

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 2014

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 அ்திபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



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 තුලඛවා } FB/K/CBSL/1/14/1
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 உமது இல }
 Your No. }

දිනය }
 திகதி } 15 April 2015
 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 2014 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 ("the Bank") for the year ended 31 December 2014 comprising the Statement of Financial Position as at 31 December 2014 and the Income Statement, Statement of other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and 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.

Monetary Board's Responsibility for the Financial Statements

Monetary Board ("Board") is responsible for the preparation and fair presentation of these Financial Statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 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 Board, 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 Bank as at 31 December 2014 and of its Financial Performance and its Cash Flows for the year then ended in accordance with International Financial Reporting Standards.


 W.P.C. Wickramaratne
 Acting Auditor General

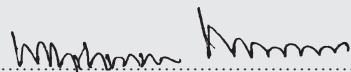
Central Bank of Sri Lanka
Statement of Financial Position
As at 31 December 2014

	Note	2014 Rs. 000	2013 Rs. 000
Assets			
Foreign Currency Financial Assets			
Cash & Cash Equivalents		487,070,771	425,676,763
Securities at Fair Value through Profit & Loss	5	61,495,307	94,137,368
Available for Sale Investments	5	408,189,500	357,531,750
Derivative Financial Instruments	6	1,580,237	5,670,258
IMF Related Assets	7	79,816,029	85,400,764
Other Receivables		7,105,914	591
Total Foreign Currency Financial Assets		1,045,257,758	968,417,494
Local Currency Financial Assets			
Sri Lanka Government Securities	8	124,443,452	15,853,513
Provisional Advances to Government	9	143,897,971	109,167,071
Loans to Banks	10	1,489,372	1,375,396
Other Receivables		1,912,071	1,829,712
Equity Investments in Financial and Other Institutions	11	41,095	41,095
Other Assets	12	8,107,914	7,326,533
Total Local Currency Financial Assets		279,891,875	135,593,320
Total Financial Assets		1,325,149,633	1,104,010,814
Foreign Currency Non-Financial Assets			
Gold	13	100,190,635	95,601,221
Local Currency Non-Financial Assets			
Inventories	14	3,620,480	3,103,281
Other Receivables and Prepayments		27,446,864	29,027,698
Property, Plant and Equipment	15	14,686,696	14,228,915
Intangible Assets	16	306,084	35,598
Total Non-Financial Assets		146,250,759	141,996,713
Total Assets		1,471,400,392	1,246,007,527
Liabilities and Equity			
Foreign Currency Financial Liabilities			
Banks and Financial Institutions	17	11,678,483	21,504,196
Derivative Financial Instruments	6	19,207,822	16,183,282
Asian Clearing Union	18	57,230,304	37,301,553
IMF	19	308,011,133	422,032,012
Other	20	72,146,159	47,221,119
Total Foreign Currency Financial Liabilities		468,273,901	544,242,162
Local Currency Financial Liabilities			
Deposits of Banks and Financial Institutions	21	161,009,323	148,809,893
Deposits of Government and Governmental Entities	22	311,950	416,230
Securities Sold Under Repurchase Agreements	23	328,252,000	84,601,000
Balances of Employee Benefit Plans	24	2,209,782	2,419,087
Other Payables	25	8,939,293	5,659,718
Total Local Currency Financial Liabilities		500,722,348	241,905,928
Total Financial Liabilities		968,996,249	786,148,090
Other Liabilities			
Currency in Circulation	26	416,895,362	339,770,981
Deferred Grants	27	515	1,449
Pension and Other Post Employment Benefit Plans	43	3,599,035	4,936,339
Miscellaneous Liabilities and Accruals	28	197,380	243,455
Total Other Liabilities		420,692,292	344,952,224
Total Liabilities		1,389,688,541	1,131,100,314
Equity			
Capital Funds		50,000,000	35,000,000
Reserves	29	31,711,851	79,907,213
Total Equity		81,711,851	114,907,213
Total Liabilities and Equity		1,471,400,392	1,246,007,527

The Governor and the Chief Accountant of the Central Bank of Sri Lanka authorised these financial statements for issue on 17 March 2015 for and on behalf of the Monetary Board.



 Lakshman Arjuna Mahendran – Governor



 P V Lakshman Nandasiri - Actg. 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 2014

	Note	2014 Rs. 000	2013 Rs. 000
Operating Income :			
Income from Foreign Currency Financial Assets			
Interest Income	31	22,221,503	18,505,656
Gain/(Loss) from Unrealized Price Revaluations		(7,966,791)	(27,892,406)
Gain from Realized Price Changes		12,626,457	13,389,159
Total Income from Foreign Currency Financial Assets		26,881,169	4,002,409
Expenses on Foreign Currency Financial Liabilities			
Interest Expense	32	(3,103,257)	(4,447,401)
Total Expenses on Foreign Currency Financial Liabilities		(3,103,257)	(4,447,401)
Net Foreign Exchange Revaluation Gain / (Loss)		(32,266,690)	(26,758,639)
Foreign Currency Investment Income / (Loss)		(8,488,778)	(27,203,631)
Income from Local Currency Financial Assets			
Interest Income	31	4,616,684	14,450,134
Interest Expense	32	(17,748,037)	(2,979,850)
Total Income / (Expense) from Local Currency Financial Assets		(13,131,353)	11,470,284
Other Income	33	1,367,666	2,919,260
Total Net Operating Income / (Loss)		(20,252,465)	(12,814,087)
Operating Expenses:			
Personnel Expenses:	34		
- Salaries and Wages		(3,256,096)	(3,138,445)
- Defined Contribution Plan Costs		(457,274)	(447,626)
- Additional Contribution to Post Employment Benefit Plan Costs		(1,289,040)	(1,988,525)
		(5,002,410)	(5,574,596)
Depreciation & Amortization		(396,811)	(365,644)
Cost of Inventory		(1,829,350)	(1,476,937)
Provision for Slow Moving Currency Inventory		-	(20,000)
Administration and Other Expenses	35	(4,050,858)	(1,997,048)
Total Operating Expenses		(11,279,429)	(9,434,225)
Profit/(Loss) Before Tax		(31,531,894)	(22,248,312)
Withholding Tax	36	(777,496)	(2,016,217)
Net Profit/(Loss) for the Year		(32,309,390)	(24,264,529)

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 Other Comprehensive Income
Year ended 31 December 2014

	2014 Rs. 000	2013 Rs. 000
Net Profit/(Loss) for the Year	(32,309,390)	(24,264,529)
Other Comprehensive Income		
Net Fair Value Gain/(Loss) on Available for Sale Securities	9,229,796	(13,904,065)
Transfer of Revaluation Gain on Retirement of Property, Plant & Equipment	-	(40)
Post Employment Benefit Plans cost recognized in Other Comprehensive Income	1,487,603	(592,417)
Total Comprehensive Income/(Loss)	(21,591,991)	(38,761,051)

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 2014

	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
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 (IRR)	-	-	-	(26,758,632)	26,758,632	-
Transfer to CBSL Specific Reserve	-	-	-	91,317	(91,317)	-
Transfer of Funds from Medical Benefit Support Fund (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 Profit to Government – 2013	-	-	-	-	(25,000,000)	(25,000,000)
As at 1 January 2014	15,000	34,985,000	5,986,602	68,306,848	5,613,763	114,907,213
Net Profit/ (Loss)	-	-	-	-	(32,309,390)	(32,309,390)
Transfer to RTGS Sinking Fund	-	-	-	212,124	(212,124)	-
Transfer to General Reserve	-	-	-	1,511,182	(1,511,182)	-
Post Employment Benefit Plans cost recognized in Other Comprehensive Income	-	-	-	-	1,487,603	1,487,603
Transfer of Net Foreign Exchange Revaluation Loss (IRR)	-	-	-	(32,266,690)	32,266,690	-
Transfer to CBSL Specific Reserve	-	-	-	-	(103,198)	(103,198)
Other Comprehensive Income	-	-	-	9,229,796	-	9,229,796
Transfer of Funds to Credit Guarantee Scheme on Pawning Advances	-	-	-	(500,000)	500,000	-
Transfer of proceeds from sale of old news papers, used stamps & penalties collected by the Library	-	-	-	-	(173)	(173)
Transfer of Funds from General Reserve to enhance the capital of CBSL	-	15,000,000	-	(15,000,000)	-	-
Enhancement of Capital of CBSL	49,985,000	(49,985,000)	-	-	-	-
Transfer of Balance Profit to Government – 2013	-	-	-	-	(3,000,000)	(3,000,000)
Transfer of Interim Profit to Government – 2014	-	-	-	-	(8,500,000)	(8,500,000)
As at 31 December 2014	50,000,000	-	5,986,602	31,493,260	(5,768,011)	81,711,851

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 2014

	Note	2014 Rs. 000	2013 Rs. 000
Cash Flow from Operating Activities			
Receipts:			
Interest Received - Foreign Currency		25,984,366	21,656,589
Interest Received - Local Currency - Others		530,779	513,044
Liquidity Management and Trading Income		12,626,457	13,389,159
Realised Exchange Gain / (Loss)		(553,996)	(13,638,407)
Other Income Received		1,360,447	1,175,609
		39,948,053	23,095,994
Disbursements:			
Interest Paid - Foreign Currency		3,406,299	4,681,100
Interest Paid - Local Currency		15,828,575	2,827,328
Payments to Employees		4,729,643	3,947,528
Payments to Suppliers		5,601,065	29,596,753
Tax Paid		929,097	2,016,217
		30,494,679	43,068,926
Net Cash Flow from/(used in) Operating Activities	37	9,453,374	(19,972,932)
Cash Flows from Investing Activities			
Receipts:			
Net (Increase) /Decrease in Other Local Currency Financial Assets		(790,741)	(858,623)
Principal Recoveries from the Loans and Advances to Other Institutions		1,490,027	1,448,949
Sale of Property, Plant and Equipment		940	2,268
Net Increase /(Decrease) in Securities Purchased under Agreement to Re-sell		243,651,000	77,586,000
		244,351,226	78,178,594
Disbursements:			
Net Increase /(Decrease) in Foreign Currency Securities		31,566,311	(101,781,795)
Net Increase /(Decrease) in Other Foreign Currency Financial Assets		(746,122)	1,407,072
Net Increase /(Decrease) in Other Foreign Currency Financial Liabilities		(26,570,161)	(1,510,810)
Net Increase /(Decrease) in Other Local Deposits and Payables		(375)	(722)
Purchase of Property, Plant and Equipment net of Grants		1,128,310	694,982
Net Increase /(Decrease) in Gold Inventory		1,348,440	55,585,071
Loans and Advances granted to other Institutions		1,604,003	980,109
		8,330,406	(44,626,093)
Net Cash Flow from/(used in) Investing Activities		236,020,820	122,804,687
Cash Flow from Financing Activities			
Receipts :			
Issue of Circulating Currency		(431,825,813)	(237,929,416)
Withdrawal of Circulating Currency		508,950,194	259,640,254
Net Issue of Circulating Currency		77,124,381	21,710,838
Disbursement:			
Net Issues / (Withdrawals) of Circulation Currency on Government Transactions	38	139,339,459	(175,136,711)
Net Issues / (Withdrawals) of Circulation Currency on Transactions with Banks and Financial Institutions	39	(12,199,430)	17,284,956
Net Issues / (Withdrawals) of Circulating Currency		127,140,029	(157,851,755)
Net Increase/(Decrease) in Circulating Currency		(50,015,648)	179,562,593
Disbursements:			
Repayment of Foreign Currency Term Liabilities		93,842,868	59,020,350
Payments to Other Funds		173	122
Transfer of Profits to Consolidated Fund		11,500,000	26,350,000
		105,343,041	85,370,472
Net Cash Flow from / (used in) Financing Activities		(155,358,689)	94,192,121
Net Increase/(Decrease) in Cash and Cash Equivalents		90,115,505	197,023,876
Exchange Rate Effect on Cash and Cash Equivalents		(28,721,497)	(6,625,246)
Cash and Cash Equivalents at the Beginning of the Year		425,676,763	235,278,133
Cash and Cash Equivalents at 31 December	40	487,070,771	425,676,763

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 2014

1. REPORTING ENTITY AND STATUTORY BASE

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

These financial statements were authorised for issue by the Governor and Chief Accountant for and on behalf of the Monetary Board on 17 March 2015.

