Units in a Unit Trust (Gazette No. 1795/39 dated 31 January 2013):** Permitting to issue and transfer units in a Unit Trust to foreign institutional investors, corporate bodies incorporated outside Sri Lanka and individuals resident outside Sri Lanka (inclusive of Sri Lankans resident outside Sri Lanka) subject to certain conditions.
- (g) **Permission to Residents for Making Payments to Acquire Immovable Property held by Non-Residents (Gazette No. 1814/39 dated 12 June 2013):** Permitting persons resident in Sri Lanka to make payments in Sri Lanka rupees to a person resident outside Sri Lanka being the consideration payable in respect of a sale of immovable property in Sri Lanka.
- (h) **Amendment to the Gazette No. 1644/26 dated 11 March 2010 (Gazette No. 1814/40 dated 12 June 2013):** Permitting persons who have obtained valid permanent residency permits from another country and dual citizens to open and maintain accounts with banks outside Sri Lanka.

9.3 Approvals/Permits

ECD granted approvals and permits for transactions falling under the provisions of the ECA as summarised below.

(a) Approvals

- (i) Received 15 requests from resident companies seeking special permission for overseas investments and granted permission to 09 companies to invest US dollars 26.43 million. One request was rejected and 05 requests are in the process of finalisation.

- (ii) Received 16 requests from resident companies to borrow from abroad and granted permission to 14 companies to borrow a sum of US dollars 335.5 million. Two requests are in the process of finalisation.

(b) Issuance of Permits / Licenses

- (i) 8 new money changing permits were issued and the total number of authorised money changers increased to 90.
- (ii) 5 money changers who were successful in purchasing foreign currency over US dollars 4 million per annum were granted permission to sell foreign currency and the total number of money changers permitted to sell foreign currencies increased to 24.
- (iii) 34 new companies were registered as freight forwarders, increasing the total number of freight forwarders to 538.
- (iv) Issuance of foreign currency acceptance permits to other restricted dealers such as duty free shops, tourist hotels/restaurants, gem and jewellery shops and travel agents were discontinued by ECD due to the general permission granted by the Gazette Notification No. 1791/16 dated 01 January 2013.

9.4 Surveillance and Investigations

74 investigations were conducted during the year 2013 on instances of non-compliances with exchange control regulations. A sum of Rs. 8.4 million collected as the penalties on such violations was transferred to the Consolidated Fund. Most of such investigations related to unauthorised payments by residents to non-residents, violations of the conditions of the permits by restricted dealers and issue and transfer of securities contravening the procedure set out in the general permissions.

9.5 Public Awareness

Consequent to continued relaxation of exchange controls, several awareness programmes were carried out to enhance the knowledge on current foreign exchange policies and recent relaxations of capital account transactions among the authorised dealers and the general public. Further, a booklet titled "A Step-by-Step Guide to Foreign Exchange Transactions" was released for the public interest. This publication has been prepared in a user friendly manner with the objective of serving as an essential guide to current procedures. Further, a new website (www.ecd.lk) dedicated for foreign exchange operations and information was launched.

Awareness programmes by way of seminars were also conducted for financial institutions, law enforcement authorities, government departments and general public. 43 such awareness programmes were conducted during the year 2013.

10. FACILITIES MANAGEMENT

During 2013, the Facilities Management Department (FMD) ensured operational reliability of critical services and a pleasing and comfortable working environment for the staff to work towards achieving the objectives of the Central Bank.

In line with the Strategic Plan, in 2013, FMD continued to carry out its primary functions aiming to achieve its goals including the maintenance and upkeep of the Bank premises and maintenance of a high degree of operational reliability of all critical services such as supplying of the logistics facilities, electricity, air conditioning, water supply, transport and communication. The Department was able to achieve almost 100 per cent reliability in providing those facilities contributing to ensure business continuity of the Bank. FMD was able to provide "Value for Money" for the services provided by the Department through efficiency, cost-effectiveness and timely delivery through a mechanism of professional evaluation of projects, selection of cost-effective and high standard contractors and close monitoring of the progress of the projects to ensure completion on agreed dates with required quality standards. FMD modernised the entrance of the Head Office Building and the Reception Desk making the entrance environment more people friendly and attractive. Further, it converted a part of the entrance area into a comfortable waiting room with modern audio visual facilities for the members of the general public who visit the Bank for various purposes. In addition, the integrated Security System at CBSL Head Office was upgraded with added electronic and enhanced features of access controls.

The refurbishment work of the Central Point Building* (formerly named as National Mutual Assurance Building) was completed in 2013 yielding a substantial enhancement to the value of the property. This building was renamed as the Central Point Building taking into account its location at the middle of the Colombo Fort from where the distance from Colombo to any destination of the country is measured. Restoring the appearance of the building to its original glory with high standards of construction quality was an outcome of the collective effort of the professional staff of FMD and outsourced contractors/consultants, and guidance of the senior management. The Economic History Museum of Sri Lanka was established at the renovated Central Point Building declared open by His Excellency the President on 11 November 2013. FMD completed the construction of the Phase I of the multi-storey car park at its Head Office premises and declared it open on 25 October 2013, and provided parking facilities to senior officers of the Bank.

On 12 August 2013, FMD laid the foundation stone to construct a building complex in Kilinochchi to house its Northern Provincial Office in order to facilitate the development activities in all districts of the Province by promoting development finance, banking and financial activities and public awareness in related areas.

During the year, FMD commenced the refurbishment work of the "Whiteaways Building", located at Sir Baron Jayatilleka Mawatha, Colombo 01, which was acquired by CBSL from the Ministry of Public Administration. In addition, FMD laid foundation stones during the year to construct additional apartments for Kataragama and Nuwara Eliya Holiday Homes and for an extension building at the Centre for Banking Studies at Rajagiriya.

In 2013, FMD strengthened its fleet of vehicles by improving the conditions of the vehicles to mitigate operational risks. The department was able to provide uninterrupted transport facilities for a number of international conferences sponsored by CBSL in addition to meeting transport requirements of the daily functions of the Bank.

11. FINANCE

The Finance Department (FD) undertakes financial reporting function of CBSL in terms of International Accounting Standards (IAS)/ International Financial Reporting Standards (IFRS) and relevant provisions of the Monetary Law Act (MLA). Functions of the FD cover maintaining systems for internal reporting of financial transactions, preparation of the financial statements, preparation and monitoring of the annual budget of CBSL, maintaining a payment system for internal and external financial transactions of the CBSL, management of 12 internal funds, maintaining Fixed Assets Register and maintaining the database of staff loans.

11.1 Preparation of the Financial Statements

- (a) **Monthly Balance Sheet:** As per the requirement of the MLA, the monthly Balance Sheets for December 2012 and January to November 2013 were prepared and published in the Government Gazette during the year 2013.
- (b) **Annual Financial Statements:** IAS and IFRS have been adopted for this purpose since 2003. These statements are published in the Annual Report of CBSL. The FD updated accounting systems and procedures to comply with relevant accounting standards and requirements on a continuous basis during the year 2013. Audited Financial Statements of CBSL for the year 2013 are given at the beginning of part II of the Annual Report

11.2 Preparation of the Annual Budget and the Activity Based Budget

The annual income and expenditure budget and capital budget of CBSL for the year 2014 were prepared in line with action plans under the strategic plan of each Department of CBSL. The activity-based and functional budget was also prepared along with this budget to show the activity-wise cost and function-wise cost of CBSL.

* This Building is a 100 year old colonial era architectural building and was acquired by the Central Bank in 2010.

This process started in August 2013 and finalised in December 2013. The approval of the Monetary Board was obtained in December 2013 and the budget was made available to the Departments on the first day of 2014. Quarterly budgetary performance statements for the year 2013 were submitted to Departments and the Monetary Board in the interest of effective monitoring of budgetary control.

11.3 Payment System for Internal and External Financial Transactions

- All internal payments for the employee remunerations, staff loans, operational expenses, etc., were made in 2013 within the time targets.
- All external payments to local and foreign suppliers were made as per the procedures of CBSL. During the year 2013, the total payments were 5,174, which included 4,916 to local suppliers and 258 to foreign suppliers.
- Nearly 3,183 disbursements to the General Treasury and relevant projects and 555 installments on repayment of foreign loans were made during the year 2013.

Funds	Inflows	Outflows	Investments	Investments Year-end	Average Yield (% p.a.)
Superannuation funds	12,531.8	3,254.6	9,189.6	35,350.9	11.29
Medical funds	44.9	1.8	42.8	105.7	11.05
Special funds	968.7	19.9	949.3	1,615.0	11.16
Total	13,545.4	3,276.3	10,181.7	37,071.6	11.17

11.4 Management of Internal Funds

The FD managed 12 internal funds, which cover 6 superannuation funds of the staff and pensioners, 3 medical benefit funds and 3 special funds. Managing cash flows, investments of funds, making settlements and payments, keeping books of accounts and preparing annual financial statements are the major functions in this regard. The funds were invested mainly in Government securities, bank deposits and high rated corporate debentures and the average rate of return on investments was 11.17 per cent for the year 2013. The audited financial statements of these funds for 2012 were submitted to the Monetary Board as per the rules of those funds.

11.5 Maintaining Fixed Assets Register

The FD maintained the Fixed Assets Register in the fixed asset module of the General Ledger System. All changes such as new purchases and locations, changes of locations, revaluations, depreciation and disposals were recorded in this register during the year 2013. During the year 2013, the register was updated with 1,662 items procured and 645 retirements.

11.6 Maintaining the Database of Staff Loans

The FD continuously maintained the loan database of CBSL staff with the assistance of the Information Technology Department (ITD) to facilitate loan recovery record process and supply of information to the employees and to the Management during the year 2013.

11.7 Other Operations

(a) Procurement Process

According to the Rules of CBSL, the officers of the FD are required to attend all Technical Evaluation Committees and Tender Boards for procurement of goods and services and the Board of Survey. Nearly 360 Tender Boards and all Technical Evaluation Committees related to those procurements were attended during the year 2013.

(b) Reporting Improvements

Two major improvements took place on reporting in the General Ledger and foreign reserve management in 2013. A new IT based General Ledger System developed in-house by ITD of CBSL with the assistance of the FD relating to reporting requirements to be in line with accounting standards was implemented on January 01, 2014. The new system replaced the Oracle General Ledger System that has been in operation since 2003 developed and serviced by an external company (DMS Software Technologies). For the foreign reserve dealing and management, a new Treasury Management System, GUAVA, developed by an international service provider, which was procured through a Cabinet Appointed Procurement Committee was implemented with effect from November 01, 2013. This replaced the Treasury Dealing Room Management System (TDRMS) that has been in operation since 2004. In view of the increased volume and complexity of transactions of the Central Bank as reflected in the increase of total asset base by Rs. 891.4 billion during the last 10 years (from Rs. 354.6 billion in 2003) and the increase of foreign reserves managed from US dollars 2.3 billion in 2003 to US dollars 7.2 billion in 2013, two new improvements immensely enhanced the quality and speed of financial reporting of the Central Bank.

(c) Investment Oversight Committee

The role of the Investment Oversight Committee established by the Monetary Board is to advise and monitor the investments of sixteen funds managed by four Departments of CBSL. This committee of investments chaired by an Assistant Governor meets on a monthly basis and the FD provides secretarial service for the monthly meetings of this committee with the Heads and other officers of the respective departments. The Committee had 12 meetings during the year 2013 and reported quarterly to the Monetary Board for ratification of investments. At the end of 2013, the total value of the funds amounted to Rs. 50.7 billion.

12. FINANCIAL INTELLIGENCE UNIT

The Financial Intelligence Unit (FIU) established in terms of the provision of the Financial Transactions Reporting Act No 6. of 2006 (FTRA) has been operating in CBSL since 2007. The key functions of FIU include collection and receipt of information on financial transactions for the purpose of detecting possible links to money laundering (ML), terrorist financing (TF) and other unlawful activities defined in the FTRA, investigations into suspicious financial transactions relating to the above unlawful activities and dissemination of information and details of such investigations to relevant law enforcement and/or regulatory authorities for appropriate actions and conduct of examination of reporting institutions. The highlights of key functions and other activities of FIU during 2013 as stipulated in the FTRA were as follows.

12.1 Collection of Information, Investigation and Dissemination

As per the current procedure, licensed commercial banks (LCBs), licensed specialised banks (LSBs), licensed finance companies (LFCs), stock brokering firms and insurance companies (ICs) continue to report to FIU on cash transactions and electronic fund transfers (both local and foreign) of Rs.1.0 million and above or its equivalent in foreign currencies through FIU's online database management system, "LankaFIN". The Authorised Money Changers (AMCs), who were designated as reporting institutions since January 2013, reported their transactions through the Controller of Exchange being the regulator of the AMC. Accordingly, over Rs. 3.8 million of cash/fund transfers and 498 suspicious transactions (STRs) were reported during the year 2013. After conducting preliminary investigations, 73 STRs were referred to the law enforcement and regulatory authorities for further investigation. Based on the investigations conducted by Criminal Investigations Department (CID), the Attorney General's Department (AGD) has so far filed seven indictments against money laundering and three indictments against terrorist financing as at end of 2013.

12.2 Examinations of Reporting Institutions

During the year 2013, FIU conducted twenty six examinations on reporting institutions to assess their exposure to risk of ML and TF and non-compliances with the provision of FTRA and other rules and directions issued by FIU. As a result, Rs. 2.9 million worth of penalties were imposed on six financial institutions with regard to non-compliance detected.

12.3 Other Activities

(a) Signing of Memoranda of Understanding

As a mechanism to facilitate sharing of information and intelligence for the purpose of investigation and prosecution of suspicious transactions in

terms of provisions of the FTRA, FIU signed four Memoranda of Understanding (MOUs) with Japan Financial Intelligence Centre (JAFIC), Lebanon Special Investigations Commission (LSIC) and the Financial Intelligence Units of Costa Rica and Denmark during the year. Accordingly, the total number of such MOUs signed increased to 24 as at end of 2013.

(b) Improvements in the Regulatory Framework

With the view to further strengthening the regulatory framework in line with the changes in international standards and best practices on Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT), with the consultation of the legal review committee of FIU, several amendments were made to the Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005, particularly to include the definition of "terrorist" and "terrorist act". Further, FIU issued Know-Your-Customer and Customer Due Diligence Rules to Authorised Money Changers in terms of FTRA.

(c) Institutional Capacity Building and Awareness Programmes

In continued efforts to enhance the awareness on detecting, analysing and reporting of money laundering and terrorist financing transactions, 36 awareness/training programmes were conducted during the year, accommodating 2,540 participants from licensed banks and finance companies, Sri Lanka Police, educational and public institutions. Four such programmes were conducted with the assistance from the AUSTRAC, the Australian FIU. Further, FIU conducted a special programme for Honourable Judges of the High Courts in collaboration with the High Court Judges' Association.

(d) International Relations

(i) **Egmont Group** : FIU obtained assistance from members of the Egmont Group, the Association of FIUs consisting of 132 member FIUs (as at 31 December 2013), to carry out investigations and collaborated with member FIUs for gathering evidence on their investigations.

(ii) **Asia Pacific Group on Money Laundering:**

As a founder member of Asia Pacific Group on Money Laundering (APG), Sri Lanka attended its 16th Annual Meeting held in China in July 2013 and the 16th Annual Typologies and Capacity Building Workshop held in Mongolia in September 2013 focusing on ML/TF vulnerabilities in the Non Profit Organisations (NPOs) sector and virtual currencies. During the annual meeting held in July 2013, Sri Lanka was endorsed as the rotating co-chair of the APG for 2016/2018

period and elected to host an annual meeting in 2017. This will be a significant event to showcase the Sri Lankan framework for AML and CFT, largely compliant with global standards in order to promote international investor confidence.