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 categories. The bank considers that this reporting approach provides 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 Bank for the period ended 31 December 2014 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 Standards issued but 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.

2.3.1 IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS9 Financial Instruments which reflects all phases of the financial instruments project and replaces International Accounting Standard (IAS) 39 Financial Instruments: Recognition and

Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but no impact on the classification and measurement of the Bank's financial liabilities.

2.3.2 IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. The adoption of the standard is not expected to have an impact on the Bank.

2.3.3 Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, and entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014.

2.3.4 IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede

all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Bank will adopt these standards when they become effective. Pending the completion of detailed review, the financial impact is not reasonably estimable as at the date of publication of these Financial Statements.

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	2014 Rs.	2013 Rs.
1 Australian Dollar	107.3616	116.6709
1 Canadian Dollar	113.0558	122.7324
1 Euro	159.2568	180.4522
1 Japanese Yen	1.0962	1.2459
1 Special Drawing Rights (SDR)	189.8640	201.3550
1 Sterling Pound	204.1803	215.5790
1 United States Dollar	131.0486	130.7530
1 Chinese Yuan (Offshore)	21.0483	21.5800

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 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), it 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, forward foreign exchange contracts, interest rate swap 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 practices among those central banks which present cash flow statements.

CBSL through the cash/pay order process disburses cash in the form of Notes and Coins or cheques drawn on CBSL,

to various drawees including suppliers and employees for goods and services obtained, which is either added to the Currency in Circulation liability or Deposits by Banks and Financial Institutions. Such forms of utilization of currency for the purposes of CBSL's payments form part of cash outflows of CBSL.

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

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 Standing Deposit Facility

With effect from 01st February 2014, Standing Deposit Facility (former Standing Repurchase (Repo) Facility) was converted in to a 'clean deposit' with no allocation of collateral. Hence, participating institutions invest their excess funds in the Standing Deposit Facility as a clean deposit on daily basis at standing deposit facility rate.

The procedures of Standing Lending Facility (formerly Standing Reverse Repurchase (Reverse Repo) Facility) are identical to the Standing Reverse Repurchase Facility.

3.3.9 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.

3.3.10 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.

3.3.11 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.

3.3.12 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.

3.3.13 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.

3.3.14 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 loans 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.

The Bank with a view to simplify the loan management system, consolidated and rescheduled 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.

3.3.15 Impairment of Financial Assets

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

3.3.16 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.

3.3.17 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.

3.3.18 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.

3.3.19 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.

3.3.20 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. 116.99 Bn (Allocated - Rs. 100.19 Bn and Non Allocated - Rs. 16.80 Bn) in gold as part of its International Reserves as at 31 December

2014. 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
Motor Vehicles acquired 2014 onwards	10 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 No. 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

All guarantees of indebtedness, forward foreign exchange transactions and other commitments, which are not recognised in Statement of Financial Position are shown under respective headings recognised as Contingent Liabilities and Capital commitment 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 are generally responsible for the management, operations and administration of the Bank. The Bank is primarily responsible for the administration supervision, regulation of monetary, financial, and payment system of Sri Lanka and also acts as the fiscal agent of the Government. The activities of the Bank mainly include:

- Implementing monetary and exchange rate policies.
- Issuing of currency.
- 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, banks 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, 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 the liability for currency in circulation. 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

	2014 Rs. 000	2013 Rs. 000
Securities at Fair Value through Profit & Loss	61,495,307	94,137,368
Available for Sale Investments	408,189,500	357,531,750
Total Financial Assets	469,684,807	451,669,118

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 the derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at period end and are indicative of neither the market risk nor the credit risk.

	2014			2013		
	Assets Rs. 000	Liabilities Rs. 000	Notional Amount Rs. 000	Assets Rs. 000	Liabilities Rs. 000	Notional Amount Rs. 000
Currency SWAPS	1,579,560	2,758,093	285,044,665	5,670,258	4,703,881	360,929,041
Forward Forex	630	-	425,908	-	451	180,452
Embedded Derivatives - Currency Options	-	16,449,303	159,213,437	-	11,478,950	119,808,712
Interest Rate SWAP	47	427	1,310,486	-	-	-
Total	1,580,237	19,207,822	445,994,496	5,670,258	16,183,282	480,918,205

b) The above derivatives consisting of cross currency swaps, currency options, FX forward foreign exchange contracts and interest rate swaps 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 Bank's exposure to derivative contracts 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. Further information is disclosed in Note 42.

e) A significant part of derivatives portfolio of the Bank consists of currency swaps entered into as a strategy to manage the liquidity concerns. 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.

f) In an interest rate swap, each counterparty agrees to exchange interest either in fixed or floating rate denominated in a particular currency. Interest is accrued on an accrual factor given by the appropriate day count convention based on the fixed or floating rate multiplied by a notional principal amount.

In interest rate swap the Bank pays a fixed rate (the swap rate) to the counterparty, while receiving a floating rate indexed to a reference rate (3 months LIBOR + Margin).

7. IMF RELATED ASSETS

	2014 Rs. 000	2013 Rs. 000
Holding in Special Drawing Rights	1,199,895	2,032,177
IMF Quota	78,489,778	83,240,157
Deposits with IMF	126,356	128,430
Total IMF Related Assets	79,816,029	85,400,764

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 per cent of its quota in widely accepted foreign currencies or SDRs, and the remaining 75 per cent in its own currency. The IMF quota represents an asset of the Bank as it transacts with the IMF on its own account on behalf of the Government as per Articles of the IMF. The amounts payable in respect of the IMF Quota is shown under the heading Quota Liability in Note 19. A member's quota determines that country's financial and organizational relationship with IMF, including:

(i) **Subscriptions:** A member's subscription to IMF resources is equal to its quota and determines the maximum amount of financial resources the member is obliged to provide to the IMF. A member must pay its subscription in full: up to 25 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. IMF member's votes are comprised of basic votes plus one additional vote for each SDR 100, 000 of quota. The 2008 reform fix the number of basic votes at 5.502 per cent of total votes.

(iii) **Access to financing:** The amount of financing, a member can obtain from the IMF (Access limits) is based on its quota. Under Stand-By and Extended Arrangements, for instance, a member can currently borrow up to 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.

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

9. PROVISIONAL ADVANCES TO GOVERNMENT

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

10. LOANS TO BANKS

These are the loans granted in terms of Part IIIA of Chapter V of the Monetary Law Act to facilitate lending for productive purposes.

	2014 Rs. 000	2013 Rs. 000	(ii) The carrying value of investments		
Medium & Long Term Credit Scheme (MLTC)			Company	2014 Rs. 000	2013 Rs. 000
- Related Parties	35,243	37,377	Credit Information Bureau of Sri Lanka Limited	5,845	5,845
- Others	486	546	Lanka Clear (Private) Limited	29,500	29,500
Susahana Tsunami Loan Scheme Phase I & II:			Fitch Ratings Lanka Limited	3,500	3,500
- Related Parties	48,725	104,576	Lanka Financial Services Bureau Limited	2,250	2,250
- Others	5,545	17,794	Total Investments	41,095	41,095
Provincial Development Credit Loan Scheme - Related Parties	598,273	1,242,405			
Saubaghya Loan Scheme			12. OTHER ASSETS		
- Related Parties	117,056	-		2014 Rs. 000	2013 Rs. 000
- Others	199,241	-	Investment of Internal Funds	3,430,085	2,917,545
Resumption of Economic Activities in the East			Staff Loans at Amortized Cost	3,648,436	3,442,454
- Related Parties	212,798	-	Investment in Debentures at Amortized Cost	9,328	8,237
- Others	199,478	-		7,087,850	6,368,236
Repair of Damaged Houses North & East			Non Financial Assets		
- Others	42,250	-	Deffered asset on Staff Loan	1,020,064	958,297
Awakening North Loan Scheme (RF Phase II)				8,107,914	7,326,533
- Related Parties	41,761	-			
- Others	15,818	-	Investment in Debentures represents debentures received by the Bank in part settlement of refinance loans granted to Mercantile Credit Limited by the Bank in 1988, which was written off in 2011, pending proceeds from the liquidation of the company as the company is in the liquidation process.		
Less:			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.		
Provision for Doubtful Receivables	(27,302)	(27,302)			
Net Receivable	1,489,372	1,375,396			
Movement in Provision for Doubtful Loans					
	2014 Rs. 000	2013 Rs. 000			
At the beginning of the period	27,302	27,302	13. GOLD		
Write Off of Doubtful loans	-	-	This is the value of physical gold held as required under Section 67 (1) and Section 67(2) of the Monetary Law Act (MLA) as part of the International Reserve of the Bank. As per Section 67(2), Monetary Board is required to endeavor to hold at least a nuclear reserve in gold or currencies freely convertible by the Central Bank, whether directly or indirectly, into gold as per the MLA.		
At the end of 31 December	27,302	27,302			
			14. INVENTORIES		
	2014 Rs. 000	2013 Rs. 000		2014 Rs. 000	2013 Rs. 000
11. EQUITY INVESTMENTS IN FINANCIAL AND OTHER INSTITUTIONS			Notes for Circulation	1,675,897	2,035,994
These investments are made in terms of Section 105 A of the Monetary Law Act. Under this Section, the Bank is empowered to acquire and hold shares in any company which in the opinion of the Monetary Board was formed for the advancement and promotion of human resources and technological development in the banking and financial sector or to facilitate clearance of transactions among commercial banks operating in Sri Lanka.			Coins for Circulation	1,553,451	732,232
			Coins in Transit from the Supplier	165,110	109,233
(i) Investment position			Notes in Transit from the Supplier	231,380	233,897
				3,625,838	3,111,356
Company	Nature of the Business	% Holding	Less: Allowance for Slow Moving Items	(45,000)	(45,000)
		2014	2013		
Lanka Clear (Private) Limited	Automated Clearing	19.66	19.66	3,580,838	3,066,356
Fitch Ratings Lanka Limited	Credit Rating	10.00	10.00	Stationery and Sundry Inventory	39,331
Lanka Financial Services Bureau Limited	Automated Fund Transfers	7.50	7.50	Medical Center Stock	311
Credit Information Bureau of Sri Lanka Limited	Provision of Credit Information	19.30	19.30	Total Inventories at Lower of Cost and Net Realizable Value	3,620,480
					3,103,281