13. FINANCIAL STABILITY STUDIES

Maintaining financial system stability is one of the two core objectives of CBSL as per the Monetary Law Act. The Financial Stability Studies Department (FSSD) facilitates this objective by conducting relevant research and surveillance functions.

The main functions of the FSSD include conduct of research in the financial system stability area, assess risks and vulnerabilities in the financial system through a macro-prudential surveillance framework, propose appropriate policy measures based on such research and surveillance and conduct awareness in respect of financial system stability among policy makers as well as stakeholders.

13.1 Activities during the year

(a) Research

Five research studies were carried out during 2013. These studies include Exposure of the Banking and Non-banking sectors to gold price risk, Development of corporate debt market in Sri Lanka: Comparison with markets in the region, Impact of macroeconomic variables on NPLs of banks, Analytical framework on assessing systemic financial market infrastructure and Mortgage finance and consumer credit: Implications on financial stability.

(b) Macro-Prudential Surveillance

Under Macro-prudential surveillance, the following tasks were carried out.

- (i) Compilation of Financial Soundness Indicators for the banking, non-bank, financial markets and corporate sectors on a periodic basis to monitor the health of key financial and non-bank financial institutions.
- (ii) Submission of Financial Sector Risk Assessment Reports highlighting developments, risks and vulnerabilities in all relevant sectors to the Financial System Stability Committee, (FSSC) regularly.
- (iii) Submission of three board papers to the Monetary Board. These include risk exposure of banks and finance and leasing companies to fluctuations in gold prices and the impact of the recent gold price decline, financial system stability indicator (FSSI) and proposals made by the Financial System Stability Consultative Committee.
- (iv) Conducting of Stress Tests using sensitivity analysis for credit risk, market risk and liquidity risk

shocks to the banking sector on a quarterly basis.

- (v) Conducting of Macro stress tests using a credit risk model with panel data for individual banks on a quarterly basis.
- (vi) Compilation of stress testing thresholds on a quarterly basis to identify the threshold levels relevant to each risk; i.e. the level of shock, which triggers one more bank to go below the required level of CAR.
- (vii) Updating the Banking Soundness Index (BSI) on a quarterly basis.
- (viii) Updating the Financial Market Stability Indicator (FMSI) to assess the stability in the money and bond, equity and forex markets on a monthly basis.
- (ix) Updating the Macroeconomic Stability Indicator (MSI) to assess the stability in macroeconomic sectors such as fiscal, real, monetary and external sectors as well as the global environment on a quarterly basis.
- (x) Updating the Financial Systems Stability Indicator (FSSI), which is the composite indicator compiled using BSI, FMSI and MSI indicators to provide an overall picture of financial stability in the country, on a quarterly basis.
- (xi) Updating the Corporate Sector Creditworthiness Indicator, which analyses the creditworthiness of the corporate sector in Sri Lanka by assessing the probability of default of companies listed on the Colombo Stock Exchange on a quarterly basis.

(c) Publications

The annual Financial System Stability Review (FSSR) 2012 was published in April 2013. The FSSD also coordinated the preparation of the chapter on 'Financial Sector Performance and System Stability' in the Annual Report 2012 and chapter on 'Financial Sector Developments and Stability' in the Recent Economic Developments 2013.

(d) Coordination of the Committees on Financial System Stability

FSSD continued to serve as the secretariat for the two financial stability committees, namely, Financial System Stability Committee (FSSC), the internal committee and the Financial System Stability Consultative Committee (FSSCC) consisting of persons from the private sector.

13.2 Contribution

(a) Facilitating Financial Sector Risk Mitigation

- (i) Considering inconsistencies in property valuation, especially those used for financial reporting,

discussions with officers of the Department of Valuations and the Institute of Valuers of Sri Lanka were conducted.

- (ii) Discussions were held with legal firms and investment banks relating to the laws of the financial sector in Sri Lanka with a view to examining the feasibility of identifying laws, which hinders or impact negatively on business.

(b) Facilitating Financial Market Development

- (i) Several meetings were coordinated in relation to the FSSCC Sub Committee, which was appointed to develop the corporate debt market.

14. GOVERNOR'S SECRETARIAT

GSD delivered operational and technical assistance to the Governor, during the year, amidst the ever changing financial and economic environment. GSD performed its tasks at an optimum level, while being mindful of the aspiring economic goals of the country. Accordingly, high quality secretarial work, administrative assistance and protocol services were provided to the Governor enabling the smooth functioning of the Governor's, tasks which focused on achieving the challenging economic targets.

Throughout the year, the Governor's schedule was almost fully occupied with numerous external as well as internal appointments, meetings and other events and GSD managed to schedule them smoothly through effective communication and follow-up with the related parties. Further, secretarial assistance was provided to the Governor, through the preparation and compilation of the required documents, presentations, speeches, notes, correspondence, etc. for the Governor in accordance with the Governor's instructions and expectations.

Building and maintaining relationships with both local and global participants in the banking, finance and economic segments was considered vital for GSD to perform its tasks effectively. In particular, the management of relationships with global counterparties was given top priority in the context of the growing reputation of Sri Lanka as an emerging economy in the region. In that context, GSD had to interact with global investors regularly, while furnishing them with reliable information and arranging meetings for them to meet the Governor. In doing so, the growing methods of modern communication were used, including tele and video conferences; tele and video interviews; online chats in global investor platforms, etc.

GSD also continued to maintain its understanding on the overall operations of the bank and connected institutions, and used such background knowledge to deal with the correspondence of the Governor in an effective manner. This work entailed the handling of a large number of incoming and outgoing telephone calls, postal mails, e-mails, etc. for the Governor. In doing so,

the required steps were taken to forward the information received via the different channels to the Governor in a suitably summarised form.

Another important task of GSD was the handling of the protocol functions for the Governor and other VIP visitors of the Governor and the Bank. Such services were provided around the clock and at a level of service that ensured the credibility of the Governor and the Monetary Board. Moreover, high courtesy was maintained by GSD while performing its protocol duties, thereby assisting to improve the image of the Bank. The protocol functions included ensuring efficient arrangements with regard to Governor's official travels, both local and foreign, and the functions hosted by the Governor and Deputy Governors. During the year, the Governor made several field visits to observe economically significant sites, while also participating at various events abroad, including high-level international symposiums, investor road shows, etc. GSD arranged such visits and meetings and also a considerable number of breakfast, lunch and dinner meetings in order to facilitate the many interactions of the Governor. At the same time, GSD assisted several other departments in organising their functions at the Bank.

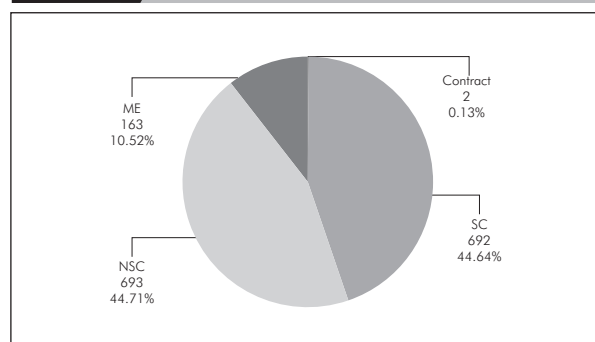
Apart from the aforementioned functions, GSD also attended to many other important and urgent matters of national interest, which were attended with high priority.

15. HUMAN RESOURCES MANAGEMENT

The Human Resources Department (HRD), introduced some new policies and procedures in 2013 to attract and retain the best new talents adding to the job market, enhance the technical and intellectual capacity of existing staff and motivate staff to achieve the vision and mission of CBSL. The strategic objective of HRD mainly focused on ensuring the availability of a highly productive, motivated and contented team of employees in the Bank, who contribute for achieving the Bank's core objectives amidst the emerging challenges. The key functions performed by HRD in achieving its strategic objective were training and development, performance management, succession planning and promotions, recruitment, job rotation and maintenance of amicable relationships with all internal stakeholders in line with the Strategic Plan of CBSL.

15.1 Human Resources Structure

The total human capital of the Bank as at end of 2013 stood at 1,550 employees including 692 Staff Class employees, 693 Non-Staff Class employees, 163 Minor Employees and 2 contractual employees. During the year 2013, 32 Staff Class employees and 18 Non-Staff Class employees retired, and 4 employees resigned from Bank service.

Chart II-3 Composition of the Staff as at 31.12.2013

By December 31, 2013, the average age of an employee of the Bank further reduced to 40 years as compared to 42 years as at the end of the previous year due to the recruitment of a new batch of Banking Assistants (Trainee) whose ages were below 23 years. Out of the total employees of the Bank, 53.3 per cent was below 40 years of age at the end of 2013.

All 27 departments and 5 provincial offices of the Bank were provided with qualified and competent employees, who are capable of handling various types of work of the departments they have been assigned. Nearly 83 per cent of Staff Class employees possessed a first degree, a postgraduate degree or a professional qualification. As at end December 2013, the total number of officers who had such qualifications in subjects relevant to the scope of CBSL was 646. Out of them, 19 officers had acquired their MSc degree in 2013. The allocation of the above 646 employees among the five clusters of departments of CBSL is shown in Table II - 14 below.

15.2 Functions of HRD

(a) Training and Development

HRD, in 2013, continued with the provision of training and skills development opportunities for its employees in order to achieve one of its main objectives of improving required competencies and enhancing the performance and productivity of the employees by updating knowledge on modern technical changes on subject areas relating to the core/support functions of the Bank and sharing experiences of other countries. The expenses on such training programmes were borne by CBSL as empowered by section 27 of the Monetary Law Act No. 58 of 1949.

(i) Short term Training

The main objective of provision of local and foreign short term training opportunities is to develop the skills and competencies of CBSL's staff. As usual, HRD prepared the training plan at the beginning of 2013 based on the competency gaps identified through the competency mapping exercise carried out at the end of the previous year. Short term local and foreign training opportunities were provided in line with the training plan with a view to minimise the identified competency gaps. The total number of short term local and foreign training opportunities provided during 2013 was 2,343.

(ii) Short term Foreign Training

Employees were given opportunities to participate in foreign training programmes, workshops, seminars and visits conducted by recognised training institutions, central banks such as Deutsche Bundesbank, Reserve Bank of India, Bank Negara Malaysia, Federal Reserve Bank, International funding agencies and research

Table II - 13 Human Resources Structure as at 31.12.2013

Categories of Employees	No. of Employees			Average Age	Educational/Professional Qualifications					
	Male	Female	Total		Postgraduate, First Degree & Professional Qualification	Postgraduate & First Degree	Postgraduate & Professional Qualification	First Degree & Professional Qualification	First Degree	Professional Qualification
(1) Staff Class										
(i) Grade IV & above	54	16	70	54	13	47	03	04	03	0
(ii) Grade III.2	52	18	70	51	06	43	01	01	18	0
(iii) Grade III.1	13	25	38	47	01	12	01	04	19	0
(iv) Grade II	101	116	217	43	21	33	04	20	98	09
(v) Grade I	93	130	223	43	05	11	03	31	60	26
(vi) MTT	38	36	74	28	02	01	0	19	47	05
(2) Non Staff Class										
(i) Grade V	26	20	46	56	0	0	0	0	0	0
(ii) Grade IV	67	40	107	50	0	0	0	0	11	04
(iii) Grade III	31	05	36	53	0	0	0	0	0	02
(iv) Grade II	150	128	278	33	0	01	01	08	32	13
(v) Grade I	94	07	101	44	0	0	0	0	0	0
(vi) BAA	35	90	125	22	0	0	0	0	0	01
(3) Minor Employee Class										
(i) Grade I, II and III	150	13	163	35	0	0	0	0	01	0
(4) Contractual Employees	01	01	02	59	0	0	0	0	0	01
Total	905	645	1,550	40	48	148	13	87	289	61

Table II - 14

Allocation of Employees with Educational/ Professional Qualifications in Five Clusters of Departments of CBSL

Cluster	Educational / Professional Qualifications					
	Postgraduate, First Degree & Professional Qualification	Postgraduate & First Degree	Postgraduate & Professional Qualification	First Degree & Professional Qualification	First Degree	Professional Qualification
Economic and Price Stability	10	39	3	16	42	5
Financial System Stability	12	24	3	27	48	22
Agency Functions	11	24	4	12	73	7
Currency Management	1	4	0	1	11	2
Support Services and Other	14	57	3	31	115	25
Total	48	148	13	87	289	61

organisations such as IMF, SEACEN, Bank for International Settlements (BIS), World Bank, Asian Development Bank, APRACA CENTRAB, etc. The total number of foreign training opportunities provided during 2013 was 324. Table II-15 below shows the details of foreign training opportunities provided in 2013.

Table II - 15

Short term Foreign Training Opportunities - 2013

Field	No. of Participants
Economics	66
Financial Stability	82
Reserves Management	26
Public Debt Management/ Portfolio Management	24
Currency Management	7
IT and Payment Systems	9
Central Banking	7
Human Resources Management	21
Other	82
Total	324

Table II - 16

Completion of Assignments by Participants of Short term Foreign Training Programmes during 2013

Category	No. of Assignments
Guidelines for supervision of financial institutions	23
Knowledge sharing and public awareness	38
Concept papers and country studies	14
Proposals for improving systems and processes	37
Total	112

The participants of the short term foreign training programmes were given various types of assignments, which were required to be completed by using the knowledge and exposure gained by them through training programmes in order to make value additions by the participants to the Bank's overall performance. In 2013, out of 112 assignments given to the participants, 101 assignments were completed. Nearly 40 assignments were directly related to improve the existing processes of the Bank or introduce new processes or procedures to improve the overall performance of the Bank. The details

of the value additions and completion of assignments during 2013 are summarised in Table II -16 above.

(iii) Short term Local Training

Under short term local training, employees were given opportunities to participate in training programmes conducted by the Centre for Banking Studies (CBS) and other recognised local institutes. During the year, 2,019 short term local training opportunities were provided, and out of them, 1,330 opportunities were provided by CBS and 689 opportunities were provided by other reputed institutes. These training opportunities were mainly focused on the areas of economics, bank supervision, financial and capital markets, microfinance, information technology, communication, internal auditing and management.

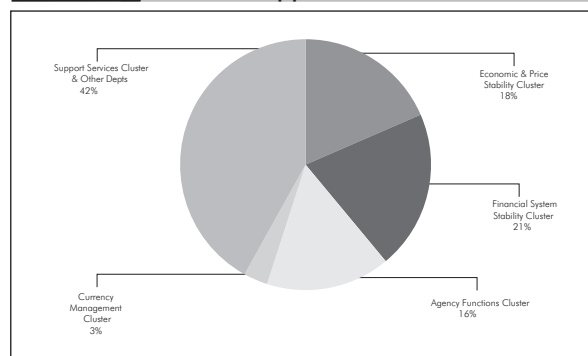
(iv) Workshops and Language Training Programmes

With the objective of improving the generic competencies of employees, HRD organised a series of workshops in the areas of Human Resources Management, language and communication and report writing. 16 such workshops were organised in 2013 covering areas such as leadership, motivation, communication and report writing. Tamil language classes were also continued in 2013 in collaboration with the Official Languages Department to facilitate the Bank staff to provide services to the Tamil speaking community in a more efficient manner. HRD organised a debate in Tamil language providing opportunity to the participants of Tamil classes to display their proficiency in Tamil.