15. PROPERTY, PLANT AND EQUIPMENT									
	Land and Buildings	Plant & Plant Integrals	Furniture & Equipment	Vehicles	Computers	Reading Materials	Others Construction In progress	2014 Total	2013 Total
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
As at 01 January	12,332,480	1,165,522	795,390	400,719	797,525	50,404	1,159,869	16,701,909	16,045,151
Additions	875,173	72,432	28,565	99,125	49,059	1,488	945,783	2,071,625	692,196
Disposals / Transfers	-	-	(15,926)	(45,369)	(52,870)	-	(1,236,605)	(1,350,770)	(35,438)
As at 31 December	<u>13,207,653</u>	<u>1,237,954</u>	<u>808,029</u>	<u>454,475</u>	<u>793,714</u>	<u>51,892</u>	<u>869,047</u>	<u>17,422,764</u>	<u>16,701,909</u>

Depreciation									
	Land and Buildings	Plant & Plant Integrals	Furniture & Equipment	Vehicles	Computers	Reading Materials	Others Construction In progress	2014 Total	2013 Total
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
As at 01 January	298,701	594,656	568,506	289,801	690,312	31,018	-	2,472,994	2,132,074
Depreciation for the year	178,687	60,775	39,940	46,037	50,797	1,550	-	377,786	355,216
Reclassification	-	-	-	(1,452)	-	-	-	(1,452)	-
Disposals	-	-	(15,065)	(45,369)	(52,826)	-	-	(113,260)	(14,296)
As at 31 December	<u>477,388</u>	<u>655,431</u>	<u>593,381</u>	<u>289,017</u>	<u>688,283</u>	<u>32,568</u>	<u>-</u>	<u>2,736,068</u>	<u>2,472,994</u>
Net Book Value	<u>12,730,265</u>	<u>582,523</u>	<u>214,648</u>	<u>165,458</u>	<u>105,431</u>	<u>19,324</u>	<u>869,047</u>	<u>14,686,696</u>	<u>14,228,915</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 2014 Rs. 000	Carrying Value 2013 Rs. 000
Freehold Land	5,643,100	5,243,100
Buildings on Freehold Land	7,002,418	6,705,474
Buildings on Leasehold Land	84,748	85,205
	<u>12,730,266</u>	<u>12,033,779</u>

The carrying amount of revalued Land & Building that would have been included in the financial statements had been carried at cost less depreciation is Rs 10,011.913 Mn (2013- Rs.9,305.235Mn).

Further, Bank has purchased a property in Brazil for Rs.122.20 Mn on 18.12.2014.

19. IMF

	2014 Rs. 000	2013 Rs. 000
Interest Bearing Loans - Non Current	94,841,815	173,416,994
Interest Bearing Loans - Current	68,678,555	95,379,347
Allocation of Special Drawing Rights	75,083,657	79,627,890
Other Amounts Payable to IMF Quota Liability	47,039,094	48,517,078
	22,368,012	25,090,703
	213,169,318	248,615,018
Total IMF Related Liabilities	308,011,133	422,032,012

a). From 2014 this consisted of the Stand By Arrangement (SBA) obtained from the IMF.

b). SBA is also a balance of payment 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 payment support. The SBA was successfully completed in 2012 with the final tranche received in July 2012. This loan facility is repayable within 5 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 per cent of the quota with the IMF. When the outstanding loan amount exceeds 300 per cent of the quota, a surcharge of 2 per cent per annum will be levied on the outstanding in excess of 300 per cent. The first repayment of SDR 25.8 mn was made on 25th October 2012. Total amount of SDR 292.83 mn and SDR 473.69 mn of repayment were made respectively during 2013 and 2014 and the outstanding balance as at 31st December 2014 was SDR 861.25 mn.

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

	Effective interest rate %	Maturity	2014 Rs. 000	2013 Rs. 000
Current				
SBA	1.05		68,678,555	95,379,347
			68,678,555	95,379,347
Non-current				
SBA	1.05	2017	94,841,815	173,416,994
			94,841,815	173,416,994
Total Interest bearing Loans			163,520,370	268,796,341

c). **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. 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.

d). **Other Amounts Payable to IMF** represent amounts owed by the Bank to IMF on account of operational and administrative transactions.

e). **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

	2014 Rs. 000	2013 Rs. 000
Amount due to China Development Bank Corporation (CDB) under Escrow Agreement (a)	8,017,222	29,052,050
EIB/DFCC Global Loan II (b)	-	36,264
Moragahakanda Development Project Loan (c)	14,046,678	15,657,844
DST CDB (USD) - PRPIII (d)	34,106,960	-
DST Special Dollar A/C Small & Medium Enterprises (SME)	1,222,595	-
DST CDB (USD) - PRPIII Phase II (e)	13,104,860	-
Other Foreign Liabilities	1,647,843	2,474,961
	72,146,159	47,221,119

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. Accordingly, 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 and USD 161.013 Mn was disbursed in year 2013 and 2014 respectively. The remaining balance as at 31st December 2014 is USD 61.177 Mn.

b). EIB / DFCC Global Loan 2

As per the EURO 50 Mn loan agreement, the loan has been received in EURO for the purpose of micro financing from the European Investment Bank. However, latter part of the loan was received in US Dollars. 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 Mn was received from European Investment Bank as the first dollar installment to the Account No 45014. As the second installment USD 19.2 Mn was received on 01 June 2012. First disbursement was made on 1st March 2012 of USD 4.002 Mn. Another two disbursements of USD 6.573 Mn & USD 2.142 Mn were made on 3rd May 2012. On 14th August 2012, USD 12.343 Mn & USD 6.171 Mn were disbursed by CBSL according to the request made by Treasury Operations Department (TOD). Another disbursement of USD 0.473 Mn was made on 19 Nov 2012. According to the instruction of TOD the remaining balance of USD 0.277 Mn was transferred to the DST A/C No.50516 on 16th October 2014.

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 214.2 Mn. 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 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 USD 214.2 Mn was received from CDB and first disbursement of USD 64.337 Mn was done on 24th August 2012. USD 30.1 Mn was disbursed during the year 2013.

In the year of 2014 ,USD 12.564 Mn was disbursed and the remaining balance as at 31st December 2014 is USD 107.186 Mn.

d). Amount due to China Development Bank under Priority Road Project III

This Facility Agreement was signed between the China Development Bank (as the lender) and the Government of Sri Lanka (as the borrower) on 11th March 2014 for USD 300 Mn. The purpose of this loan is to finance the cost of improvement and rehabilitation of Priority Road Project III-Phase I. As per the Facility Agreement, the Bank has been appointed as the banker to the Government of Sri Lanka. Accordingly, an account has been opened in its General Ledger for the sole purpose of depositing the loan and disbursing such received monies to the Road Project. USD 300 Mn was received to the above account on 28th March 2014. During the year 2014 ,USD 39.738 Mn was disbursed and the remaining balance as at 31st December 2014 is USD 260.262 Mn.

e). Amount due to China Development Bank under Priority Road Project III Phase II

The Phase II of this agreement was received on 24th November 2014 USD 100 Mn.

f). Sri Lanka SME and Green Energy Global Loan

As per the Facility Agreement ,the Bank has been appointed as the banker to the Government of Sri Lanka. Accordingly, an account has been opened in its General Ledger for the sole purpose of depositing the loan and disbursing such received money to the project. USD 21.125 Mn was received to the above account on 06th October 2014. During the year 2014 ,USD 11.795 Mn was disbursed and the remaining balance as at 31st December 2014 is USD 9.329 Mn.

21. DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS

These are the deposits maintained by Licensed Commercial Banks for the purpose of meeting Statutory Reserve Requirement under section 93 of the Monetary Law Act and deposits maintained by Licensed Commercial Banks, Primary Dealers in Government Securities and the Employee Provident Fund and as participants of Real Time Gross Settlement System (RTGS) for honoring payments under the RTGS operated by the Bank under the provisions of the Monetary Law Act. Under the scheme, an interest free intra-day liquidity facility, fully collateralized by Government is available to participants to meet payments obligations within the day to facilitate smooth functioning of the settlement system. Although these deposits are classified by related parties (i.e., State owned banks and institutions) and others for the purpose of accounting disclosure requirements, such deposits are maintained in terms of relevant statutory provisions and not because of specific business relationship of the Bank with those state institutions.

	2014 Rs. 000	2013 Rs. 000
Deposits by Banks :		
- Related Parties	84,976,155	77,899,164
- Others	76,028,176	70,906,573
	<u>161,004,331</u>	<u>148,805,737</u>
Deposits by Financial Institutions		
- Related Parties	167	202
- Others	4,825	3,954
	<u>4,992</u>	<u>4,156</u>
Total Deposits by Banks and Other Financial Institutions	<u>161,009,323</u>	<u>148,809,893</u>

22. DEPOSITS OF GOVERNMENT AND GOVERNMENT ENTITIES

	2014 Rs. 000	2013 Rs. 000
Government Deposits	166,583	27,766
Government Agencies and Funds	145,367	388,464
	<u>311,950</u>	<u>416,230</u>

These are the deposits maintained in terms of Section 106(1) of the Monetary Law Act as the Bank is the official depository of the Government and or government agencies or institutions.

23. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

	2014 Rs. 000	2013 Rs. 000
Government Securities	321,220,000	84,601,000
Standing Deposit Facility (Note 3.3.8)	7,032,000	-
	<u>328,252,000</u>	<u>84,601,000</u>

Repurchase agreements are undertaken for Open Market Operations (OMO) to regulate liquidity in the money market under Sections 90 and 91 of Monetary Law Act as part of conduct of the monetary policy. These repurchase agreements were engaged in Government securities on over-night basis or term basis depending on the market liquidity management policies of the Bank decided from time to time.

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:

	2014 Rs. 000	2013 Rs. 000
CBSL Provident Fund	7,431	429,932
CBSL Retirement Pension Scheme	635,387	600,119
Widows' /Widowers' & Orphans' Pension Schemes	155,559	1,440
Payable in respect of Gratuity Scheme	117,463	90,398
Payable in respect of Medical Benefit Scheme	1,293,943	1,297,198
Total	<u>2,209,782</u>	<u>2,419,087</u>

25. OTHER PAYABLES

	2014 Rs. 000	2013 Rs. 000
Domestic Interest Payable	2,120,819	161,223
Provision and Charges	805,295	610,465
Deposit by RDD	2,688,215	1,880,078
Liability against Abandoned Properties Received	2,655,909	2,335,466
Other Payables	669,056	672,485
Total	<u>8,939,293</u>	<u>5,659,717</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	2014 Rs. 000	2013 Rs. 000
Coins:		
1 cent	3,631	3,631
2 cent	5,703	5,702
5 cent	23,247	23,245
10 cent	39,208	39,211
25 cent	120,558	120,566
50 cent	185,564	185,798
1 rupee	734,733	714,252
2 rupee	1,048,861	1,013,765
5 rupee	3,130,691	3,035,467
10 rupee	2,252,507	1,672,674
Commemorative coins	577,523	574,663
	8,122,226	7,388,974
Notes:		
1 rupee	4,981	4,981
2 rupee	26,697	26,698
5 rupee	37,194	37,198
10 rupee	1,519,817	1,638,800
20 rupee	4,121,289	3,725,554
50 rupee	4,273,372	4,041,101
100 rupee	17,029,514	15,332,034
200 rupee	132,526	138,465
500 rupee	28,205,681	23,668,137
1000 rupee	127,258,019	105,385,676
2000 rupee	67,438,978	87,798,698
5000 rupee	158,725,070	90,584,665
	408,773,136	332,382,007
Total Currency in Circulation	416,895,362	339,770,981

27. DEFERRED GRANTS

	2014 Rs. 000	2013 Rs. 000
As at 01 January	1,449	2,389
Amortization during the year	(934)	(940)
As at 31 December	515	1,449

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

i). Capital Funds

Contributed Capital - The capital account represents the capital of the Bank in accordance with section 6 of the Monetary Law Act (MLA). As per the section 6 of the MLA (Amendment) Act No. 15 of 2014, the capital of the bank has been increased to Rs. 50 Bn. Accordingly bank has increased its capital up to Rs. 50 Bn by capitalizing the Bank's reserves with the concurrence of Minister of Finance in September 2014.

ii). **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. As per the section 6 of the MLA (Amendment) Act No. 15 of 2014 the balance in the account has been utilized to increase the capital.

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;

i). **International Revaluation Reserve (IRR)** : International Revaluation Reserve is a reserve

established in accordance with section 41 of the Monetary Law Act which requires that any unrealised gain or loss arising from the revaluation of net assets and liabilities of CBSL in gold or foreign currency shall not be considered in computing the net profit of the bank, instead such profit or loss should be transferred to the International Reserve Revaluation.

- ii). **Market Revaluation Reserve (MRR):** Market Revaluation Reserve was set up as per the Monetary Board decision of 30 January 2003, to transfer the price valuation gains from marking to market the foreign assets, in order to meet any adverse effects of volatilities in the international markets leading to adverse movements in market prices of the foreign financial assets. The Monetary Board has decided to build up this reserve to a maximum of 10% of the gross foreign reserves of the Bank.
- iii). **Other Reserves :** Other reserves include General Reserve, Building Reserve and Credit Guarantee Reserve. General Reserve includes the amounts set aside from the retained earnings by the Monetary Board.
- iv). **Net Fair Value/(Loss) on Available for Sale Securities :** For the year ended 31 December 2014, unrealized gains and losses on the revaluation of securities designated as available for sale & un-allocated gold accounts, have been transferred to this reserve.
- v). **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.

vi). **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. Another Rs. 1 Bn transferred to this reserve from 2011 profits.

vii). **Technical Advancement Reserve :** This reserve is built up from 2007 profits specifically to be used for technical advancement requirements, modification or upgrading of the IT systems currently used by the Bank i.e., General Ledger, RTGS, Treasury Management System and Scriptless Securities Settlement System.

viii). **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.

ix). **Special Credit Guarantee Scheme Reserve –** This reserve is set up in the year 2014 by transferring Rs. 2,000 Mn from Medium and Long Term Credit Fund, of which Rs. 1,000 Mn is allocated to support restructure of Saubaghya Loan Scheme, Awakening North Loan Scheme (phase II), Resumption of Economic Activities in the East (phase II) and Repair of Damage Houses in North and East operated by Regional Development Department of the Bank. Other Rs. 1,000 Mn is allocated to implement a special credit guarantee scheme to support lending to Small and Medium Enterprises by Commercial Banks

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	Special Credit Guarantee Scheme Reserve 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 Advancement Reserves Rs. 000	Provincial Development Credit Scheme Fund Rs. 000	Total Rs. 000
As at 1 January 2014	11,425,000	4,650,806	9,978,738	-	864,026	40,834,545	(7,346,267)	4,000,000	1,000,000	2,900,000	68,306,848
Transfer of RTGS Income to RTGS Fund	-	-	-	-	212,124	-	-	-	-	-	212,124
Transfer of Profits to General Reserve	-	-	1,511,182	-	-	-	-	-	-	-	1,511,182
Transfer of Funds to General Reserve	(6,000,000)	-	6,000,000	-	-	-	-	-	-	-	-
Transfer of Funds to Credit Guarantee Scheme on Pawning Advances	(500,000)	-	-	-	-	-	-	-	-	-	(500,000)
Transfer of Funds to Reserve Appropriated as Capital	-	-	(15,000,000)	-	-	-	-	-	-	-	(15,000,000)
Transfer of Net Foreign Exchange Revaluation Loss	-	-	-	-	-	(32,266,690)	-	-	-	-	(32,266,690)
Net Fair value Loss on Available for sale Securities & Gold	-	-	-	-	-	-	9,229,796	-	-	-	9,229,796
Transfer of Funds to Special Credit Guarantee Scheme	(2,000,000)	-	-	2,000,000	-	-	-	-	-	-	-
As at 31 December 2014	2,925,000	4,650,806	2,489,920	2,000,000	1,076,150	8,567,855	1,883,529	4,000,000	1,000,000	2,900,000	31,493,260

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.3 Bn in respect of 2013 profit and Rs.8.5 Bn in respect of 2014 profit to the Government, as per quarterly profit certification by the external auditors.

31. INTEREST INCOME FROM FINANCIAL ASSETS

	2014 Rs. 000	2013 Rs. 000
Interest Income from Foreign Currency Financial Assets		
Cash and Short Term Deposits	3,209,460	2,048,673
Financial Assets	6,853,354	9,639,675
Derivatives	12,158,689	6,817,308
Total Interest Income from Foreign Currency Financial Assets	22,221,503	18,505,656
Interest Income from Local Currency Financial Assets		
Sri Lanka Government Securities	4,085,660	13,897,078
Other Loans and Advances	531,024	553,056
Total Net Interest Income from Local Currency Financial Assets	4,616,684	14,450,134
Total Interest Income from Financial Assets	26,838,187	32,955,790

32. INTEREST EXPENSE ON FINANCIAL LIABILITIES

	2014 Rs. 000	2013 Rs. 000
Interest Expense on Foreign Currency Financial Liabilities		
Amount Payable to Asian Clearing Union	13,854	18,220
IMF Related Liabilities	2,546,454	4,298,227
Derivatives	525,898	113,672
Other Foreign Payable	17,051	17,282
Total Interest Expense on Foreign Currency Financial Liabilities	3,103,257	4,447,401
Interest Expense on Local Currency Financial Liabilities		
Securities Sold Under Agreements to Repurchase	15,919,782	2,741,166
Standing Deposit Facility	1,198,254	-
Bond Borrowing	467,432	20,853
Abandoned Property	162,568	217,831
Total Interest Expense on Local Currency Financial Liabilities	17,748,037	2,979,850
Total Interest Expense on Financial Liabilities	20,851,293	7,427,251

Bank has incurred a net cost/(gain) of Rs. 5,831.435 Mn as sterilization cost (2013- Rs. (4,219.018 Mn)) in its activities to absorb the excess liquidity in the market. The sterilization cost/(gain) is composed of the interest expenses incurred on securities sold under agreement to repurchase, interest expense on Bond Borrowing and interest expense on Standing Deposit Facility netted off with interest income earned on the securities purchased under agreement to resale (Reverse Repurchase) included under interest income from Sri Lanka Government Securities, and USD/LKR derivative gain included in the derivative gain under interest income from foreign currency financial assets, as discussed below:

	2014 Rs. 000	2013 Rs. 000
Interest expenses incurred on securities sold under agreement to repurchase	15,919,782	2,741,167
Interest expense on Bond Borrowing	467,432	20,853
Interest expense on Standing Deposit Facility	1,198,254	-
Less:		
Interest income earned on the securities purchased under agreement to resale	(3,438)	(244,788)
USD / LKR Derivative Gain	(11,750,595)	(6,736,250)
	5,831,435	(4,219,018)

33. OTHER INCOME

	2014 Rs. 000	2013 Rs. 000
Dividend Income - Related Party	22,014	14,811
Others	1,055	525
Gain on Disposal of Property, Plant & Equipment	21,884	(731)
Amortization of Deferred Grant	934	940
Reversal of Post Employment Benefit Plan Cost	-	1,736,376
Miscellaneous Income	1,321,779	1,167,339
Total Other Income	1,367,666	2,919,260

Miscellaneous Income includes amortization gain of Rs.1.091 Mn (2013 - 0.964 Mn) on Debentures in Sri Lanka Savings Bank Ltd, and Rs. 5.350 Mn (2013 - 5.372 Mn) of gain on amortization of PRGF Deposit of SDR 788,783 with IMF over remaining period of 04 years (Note 07).

34. PERSONNEL EXPENSES

	2014 Rs. 000	2013 Rs. 000
Wages and Salaries including EPF,ETF etc	3,256,096	3,138,445
Defined Contribution Plan Costs	457,274	447,626
Post Employee Defined Benefit Plan Costs	1,289,040	1,988,525
Total Personnel Expenses	5,002,410	5,574,596

35. ADMINISTRATION AND OTHER EXPENSES

	2014 Rs. 000	2013 Rs. 000
Repairs and Maintenance	734,555	692,701
Operating Expenses for Reuters, Bloomberg, SWIFT etc.	129,918	115,981
Travelling	133,778	109,846
Rental Expenses	5,126	5,309
Printing	37,113	30,740
Audit Fees	7,568	7,822
Remuneration to Members of the Monetary Board	954	1,020
Interest Subsidy on CBSL Provident Fund	63	433,842
Cost of Advertising	149,676	247,749
Consultancy, Communication, Advisory and Professional Fees	2,050,619	16,816
Credit Guarantee Scheme on Pawning Advances	500,000	-
Miscellaneous Expenses	301,488	335,222
Total Other Operating Expenses	4,050,858	1,997,048

36. WITHHOLDING TAX

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. 777.496 Mn (2013 - Rs 1,986.217 Mn) was expensed in relation to such withholding tax, payable on interest income of Rs 4,085.66 Mn (2013 - Rs.13,897.078 Mn) & dividend income Rs 23.069 Mn (2013 - Rs. 15.336 Mn).

37. RECONCILIATION OF OPERATING PROFIT WITH OPERATING CASH FLOW

	2014 Rs. 000	2013 Rs. 000
Reported Net Profit / (Loss) from Operating Activities	(32,309,390)	(24,264,529)
Add / (Less) Non-Cash Items		
Depreciation & Amortization	396,811	365,644
Interest Received – Local Currency – Investment Portfolio	(4,085,660)	(13,897,078)
Gross Unrealised Foreign Exchange (Gain) / Loss	21,166,521	13,120,232
Profit on Sale of Fixed Assets	(1,091)	(964)
Other Provision	1,633,532	(25,754,497)
Deferred Grants	(934)	(940)
Provision for slow moving inventory	-	20,000
Amortization of PRGF Deposit	(5,351)	(5,371)
Reversal of W&OP, WR&OP benefit liabilities to other income	-	(1,736,376)
Additional provision for Pension benefit liability	-	932,447
Amortization expense of Fixed Income Securities	3,233,923	-
Accumulated Amortization	157	-
Add / (Less) Movements in Other Working Capital Items		
(Increase)/Decrease in Inventories	(517,198)	(181,089)
(Increase)/Decrease in Interest Receivable	528,694	3,110,920
Increase / (Decrease) in Miscellaneous Liabilities	(620,067)	378,945
Increase / (Decrease) in Interest Payable	1,616,420	(81,176)
(Increase)/Decrease in Other Receivable	(95,958)	128,494
Add / (Less) Investing and Financing Activities		
Net Unrealised Market Value Changes	18,512,965	27,892,406
Net Cash Flow From Operating Activities	9,453,374	(19,972,932)