The distribution of short term foreign and local training opportunities provided in 2013 for the officers in the five clusters of the departments of CBSL is shown in Chart II - 4.

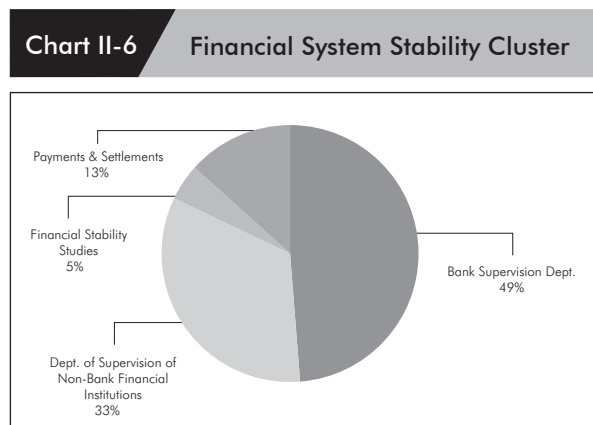
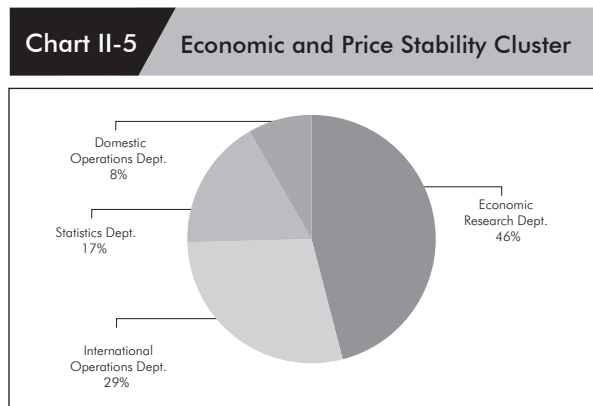
Chart II-4

Short term Training Opportunities - 2013



Accordingly, out of the total short term training opportunities, 39 per cent was provided to the departments in the clusters of economic and price stability and the financial system stability.

Charts II-5 and II-6 show the distribution of training prospects among departments in the economic and price stability cluster and the financial system stability cluster. Out of the total number of training opportunities provided for the economic and price stability cluster, 46 per cent was provided for the officers in ERD. Similarly, out of the total training opportunities offered for the financial system stability cluster, 49 per cent of the training opportunities were provided for the officers in BSD.



In addition to the training facilities provided by HRD, a number of departments continued the implementation of their own knowledge sharing, skills development and research activities within the respective departments to improve the knowledge and skills of their employees.

(v) Long term Training

Under Long term training, CBSL provides scholarships for postgraduate studies with a view to improve the intellectual capacities of Staff Class employees. During the year, HRD continued to implement the medium term plan prepared for the provision of Long term training needs. In 2013, CBSL sponsored 6 officers and 11 officers to pursue PhD programmes and Master’s Degree programmes, respectively, in reputed universities in the UK, USA and Australia. Out of the above 17 officers, 13 officers were pursuing their studies in the field of economics. During the year, 19 officers resumed duties in the Bank upon successful completion of Master’s Degree programmes and 04 officers are expected to resume duties after completing their PhD programmes in 2014.

The Table II – 17 shows the details of the number of officers who commenced and completed postgraduate studies under CBSL scholarship programme during the period from 2009 to 2013.

(b) Performance Management

The performance management system of CBSL includes preparation of job descriptions, setting goals in line with the Strategic Plan, monitoring performance on a continuous basis, evaluation of performance and rewarding good performance. In the performance evaluation process, the performance of an employee is rated in terms of the achievement of the goals given in the goal statement and such employee’s generic competencies, which contributed to the achievement of goals. The performance ratings have been specified as one of the components in the criteria for granting promotions.

In 2013, HRD completed performance evaluation of all employees for the year 2012 achieving time targets set out in the Strategic Plan. The individual and departmental goal setting process for the year 2013 was also completed as scheduled.

In addition, HRD conducted the mid-year performance review, which aimed to strengthen the performance management process further. It provides an opportunity to understand the level of performance of the staff members during the first half of the year to the relevant parties. In addition, the records of the mid-year performance review have been utilised as a guidance in evaluating the annual performance of the staff members.

Table II - 17 Number of officers who commenced and completed postgraduate studies under CBSL Scholarship Programme

Studies	2009		2010		2011		2012		2013	
	Commenced	Completed	Commenced	Completed	Commenced	Completed	Commenced	Completed	Commenced	Completed
Master’s Degree	4	2	15	6	17	10	18	17	11	19
PhD	1	1	1	1	2	2	4	2	6	0

(c) Succession Planning and Promotions

Having recognised the importance of career advancement of employees and succession planning in dealing with the future challenges of CBSL, HRD facilitated to fill vacancies in all key positions of the Bank by way of promotions. Accordingly, 13 officers in Staff Class Grade III.I were promoted to the post of Deputy Head of Departments in 2013. In addition, 26 officers in Non-Staff Class Grade IV and V were promoted to Staff Class Grade I under the promotion scheme for granting promotions for employees from Non-Staff Class to Staff Class and 199 employees in different classes of employment were promoted to their immediately higher grades adhering to the relevant promotion criteria.

(d) Recruitment

As a means of achieving the strategic objective of HRD of ensuring the availability of highly productive, motivated and contended staff, measures were taken to recruit a new batch of Trainee Banking Assistants (BAA) to meet the competency requirements of the Bank by absorbing the best talents available in the job market. Accordingly, 125 candidates were recruited as BAA with effect from October, 14, 2013. In addition, 9 Drivers to the Facilities Management Department (FMD) of the Bank and a Cutter cum Binder to the Printing Press of CBSL were recruited during the year.

(e) Job Rotation

HRD continued the implementation of the annual job rotation scheme in 2013 as well with the objective of developing a multi-skilled workforce and enhancing the overall productivity of the Bank. Accordingly, 90 staff members who had completed 5 years of service in the same department or 2 years of service in a provincial office were rotated among 22 departments and 3 provincial offices of the Bank with effect from July, 01, 2013, taking into account the competency requirements of the departments and the qualifications and competency levels of the employees.

(f) Employer-Employee Relations

As the facilitator for maintaining industrial harmony in the Bank, HRD continued to take actions to hold close dialogue between the Trade Unions and the Management of the Bank. In this regard, HRD facilitated the trade unions to meet the Management to discuss their issues as and when necessary. Accordingly, 15 discussions were arranged in 2013 giving the opportunity to the Management and Trade Unions to resolve some of the issues relating to remuneration, promotions, training, welfare, recruitment and general administration of the Bank.

15.3 Training for Graduates, Undergraduates and Students of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)

With a view to building a high quality workforce in the country and as a way of discharging corporate social responsibility of the Bank, in 2013 also, HRD continued to facilitate the provision of training for graduates,

undergraduates and the students of CA Sri Lanka. Altogether, CBSL facilitated to develop 229 such trainees during the year.

(a) Three-month Internship Programme for Undergraduates

In 2013, in collaboration with other departments, HRD facilitated provision of a three-month internship training for undergraduates for the third consecutive year. The main objective of this programme was provision of opportunities for undergraduates in order to be familiar with the practical aspects of the theoretical concepts learned at the universities in the field of economics, statistics, accountancy, banking and finance, business management, information technology and law. Further, this programme facilitates undergraduates to obtain hands-on experience in several departments of the Bank for a period of three months. In addition, the interns are given opportunities to improve their personality and professionalism, which are prerequisites for enhancing the demand for their employability in the job market. During the year 2013, HRD conducted 4 internship programmes for 98 students selected from 17 local and foreign universities and Sri Lanka Law College.

(b) Other Internship Programmes for Undergraduates

In addition to the arrangement of the regular three-month internship programmes mentioned above, HRD arranged 2 special internship programmes in 2013 at EPF Department for students of the University of Sri Jayawardenepura and the University of Colombo. Under these special internship programmes, 85 undergraduates of the University of Sri Jayawardenepura were provided training opportunities for a period of six months in two batches while 20 undergraduates of the University of Colombo were provided training opportunities for a period of three months.

(c) Graduate Training Programme

In response to a request made by the Ministry of Higher Education to provide training for the highly successful graduates, HRD initiated a graduate training programme in 2013. The first graduate training programme was conducted during the period from 01 July to 31 December 2013 for 5 graduates.

(d) Accounts Training for Students of CA Sri Lanka

In 2013, HRD also continued to facilitate the students of CA Sri Lanka to fulfill one of their compulsory study requirements by working as Accounts Trainees at CBSL under the supervision of qualified and experienced Chartered Accountants. The number of students facilitated by HRD in this regard was 21 in 2013.

15.4 Meetings Attended by the Governor Abroad in 2013

1. Commonwealth Business Forum in Delhi, meeting with investment Bankers in Bangkok and participating at the Citi Asia Pacific Investors Conference 2013 in Singapore in January.

2. Meeting with bankers and investors in Oman, meeting with bankers in Abu Dhabi and delivering the keynote address at the Colombo Stock Exchange (CSE) Investor Forum in Mumbai in February.
3. Sri Lanka Business Forum in Tokyo and participating at the 4th Financial Stability Board (FSB) Regional Consultative Group for Asia in Kuala Lumpur in March.
4. IMF/World Bank Spring meetings in Washington DC and participating at investor meetings in London in April.
5. Global Forum on Remittances in Bangkok in May.
6. Delivering the keynote address at the 7th SEACEN Advanced Leadership Course in Kuala Lumpur and meeting with Government and business leaders as a member of His Excellency the President's delegation in Tanzania and Seychelles in June.
7. Making a presentation at the Asia's Role in the Global Economy Forum in Singapore and attending investor meetings in Washington DC in July.
8. Invest Sri Lanka Investor Forum in Hong Kong and meeting bankers in Beijing, Shanghai and Paris in September.
9. Meetings with investment bankers in Bangkok, delivering address at the SEACEN 30th Anniversary Conference, delivering the keynote address at the 7th SEACEN Intermediate Leadership Course and attending the 3rd SEACEN – CEMLA Conference in Kuala Lumpur and participating as a lead discussant at the FSB Regional Consultative Group for Asia Meeting in Tokyo in October.
10. Delivering the guest address at the 35th anniversary celebrations of the Central Bank of Seychelles in November.

15.5 Appointments

1. Mrs. K. Gunatilake, Superintendent of the Employees' Provident Fund Department, was appointed as Director of the Human Resources Department with effect from 01 July 2013.
2. Mr. P. W. D. N. R. Rodrigo, Director of the Policy Review and Monitoring Department, was appointed as Superintendent of the Employees' Provident Fund Department with effect from 01 July 2013.
3. Miss. K. Saravanamuttu, Director of the Statistics Department, was appointed as Director of the Policy Review and Monitoring Department with effect from 01 July 2013.
4. Mr. A. R. K. Wijesekera, Director of the Human Resources Department, was appointed as Director of the Statistics Department with effect from 01 July 2013.
5. Mr. V. Baskaran, Additional Director of the Policy Review and Monitoring Department, was appointed

as Additional Director of the Provincial Offices Monitoring Department with effect from 07 October 2013.

6. Mr. T. M. Z. Mutaliph, Additional Director of the Governor's Secretariat Department, was appointed as Additional Director of the Communications Department with effect from 04 November 2013.
7. Mr. L. D. D. Y. Perera, Additional Superintendent of the Employees' Provident Fund Department, was appointed as Additional Director of the Internal Audit Department with effect from 04 November 2013.

15.6 Retirements

1. Mr. W. M. Karunaratne, Assistant Governor, retired from the Bank service with effect from 20 March 2013.
2. Mrs. C. Premaratne, Deputy Governor, retired from the Bank service with effect from 20 June 2013.

15.7 Officers on Release

1. Mr. K.D. Ranasinghe, Assistant Governor, to the International Monetary Fund as an Alternate Executive Director.
2. Mrs. K. M. A. N. Daulagala, Staff Class Grade IV officer, to the Ministry of Finance and Planning.
3. Mr. S. R. Attygalle, Staff Class Grade IV officer, to the Ministry of Finance and Planning.
4. Mr. K. M. M. Siriwardena, Staff Class Grade IV officer, to the Ministry of Finance and Planning.
5. Mr. M. Mahinda Saliya, Staff Class Grade II officer, to the Ministry of Finance and Planning.
6. Mr. M. S. Handunge, Staff Class Grade II officer, to the Golden Key Credit Card Company Ltd.
7. Mr. S. G. S. D. Jayasekera, Staff Class Grade II officer, to the Ministry of Defence and Urban Development.
8. Mr. S. J. K. Guruge, Staff Class Grade II officer, to the Ministry of Defence and Urban Development.
9. Mr. H. M. N. Dharshana, Staff Class Grade II officer, to the Ministry of Defence and Urban Development.
10. Mr. J. A. A. Priyantha, Staff Class Grade I officer, to the Presidential Secretariat.
11. Mr. A. W. U. C. N. Bandara, Staff Class Grade I officer, to the Golden Key Credit Card Company Ltd.
12. Mr. K. P. M. Perera, Staff Class Grade I officer, to the Ministry of Defence and Urban Development.
13. Mr. D. Jayawardena, Staff Class Grade I officer, to the Ministry of Mass Media and Information.
14. Mrs. S. Ranasinghe, Staff Class Grade II officer, to the Ministry of Justice.

15. Mrs. A. C. Abeysinghe, Staff Class Grade I officer, to the International Monetary Fund.
16. Mr. E. T. M. Soysa, Non-Staff Class Grade II officer, to the Golden Key Credit Card Company Ltd.
17. Mrs. H. M. N. S. Gunawardena, Legal officer (contract), to the Ministry of Finance and Planning.

15.8 Officers on No-pay Study Leave

1. Mr. U. P. Alawattage, Staff Class Grade IV officer, is on no-pay study leave with effect from 04 September 2012.

16. INFORMATION TECHNOLOGY

Functioning as a driving force of the Bank, the Information Technology Department (ITD) implemented several innovative business solutions to facilitate and improve the efficiency of the operations of different departments of the Bank. The functions carried out by ITD in 2013 are organised under five (5) major directions as given below.

1. Delivering IT projects for improving productivity and efficiency
2. Linking IT with business developments for projects of national interest
3. Measuring IT performance and standards
4. Infrastructure development for e-office and business continuity
5. Human capital development

16.1 Delivering IT Projects for Improving Productivity and Efficiency

ITD continued to introduce innovative business solutions utilising its professional competencies to cater to the needs of diverse business processes within the Bank while providing required support and maintenance services for over 100 existing automated applications. The following are some of the major projects that were undertaken by ITD during the year.

- (a) An Integrated General Ledger Accounting System (iGLAS) with an expanded chart of account structure and interfaces with critical business applications to cater to the new business requirements of the Bank. The new system was deployed for live operations after conducting system and quality assurance testing internally and carrying out an information system audit by a reputed audit firm. iGLAS acts as the central repository of the Bank's financial accounts complying with industry accepted practices and standards.
- (b) Providing technical expertise to implement a new Treasury Management System (TMS) namely Guava, for the use of the International Operations Department (IOD). ITD developed the interface between the Guava and iGLAS to capture foreign exchange deals and transactions.
- (c) While providing technical support to maintain the IT system of the Employees' Provident Fund (EPF) efficiently,

ITD actively involved in developing the following projects as further enhancements to the system.

- (i) Web-based contribution collection system for employers
- (ii) Image scanning project for establishment of "eRecording Room"
- (iii) Electronic submission of EPF contribution through commercial banks
- (d) Enhancing FinNet application by introducing International Financial Reporting Standards (IFRS) compliant report modules for Bank Supervision Department (BSD) and Supervision of Non-Bank Financial Institutions Department (SNBFID).
- (e) Expanding ForexNet application by introducing Outward Investments Account (OIA) module and revamping Securities Investment Account (SIA) module complying with new exchange control directions.
- (f) Providing technical support to establish a website for the Exchange Control Department to enhance public awareness on exchange control measures.
- (g) Designing payroll and loan modules to enhance the eHRNet application replacing the existing vendor provided application.
- (h) Expanding the Deposit Insurance Scheme catering to new requirements of BSD under the Premium and Investment modules.
- (i) Engaging in the process of procurement and implementation of new Cheque Imaging and Truncation System for Domestic Operations Department (DOD) to handle both inward and outward clearing processes and creating an interface with iGLAS for a centrally managed accounting system.
- (j) Introducing a web application for the Regional Development Department (RDD) catering to register, refinance, repayment and early settlement of beneficiary loans under National Agri-Business Development Project (NADeP).
- (k) Providing technical support to introduce a new access control system in the Bank.
- (l) Integrating the "Easytime" attendance system at EPF Department with the Electronic Time and Leave Recording System of the Bank's head office to maintain a centrally managed staff attendance system.
- (m) Implementing "Mansala", a corporate intranet, which is the electronic meeting point for Bank staff.

16.2 Linking IT with Business Developments for Projects of National Interest

During the year, another key direction undertaken by ITD was to engage in different capacities for linking technological innovations with national level projects

thus helping to bridge the gap between IT solutions and business requirements, which are of national interest. To achieve this objective, ITD officials provided their expertise to the following projects:

- (a) Implementing common ATM switch under CCAPS (Common Card and Payment Switch) project by LankaClear (Pvt) Limited in accordance with the decision of the National Payment Council.
- (b) Automating the activities of the Inland Revenue Department.
- (c) Introducing an Integrated Treasury Management Information System (ITMIS) for the General Treasury.
- (d) Preparing baseline security standards with Sri Lanka Computer Emergency Response Team (SLCERT) and Sri Lanka Standards Institution towards establishment of a CERT for financial sector complying with ISO standards.

16.3 Measuring IT Performance and Standards

Considering the increased demand for automating manual systems using web technology and measuring performance in compliance with industry accepted standards of information systems, ITD engaged in improving the availability of mission critical systems and conducting vulnerability assessment of both information systems and infrastructure. Consequently, ITD was able to ensure close to 99.9 per cent of system availability of the systemically important payment and settlement systems and other critical systems and to improve some areas identified during the vulnerability assessment conducted using internal technical skills.

16.4 Infrastructure Development for e-office and Business Continuity

The following major infrastructure developments were carried out to facilitate enhancements of IT infrastructure requirements to meet the anticipated increase of transactions and facilitate smooth functioning of the operations of different departments.

- (a) Replacement of all AS/400 servers allocated for primary and disaster recovery operations of the Bank and EPF. Existing online replication facility was upgraded and new facility was established between EPF and Labour Department for business resilience.
- (b) Addition and replacement of critical internal application and database servers with new technology, high capacity and speed for better performance.
- (c) Setting up of Wi-Fi zones within identified areas of the Bank premises as a service managed with industry accepted security measures.
- (d) Initiating action to setup a new disaster recovery site complying with ISO standards.

- (e) Establishment of a Virtual Private Network (VPN) to connect provincial offices with the head office and setting up of physical or wireless local area networks at all provincial offices for faster communication with the head office for better delivery of core and agency functions as expected from the provincial offices.
- (f) Expansion of Internet leased line capacity to 20 Mbps to facilitate the timely submission of regulatory information by financial institutions, to expedite research and development work and to improve transmission of electronic communication.

16.5 Human Capital Development

Identifying the need for continuously developing human capital in new technological and business directions and interpersonal skills in an always changing environment, ITD empowered its human capital during the year, providing foreign and local training programmes through seminars, conferences, workshops and postgraduate studies, which were helpful to improve the knowledge and skills of the staff.

17. INTERNAL AUDIT

The internal audit function has been in operation since 1951 in the Bank. In 2013, the activities of the Department were restructured in line with global standards and industry best practices. Accordingly, the name of the Department was also changed from Management Audit to Internal Audit. The mission, scope of work, accountability, independence, responsibility and the authority of the Director and the staff of the Department have been included in the Internal Audit Charter. Audits were performed in line with the standards in the International Professional Practices Framework of the Institute of Internal Auditors, USA and industry best practices. A summary of the activities carried out by the Department during 2013 is given below.

17.1 Conduct of Audit Assignments

(a) Annual Audit Plan for 2013

The Annual Audit Plan was prepared covering significant activities of CBSL and implemented with the approval of the Monetary Board Advisory Audit Committee (AAC).

(b) Internal Audit Procedure

Audit was performed by following four sequential steps, i.e., planning, performing, communicating and taking resolution actions and follow up to provide assurance on compliance of the activities of the departments of CBSL with the applicable rules, regulations and policies.

(c) Reporting the Progress of the Conduct of Audits

The progress of conducting audit assignments was reported to the Monetary Board with recommendations of the AAC, quarterly. Activity reports were submitted to the Auditor General on half-yearly basis.

(d) Other Audit Related Activities

Audit Facilitation Guidelines (AFG) were prepared and issued to all Heads of Department (HDD) of CBSL during the year. As per the requirements of the AFG, the HDD appointed Audit Coordinating Officers to provide facilitation for internal audit activities.

17.2 Awareness Programmes and Provision of Training

Considering the importance of the information systems, an awareness programme on 'Information Systems Security' was arranged for CBSL staff. A system was introduced to circulate audit views online to all employees to promote their integrity. The Department also provided training on internal audit and related subjects to graduates, undergraduates and the students of the Institute of Chartered Accountants of Sri Lanka.

17.3 Monetary Board Advisory Audit Committee

The AAC comprises of one member from the Monetary Board and two external audit professionals. Secretary to the Monetary Board is the Secretary to AAC and the Director of the Internal Audit Department is the Assistant Secretary to AAC. The Internal Audit Department (IAD) provided secretarial facilitation for the AAC.

A minimum of six (06) AAC meetings are required to be conducted per annum. During the year, seven (07) AAC meetings were conducted and the progress of internal audit and management responses to internal audit reports were reviewed.

Further, the recommendations made by the AAC with regard to audit resources allocation, internal audit withdrawal from management approval processes, and audit on information technology systems were implemented with the approval of the Monetary Board.

17.4 Facilitation for External Audit

The Auditor General conducts an external audit and the IAD acts as the facilitator to the external audit through the Secretary to the Monetary Board. For the purpose of audit of financial statements in terms of International Financial Reporting Standards, M/s. Ernst & Young, Chartered Accountants has been engaged by the Auditor General. Accordingly, the IAD provided technical inputs to the Secretary to the Monetary Board to collect required information, analyse the findings and handle correspondence.

18. INTERNATIONAL OPERATIONS

The Monetary Law Act (MLA) provides the necessary legal framework for international reserves management of Sri Lanka and it covers areas such as the maintenance and composition of international reserves, actions to preserve the international stability of the Rupee, foreign exchange operations of the Central Bank and the powers and responsibilities of the Monetary Board pertaining to international reserves management. In this regard, Section 67 of the MLA deals with the parameters in respect of asset types, counterparties, instruments

and issuers. The Monetary Board may also direct to further widen the scope of reserves management activities to enhance the safety, liquidity and return objectives of reserves management. Accordingly, the International Operations Department (IOD) has been entrusted to perform the task of managing the international reserves and to monitor domestic foreign exchange market operations.

18.1 International Reserves Management

Investments of international reserves were undertaken in accordance with the Foreign Reserves Management Guidelines approved by the Monetary Board, under the supervision of the Foreign Reserves Management Committee (FRMC). The international reserves, which are denominated in currencies such as US dollars, Euros, Sterling pounds, Australian dollars were invested mainly in two asset classes namely, fixed income securities (FIS) and money market instruments including gold. The Bank's FIS portfolio consisted of highly rated government securities, government guaranteed securities, and securities of government agencies and supranational institutions. The investments on both FIS and money market were carried out only through highly rated commercial banks, central banks and investment houses, which are counterparties approved by the management, paying due consideration to safety, liquidity and return on such assets. Liquidity requirements of the bank, debt service payments, risk management parameters, income generating abilities and specific directions of the Monetary Board were the key factors considered in determining the asset and currency composition of the reserves portfolio.

2013 was a volatile year for international financial markets. Key highlights of the year were from the US mainly, in the form of Quantitative Easing (QE) tapering speculation and partial government shutdown due to delay in approving the US government's budget. Speculation on US tapering of its QE3 programme due to progressive economic recovery, affected markets across the globe, resulting in rapid depreciation of currencies in frontier and emerging markets due to increasing US treasury yields leading to capital outflows. The European region had its own political and financial issues and continuing risk of deflation. Gold prices also tumbled by a record 25 per cent in 2013 with the US recovery. These developments were a challenge for the IOD to earn a reasonable rate of return whilst ensuring liquidity and safety of the foreign reserves. However, the Bank's overall reserves management operations have generated a net foreign income of US dollars 194.4 million (approximately Rs. 25 billion) during the year 2013, through foreign currency trading, money market investments and capital gains and coupon income derived from fixed income securities.

As instability and uncertainty affected the traditional developed markets, the IOD ventured into emerging markets such as South Korea, China and India for diversification and revenue maximisation purposes. Further, the IOD has started exploring potential avenues of investments to hedge its reserves from ever-growing risks.

Implementation of a new Treasury Management System was begun in early 2013 in order to cater to the growing number of transactions and new products where CBSL can mitigate the risk exposure to various market fluctuations more effectively. The live operations of the new system commenced from 01 November 2013.

18.2 Risk Management

The risks arising from the management of the international reserves portfolio were monitored closely on a continuous basis by the Middle Office of IOD, to ensure compliance with the established portfolio and risk management policies specified in the Foreign Reserves Management Guidelines. The performance of active trading was assessed against the **strategic targets** as well as the **benchmark portfolio**, set up to enable comparison against ideal conditions. Risk profiles were generated on a regular basis, highlighting the potentially adverse consequences of a diverse array of risks, in order to take cautious, yet decisive actions, in a timely manner.

The international market conditions were scrutinised to identify potential **exchange rate or currency risks**. Given the high level of volatility that persisted during the year, amidst uncertainties in the Eurozone, unconventional monetary policies promoted by the Bank of Japan, "tapering talks" by the US Federal Reserve Bank and the slowdown in emerging market economies, IOD pursued portfolio diversification and the use of strategic currency combinations. The impending foreign currency liabilities as well as the global currency market outlook and trade patterns were also considered when determining the currency composition. Exposures to short term depletion in the value of the FIS portfolio were estimated by using duration calculations while Value at Risk (VaR) computations were used to ensure that the risks were kept at appropriate levels. Potential foreign exchange losses arising from trading activities were curtailed by way of "Stop Loss Orders" and "Dealer Limits." Sensitivity analysis was used to gauge the risk exposure of the FIS portfolio to changes in interest rates. Exposure to interest rate risk was reduced by maintaining the durations of fixed income and money market investments at specific levels, based on expected yield curve movements.

Exposure to counterparty **credit risk** was evaluated and managed on a regular basis with the assistance of the "Counterparty Credit Risk Management System" (CCRMS), which uses financial indicators, credit ratings and their market exposures to set limits on trading activities with counterparties. Several counterparties whose ratings were lowered during the year had their limits adjusted. Potential risks they are exposed to were also captured through monitoring their credit default swap (CDS) spreads and stock market prices.

Liquidity risk was mitigated by ensuring that a sufficient proportion of assets in respective currencies were held in liquid form throughout the year, enabling all payments to be honoured appropriately. The strengthening of the verification processes, procurement of a new trading system and revisiting the investment guidelines has helped mitigate the exposure to operational risks arising from the employees, systems and processes that are in place to support the management of the international reserves.

18.3 Monitoring Domestic Foreign Exchange Market Developments

The IOD continued to monitor the transactions in the domestic foreign exchange market to ensure its smooth operation and to curb excess volatility in the USD/LKR exchange rate. It also ensured the adherence of Licensed Commercial Banks to the stipulated limits on daily net foreign exchange positions. Further, IOD continued its responsibilities in dissemination of information on exchange rates to various organisations and the general public.

The daily limits of net open position in foreign exchange imposed on commercial banks were revised upwards in 2013 with a view to allow more flexibility in the foreign exchange transactions carried out by commercial banks. Accordingly, this limit was increased from US dollars 64.7 million in 2012 to US dollars 120 million in 2013.

The first phase of the in-house developed 'International Operations Management System' was implemented during the year giving more operational efficiency and enhanced control features for the activities carried out by the Domestic Foreign Exchange Market Division of the IOD. This further increased the quality and speed of exchange rate related information disseminated by the IOD.

Table II-18 Interbank Foreign Exchange Transactions Volume - 2013

US\$ million					
Months	Spot	Tom	Cash	Forward	Total
January	399.91	277.82	92.31	378.23	1,148.27
February	296.71	182.55	145.12	331.34	955.71
March	367.61	288.98	165.01	445.79	1,267.39
April	418.68	230.94	278.72	432.50	1,360.83
May	381.15	302.78	187.23	503.19	1,374.35
June	420.53	252.18	111.61	453.21	1,237.54
July	209.10	200.55	149.53	599.69	1,158.87
August	91.84	225.50	225.50	550.17	1,093.00
September	122.05	157.95	125.80	304.21	710.01
October	292.91	142.62	235.33	400.43	1,071.28
November	146.78	240.83	214.60	515.82	1,118.02
December	381.46	228.85	141.24	458.50	1,210.05
Total	3,528.73	2,731.55	2,072.00	5,373.08	13,705.32

Table II-19 Purchases and Sales of Foreign Exchange by the Central Bank - 2013

US\$ million			
Months	Purchases	Sales	Net Purchases/ (Sales)
January	434.75	26.00	408.75
February	102.50	25.25	77.25
March	17.00	-	17.00
April	61.50	18.00	43.50
May	20.00	-	20.00
June	65.00	59.68	5.32
July	-	110.30	-110.30
August	12.00	328.87	-316.87
September	2.50	60.60	-58.10
October	164.15	11.48	152.67
November	20.00	51.38	-31.38
December	239.20	11.45	227.75
Total	1138.60	703.01	435.59

19. PAYMENTS AND SETTLEMENTS

The Payments and Settlements Department (PSD) continued to provide payment and settlement functions for domestic and international operations of CBSL and to focus on promoting safe, secure and efficient payment and settlement systems in the country. Accordingly, PSD carried out operations of the Real Time Gross Settlement (RTGS) System, the back-office functions to process and effect payment and settlement instructions in respect of CBSL's foreign exchange reserve management and open market operations, management of the SWIFT communication system, facilitating fund transfers among the member countries of the Asian Clearing Union (ACU) and policy formulation and oversight of the payment and settlement systems. The performance in major functional areas of PSD during 2013 is summarised below.