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

	2014 Rs. 000	2013 Rs. 000
Purchases of Sri Lanka Government Securities	107,185,340	(154,163,065)
Interest Received – Local Currency – Sri Lanka Government Securities	(2,681,061)	(19,132,272)
Increase/(Decrease) in Advances to GOSL	34,730,900	(2,124,771)
(Increase) /Decrease in Balances with Government and Government Entities	104,280	283,397
	139,339,459	(175,136,711)

39. NET ISSUES/(WITHDRAWALS) OR CIRCULATION CURRENCY ON BANK AND FINANCIAL INSTITUTIONS TRANSACTIONS			40. CLOSING CASH AND CASH EQUIVALENTS			
	2014 Rs. 000	2013 Rs. 000	Foreign Currency Assets		2014 Rs. 000	2013 Rs. 000
(Increase)/Decrease in Deposits by Banks and Financial Institutions	(12,199,430)	17,284,956	Cash Balances with Foreign Banks		487,070,771	425,676,763
	<u>(12,199,430)</u>	<u>17,284,956</u>			<u>487,070,771</u>	<u>425,676,763</u>
41. CONCENTRATIONS OF FUNDING						
The Bank's significant end-of-year concentrations of funding were as follows.						
As at 31 December 2014	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	11,678,483	-	-	-	305,160	11,373,323
Derivative Financial Instruments	19,207,822	-	-	19,180,954	-	26,868
Asian Clearing Union	57,230,304	-	-	-	-	57,230,304
IMF	308,011,133	-	-	-	308,011,133	-
Other	72,146,159	22,063,900	-	805,214	837,539	48,439,506
Total Foreign Currency Financial Liabilities	468,273,901	22,063,900	-	19,986,168	309,153,832	117,070,001
Local Currency Financial Liabilities						
Deposits of Banks and Financial Institutions	161,009,323	-	-	161,004,331	-	4,992
Deposits of Government and Government Entities	311,950	311,832	118	-	-	-
Securities Sold Under Repurchase Agreements	328,252,000	-	-	328,252,000	-	-
Balances of Employee Benefit Plans	2,209,782	-	-	-	-	2,209,782
Other Payables	8,939,293	26,190	-	182,000	-	8,731,103
Total Local Currency Financial Liabilities	500,722,348	338,022	118	489,438,331	-	10,945,877
Total Financial Liabilities	968,996,249	22,401,922	118	509,424,499	309,153,832	128,015,878
Other Liabilities						
Currency in Circulation	416,895,362	-	416,895,362	-	-	-
Deferred Grants	515	-	-	-	-	515
Pension and Other Post - Employment Benefit Plans	3,599,035	-	-	-	-	3,599,035
Miscellaneous Liabilities and Accruals	197,380	37,928	-	-	-	159,452
Total Other Liabilities	420,692,292	37,928	416,895,362	-	-	3,759,002
Total Liabilities	1,389,688,541	22,439,850	416,895,480	509,424,499	309,153,832	131,774,880
Comparative Figures as at 31 December 2013 are 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 Payable	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

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 Management System (TMS) 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 counter parties. 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 Monetary Board Advisory Audit Committee.

The Monetary Board Advisory Audit Committee is chaired by an appointed member of the Monetary Board. The Monetary Board Advisory Audit Committee advises the Monetary Board on policies and issues relating to the audits of the Bank in the areas such as Annual Internal Audit Plan and any interim revision therein, management response to the management letters issued by external auditors, monitoring of implementation of the external and internal audit findings and recommendations agreed by the management, non-compliances reported by the Compliance Officer, advice for the heads of Auditee Department on subjects/issues relating to audit for policy formulation and any other matters relating to audit. The Monetary Board Advisory Audit Committee reports its recommendations and performance to the Monetary Board for consideration quarterly and when necessary.

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	2014	2013
Exposure by geographical area	Rs. 000	Rs. 000
Sri Lanka	281,434,233	141,256,806
USA	247,455,622	213,281,074
Japan	82,055,393	78,023,705
Britain	164,344,228	139,059,208
Europe	93,737,444	117,118,354
Supranational	222,580,690	196,757,857
Other	233,542,023	218,513,810
Total Financial Assets	1,325,149,633	1,104,010,814

(b) Concentrations of Credit Exposure

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

	2014	2013
	Rs. 000	Rs. 000
Governments	769,681,320	639,329,786
Supranational Financial Institutions	222,580,690	196,757,857
Foreign Banks and Financial Institutions	324,625,536	255,318,467
Sri Lanka Banks & Financial Institutions	3,041,059	7,731,366
Other	5,221,028	4,873,338
Total Financial Assets	1,325,149,633	1,104,010,814

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/Severiges Riks Bank/Bank of Canada/Reserve Bank of New Zealand

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/Severiges Riks Bank/Bank of Canada/Reserve Bank of New Zealand

(c) Credit Exposure by Credit Rating

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

Credit Rating	2014 Rs.000	%	2013 Rs.000	%
	209,580,134	15.82%	226,880,575	20.55%
AA	-	0.00%	-	0.00%
AA-	81,692,163	6.16%	118,832,685	10.76%
A+	162,072,232	12.23%	79,727,931	7.22%
A	33,555,560	2.53%	95,905	0.01%
BBB+	-	0.00%	31,729	0.00%
BBB	28,002	0.00%	-	0.00%
NR	142,680	0.01%	107,938	0.01%
	487,070,771	36.76%	425,676,763	38.56%
AAA	170,800,992	12.89%	164,474,689	14.90%
AA+	160,197,811	12.09%	171,570,378	15.54%
AA	3,537,900	0.27%	-	0.00%
AA-	15,507,080	1.17%	20,121,914	1.82%
A+	24,255,977	1.83%	17,281,309	1.57%
A	1,051,456	0.08%	3,624,296	0.33%
A-	739,460	0.06%	3,692,426	0.33%
BBB+	-	0.00%	1,233,964	0.11%
BBB-	2,455,004	0.19%	-	0.00%
NR	63,486,285	4.79%	49,461,563	4.48%
	452,887,850	34.18%	431,696,404	39.10%

Securities at Fair Value Through Profit & Loss	AA-	16,796,957	1.27%	19,972,714	1.81%
		16,796,957	1.27%	19,972,714	1.81%
Derivative Financial Instruments					
Federal Reserve Bank - USA/Reserve Bank of Australia/Bank for International Settlements/ Bank of Japan /Deutsche Bundesbank/Bank of England /Severiges Riks Bank/Bank of Canada/Reserve Bank of New Zealand		-	0.00%	-	0.00%
	AA-	37,832	0.00%	6,773	0.00%
	A+	1,616	0.00%	-	0.00%
	A-	47	0.00%	-	0.00%
Locally Rated	AAA	268,877	0.02%	3,103,634	0.28%
	AA+	461	0.00%	260,648	0.02%
	AA	802,792	0.06%	866,706	0.08%
	AA-	301,005	0.02%	1,029,765	0.09%
	A-	167,607	0.01%	325,982	0.03%
	BBB	-	0.00%	76,750	0.01%
		1,580,237	0.12%	5,670,258	0.51%
IMF Related Assets	AAA	79,816,029	6.02%	85,400,764	7.74%
		79,816,029	6.02%	85,400,764	7.74%
Other Receivables	AAA	364	0.00%	590	0.00%
	AA-	426	0.00%	-	0.00%
	A+	2,153,902	0.16%	-	0.00%
	A	2,238,138	0.17%	-	0.00%
	A-	2,713,084	0.20%	-	0.00%
	B+	-	0.00%	1	0.00%
		7,105,914	0.54%	591	0.00%
Total Foreign Currency Financial Assets		1,045,257,758	78.88%	968,417,494	87.72%
Local Currency Financial Assets					
Sri Lanka Government Securities	B+	124,443,452	9.39%	15,853,513	1.44%
Provisional Advances to Government	B+	143,897,971	10.86%	109,167,071	9.89%
Loans to Banks	AA+	980,578	0.07%	1,350,298	0.12%
	AA	8,611	0.00%	-	0.00%
	AA-	79,003	0.01%	17,795	0.00%
	A-	41,988	0.00%	6,213	0.00%
	BBB+	222,340	0.02%	-	0.00%
	BBB	4,675	0.00%	-	0.00%
	BB+	108,788	0.01%	-	0.00%
	NR	43,390	0.00%	1,090	0.00%
Other Receivable	B+	1,400,637	0.11%	1,398,221	0.13%
	NR	511,434	0.04%	431,491	0.04%
Equity Investments in Financial and Other Institutions	NR	41,095	0.00%	41,095	0.00%
Debentures-Available for Sale	NR	9,328	0.00%	-	0.00%
Other Assets	B+	3,430,085	0.26%	7,318,296	0.66%
	NR	4,668,500	0.35%	8,237	0.00%
Total Local Currency Financial Assets		279,891,875	21.12%	135,593,320	12.28%
Total Financial Assets		1,325,149,633	100.00%	1,104,010,814	100.00%

42.1 Credit Risk (Continued)					
(d) Summary by Major Credit Category					
	Credit Rating	2014 Rs.000	%	2013 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/ Severiges Riks Bank/Bank of Canada/Reserve Bank of New Zeland					
		220,436,019	16.63%	227,116,440	20.57%
IMF Related Assets					
		79,816,393	6.02%	85,401,354	7.74%
	AAA	170,800,992	12.89%	164,474,689	14.90%
	AA+/-	277,770,169	20.96%	330,504,464	29.94%
	A+/-	223,830,250	16.89%	104,421,867	9.46%
	BBB+/-	2,483,006	0.19%	1,265,693	0.11%
	BB+/-	-	0.00%	-	0.00%
	B+/-	-	0.00%	1	0.00%
	NR	63,628,965	4.80%	49,569,501	4.49%
Locally Rated					
	AAA	268,877	0.02%	3,103,634	0.28%
	AA+	461	0.00%	260,648	0.02%
	AA	802,792	0.06%	866,706	0.08%
	AA-	301,005	0.02%	1,029,765	0.09%
	A-	167,607	0.01%	325,982	0.03%
	BBB	-	0.00%	76,750	0.00%
Total Foreign Currency Financial Assets		1,040,306,536	78.50%	968,417,494	87.72%
Local Currency Financial Assets					
	AA+	980,578	0.07%	1,350,298	0.12%
	AA-	79,003	0.01%	17,795	0.00%
	AA	8,611	0.00%	-	0.00%
	A-	41,988	0.00%	6,213	0.00%
	BBB+	222,340	0.02%	-	0.00%
	BBB	4,675	0.00%	-	0.00%
	BB+	108,788	0.01%	-	0.00%
	B+	273,172,145	20.61%	133,737,101	12.11%
	NR	5,273,747	0.40%	481,913	0.04%
Total Local Currency Financial Assets		279,891,875	21.12%	135,593,320	12.28%
Total Financial Assets		1,320,198,411	100.00%	1,104,010,814	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)	
	2014	2013
Trading and Available for Sale	12.76	14.80

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, the Bank uses Modified Duration (MD) as a measurement of interest rate risk which considers interest rates as well as the duration of an investment. The MD measures the change in price of a security for a given change in the interest rates (yield). A higher MD indicates a higher risk. Hence, the bank set an appropriate MD from time to time considering the developments in the financial markets, portfolio characteristics and the risk appetite of the bond portfolio. The MDs of the foreign assets portfolio, are tabulated below:

Modified Duration

Investment Segment	Modified Duration	
	2014	2013
Capital Market (Fixed Income Securities)	3.76	4.64

ii) Since the MD does not account for large changes in prices, another measure used for management of interest rate risk of the foreign reserves portfolio is convexity. Convexity measures the extent of deviation in bond price-yield curve from a straight line representing duration. It allows improving the duration approximation for bond price changes. Convexity is a change in Duration for a change in yield. It measures the predictive error of Modified Duration. In other words, it is the second derivative of a security's price with respect to its yield.