19.1 Real Time Gross Settlement (RTGS) System

PSD settled inter-participant payments including settlements for the Cheque Imaging and Truncation (CIT) System, the Sri Lanka Inter-bank Payment System (SLIPS) and other electronic retail payment systems as well as customer payments on real time gross basis. Inter-bank settlements of the Common ATM Switch (CAS) transactions were also settled through the RTGS System with the implementation of CAS in July 2013. Further, PSD facilitated and monitored the provision of the Intraday Liquidity Facility (ILF) to the participants who requested extra funds to ensure smooth functioning of the RTGS System.

- The total volume of transactions settled by the RTGS System during 2013 was 306,977 with a total value of Rs. 54,070 billion.
- The average volume and average value of RTGS transactions settled per day were 1,263 and Rs. 223 billion, respectively.
- On average, Rs. 19.2 billion was released per day to participants through ILF.
- PSD maintained system availability of 99.93 per cent during 2013.

19.2 Settlement of Foreign Exchange Transactions

During the year 2013, PSD carried out back office functions pertaining to international reserve management transactions originated from the International Operations Department (IOD) while contributing to the successful implementation of the new Treasury Management System (TMS) introduced by IOD under the dealing room modernisation project. PSD provided inputs required for the completion of the back-office module of TMS and participated in test and training sessions on back-office functions. With the commencement of the live operations of TMS on 01 November 2013, PSD carried out parallel runs of both the old and new systems during the last two months of the year in order to ensure efficient migration to the new system while providing uninterrupted back-office functions for day-to-day transactions.

- During 2013, PSD settled 16,899 transactions relating to foreign exchange trading and funding, money market, fixed income securities, gold trading transactions and ACU transactions amounting to US dollars 265 billion. When compared with the year 2012, the number of transactions showed a decrease of 14 per cent while the total value of such transactions recorded an increase of 17 per cent.
- The shift-based working system was continued throughout the year 2013 in order to facilitate the high volume of foreign reserve management transactions originated from IOD.

19.3 Settlement of Transactions under Open Market Operations

Back-office functions for open market operations were carried out by PSD through the allocation of securities to LankaSettle participants based on the Repo and Reverse Repo transactions entered into by them.

- PSD effected 5,270 Repo transactions amounting to Rs. 5,677 billion, 262 Reverse Repo transactions amounting to Rs. 187 billion and 84 transactions on outright sales amounting to Rs. 129 billion.

19.4 SWIFT Communications

PSD maintained the SWIFT system of CBSL, which handles all SWIFT communications of CBSL with other domestic and international financial institutions. Meanwhile, in order to be in line with the global standards of financial telecommunication, PSD successfully installed a new upgraded version of the SWIFT system in November 2013.

- Total SWIFT messages sent and received were 1,553,537 and 862,432, respectively, in 2013.
- SWIFT service was enhanced by the SWIFT headquarters in 2013 to provide the facility to access the system via SWIFT web access, in addition to the prevailing SWIFT Application Interface and accordingly, PSD took steps to familiarise the staff with the new access mode.
- SWIFT service was also made available from 8:00 a.m. to 8:00 p.m. under the shift-based working system in order to facilitate financial communication relating to foreign exchange transactions of CBSL.

19.5 Transactions under the Asian Clearing Union (ACU)

PSD facilitated payments for intra-regional transactions of the nine member countries of ACU through the ACU mechanism.

- During the year 2013, total number of transactions and value of transactions effected by Sri Lanka through ACU mechanism were 5,018 and Rs. 243.6 billion, respectively. The value of net settlements made under ACU mechanism was Rs. 198.9 billion.

- The 42nd meeting of the ACU Board of Directors was held in Pakistan in June 2013 and the Deputy Governor and the Director of PSD participated at the meeting as a member of the ACU Board of Directors and the Alternate Director, respectively. PSD amended the Operating Instructions of ACU mechanism in September 2013 incorporating the changes required to adhere to the decisions taken at the 42nd meeting of the ACU Board of Directors.
- In November 2013, with the commencement of TMS, ACU transactions were also linked to TMS to facilitate online processing of ACU transactions.

19.6 Payment System Policy and Oversight

PSD continued to carry out supervisory activities to ensure payment and settlement system stability by maintaining safe, sound and efficient payment and settlement systems in the country. In addition, the regulatory framework was also strengthened to streamline the operations of electronic retail payment systems. Accordingly, the following major oversight activities were carried out by PSD during the year 2013.

- In order to address several practical and legal issues encountered in the regulation of payment cards and mobile payment services, the Payment Cards and Mobile Payment Systems Regulations No. 1 of 2013 was issued on 07 June 2013 replacing the Service Providers of Payment Cards Regulations No. 1 of 2009.
- After evaluating the proposals submitted by the eligible parties, PSD issued licences to three institutions to engage in payment card business and to a mobile network operator to operate a mobile phone based e-money system. In addition, approval was granted to a mobile network operator, which had already been licensed to carry on a mobile phone based e-money system, to operate an e-money scheme by issuing a stored value card for public transportation.
- Adoption of the line encryption technology for Point-of-Sales (POS) terminals by institutions engaged in financial acquiring business was monitored in order to ensure safe and secure payment card operations in the country. Accordingly, all financial acquirers upgraded their POS terminals with the line encryption technology by 31 March 2013.
- PSD continued to provide assistance to establishing the Common Card and Payment Switch (CCAPS) in order to implement a nation-wide common platform for electronic retail payment systems. CAS, the first phase of CCAPS, started live operations on 23 July 2013 and the following directions were issued to LCPL and Members of CAS to ensure smooth functions of the switch;
 - (i). General Direction No.1 of 2013 on the Operations of the Common ATM Switch. This direction was issued to impose key prudential and obligatory requirements to LankaClear (Pvt) Ltd. as well as member banks of CAS.

- (ii). General Direction No. 2 of 2013 on the Fees Chargeable on the Transactions effected through the Common ATM Switch. This Direction was issued to impose upper limits for the fees that can be charged by card issuers from customers and interchange fee that can be charged by financial acquirers from card issuers.

- General Direction No. 3 of 2013 for Service Norms and Standard Times for Accepting Cheque Deposits and Crediting Cheque Proceeds was issued stipulating new cut-off times for accepting cheques for T+1 clearing and crediting cheque proceeds with the objective of passing the full benefit of the technological improvements carried out to the CIT System to bank customers. This Direction replaced General Direction No. 1/2007 on the Participating Institutions' Service Norms and Standard Times for Accepting Cheque Deposits from Customers and Crediting Cheque Proceeds to Customers' Accounts.
- Compliance with the Credit Card and Mobile Payment Guidelines by service providers was monitored to protect customers by creating a secure and reliable environment to carry on day-to-day electronic retail payments.
- Business Continuity Plans (BCPs) of LankaSettle participants were evaluated to ensure that they had updated BCPs in conformity with the Guidelines issued by CBSL. Each participant was directed to conduct at least one BCP drill during the year with the review of the respective Board of Directors.

PSD published the quarterly "Payments Bulletin" in CBSL website for dissemination of information on payment and settlement systems in the country. Further, PSD conducted awareness programmes to educate the general public and the banking community on payment systems and other related issues to encourage them to use electronic payment systems, which are safe and more efficient than paper based electronic payment systems.

In addition, fostering regional cooperation in Payment and Settlement Systems (PSS), PSD participated actively in the meetings of the SAARC Payments Council (SPC), which was established to have a common understanding and cooperation to help member countries to move forward in reforming their national PSS and also to establish an appropriate regional payment system that facilitates trade and investment flows in the SAARC region. The 13th SPC meeting was held in Bhutan in July 2013 and 14th SPC meeting was held in India in December 2013.

20. POLICY REVIEW AND MONITORING

The Policy Review and Monitoring Department (PRMD), which was established in 2007 is entrusted with the responsibilities of coordinating the strategic planning process of CBSL and conducting policy reviews and studies. In this regard, PRMD facilitates the preparation of the Strategic Plan of CBSL, monitors the progress of the implementation of the Strategic Plan and undertakes policy studies on contemporary issues of importance.

20.1 Coordinating the Strategic Planning Process

The 7th Strategic Plan of CBSL for the period 2013-2017 under the theme "Prepare \$ 4K Ahead" was launched on 01 January 2013. This was followed by a two-day awareness workshop for all staff in the first week of January 2013. A survey conducted indicated that the staff was familiar with the contents of the Strategic Plan.

PRMD monitored the implementation of the Strategic Plan and conducted quarterly progress review meetings with departments and provincial offices. The progress of implementation of the Strategic Plan was reported to the Strategic Plan Review Committee (SPRC), which was chaired by the Governor and comprised members of the corporate management of CBSL. Measures recommended by the SPRC to address bottlenecks and impediments were communicated by PRMD to the relevant departments for remedial action. Progress reports were also submitted to the Monetary Board on a quarterly basis. CBSL recorded an achievement rate of 97.3 per cent of its Strategic Plan in 2013.

In addition, PRMD organised the 8th Strategic Planning Retreat in September 2013 to prepare the strategic plan for the next five year period. The members of the Monetary Board, the Corporate Management Team, Heads and Additional Heads of Department and other staff and members of Consultative Committees of CBSL participated in the Retreat. The progress of implementation of the Strategic Plan 2013-2017 was reviewed and the Strategic Plan for 2014-2018 under the theme "Step Up, Avoid the Trap" was finalised. The Strategic Plan for 2014-2018 incorporates policies to facilitate the economic transformation necessary to achieve high, sustained and inclusive economic growth and thereby avoid the middle income trap. PRMD was responsible for producing the Strategic Plan 2014-2018.

20.2 Conducting Policy Reviews and Studies

PRMD undertook several policy studies on subjects relating to the middle income trap, financial sector laws, trends in government revenue, the global tea market, strategic planning in other central banks, educational institutions offering foreign degrees and export sector performance. The e-Policy and Procedure Library (ePPL), which is an electronic collection of policy related documents was revamped and updated and carried 735 documents by end 2013. Further, departmental staff engaged in knowledge sharing work and made 11 internal presentations on policy issues.

21. PROVINCIAL OFFICES MONITORING

Provincial Offices (POs) of CBSL operating in Southern, North Central, Central, Northern and Eastern Provinces continued to carry out Central Bank functions and other development related work in the respective regions effectively, during the year 2013. The Provincial Offices Monitoring Department (POMD) closely monitored the activities of the POs with a view to ensure that the POs performed the functions assigned to them effectively in the provinces in order to achieve the broader strategic objectives of CBSL.

21.1 Monitoring Activities of the POs

Monitoring activities of the POMD were based on a detailed Programme Calendar prepared for each PO at the beginning of the year. As part of its off-site monitoring, the POMD obtained daily activity reports, and weekly and monthly progress reports from each PO for the purpose of reviewing the progress. The officers of the senior management and the POMD made 27 visits to the POs for on-site monitoring of their activities. Further, during the year, the Department conducted 6 video teleconferences and 7 meetings in person with the Provincial Managers and other officers in order to discuss the progress of the POs. Several local as well as foreign training programmes were arranged by the POMD for the staff to improve their managerial and technical skills, during the year.

21.2 Activities of the POs

(a) Expansion of CBSL Functions in the Provinces

The POs conducted 416 awareness programmes during the year on various subjects related to the Central Bank to educate the general public, officers of financial institutions, other public and private sector organisations, and students and teachers. The subject areas, in particular included, financial literacy, investing in Government Securities, the benefits of obtaining financial facilities under the credit schemes operated by the Central Bank, the security features of currency notes, identification of genuine notes and good habits of using notes and coins and the consequences of investing in unauthorised financial institutions and prohibited schemes. The POs also provided assistance to several Departments of CBSL by way of collecting data and other information required by them. Further, the POs attended to requests from members of EPF, relating to EPF matters and maintained sales counters at the POs for sale of CBSL publications and commemorative coins. The Provincial Managers represented CBSL at important forums on development matters conducted by other organisations in the respective provinces.

(b) Development Related Activities

All five POs were actively engaged in promoting viable Micro, Small and Medium scale Enterprises (MSMEs) in the respective regions. In this regard, priority was given to improve skill levels of entrepreneurs, and adoption of new technology and best practices. Theoretical as well as practical training was provided for the entrepreneurs in association with relevant institutions in the provinces. Besides, each PO took initiative to establish a panel of experts representing different areas of expertise to assist the MSMEs in the region and conducted several programmes to develop marketing links between producers and large-scale buyers. During the year, the POs conducted 135 skills development programmes on various subjects including scientific farming practices, post-harvest techniques and high-tech agriculture, and 6,517 participants attended these programmes.

The details of the programmes conducted by the POs during 2013 are given in table II- 20.

Table II-20

Programmes Conducted by the Provincial Offices during 2013

Provincial Office	Awareness Programmes		Skills Development Programmes	
	No. of Programmes	No. of Participants	No. of Programmes	No. of Participants
Southern Province	88	7,623	23	1,302
North Central Province	78	6,489	51	2,493
Central Province	94	7,411	25	1,283
Northern Province	77	7,545	15	526
Eastern Province	79	6,157	21	913
Total	416	35,225	135	6,517

22. PUBLIC DEBT

In terms of Section 113 of the Monetary Law Act, the Central Bank of Sri Lanka has been charged with the responsibility of management of the public debt. Accordingly, the Public Debt Department (PDD) continued to engage in activities relating to the issuance of domestic debt and foreign commercial debt and servicing of public debt on behalf of the government. A summary of activities of PDD during 2013 is given below.

22.1 Raising of Funds for Financing the Government Budget

PDD raised funds from domestic and foreign sources mainly through the issuance of Treasury bills, Treasury bonds, and Sri Lanka Development Bonds (SLDBs) for financing the government's gross borrowing requirement in 2013. A summary of such financing activities under the three instruments is given below:

(a) Treasury Bills

The face value of total Treasury bill issuances in 2013 amounted to Rs. 1,235.3 billion. These issuances were made through weekly primary auctions. Total foreign investments in Treasury bills, including reinvestment, amounted to Rs. 90.3 billion in 2013. Of the total issuances, Rs. 1,170.5 billion represented the re-issuances of maturing Treasury bills while the balance of Rs. 64.8 billion represented new issuances.

(b) Treasury Bonds

The face value of total Treasury bond issuances in 2013 amounted to Rs. 1,017.1 billion. These issuances were made through 13 primary auctions and direct placement basis. Of the total issuances of Treasury bonds, Rs. 560.8 billion represented the re-issuances of maturing Treasury bonds while the balance of Rs. 456.3 billion represented new issuances. Issuance of the 30-year Treasury bond commenced in the year under review. In 2013, gross foreign investment by foreigners in Treasury bonds amounted to Rs. 250.7 billion, including the reinvestment of Rs. 92.6 billion of maturing Treasury bonds.

(c) Sri Lanka Development Bonds

Total of US dollars 1,820.2 million worth Sri Lanka Development Bonds was raised through the

conduct of six primary auctions in 2013. The total amount represents US dollars 750.1 million of SLDB re-issuances while the balance was new issuances.

22.2 Servicing of Public Debt

The country's unblemished record in servicing of public debt was maintained in 2013 as well, ensuring the servicing of all debts timely and accurately. Total debt service payments made in the year amounted to Rs. 1,143.6 billion. This includes the servicing of maturing Treasury bonds, domestic loans and foreign loans.

22.3 Facilitation of the Settlement of Government Securities

PDD continued to facilitate settlement of primary and secondary market transactions in Government securities by ensuring uninterrupted real-time operations of LankaSecure. The total value of holdings in scripless securities in Lanka Secure amounted to Rs. 3,726 billion as at 31 December 2013.

22.4 Maintenance of the Title Registry in Government Securities

Facilitation of the real-time updating of the Title Registry in Government Securities in the Central Depository System (CDS) maintained at PDD helped in augmenting liquidity and transactions in secondary market activities for Government securities. In 2013, PDD streamlined investor records in CDS by having unique identification numbers for each participant irrespective of the number of accounts maintained through different Primary Dealers/Direct Dealer Participants. Accordingly, the process of prompt recording of the changes in titles of Government securities and sending periodical statements to the account holders in CDS on their holdings, transactions and payments was further improved in 2013. PDD has sent 29,411 semiannual statements of holdings, 99,108 monthly statements of transactions and 61,352 payment statements by mail to the account holders of CDS in 2013. The total number of account holders at CDS stood at 84,474 by end 2013. Additionally, PDD commenced a survey to identify investors who wish to receive the above mentioned periodic statements in electronic form and stop sending printed statements through mail with a view to providing them efficient service while ensuring the confidentiality of information.

22.5 Regulation of Primary Dealers in Government Securities

PDD continued to engage in issuing new prudential regulations and the supervision and regulation of Primary Dealers in Government securities (PDs) in 2013 in terms of the Local Treasury Bills Ordinance and the Registered Stock and Securities Ordinance with a view to ensuring stability of the PD system and the safety of investors in Government securities. A summary of regulatory actions taken by PDD in 2013 is given below:

(a) Issuance of Prudential Regulations

Prudential directions/regulations were issued in 2013 with a view to further strengthen the stability of the PD system and the safety of investors in Government securities covering good governance and risk management on the conduct of business of PDs, protection of money invested in Government securities, the quality and content of dispensing of customer service by PDs, and the smooth and efficient market making in Government securities.

(b) Examination of Primary Dealers (On-site)

PDs' exposure to various risks together with adequacy of resources to mitigate residual risks and the adherence to the statutory and regulatory requirements have continued to be assessed during on-site examinations. Accordingly, risk focused on-site examination reports of ten PDs were completed in 2013 while time bound action plans have been put in place to rectify the remaining supervisory concerns highlighted in such examination reports. One examination was in the process of completion at the end of 2013. The progress of the rectification of regulatory concerns was monitored through quarterly reports sent by PDs.

(c) Examination of Primary Dealers (Off-site Surveillance)

PDD continued to engage in off-site surveillance of PDs, which is an ongoing monitoring mechanism of the financial soundness and operational performance of individual PDs as well as the industry as a whole, based on a number of periodic returns sent by PDs. During the year, 12 such off-site surveillances per month were carried out and prompt corrective action was taken by PDD as and when necessary.

(d) Regulatory Approvals

During 2013, licensed commercial banks were allowed to become PDs. Accordingly, Pan Asia Banking Corporation PLC and The Hongkong and Shanghai Banking Corporation Limited were appointed as PDs. Additionally, Perpetual Treasuries Limited was appointed as a PD. Hence, the total number of PDs increased to 15 by end of 2013.

(e) Monthly Meetings with CEOs of PDs

12 monthly meetings of the Chief Executive Officers of PDs with the Superintendent/ Registrar of Public Debt were organised by PDD in 2013. These meetings served as the forum for exchanging of views on economic and monetary developments, performance of PD Industry and many other areas that have an impact on the performance of primary and secondary market activities in Government securities and market development.

22.6 Risk Management

PDD has taken steps to further strengthen the measurement and monitoring of the risks emanating from the public debt portfolio and further improve the quality and coverage of the process of managing such risks in 2013. In this regard, PDD, with the assistance of the Debt Management Section of the Commonwealth Secretariat, successfully implemented the newest version of CS-DRMS, Horizon. Horizon facilitates maintaining a consolidated database on the multi-currency external and domestic debt portfolio. Further, with the state of the art planning and analytical tool in built, the Horizon helps PDD to analyse the underlying risk profile of the public debt portfolio and project the impact of possible macroeconomic changes on the overall cost and risk in terms of the debt stock, thereby facilitating the formulation of an optimal debt strategy.

22.7 Government Securities Market and Corporate Debt Market Development

A developed debt market is an essential element to reduce the refinance risk and the cost of borrowing of the government. Hence, PDD continued to engage in developing the debt securities market in 2013 as follows:

- (a) Implemented a half-yearly Treasury bond calendar with a view to facilitating the investors to factor such investment opportunities into their internal decision making process well in advance.
- (b) Enhanced the risk-free rupee yield curve up to 30 years by commencing the issuance of 30-year Treasury bonds.
- (c) Steps have been taken to put in place an electronic trading platform with the assistance of the Colombo Stock Exchange (CSE) covering instruments in debt markets, money markets and foreign exchange markets.
- (d) Initiated the process for establishment of a Central Counterparty and implementation of a Clearing and Settlement System for facilitating transactions of the Sri Lankan financial markets with the assistance of the Securities and Exchange Commission of Sri Lanka (SEC), the Colombo Stock Exchange (CSE) and LankaClear (Pvt) Ltd (LCPL).
- (e) Competition at primary auctions in Government securities was increased through a higher number of participants.

- (f) Standardised the documentation for market repo.
- (g) Allowed PDs to engage in market making in corporate debt.
- (h) Implemented a formal Customer Charter to govern the relationship between Primary Dealers and their customers with a view to further improving the quality and content of dispensing of customer service to ensure meeting the demands and expectations of the investors in Government securities.
- (i) Introduced covered short selling in Government securities by PDs for the smooth and efficient market making in Government securities. The move is expected to provide operational flexibility for efficient price discovery while enhancing the market liquidity by enhancing secondary market activities.

22.8 Ensuring the Availability of International Sovereign Rating

CBSL, as the fiscal agent of the government, has been charged with the responsibility for ensuring the availability of international sovereign ratings from international rating agencies and assessing the rating services provided by Fitch Ratings Ltd, Standard and Poor's and Moody's Investor Services, annually, as such rating is a directly connected activity in the public debt management function of the Central Bank. Accordingly, PDD continued to assess the services provided by the three rating agencies while facilitating them with annual rating reviews on Sri Lanka in 2013.

Annex II-2

Primary Dealers in Government Securities

1. Acuity Securities Ltd
2. Bank of Ceylon Primary Dealer Unit
3. Capital Alliance Ltd
4. Commercial Bank of Ceylon PLC Primary Dealer Unit
5. Entrust Securities PLC
6. First Capital Treasuries Ltd
7. NatWealth Securities Ltd
8. NSB Fund Management Co. Ltd
9. People's Bank Primary Dealer Unit
10. Sampath Bank PLC Primary Dealer Unit
11. Seylan Bank PLC Primary Dealer Unit
12. WealthTrust Securities Ltd
13. Pan Asia Banking Corporation PLC Primary Dealer Unit
14. The Hongkong & Shanghai Banking Corporation Ltd Primary Dealer Unit
15. Perpetual Treasuries Ltd

23. REGIONAL DEVELOPMENT

The Regional Development Department (RDD) continued to engage in its agency function of supporting to achieve inclusive and balanced growth and promoting financial inclusiveness in the country on behalf of the Government. In this context, RDD continued to perform its role under two broad areas namely, access to finance and creating awareness.

In providing access to finance, RDD focused on making available affordable financing through Participating Financial Institutions (PFIs) to three broad sectors namely, Agriculture and Animal Husbandry, Small and Medium Enterprises (SME) and Microfinance. Awareness building programmes were carried out in the areas of financial literacy, entrepreneurship development and post-harvest technology to develop skills of beneficiaries of loan facilities and entrepreneurs throughout the country. The RDD used print, electronic and broadcast media to raise public awareness of the various loan schemes implemented by the Department.

During 2013, twenty credit schemes were implemented by RDD. These credit schemes were funded by the Government of Sri Lanka (GOSL), CBSL, donor agencies and PFIs. The details of these schemes are given in Table II-22.

23.1 Agriculture and Animal Husbandry Sector

RDD continued to contribute to the Agriculture and Animal Husbandry sector by encouraging credit disbursements through PFIs amounting to Rs. 8,440 million during 2013.

The principal credit scheme focusing on this sector is the 'Sarusara' or the New Comprehensive Rural Credit Scheme (NCRCS), which provided working capital requirements of farmers, covering 32 crops. Under NCRCS, loans amounting to Rs. 5,378 million were granted to 60,120 farmers during 2012/2013 Maha season recording a decrease of 10 per cent in terms of the amount of the loans disbursed and 17 per cent drop in terms of number of loans, compared to the previous Maha season. During the Yala season of 2013, loans amounting to Rs. 2,786 million were granted to 36,261 farmers compared to 40,077 farmers in the corresponding Yala season. The loan amount disbursed in Yala also recorded decreases of 17 per cent in terms of loan amount and 10 per cent in terms of number of loans as against the performance in the previous year. These decreases were due to the floods during the Maha season and the drought during Yala season. As in the previous years, paddy represented the highest percentage (54 per cent in 2013) of loans provided under the NCRCS in 2013 while onion represented 23 per cent and the balance was granted to cultivate potatoes, maize, chillies, vegetables and other food crops. Jaffna District continued to be the district that accounted for the highest amount disbursed for agriculture loans under NCRCS during 2013 for the third consecutive year recording a share of 32 per cent followed by Anuradhapura, Hambantota and Polonnaruwa,

which recorded shares of 10 per cent, 9 per cent and 8 per cent, respectively. The assistance to farmers was provided in terms of rescheduling of loans for those who were affected due to bad weather to ensure the cultivation during the next season without any disruption.

In order to support achieving self sufficiency in milk, RDD introduced a new loan scheme named “Commercial Scale Dairy Development Loan Scheme” (CSDDL) in August 2013. CSDDL is a broad based loan scheme that covers all activities in the dairy supply chain. During the year, 60 beneficiaries were granted loans amounting to Rs. 202 million under this scheme. It is expected that the provision of credit facilities under CSDDL at a concessionary rate of interest will develop a modern dairy industry, by filling the knowledge gap and bringing technical know-how and best practices to the farmers in the dairy industry which can contribute to increase milk production. It is also expected to establish a vibrant dairy industry by way of promoting of modern farm management methods, cultivation of high quality grass, usage of concentrated cattle feed, inculcate good practices of utilising sufficient water, mineral, vitamins etc. in cattle feed. This scheme is expected to attract entrepreneurs who can invest in hi-tech farming to the dairy industry to fulfill the target of achieving milk self sufficiency in Sri Lanka.

23.2 Development of SME Sector

Assistance to the SME sector through concessionary finance was continued by RDD with seven loan schemes mainly targeting the activities in the manufacturing and services sectors. The total value of credit disbursed to the SME sector during 2013 amounted to Rs. 5,538 million compared to Rs. 4,167 million disbursed in 2012, an increase of 33 per cent. Loan penetration during 2013 increased to 25,483 entrepreneurs compared to 18,674 in 2012 recording an increase of 37 per cent.

The “Saubagya” Loan Scheme disbursed Rs. 3,492 million loans to 9,063 entrepreneurs covering all parts of the country. Of the “Saubagya” loans disbursed, over 40 per cent was granted for female entrepreneurs in order to start up micro, small or medium enterprises or to develop existing enterprises. Loans up to Rs. 25 million can be obtained under this loan scheme at a concessionary interest rate of 9 per cent per annum payable within 5 years with a grace period of 6 months. Youth entrepreneurs who possess vocational qualifications from Government accepted vocational training institutions were assisted to start their own SMEs by providing loan facilities through the Self Employment Promotion Initiative Loan Scheme, which was also implemented island-wide. The other important loan schemes implemented during 2013 targeting SME sector were the Awakening North Loan Scheme – Phase II and the Resumption of Economic Activities in the Eastern Province – Phase II and III. Through these schemes, RDD was able to increase the loan penetration in the two provinces to 14,845 in 2013 compared to 9,158 in

2012. During the year, the total loans disbursed under these schemes amounted to Rs. 1,670 million compared to Rs. 1,197 million disbursed in 2012.

23.3 Microfinance Sector

The main objectives of the credit schemes implemented for the microfinance sector were promotion of financial inclusiveness and poverty alleviation. These schemes focused on reaching the people who were excluded from the formal financial sector. The principal loan schemes designed to target this sector are the Poverty Alleviation Micro-Finance Project II (PAMP II) and Poverty Alleviation Micro-Finance Project II-Revolving Fund (PAMP II - RF), which continued to operate in 14 districts in the country. Poverty Alleviation Micro-Finance Project - Revolving Fund (PAMP - RF) Loan Scheme was also in operation in 11 districts. Loan penetration of these three schemes during the year improved substantially to 32,100 beneficiaries receiving Rs. 1,893 million of loans compared to 19,728 beneficiaries receiving Rs. 1,039 million of loans in 2012 recording 63 per cent and 82 per cent increases in terms of loan penetration and amount, respectively. Meanwhile, the Small Farmers and Landless Credit Project – Revolving Fund Loan Scheme (SFLCP – RF) that intends to improve economic well-being and general welfare of the rural poor, also progressed in 2013 by granting of loans to the value of Rs. 249 million among 5,919 beneficiaries.

23.4 Promoting Awareness

Awareness building was aimed at educating particularly rural masses to improve their financial well-being. Financial literacy is important for promoting access to finance. In these programmes, topics such as savings and saving habits, budgeting, financial management of households, availability of financial products/services at formal financial institutions, using credit wisely, risk on dealing with unauthorised financial institutions and prohibitive schemes were generally covered. RDD conducted 63 financial literacy programmes with the assistance of PFIs throughout the country. Further, RDD facilitated 20 Training of Trainers (TOT) sessions for bankers and personnel of other relevant agencies in the regions for which resource personnel were provided by RDD. For the benefit of entrepreneurs and farmers, 37 entrepreneurship development programmes and project appraisal workshops and 12 post-harvest technology programmes were conducted during the year with the help of outsourced training officers. These programmes were helpful to create awareness on the availability of financial facilities and that of technical and marketing know-how from relevant institutions and to enhance awareness on quality and to increase productivity among farmers. In addition, 16 radio programmes and 2 television programmes were conducted to disseminate information on the availability of concessionary financial facilities to the general public.