Convexity of the segmented Fixed Income Securities portfolio

Portfolio Segment	Potential Loss (US\$ Mn)	
	2014	2013
Trading and Available for Sale	0.22	0.34

iii) Value at Risk (VaR)

VaR summarizes in a single number the downside risk of the portfolio, under normal market conditions, from financial market movements. Therefore, VaR is the maximum loss over a target horizon such that there is a low, pre-specified probability that the actual loss will be larger. VaR gives us a number, in terms of money, which can be aggregated across risks and positions. The

Bank uses historical simulation method to calculate VaR number for 10 days period at 99% confidence interval. The historical method for estimating VaR is sometimes referred to as the historical simulation method. As an example to calculate the 5% daily VaR using the historical method is to accumulate a number of past daily returns, rank the returns from highest to lowest, and identify the lowest 5% of returns. The highest of these lowest 5% of returns is the 1-day, 5% VaR.

Portfolio Segment	Value at Risk (VaR) US\$ Mn	
	2014	2013
Trading and Available for Sale	116.13	47.98

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 Bank 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 Bank's actions in injecting rupee liquidity or absorbing liquidity from the market have a significant impact on general rupee market interest rates. Thus, changes in the interest income earned from the 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 %	2014 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	0.85	487,070,771	487,070,771	-	-	-	-
Securities at Fair Value through Profit and Loss and Available for Sale Investments	1.53	452,887,850	75,510,725	18,112,850	68,712,816	175,644,118	114,907,341
IMF related assets	0.04	10,285,892	10,285,892	-	-	-	-
Total Interest Sensitive Foreign Currency Financial Assets		950,244,513	572,867,388	18,112,850	68,712,816	175,644,118	114,907,341
Non Interest Sensitive Foreign Currency Financial Assets							
IMF Related assets		69,530,137	-	-	-	126,356	69,403,781
Derivative Financial Instruments		1,580,237	1,498,615	81,575	47	-	-
Receivables		7,105,914	7,105,914	-	-	-	-
Securities at Fair Value through Profit and Loss		16,796,957	16,796,957	-	-	-	-
Total non Interest Sensitive Foreign Currency Financial Assets		95,013,245	25,401,486	81,575	47	126,356	69,403,781
Total Foreign Currency Financial Assets		1,045,257,758	598,268,874	18,194,425	68,712,863	175,770,474	184,311,122
Interest Sensitive Foreign Currency Financial Liabilities							
IMF	0.00	163,520,370	32,704,074	35,974,481	62,137,741	32,704,074	-
Asian Clearing Union	0.05	57,230,304	57,230,304	-	-	-	-
Total Interest Sensitive Foreign Currency Financial Liabilities		220,750,674	89,934,378	35,974,481	62,137,741	32,704,074	-
Non Interest Sensitive Foreign Currency Financial Liabilities							
Banks and Financial Institutions		11,678,483	11,678,483	-	-	-	-
Derivative Financial Instruments		19,207,822	1,329,279	1,520,530	3,981,616	10,594,288	1,782,109
IMF		144,490,763	-	-	-	-	144,490,763
Commercial Banks' Capital in Foreign Currency		805,215	-	-	-	-	805,215
Other Foreign Liabilities		71,340,944	71,340,944	-	-	-	-
Total non Interest Sensitive Foreign Currency Financial Liabilities		247,523,227	84,348,706	1,520,530	3,981,616	10,594,288	147,078,087
Total Foreign Currency Financial Liabilities		468,273,901	174,283,084	37,495,011	66,119,357	43,298,362	147,078,087
Foreign Currency Interest Rate Sensitivity Gap		729,493,839	482,933,010	(17,861,631)	6,575,075	142,940,044	114,907,341

42.2 Interest Rate Risk (Continued)							
	Weighted Avg. Int. Rate %	2014 Total Rs. 000	6 Months or Less Rs. 000	6 to 12 Months Rs. 000	1 to 2 Years Rs. 000	2 to 5 Years Rs. 000	Over 5 Years Rs. 000
Interest Sensitive Local Currency Financial Assets							
Sri Lanka Government Securities	5.69	121,793,452	121,793,452	-	-	-	-
Treasury Bills and Bond Reverse Repo	8.00	2,650,000	2,650,000	-	-	-	-
Loans to Banks	7.83	1,489,372	397,073	273,406	300,351	518,542	-
Other assets - Staff Loans	3.62	4,668,501	173,804	176,791	362,695	1,163,133	2,792,078
- Others	7.72	3,439,413	911,543	425,961	733,009	1,213,403	155,497
Total Interest Sensitive Local Currency Financial Assets		134,040,738	125,925,872	876,158	1,396,055	2,895,078	2,947,575
Non Interest Sensitive Local Currency Assets							
Provisional Advances to Government		143,897,971	143,897,971	-	-	-	-
Other Receivables		1,912,071	1,912,071	-	-	-	-
Investment in Equity Securities - Available for Sale		41,095	-	-	-	-	41,095
Total non Interest Sensitive Local Currency Assets		145,851,137	145,810,042	-	-	-	41,095
Total Local Currency Assets		279,891,875	271,735,914	876,158	1,396,055	2,895,078	2,988,670
Interest Sensitive Local Currency Financial Liabilities							
Securities sold under Repurchase Agreements	6.02	321,220,000	321,220,000	-	-	-	-
Standing Deposit Facility	5.00	7,032,000	7,032,000	-	-	-	-
Total Interest Sensitive Local Currency Financial Liabilities		328,252,000	328,252,000	-	-	-	-
Non Interest Sensitive Local Currency Liabilities							
Deposits of Banks and Financial Institutions		161,009,323	161,009,323	-	-	-	-
Deposits of Government and Government Entities		311,950	311,950	-	-	-	-
Balances of Employee Benefit Plans		2,209,782	2,209,782	-	-	-	-
Other Payables		8,939,293	8,939,293	-	-	-	-
Total Non Interest Sensitive Local Currency Financial Liabilities		172,470,348	172,470,348	-	-	-	-
Total Local Currency Financial Liabilities		500,722,348	500,722,348	-	-	-	-
Local Currency Interest Rate Sensitivity Gap		(194,211,262)	(202,326,128)	876,158	1,396,055	2,895,078	2,947,575

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 2013 were as follows							
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	0.00	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)

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

Comparative figures as at 31 December 2013 were as follows;

	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 Loan	4.18	4,400,751	45,406	46,435	96,054	315,483	3,897,373
- Other	7.65	2,925,782	1,097,655	71,460	653,421	1,103,246	-
Total Interest Sensitive Local Currency Financial Assets		24,555,442	17,375,414	479,101	1,263,005	1,540,549	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		135,593,320	128,372,197	479,101	1,263,005	1,540,549	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		5,659,718	5,659,718	-	-	-	-
Total non Interest Sensitive Local Currency Financial Liabilities		157,304,928	157,304,928	-	-	-	-
Total Local Currency Financial Liabilities		241,905,928	241,905,928	-	-	-	-
Local Currency Interest Rate Sensitivity Gap		(60,045,558)	(67,225,586)	479,101	1,263,005	1,540,549	3,897,373

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.

42.3 Foreign Currency Risk (Continued)**Net Exposure to Foreign Currencies**

As at 31 December 2014, the Central Bank of Sri Lanka's net exposure to major currencies was as follows.

As at 31 December 2014	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	(313,660,985)	(21,842,412)	7,381,899	56,016,904	-	112,362,714	646,812,651	487,070,771
Securities at Fair Value through Profit and Loss and Available for Sale Investments	227,526,935	53,915,502	23,868,150	44,810,723	-	60,990,957	58,572,540	469,684,807
Derivative Financial Instruments	47	-	37,832	-	-	-	1,542,358	1,580,237
IMF Related Assets	-	-	-	-	79,816,029	-	-	79,816,029
Other Receivables	426	-	558,018	6,547,106	364	-	-	7,105,914
Total Foreign Currency Financial Assets	(86,133,577)	32,073,090	31,845,899	107,374,733	79,816,393	173,353,671	706,927,549	1,045,257,758
Proportion	-8%	3%	3%	10%	8%	17%	68%	100%
Foreign Currency Financial Liabilities								
Banks and Financial Institutions	310,860	2,455	-	2,239,371	-	9,125,797	-	11,678,483
Derivative Financial Instruments	26,868	-	-	-	-	-	19,180,954	19,207,822
Asian Clearing Union	57,016,104	214,200	-	-	-	-	-	57,230,304
IMF	-	-	-	-	308,011,133	-	-	308,011,133
Other	71,303,530	-	-	-	-	-	842,629	72,146,159
Total Foreign Currency Financial Liabilities	128,657,362	216,655	-	2,239,371	308,011,133	9,125,797	20,023,583	468,273,901
Proportion	27.47%	0.05%	0.00%	0.48%	65.78%	1.95%	4.28%	100%
Net Foreign Currency Exposure	(214,790,939)	31,856,435	31,845,899	105,135,362	(228,194,740)	164,227,874	686,903,966	576,983,857

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 2014	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	315,836,566	(18,113,664)	7,961,856	(62,622)	5,274,559	(6,351,590)
Sales	(24,459,676)	(304,517,720)	5,375,438	19,321,868	4,875,603	29,416
FX Forward Contra Account - Near Leg	(1,667)	-	-	-	-	-
Forward contra account	(297,639)	-	-	-	-	-
As at 31 December 2013						
Purchases	314,641,828	55,095,905	-	-	-	-
Sales	(2,411,633)	(312,230,195)	(25,277,612)	(29,818,293)	-	-

42.3 Foreign Currency Risk (Continued)

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 Foreign 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%	2%	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

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

As at 31 December 2014	Less than 6 months	6 Months -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	487,070,771	-	-	-	-	487,070,771
Securities at Fair Value through Profit and Loss	61,745,564	-	-	-	-	61,745,564
Available for Sale Investments	36,824,108	21,440,653	74,839,842	186,893,880	112,714,585	432,713,068
IMF Related Assets	10,285,892	-	-	126,356	69,403,781	79,816,029
Other Receivables	789	-	-	-	-	789
Total un-discounted Foreign Financial Assets	595,927,124	21,440,653	74,839,842	187,020,236	182,118,366	1,061,346,221
Local Currency Financial Assets						
Sri Lanka Government Securities	126,146,447	-	-	-	-	126,146,447
Provisional Advances to Government	143,897,971	-	-	-	-	143,897,971
Loans to Banks	397,073	343,377	337,628	545,564	1,404	1,625,046
Other Receivables	1,912,071	-	-	-	-	1,912,071
Equity Investments in Financial and Other Institutions	-	-	-	-	41,095	41,095
Other Assets	1,260,219	736,309	1,319,793	2,505,689	2,964,554	8,786,564
Total un-discounted Local Financial Assets	273,613,781	1,079,686	1,657,421	3,051,253	3,007,053	282,409,194
Total un-discounted Financial Assets	869,540,905	22,520,339	76,497,263	190,071,489	185,125,419	1,343,755,415
Foreign Financial Liabilities						
Banks and Financial Institutions	4,973,823	673,045	726,957	260,896	374,477	7,009,198
Asian Clearing Union	57,230,304	-	-	-	-	57,230,304
IMF	32,704,074	35,974,481	62,137,740	32,704,074	144,490,763	308,011,132
Other	71,340,944	-	-	-	805,214	72,146,158
Total un-discounted Foreign Financial Liabilities	166,249,145	36,647,526	62,864,697	32,964,970	145,670,454	444,396,792
Local Currency Financial Liabilities						
Deposits of Banks and Financial Institutions	416,630,260	-	-	-	-	416,630,260
Deposits of Government and Governmental Entities	311,950	-	-	-	-	311,950
Securities Sold Under Repurchase Agreements	331,665,172	-	-	-	-	331,665,172
Balances of Employee Benefit Plans	2,209,782	-	-	-	-	2,209,782
Other Payables	8,939,293	-	-	-	-	8,939,293
Total un-discounted Local Financial Liabilities	759,756,457	-	-	-	-	759,756,457
Total un-discounted Financial Liabilities	926,005,602	36,647,526	62,864,697	32,964,970	145,670,454	1,204,153,249
Net un-discounted Financial Assets/ (Liabilities)	(56,464,697)	(14,127,187)	13,632,566	157,106,519	39,454,965	139,602,166