Table II-21

Lending Programmes Implemented by the Regional Development Department (during the year 2013)

	Name of the Project	Source of Funds	Broad Mission	Fund Allocation (Rs. mn)	Funds Disbursed in 2013 (Rs. mn)	Balance to be Disbursed (Rs. mn)	Annual Interest Rate to Borrowers
1	Agriculture and Animal Husbandry Sector						
1.1	Second Perennial Crops Development Project - Revolving Fund (SPCDP-RF)	GOSL	Commercialisation of perennial crop sector, increasing production, nursery development, post-harvest handling and processing activities and marketing.	1,200	2	Fully utilised	9%
1.2	Tea Development Project - Revolving Fund (TDP-RF)	GOSL	Increasing tea small holders' income on a sustainable basis and developing the necessary infrastructure to meet the requirements of the export market by modernising tea factories to obtain HACCP certification.	1,100	69	174	9%
1.3	"Viskam" Credit Line for Development of Commercialised Agribusiness ¹	CBSL	Development of commercial agribusiness through diversification and making other improvements in the agribusiness activities.	1,329	3	Fully utilised	8%
1.4	New Comprehensive Rural Credit Scheme (NCRCS)	PFI's own funds and Government interest subsidy.	Uplifting the socioeconomic conditions of micro and small scale farmers who engage in cultivation of paddy and short term crops.	Depends on the demand for funds	8,164	N.A.*	9%
1.5	Commercial Scale Dairy Development Loan Scheme (CSDDL)	PFI's own funds and CBSL interest subsidy.	Support to achieve self sufficiency in milk and milk products through establishing commercial scale dairy farms.	Depends on the demand for funds	202	N.A.*	8%
2	Micro, Small and Medium Enterprises Sector						
2.1	Self Employment Promotion Initiative Loan Scheme (SEPI) ¹	GOSL	To provide financial assistance to youth trained by recognised vocational training institutions.	250	41	97	10%
2.2	Awakening North Loan Scheme – Phase II (ANLS-Ph II)	CBSL	To assist prospective loan beneficiaries in the Northern Province to strengthen their economic activities.	2,000 ²	770	562	9%
2.3	Resumption of Economic Activities in the Eastern Province Loan Scheme – Phase II (REAEP-Ph II)	CBSL	Enhancing living standards of Eastern Province community by financing existing and new income generating activities.	1,000 ²	472	Fully utilised	9%
2.4	Resumption of Economic Activities in the Eastern Province Loan Scheme – Phase III (REAEP-Ph III)	CBSL		1,000	428	572	9%
2.5	The Prosperity Loan Scheme ("Saubagya") ¹	CBSL	To start up, expand any micro, small and medium scale enterprise (MSME) or any MSME affected by disasters.	7,960	3,492	Fully utilised	9%
2.6	Provincial Development Credit Scheme	CBSL	To assist income generating activities of medium and large scale projects in Agriculture, Animal Husbandry, Fisheries, Trade and Transport sectors.	2,900	254	Fully utilised	12%
2.7	Post Tsunami Coastal Rehabilitation and Resource Management Programme (PTCRRMP) ^{1,3}	IFAD*	To assist the communities adversely affected by tsunami disaster through recovering their assets and re-establishing the foundation of their usual activities.	191	81	Fully utilised	8% - 10%

3.	Microfinance Sector						
3.1	Small Farmers and Landless Credit Project - Revolving Fund (SFLCP-RF)	GOSL	Channelling formal credit to income generating activities for the rural poor to improve the economic conditions and general welfare of the beneficiaries.	345	249	Recoveries will be revolved	12% - 14%
3.2	Poverty Alleviation Microfinance Project - Revolving Fund (PAMP-RF)	GOSL		1,031	735	Recoveries will be revolved	12%
3.3	Poverty Alleviation Microfinance Project II (PAMP II) ³	GOSL JICA*	Poverty alleviation through promotion of income generating activities and organising low income groups to link them with formal banking system.	2,104	202	1	12% - 15.5%
3.4	Poverty Alleviation Microfinance Project II - Revolving Fund (PAMP II-RF)	GOSL		2,246	956	Recoveries will be revolved	12% - PFI to borrower 14% - OPA* to borrower
3.5	Dry Zone Livelihood Support and Partnership Programme - Revolving Fund	GOSL	Poverty alleviation and assisting in income generation among the poor farmers in the districts of Monaragala, Kurunegala, Badulla and Anuradhapura.	253	123	130	10%
3.6	Small Holder Plantation Entrepreneurship Development Programme (SPEnDP) ^{3,4}	IFAD*	Improving the livelihood of marginalised small holders of tea and other perennial crops in the mid country region and poor upland food crop farmers in the intermediate zone of Monaragala District to take up rubber cultivation.	295	167	88	9%
3.7	National Agribusiness Development Programme (NADeP)	IFAD*	Contribute to poverty reduction and sustainable livelihood improvement of poor families in rural households in the programme area.	262	113	149	12.25%
4.	Other						
4.1	Repair of Damaged Houses in the North and East ¹	CBSL	To provide credit facilities for repairing the damaged houses that were damaged during the conflict in the Northern and Eastern Provinces.	600	211	305	8%

1. Funds have been allocated in 2013.
2. Loan interests of Rs. 154 million and Rs. 78 million have been excluded from fund allocations of loans given in 2.2 and 2.3.
3. Loans given in 2.7, 3.3 and 3.6 are in foreign currencies of SDR 1.02 million; JPY 2,100 million and SDR 1.75 million, respectively and the conversion to Rupees at the exchange rate prevailed on the date of loan agreement.
4. Includes SDR appreciation against SLR.

* N.A.; Not Applicable
IFAD; International Fund for Agricultural Development
JICA; Japan International Cooperation Agency
OPA; On lending Partner Agencies

24. SECRETARIAT

Secretariat Department (SD), one of the first departments established at the inception of the Bank, involves in procuring of goods and services, formulating and implementing of leave policies, administering of superannuation funds and the provision of travel and other general services and legal services.

In 2013, SD continued to facilitate efficient functioning of CBSL through timely procurement of goods and services, continuous assessments and upgrading of the

operational systems and procedures and administering and implementing rules and regulations in respect of leave, superannuation funds and general services.

SD procured capital and non-capital goods and services amounting to Rs. 194.1 million during the year, mainly through tenders by assuring and maintaining quality, timeliness, and competitive prices. As in the past, procurement planning was continued further to monitor the procurement management process of CBSL in order to streamline the timely supply of goods and services to the

user departments. As a result, SD was able to complete 98 per cent of the total procurement requirements of the Bank planned for the year. In addition, SD obtained a cost-effective and comprehensive insurance cover for all CBSL properties. SD administered the Central Bank Pension Scheme, Widows' and Orphans' Pension Fund (W & OP) and Widowers' and Orphans' Pension Fund (WR & OP). The total number of pensioners enrolled under these schemes was 2,070, at the end of 2013. During the year, 6 Board of Surveys (BOS) were conducted in Matara Provincial Office, Anuradhapura Provincial Office, Nuwara Eliya Holiday Homes, Centre for Banking Studies and CBSL Head Office for the disposal of obsolete and unserviceable office equipment and the income amounting to Rs. 4.6 million was generated through this process.

During the year, SD continued to provide the Bank with legal services. Such services were made available in a wide array of activities ranging from routine legal issues to policy formulation so as to catalyse the activities of the Bank. In handling litigation, a proactive role was played to assert and defend the rights of the Bank. In order to facilitate smooth handling of diverse challenges before the Bank, necessary assistance was provided by preparing suitable laws and by laws in respect of the banking and financial sector.

In 2013, SD coordinated and organised various religious and commemorative events such as the New Year ceremony, Long Service award ceremony, Independence Day ceremony and a ceremony to mark the 63rd Anniversary of the establishment of CBSL.

The performance achieved by SD in 2013 was mainly attributable to the contribution made by 23 staff officers, 13 management assistants and 5 bank office assistants.

25. SECURITY SERVICES

The Security Services Department (SSD) ensured an environment of zero security related incidents in the Central Bank premises during the year 2013 protecting CBSL from all security related threats.

A latest Centralised Integrated Access Control System was installed at CBSL Head Office with the assistance of Facilities Management Department and Information Technology Department. The existing radio communication system were upgraded by replacing 03 base stations and 25 hand-held radio sets deployed in Colombo Head Office, Bank House and CBS, Rajagiriya. Further, storage capacity of the CCTV camera system was increased from 01 month to 06 months by replacing all DVRs in the system. SSD repaired and replaced a considerable number of firefighting equipment and other related accessories on a regular basis. One staff officer and eight security officers were given fire fighting training at CINEC Maritime Campus, Malabe. Also a comprehensive training programme was conducted for 106 fire wardens selected from all departments of CBSL with the assistance of Colombo Fire Brigade and St. Johns Ambulance. In addition, an awareness programme on fire fighting drills was carried out with the help of Sri Lanka Air Force and

Colombo Fire Brigade in the year 2013 for all employees of CBSL.

Two training programmes were conducted at the CBS on service excellence for 25 Security officers and another group of 32 security officers participated in a two day residential programme conducted at National Institute of Plantation Management, Athurugiriya on general security, VIP handling, escort duties and public relations.

Further, SSD provided security for all meetings held within the premises of CBSL and coin collection programmes held throughout the country in the year 2013.

26. STATISTICS

The Statistics Department was established in 1978 in view of expanding the collection and analysis of statistics in Sri Lanka. Accordingly, it performed the functions broadly classified as social accounts, sample surveys and econometric models. At present, the functions of the department has evolved to a broader spread and include forecasting and estimating key macroeconomic variables, compiling price and wage indices, the Sri Lanka Prosperity Index (SLPI) and the Provincial Gross Domestic Product (PGDP), conducting surveys, collecting and processing data through the Country Wide Data Collection System (CWDCS), timely dissemination of statistics and information through publications and press releases and improving the Doing Business Ranking of Sri Lanka.

26.1 Forecasting Key Macroeconomic Variables

The Department forecasts consumer price inflation and economic growth on short term basis and submits to the Monetary Policy Committee (MPC) and the Monetary Board (MB) in order to facilitate monetary policy formulation in the country. Inflation projection is expected to be used as the leading indicator of future direction of price movements. It is updated frequently in line with the realised and perceived changes in the price of related variables, which impact on inflation. Accordingly, the Department regularly and closely monitored the movements of consumer prices of goods and services in the Colombo Consumers' Price Index (CCPI) compiled by the Department of Census and Statistics (DCS) and issued monthly press releases analysing price developments. Inflation forecasts were mainly based on the past and future trends of consumer prices and econometric techniques, developed by the Department.

Annual and quarterly forecasts of Gross Domestic Product (GDP) growth with sectoral composition are estimated based on the data collected from primary and secondary sources with analysis into sectoral developments. Quality and reliability of the projections were further enhanced by adding new indicator variables to incorporate current developments in the economy together with the introduction of statistical techniques. Forecasts of other national income accounts' components such as consumption, investment and savings are also prepared annually.

26.2 Compiling Price and Wage Indices

Provincial Consumer Price Indices (PCPI) for the nine provinces and composite Consumer Price Index (CPI) covering the entire island were also compiled and analysed, on a monthly basis, by the Department. The main purpose of compiling these CPIs was to compare price movement at provincial level. The Consumer Finance and Socio-economic Survey (CFS) of 2003/04 conducted by the Department provided the base for PCPIs. Price data used in compiling PCPIs were obtained from the CWDCS, which is maintained by the Department and other reliable relevant sources from outside.

The Department also continued to compile the Wholesale Price Index (WPI) monthly to measure the movements of producer and wholesale prices at the primary market level. Data for the WPI is collected through CWDCS, and other relevant government and private sector institutions. In view of introducing a more representative price index to gauge price developments at the producer level, DCS has initiated action in 2013 to construct a Producer Price Index (PPI) for Sri Lanka, with the assistance of the Statistics Department. During the year, the Department had continuous dialogue with DCS on issues relating to introduction of the proposed index.

In addition to the price indices, the Department also compiled wage rate indices to assess the movements of salaries and wages in the economy. Accordingly, the Department computed nominal and real wage rate indices for public sector employees and real wage rate indices for formal private sector employees. As the wage rate indices for public sector covers only non-executive and minor employee grades in the Central Government and the Government school teachers, the Statistics Department has taken initiatives in 2013 to construct wage rate index for public sector, covering all employee grades in the Government sector using information collected under the Annual Public Sector Employment Survey (APSES) in 2012. In order to analyse the real wage movement of the formal private sector employees, the Department derived Minimum Real Wage Rate Indices using Minimum Wage Rate Indices (nominal) compiled by the Department of Labour and the CCPI (2006/07=100). In addition, wage movement of informal private sector was analysed based on daily wage information collected through the CWDCS, covering agriculture and building construction subsectors.

26.3 Compiling the Sri Lanka Prosperity Index (SLPI)

SLPI was introduced by the Central Bank in 2008 in order to fulfill the need for a composite indicator to assess the overall status of prosperity in the country as a whole and in each of its provinces. The SLPI is a multi-dimensional indicator reflecting the economic and social developments in the country and the provinces. The SLPI is comprised of three sub-indices, namely, Economic and Business Climate, Well-Being of the People and Socio-Economic Infrastructure and the overall index contains 26 variables. The SLPI is compiled by the Statistics Department on an annual basis and the SLPI

for the period 2009 to 2011 was published in 2012. The Department is in the process of taking necessary steps to improve the SLPI including more representative variables to depict the economic transformation taking place in the country towards prosperity.

26.4 Computation of the Provincial Gross Domestic Product (PGDP)

PGDP in nominal terms for 2012 was computed by the Department based on the disaggregation of the GDP estimated by DCS. PGDP for the nine provinces is computed on an annual basis and was published in 2013.

26.5 Statistical Surveys

The Inflation Expectations Survey, which was initiated in 2006, was conducted by the Department on a monthly basis. The survey covers around 300 respondents from financial institutions, public sector institutions, schools and retail outlets. Responses are collected through e-mails and interviews. Respondents provide both quantitative and qualitative information on current inflation perceptions and expected inflation for the future 12-month period. The results of each month's survey were reported to the MPC and MB.

The Department continued to conduct the Annual and Quarterly Public Sector Employment Surveys (QPSES) with a view to finding the levels and trends of public sector employment in the country. This data is also used for national income estimates. The quarterly survey covered all Central Government, Local Government and Semi-government institutions with over 1,000 employees each as reported in the APSES of 2012. An analytical report based on the survey findings was also prepared in 2013. Moreover, information collected on the labour force and the labour market covering the areas of employment, unemployment, foreign employment, labour relations, labour market reforms and labour productivity was also analysed by the Department.

A series of special surveys were conducted by the Department on selected private services, which are not adequately covered, with the objective of assessing the value added contribution of these activities to GDP. These surveys were carried out on private health, private education, information technology/business process outsourcing (IT/BPO) services and other private services activities. Surveys were based on either probabilistic or non-probabilistic sampling methods according to information availability. Value added contribution to GDP from each sector was estimated through extrapolation techniques along with sectoral growth estimates. Results were presented to the management to be utilised for future policy making purposes.

26.6 Country-Wide Data Collection System (CWDCS)

CWDCS, which commenced in 1978, continued to operate through an island-wide network of school teachers who function as statistical investigators. The

system covers 102 data collection centers. These teacher investigators forward data to the Statistics Department on retail prices of consumer goods, producer prices of agricultural and fisheries commodities, daily wages pertaining to the informal private sector and future production levels of agricultural and fisheries commodities, on a weekly, monthly and quarterly basis. In addition to the network of teacher investigators, CWDCS also utilises the service of four non-teacher investigators to report data on wholesale and retail prices from the Pettah market, the Maradaghamula rice market and the Dambulla and Narahenpita Special Economic Centers, on a daily and weekly basis.

The Department utilised data collected under the CWDCS for a variety of purposes such as compilation of price indices, forecasting price movements, evaluation of the impact of policy changes on prices and estimation of national expenditure and income. In order to maintain accuracy and timeliness of the data, the Department carried out regular on-site and off-site supervision of the data reported by the statistical investigators. Besides, accuracy of this data was further verified using the price data collected by the officers of the Department, directly from selected markets in the Colombo District. As in 2012, supervision activities of selected data collection centres were carried out through the Central Bank Provincial Offices (PO).

Following the usual practice, the data collection process was improved during the year, by introducing updated formats for data collection to accommodate recent market developments and economic activities that have recently emerged in the economy. The data format used for the Early Warning System (EWS) was also revised during the year to make it more informative and user-friendly.

In line with the usual practice, five CWDCS regional seminars were conducted in Colombo, Matara, Anuradhapura, Kandy and Jaffna in 2013 to share experiences to obtain feedback on differences in price developments across identified regions and to discuss issues relating to the operation of the programme. The seminars also provided them with educative sessions on current developments in the economy.

26.7 Improving the “Ease of Doing Business” Ranking

Since 2009, the Statistics Department has been engaged in an exercise to improve Sri Lanka’s “Ease of Doing Business” ranking. For this purpose, the Department carried out several key activities in 2013. These activities included organising discussions with the participation of key stakeholders to formulate strategies to improve the “Ease of Doing Business” ranking and future strategies that need to be adopted to improve the ranking further in the medium term, organising discussions with the participation of key stakeholders and data providers, with a view to facilitate a common platform for the key stakeholders to inform the data providers on areas where reforms have been implemented with respect to their organisations and procedures, conducting a number of video conference meetings to enable the key stakeholders to discuss directly with the World

Bank Head Office in Washington, the reforms which have been done and to clarify issues and submit reports on reforms and issues to the World Bank. As a result, Sri Lanka managed to increase the country’s DB ranking in absolute terms from 60.87 to 61.83 in 2014, narrowing the country’s distance to frontier measure on account of improvements in the areas relating to dealing with construction permits, getting electricity, paying taxes and trading across borders. Sri Lanka is the highest ranked country in South Asia.

26.8 Dissemination of Statistics

The Statistics Department is responsible for disseminating a wide range of socio-economic data of current interest to policy makers, researchers, academics, professionals, students and the general public. During the year, the Department released its two main annual publications titled “Economic and Social Statistics of Sri Lanka 2013 – Volume XXXV” for the second time in all three (03) languages in April 2013 and “Sri Lanka Socio Economic Data Folder 2013 – Volume XXXVI” in June 2013. In addition, it published the Weekly and Monthly Economic Indicators in 2013. The Department also contributes two chapters to the Central Bank Annual Report and Recent Economic Developments and makes regular contributions to the Monthly Bulletin. Further, the prices of selected food commodities obtained from DCS were also reported weekly to the Ministry of Economic Development for policy purposes. The Department webpage, “StaNet”, on the local area network and CBSL website was also updated on a regular basis.

27. STAFF SERVICES MANAGEMENT

The Staff Services Management Department (SSMD)¹ continued to extend welfare facilities to all beneficiaries in an efficient and effective manner throughout the year. Functions of SSMD included providing loans under the Staff Housing (Mortgage) Loan Scheme, Provident Fund Loan Scheme and Staff Benefit Scheme; reimbursement of expenses under the Employer Contributory Medical Benefit Scheme (MBS) and provisions of restaurant facilities. The number of registered beneficiaries under MBS consisting of employees, pensioners, widows/widowers and their registered dependents were over 11,500 individuals.

During 2013, SSMD granted 2,162 loans, which included Provident Fund Loans, Vehicle Loans, Computer Loans and other loans under the Staff Benefit Scheme and Housing Loans. These loans were granted within a stipulated time frame after the submission of the application together with all relevant documents by the applicant. The loan monitoring system enabled the disbursement of loans to employees in an efficient manner.

CBSL restaurant continued providing breakfast and lunch to CBSL staff. The tea service/herbal drink provided by SSMD was supplemented with fresh milk served in the morning and evening. Actions were taken to enhance the environment of the restaurants and improve the restaurant facilities during 2014.

¹ The Welfare Department was renamed as the Staff Services Management Department with effect from 01st April 2013.

SSMD continued to reimburse medical expenditure incurred by all registered beneficiaries under the MBS. The total amount of reimbursement of medical expenditure increased by five per cent compared to the previous year. The limits of reimbursement of medical expenditure under the Category C and Category D of MBS were increased with effect from 06 December 2013. The medical facilities at the Medical Centre were made available to CBSL employees during working hours by outsourcing such services to a reputed private hospital. Further, laboratory services were also provided at the Medical Centre at a reasonable charge. During the year, SSMD conducted five awareness programmes to enhance the health related knowledge of CBSL staff.

The Rules of the "Employees' and Retired Employees' Distress Relief Fund" were amended to relax certain limitations to provide financial assistance to the members of the Fund who are facing financial difficulties due to sudden terminal illnesses, major surgeries or prolonged illnesses, which necessitates medical treatment, where the cost of such treatment to be incurred is far in excess of the benefits, which such member is entitled to claim under MBS.

28. SUPERVISION OF NON-BANK FINANCIAL INSTITUTIONS

28.1 Mandate

The Department of Supervision of Non-Bank Financial Institutions was established in 1988 to regulate and supervise Licensed Finance Companies (LFCs). As at that time, The Finance Companies Act No. 78 of 1988 (FCA) had been enacted replacing the Control of Finance Companies Act, No. 27 of 1979 and the Department was assigned with the responsibility of enforcement of the provisions of the FCA. With a view to further strengthen the regulation and supervision of LFCs and to curb unauthorised deposit taking businesses, the Finance Business Act, No. 42 of 2011 was enacted repealing and replacing FCA, and became effective from 09 November 2011. The regulation and monitoring of finance leasing business was brought under this Department with the enactment of The Finance Leasing Act, No. 56 of 2000.

28.2 Functions

The responsibilities of the Department include licensing of companies to carry on finance and leasing businesses, formulating and implementing prudential requirements, conducting continuous supervision and periodic on-site examinations, granting regulatory approvals, investigating and taking legal action on entities conducting finance business without authority and conducting of public awareness programmes to educate the general public on the risk of depositing with unauthorised financial institutions. As at end 2013, there were 48 LFCs and 76 Registered Finance Leasing Establishments (RFLEs) comprising of 13 Licensed Commercial Banks (LCBs), 7 Licensed Specialised Banks (LSBs), 46 LFCs and 10 SLCs in operation. The names of these LFCs and RFLEs are provided in Annex II-3.

28.3 Activities during the year

(a) Supervision of LFCs/SLCs

(i) Off-site Surveillance of LFCs/SLCs

Continuous off-site surveillance of all LFCs/SLCs was carried out by examining financial information received through periodic returns submitted by LFCs/SLCs. Further, the Department identified potential risk areas through an Early Warning and Follow up System and remedial actions were recommended to mitigate such risks. Further, an internal rating system has also been implemented to rank LFCs/SLCs based on their financial strength.

(ii) On-site Examination of LFCs/SLCs

A risk based approach was adopted in carrying out periodic on-site examinations, where the focus was on identification of risks, management of risks and assessment of resources to mitigate such risks. The liquidity, asset quality, capital adequacy, management efficiency, earnings, profitability, system controls and the status of corporate governance of LFCs/SLCs were examined during these on-site examinations. During 2013, the Department conducted on-site examinations of 35 LFCs and 7 SLCs. The examination reports highlighting any risks identified and recommendations for corrective actions were provided to the respective Boards of Directors. In addition, 8 LFCs and 2 SLCs were examined on a limited scope basis concentrating on weaker areas.

(b) Issue of Directions and Prudential Requirements

New prudential requirements and directions were introduced with the approval of the Monetary Board to LFCs/SLCs.

- (i) The scope of the existing Structural Changes Direction (SCD) was broadened with additional areas where LFCs require approval of the Monetary Board and the Director of Department of Supervision of Non-Bank Financial Institutions (D/SNBFI) separately. Further, provisions in the Transfer of Assets Direction have been incorporated into the new SCD.
- (ii) The requirement to obtain prior approval of the Monetary Board on writing off of accommodations to related parties of finance companies has been replaced by requiring obtaining approval of D/SNBFI.
- (iii) A Direction has been formulated to introduce a supervisory framework on debt instruments issued by finance companies, especially on areas such as liquidity and interest/coupon rates.
- (iv) Guideline on adoption of Sri Lanka Accounting Standards (LKAS) 32, 39 and Sri Lanka Financial Reporting Standards (SLFRS) 7, which was adopted for 2012, requires LFCs/SLCs to obtain prior approval of D/SNBFI on dividend distribution.

- (v) The amendments have been incorporated to the disclosure requirements in the Corporate Governance Direction on Specified Business Entities and reports/certifications by the external auditors.
- (vi) Annual licensing fees were revised as the regulatory/supervisory cost of CBSL is expected to increase significantly. Further, the licence fee payable by a LFC in the year of licensing has been increased.

(c) Regulatory Approvals

During 2013, the total number of LFCs increased from 47 to 48 with two SLCs elevating to LFC status namely; Siyapatha Finance Ltd and Indra Finance Ltd while People's Finance PLC amalgamated with People's Leasing and Finance PLC. In addition, Ceylease Ltd was amalgamated with MCSL Financial Services Ltd.

(d) Meetings with LFCs/SLCs

- (i) The meetings chaired by the Governor of the Central Bank of Sri Lanka with the Chief Executive Officers (CEOs) of LFCs/SLCs were held on a quarterly basis with a view to exchange views on issues relating to the sector.
- (ii) Further, a meeting for Chairmen of LFCs/SLCs, chaired by the Governor of CBSL was held to increase awareness on regulatory requirements and best practices. The Department conducted its annual Symposium for Directors and CEOs of LFCs/SLCs under the theme "Beyond a One Trillion LFC/SLC Sector".

(e) Other Activities

(i) Investigation on Conduct of Finance Business without Authority

During 2013, the Department continued to investigate on persons/institutions conducting finance business without authority under section 42 of the Finance Business Act. The Department regularised activities of one institution while initiating legal actions against one institution during the year.

(ii) LFC/SLC Sector Consolidation Programme

The Department submitted a proposal for the Budget 2014 with respect to granting tax incentives to encourage mergers and acquisitions in the LFC/SLC sector. The objective of the proposal is to develop a strong LFC/SLC sector to cater the growing demand in the economy and to avoid possible failures. Further, the Department prepared an initial plan on the proposed financial sector consolidation programme for 2014 and beyond.

(iii) Technical Session to the LFC/SLC Sector

The Department conducted two technical sessions on International Financial Reporting Standards (IFRS) and risk management for the senior management of the LFC/SLC sector.

28.4 Contribution to the Public

(a) LFC/SLC Sector Growth and Stability

As per the mandate, the Department carried out continuous supervision to ensure stability of the LFC/SLC sector. During 2013, there were several challenges encountered by the LFC/SLC sector with respect to macro-economic changes in the domestic economy and gold price fluctuations in the international market. However, the Department implemented policy measures and stringent supervision while providing advice to ensure LFCs/SLCs absorb risks and sustain growth. The asset base of the sector grew by 20 per cent supported by a healthy growth in funding sources with deposits and borrowings recording growth rates of 33 per cent and 9 per cent, respectively. Accommodations grew by 17 per cent. The LFC/SLC sector recorded an after tax profit of Rs. 8 billion (unaudited) for the twelve month period ended 31 December 2013. The total capital adequacy ratio remained robust at a rate of 15 per cent.

(b) Public Awareness Programmes

- (i) **Awareness Programmes:** Educating the public of the risk of investing in unauthorised finance businesses was done through public awareness programmes. 23 public awareness programmes were conducted in Batticaloa, Monaragala, Ampara, Hambantota, Kalutara, Colombo and Gampaha districts during the year.
- (ii) **Radio and Television Programmes:** Broadcast special messages on unauthorised finance businesses to the public through the special transmission conducted by the Kandurata Service of the Sri Lanka Broadcasting Corporation at the "Esala Perahera" Kandy.
- (iii) **Leaflets and Newspaper Articles:** 2,000 posters containing lists of Licensed Banks and LFCs have been distributed among Grama Niladharies in Monaragala, Batticaloa and Jaffna districts. 24,000 leaflets containing lists of Licensed Banks and LFCs with other useful information were distributed among the general public. The list of institutions authorised to accept deposits was published in the newspapers in all three languages while special notices to educate the public on risk of identified unrealistic schemes were published in newspapers in all three languages during the second half of 2013. All the aforesaid activities have helped to enhance financial literacy among the public.

(c) Attending to the Public Complaints

The Department has taken initiatives to resolve complaints received with regard to LFCs/SLCs from the general public. Such complaints have been directed to respective LFC/SLC and actions have been followed up.

Annex II-3

Licensed Finance Companies and Registered Finance Leasing Establishments

Institutions licensed with the Central Bank of Sri Lanka in accordance with the law (as at end 2013)

Licensed Finance Companies

1. Abans Finance PLC	26. Melsta Regal Finance Ltd
2. Alliance Finance Co. PLC	27. Mercantile Investments and Finance PLC
3. AMW Capital Leasing and Finance PLC	28. MCSL Financial Services Ltd
4. Arpico Finance Co. PLC	29. Multi Finance PLC
5. Asia Asset Finance PLC	30. BRAC Lanka Finance PLC (Formerly, Nanda Investments and Finance PLC)
6. Asian Finance Ltd	31. Nation Lanka Finance PLC
7. Associated Motor Finance Co. PLC	32. Orient Finance PLC
8. Bartleet Finance PLC	33. People's Leasing and Finance PLC
9. Bimpuh Finance PLC	34. People's Merchant Finance PLC
10. Capital Alliance Finance PLC	35. Prime Grameen Micro Finance Ltd
11. Central Finance Co. PLC	36. Richard Peiris Arpico Finance Ltd
12. Central Investments and Finance PLC*	37. Senkadagala Finance PLC
13. Chilaw Finance PLC	38. Singer Finance (Lanka) PLC
14. Citizens Development Business Finance PLC	39. Sinhaputhra Finance PLC
15. City Finance Corporation Ltd	40. Softlogic Finance PLC
16. Commercial Credit and Finance PLC	41. Swarnamahal Financial Services PLC
17. Commercial Leasing & Finance PLC	42. The Finance Co. PLC
18. Deshodaya Development Finance Co. Ltd	43. Siyapatha Finance Ltd (Formerly, Sampath Leasing & Factoring Ltd)
19. ETI Finance Ltd	44. Trade Finance & Investments PLC
20. George Steuart Finance PLC	45. The Standard Credit Finance Ltd
21. Ideal Finance Ltd	46. TKS Finance Ltd
22. Indra Finance Ltd	47. UB Finance Co. Ltd
23. Kanrich Finance Ltd	48. Vallibel Finance PLC
24. LB Finance PLC	
25. Lanka ORIX Finance PLC	

Registered Finance Leasing Establishments

(A) Licensed Commercial Banks

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

(B) Licensed Specialised Banks

1. DFCC Bank
2. Lankaputhra Development Bank Ltd
3. MBSL Savings Bank Ltd
4. Pradeshiya Sanwardana Bank

5. Sanasa Development Bank PLC
6. Sri Lanka Savings Bank Ltd
7. Housing Development Finance Corporation Bank of Sri Lanka

(C) Specialised Leasing Companies

1. Assetline Leasing Co. Ltd
2. Co-operative Leasing Co. Ltd
3. Isuru Leasing Co. Ltd
4. Koshiha Leasing Co. Ltd
5. Lisvin Investments Ltd
6. LOLC Micro Credit Ltd
7. Merchant Bank of Sri Lanka PLC
8. Newest Capital Ltd
9. SMB Leasing PLC
10. Laugfs Capital Ltd (Formerly, Softlogic Credit Ltd)

(D) Licensed Finance Companies listed above except Prime Grameen Micro Finance Ltd and Deshodaya Development Finance Co. Ltd

* Managed by the Managing Agent appointed by CBSL and undergoing restructuring. In the meantime, deposit mobilisation has been suspended.