As at 31 December 2014	Less than 6 months	6 Months -1 Yr	1-2 Yrs
	Rs. 000	Rs. 000	Rs. 000
Derivative Financial Assets	212,727,267	91,893,999	731
Derivative Financial Liabilities	210,190,966	90,813,211	-

Foreign Currency Conversions

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

42.4 Contractual maturities of un-discounted cash flows of Financial Assets and Liabilities (Continued)

As at 31 December 2013, contractual maturities of un-discounted cash flows of financial assets and liabilities are as follows.

As at 31 December 2013	Less than 6 months	6 Months -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	399,139,333
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	1,014,323,014
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	1,245,605	184,760	884,027	1,578,449	3,910,923	7,803,764
Total un-discounted Local Financial Assets	128,657,959	584,328	1,436,904	1,723,362	3,952,018	136,354,571
Total un-discounted Financial Assets	683,038,251	20,997,357	69,354,707	137,982,313	239,304,957	1,150,677,585
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)	335,561,253	(30,574,791)	(5,286,830)	36,150,601	83,246,588	419,096,820
As at 31 December 2013						
	Less than 6 months	6 Months -1 Yr				
	Rs. 000	Rs. 000				
Derivative Financial Assets	272,936,121	96,790,456				
Derivative Financial Liabilities	270,565,621	92,955,576				

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 into or withdrawal 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.32,323.711 Mn (2013 – Rs. 28,575.636 Mn) fall short of the total present value of all benefit obligations of Rs.35,922.746 Mn (2013 – Rs. 33,511.975 Mn) at the end of the reporting period resulting in a deficit of Rs. 3,599.035 Mn (2013 – Rs. 4,936.339 Mn).

2014

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 2014 Rs. 000
Present Value of Benefit Obligation	28,883,317	4,179,572	725,176	230,186	1,904,495	35,922,746
Fair Value of Plan Assets	(24,273,554)	(5,054,224)	(1,594,306)	(132,733)	(1,268,894)	(32,323,711)
Benefit Liability/ (Asset) non-current	4,609,763	(874,652)	(869,130)	97,453	635,601	3,599,035

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 2014 Rs. 000
At 1 January 2014	5,508,804	(492,159)	(734,320)	78,253	575,761	4,936,339
Benefit Expense	1,163,340	(49,216)	(73,432)	35,846	125,700	1,202,238
Amount recognized in Other Comprehensive Income	(1,105,279)	(310,474)	(52,502)	3,064	(22,412)	(1,487,603)
Contribution Paid	(957,102)	(22,803)	(8,876)	(19,710)	(43,448)	(1,051,939)
At 31 December 2014 - non-current	4,609,763	(874,652)	(869,130)	97,453	635,601	3,599,035
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 2014 Rs. 000
Interest Cost on Benefit Obligation	550,881	(49,216)	(73,432)	7,825	57,576	493,634
Net Current Service Cost	612,459	-	-	28,021	68,124	708,604
Net Benefit Expense	1,163,340	(49,216)	(73,432)	35,846	125,700	1,202,238
Actual Return on Plan Assets	3,269,674	773,111	205,286	10,476	175,870	4,434,417
Actual Return on Plan Assets as a % of Average Balance	14.32%	16.18%	13.74%	8.78%	14.31%	14.56%
Excess of Interest Earned Over Benefit Paid	1,934,458	526,475	191,404	7,236	36,563	2,696,136
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 2014 Rs. 000
Fair Value of Plan Assets at the beginning of the year	21,381,994	4,504,946	1,394,026	105,787	1,188,883	28,575,636
Actual Return on Plan Assets	3,269,674	773,111	205,286	10,476	175,870	4,434,417
Contribution Received	957,102	22,803	8,876	19,710	43,448	1,051,939
Benefits Paid	(1,335,216)	(246,636)	(13,882)	(3,240)	(139,307)	(1,738,281)
Fair value of Plan Assets at the end of the year	24,273,554	5,054,224	1,594,306	132,733	1,268,894	32,323,711
2013	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)
Benefit Liability/ (Asset) non-current	5,508,804	(492,159)	(734,320)	78,253	575,761	4,936,339
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

43.1 Pension and Other Post-Employment Benefit Plans (Continued)						
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
Net Current Service Cost	461,418	-	-	26,303	58,328	546,049
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%	12.90%	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 Earnings 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
The principal assumptions used in determining Employee Benefit Obligations for all the plans are shown below:						
	2014	2013				
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				

44. FAIR VALUE DISCLOSURES**a) Fair Value of Assets and Liabilities**

The fair value of assets and liabilities 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 assets and liabilities 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 assets and liabilities recorded at fair value hierarchy:

31 December 2014

Financial Assets

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

Foreign Currency Non-Financial Assets

Gold

Other Non-Financial Assets

Land
Building

Financial Liabilities

Embedded Derivatives - Currency Options
Derivatives

	Level 1 Rs. 000	Level 2 Rs. 000	Level 3 Rs. 000	Total Rs. 000
Securities at Fair Value through Profit or Loss	61,495,307	-	-	61,495,307
Available for Sale Investments	408,189,500	-	-	408,189,500
Derivatives	-	1,580,237	-	1,580,237
	<u>469,684,807</u>	<u>1,580,237</u>	<u>-</u>	<u>471,265,044</u>
Foreign Currency Non-Financial Assets				
Gold	100,190,635	-	-	100,190,635
	<u>100,190,635</u>	<u>-</u>	<u>-</u>	<u>100,190,635</u>
Other Non-Financial Assets				
Land	-	-	5,833,100	5,833,100
Building	-	-	7,814,883	7,814,883
	<u>-</u>	<u>-</u>	<u>13,647,983</u>	<u>13,647,983</u>
Financial Liabilities				
Embedded Derivatives - Currency Options	-	-	16,350,511	16,350,511
Derivatives	-	2,758,520	-	2,758,520
	<u>-</u>	<u>2,758,520</u>	<u>16,350,511</u>	<u>19,109,031</u>

31 December 2013

Financial Assets

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

Foreign Currency Non-Financial Assets

Gold

Other Non-Financial Assets

Land
Building

Financial Liabilities

Embedded Derivatives - Currency Options
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	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	-	-	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	-	-	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>

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.

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%

44. FAIR VALUE DISCLOSURES (Contd.)					Condominium Property - New York			
Sensitivity Analysis for Head Office Land & Building					Valuation Method			
Discounting Rate	Rental Growth	Outgoings	Land Rs.000	Building Rs.000	The independent valuer has recommended the sales comparison approach, which values a property based on the principle of substitution, i.e. the value the market participants would pay to acquire a similar property.			
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				
					Sales Comparison Approach			
					As at 31 December 2014			
					Size (rentable square feet)	12,726		
						USD		
					Unit value per square foot applied	550		
					Market value of the property	6,999,300		
					Market value of the property (approx.)	7,000,000		
Sensitivity Analysis on the Criteria used in Sales Comparison Approach - New York Property								
Criteria	Description	Change in Criteria	Adjustment	Impact on Overall Value (USD)				
Financing	Financing for cash transactions, a discount is generally received on the purchase price vs. credit/mortgaged transactions.	Cash purchase	Downward adjustment of 5%	-350,000				
		Credit purchase	Upward adjustment of 5%	350,000				
Market conditions	Refers to real estate market conditions. For example, market conditions in 2014 were more favorable compared to those in 2013.	Favorable conditions	Upwards adjustment 5 - 10%	-350,000 to -700,000				
		Unfavorable conditions	Downwards adjustment 5 - 10%	+350,000 to +700,000				
Size	Larger units are generally sold on discounts due to economies of scale vs. those which are comparably smaller.	Larger properties	Downward adjustment of 5%	-350,000				
		Smaller properties	Upward adjustment of 5%	350,000				
Floor height	Generally, higher the floor level, higher the price of a condominium unit.	Increasing floor level	Upward adjustment of 1% per floor	-70,000				
		Decreasing floor level	Downward adjustment of 1% per floor	70,000				
Embedded Derivatives - Currency Options								
Fair Value of the Embedded Derivative Products was calculated using Black-Scholes model					Sensitivity Analysis			
					Discount Rate		Volatility	
					9%	11%	4%	6%
					Rs.000	Rs.000	Rs.000	Rs.000
Level 3					Embedded Derivatives - Currency Option			
					17,338,572	15,540,084	14,849,574	17,696,309
					Deffered Asset on embedded options			
Beginning Balance					2014 Rs.000		2013 Rs. 000	
Derivative Liabilities					(27,578,100)		-	
Ending Balance					8,635,798		-	
Total unrealised gains included in earnings					(6,890,540)		(27,578,100)	
Significant unobservable inputs used					(25,832,841)		(27,578,100)	
Discount Rate					10%			
Volatility					5%			

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 2014 was Rs. 321,220 Mn (2013 – Rs 84,601 Mn) and provided Standing Deposit Facility of Rs. 7,032 Mn (2013 – Rs Nil). There were no CBSL Securities sold under agreements to repurchase (2013 - Rs. Nil). The carrying value of Sri Lanka Government Securities purchased under agreements to resold as at 31 December 2014 was Rs. 2,650 Mn (2013 – Rs 12,930 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 Assets and Liabilities:

Fair values	Carrying Amount		Fair Value	
	2014 Rs. 000	2013 Rs. 000	2014 Rs. 000	2013 Rs. 000
Foreign Currency Financial Assets				
Cash & Cash Equivalents	487,070,771	425,676,763	487,070,771	425,676,763
Foreign Currency Trading/ Available for Sale Securities	469,684,807	451,669,118	469,684,807	451,669,118
Derivative Financial Instruments	1,580,237	5,670,258	1,580,237	5,670,258
IMF Related Assets	79,816,029	85,400,764	79,816,029	85,400,764
Other Foreign Receivables	7,105,914	591	7,105,914	591
Total Foreign Currency Financial Assets	1,045,257,758	968,417,494	1,045,257,758	968,417,494
Local Currency Financial Assets				
Sri Lanka Government Securities	124,443,452	15,853,513	124,072,219	15,810,695
Provisional Advances to Government	143,897,971	109,167,071	143,897,971	109,167,071
Loans to Banks	1,489,372	1,375,396	1,398,678	1,215,303
Other Receivables	1,912,071	1,829,712	1,912,071	1,829,712
Equity Investment in Financial and Other Institutions	41,095	41,095	41,095	41,095
Other Assets	8,107,914	6,443,534	5,712,113	4,845,310
Total Local Currency Financial Assets	279,891,874	134,710,321	277,034,146	132,909,186
Total Financial Assets	1,325,149,632	1,103,127,815	1,322,291,904	1,101,326,680
Foreign Currency Non-Financial Assets				
Allocated Gold	100,190,635	95,601,221	100,190,635	95,601,221
Total Foreign Currency Non-Financial Assets	100,190,635	95,601,221	100,190,635	95,601,221
Foreign Currency Financial Liabilities				
Banks & Financial Institution	11,678,483	21,504,196	11,678,483	21,504,196
Derivative Financial Instruments	19,207,822	16,183,282	19,207,822	16,183,282
Asian Clearing Union	57,230,304	37,301,553	57,230,304	37,301,553
IMF	308,011,133	422,032,012	308,011,133	422,032,012
Others	72,146,159	47,221,119	72,146,159	47,221,119
Total Foreign Currency Financial Liabilities	468,273,901	544,242,162	468,273,901	544,242,162
Local Currency Financial Liabilities				
Deposits of Banks & Financial Institutions	161,009,323	148,809,893	161,009,323	148,809,893
Deposits of Government and Government Entities	311,950	416,230	311,950	416,230
Securities Sold under Repurchase Agreements	328,252,000	84,601,000	328,252,000	84,601,000
Balances of Employee Benefits Plan	2,209,782	2,419,087	2,209,782	2,419,087
Other Payables	8,939,293	5,659,718	8,939,293	5,659,718
Total Local Currency Financial Liabilities	500,722,348	241,905,928	500,722,348	241,905,928
Total Financial Liabilities	968,996,249	786,148,090	968,996,249	786,148,090

45. COMPARATIVE INFORMATION

	2013 Rs. 000	
a). As reported previously:		
Local Currency Financial Assets		
Other Assets		<u>6,443,534</u>
Local Currency Non-Financial Assets		
Other Receivables and Prepayments		<u>29,910,697</u>
Current Presentation:	2014 Rs. 000	2013 Rs. 000
Local Currency Financial Assets		
Other Assets	8,107,914	7,326,533
Local Currency Non- Financial Assets		
Other Receivables and Prepayments	27,446,864	29,027,698

Nature of the Transaction**Transactions:**

Sri Lanka Government Securities Held by CBSL, (a)	121,793,452	2,923,513
Outright sales of Government Securities	-	61,099,000
CBSL and Government Securities Purchased / Sold under Agreement to Repurchase / Sales	3,723,185,303	2,605,097,956
Cost of Printing currency notes, for the Year ended 31 December (d)	851,816	954,259
Guarantees provided by CBSL, as at 31 December (Note 47.2)	2,577,998	2,561,264
Payments for Goods, Services and Taxes, during the Year ended 31 December 2014 (e)	603,729	405,650
Paid Surplus to Government, during the year (Note 30)	8,500,000	25,000,000
Provisional Advances to Government, (Note 9)	143,897,971	109,167,071
Government Securities held for specific purposes	1,380,689	1,219,657
Gross Foreign Exchange Transactions during the year, (g)		
Sales	54,983,877	43,991,178
Purchases	102,063,864	40,884,447
USD / LKR Derivatives	484,476,757	277,458,818
Refinance (j)	10,943,022	6,492,418
Dividend Income received from Lanka Clear & CRIB	22,014	14,811
Payments made to Lanka Clear (Pvt) Ltd.	567	643
Consultancy, Communication, Advisory and Professional Fees (h)	1,396,223	-

Balances:

Loans given under Susahana Phase 1 & 2, Provincial Development Credit Scheme, Saubaghyia Loan Scheme, Awakening North Loan Scheme (Phase II), Resumption of Economic Activities in the East (Phase II) & Repair of Damage Houses in North and East	877,513	1,242,405
RTGS Balances with Banks & Financial Institutions	84,976,155	77,899,164
Nostro Balance with BOC London	137,486	106,922
Receivable from Treasury and other Ministries	1,399,832	1,394,987
Receivable from Ceylon Petroleum Corporation (l)	283,114	333,114
Payable to Ministry of Finance & Planning (Note 20)	8,017,222	29,052,050
Current Account Balances with Government & Government Entities As at 31 December	30,023	172,571
Investment in Lanka Clear	29,500	29,500
Investment in CRIB	5,845	5,845
Other Transactions & Balances (m)	950,931	1,076,631

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 (amended) and enforcing Statutory Reserve Requirement as per the sections 93-98 of Monetary Law Act 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 2014 are given

Investments of RTGS Income of Rs. 882.999 Mn included in Other Receivables and Prepayments in 2013 has been removed, included in Other Assets in 2014 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:

in Note 21 and 22. Interest earned on the government securities is given in Note 31.

b) Empowered by the sections 28-33 of the Monetary Law Act the Bank Supervision Department of Bank carries out the regulatory and supervisory functions of the banks licensed by the Monetary Board of Central Bank. As at 31 December 2014, 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, Non-bank Financial Institutions are under supervision.

- c) As per Section 113 of Monetary Law Act , 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 Monetary Law Act . 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 Monetary Law Act, 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) This amount represents the expenses incurred by the Bank for the communication programmes conducted by the Government of Sri Lanka. These expenses are recorded under the administration and other expenses (Note 35).
- i) The Bank also has custodial arrangements with one State-controlled bank, for which no charges were levied.
- j) The Bank provides refinance loans and for which credit guarantees also provided of which Bank funded projects amounted to Rs. 12,620.079 Mn (2013 Rs 6,492.418 Mn) and government funded projects amounted to Rs. 6,089.136 Mn (2013 - Rs. 3,359.77 Mn).
- k) 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. As at 31st December 2014 Rs. 367.776 Mn loans were outstanding under the refinance scheme, from People's Bank (184.24 Mn), Bank of Ceylon (38.275 Mn) Pradeshiya Sanwardana Bank (122.32 Mn) and Lankaputhra Development Bank (22.94 Mn) and for which RDD has received an interest of Rs. 77.89 Mn.
- l) 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. 283.114 Mn (2013 – Rs. 333.114 Mn) considered as receivable from CPC. (In January 2015, Bank has received 279.968 Mn in this respect)
- Further, 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 is Rs.14.028 Mn (2013 - Rs. 25.099 Mn) (Note 35).
- m) 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 the Bank of Rs. 63.234 Mn (2013 - 177.627 Mn), Government of Rs. 6.81 Mn (2013- 19.484 Mn), funds collected in respect of exchange control activities Rs. 37.928 Mn (2013- Rs. 22.602 Mn), Government Securities held for specific purpose Rs. Nil (2013 - Rs. 83.531 Mn), RTGS balance of NSB Fund Management amounting to Rs 0.167 Mn (2013 - Rs.0.203 Mn), Loans given under Susahana Phase 1 & 2, Provincial Development Credit Scheme, Saubaghya Loan Scheme, Awakening North Loan Scheme (Phase II), Resumption of Economic Activities in the East (Phase II) & Repair of Damage Houses in North and East Rs 325.946 Mn (2013- Rs.142.499 Mn) , Payments for Goods, Services and Taxes during the year ended 31 December 2014 Rs. 186.976 Mn (2013- Rs. 316.460 Mn), current account balances of government & government entities of Rs.281.927 Mn (2013- Rs. 243.659 Mn), funds received in respect of Abandoned Property Rs. 33.914 Mn (2013 - Rs. 45.468 Mn) and external legal expenses Rs.14.028 Mn (2013 - Rs.25.099 Mn).
- n) During the year 2011, in terms of section 09 of Monetary Law Act, 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 st June 2012 at a monthly rental of USD 68,000. Rent receivable amounting to Rs.28 Mn for 4 months (September - December) for year 2014.
- o) The Sundry Assets include Rs.88 Mn, which is receivable from Urban Development Authority (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.

p) The Monetary Board of Bank has entered into a Memorandum of Understanding (MOU) with Wild Life Conservation Department on 20th Nov 2008, to collaborate with each other for the construction, establishment & maintenance of the Inspection Bungalow & the Wild Life 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 the article 3 of MOU, CBSL has agreed to hand over the possession of the Wild Life Office to the Wild Life Conservation Department, after construction. The cost of Rs.6.2 Mn, incurred by the Bank to construct the Wild Life 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 Governor (Monetary Law Act 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 Compensations to the Key Management Personnel

	2014 Rs 000	2013 Rs 000
Short Term Employee Benefits	67,816	57,534

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

	2014 Rs 000	2013 Rs 000
Loans to Key Management Personnel	47,310	32,076

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

	2014 Rs 000	2013 Rs 000
Contributions paid and payable	39,925	49,776

The Bank contributed various amounts to Pension and Other Post Retirement Plans as disclosed in Note 43 and paid Rs. 406.489 Mn (2013 – Rs. 426.580 Mn) to Employees Provident Fund. In the normal course of business the Bank provides banking and financial services to its post employment plans. Amounts of balances with such plans are given in Note 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 Decemebr 2014.

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	2014 Rs. 000	2013 Rs. 000
Related Parties	Rupees		
- Bank Funded Projects		63,234	177,627
- Government Funded Projects		2,584,808	2,580,748
Others	Rupees		
- Bank Funded Projects		52,503	135,803
- Government Funded Projects		1,999,483	690,295
Total Credit Guarantees		4,700,028	3,584,473

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 03 cases where legal actions instituted by stakeholders of entities involved, claiming Rs.53.274 Mn. 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 8.711 Mn with legal interest for the damages 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 2014, 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 2014 the Bank has capital commitments amounting to Rs. 488.145 Mn (2013 – Rs. 7.954Mn & USD 1.805Mn), in respect of the acquisition of Property, Plant and Equipment.
- b) As at 31 December 2014 outstanding Forward Exchange Transactions are as follows:

Forward exchange contracts	2014 000	2013 000
Forward exchange sales		
GBP	-	139,000
EUR	50,000	141,000
USD	2,239,119	2,337,998

47.6 Assets Pledged

In order to facilitate the securities settlement process, AUD 35 Mn -Carrying value - AUD 36.786 Mn (2013 - Nil) were pledged by the Bank to the Euro Clear Bank and obtained a credit facility of USD 30 Mn (2013 – USD 30 Mn). The pledged securities are held in a separate account at the Euro Clear.

Those securities are presented in the 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 by 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 2014 the contingent liability of the Bank as the lessor is estimated at Rs 10.966 Mn (2013 - Rs.13.159 Mn) being the 25% of the investment value considered at the end of sixth year of operation.

47.8 Bond Borrowing

The Bank has borrowed bonds from Employees Provident Fund during the year at a Commission of 30 basis points . The face value of outstanding bonds amounting to Rs.191,781.425 Mn These bonds have been fully utilized for the Repo facilities and therefore the face value is Rs. Nil (2013 - face value - Rs.5,940.023 Mn, market value - Rs. 3,593.676 Mn remained unallocated for Repo facilities) as at 31 December 2014.

48. TRUST AND CUSTODIAL ACTIVITIES

Bank commonly act 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. 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 counter party 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) 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) 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 01st 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) Bank carries out regulatory and supervisory functions in respect of Licensed Finance Companies (LCs) and attends to related matters under the authority delegated to it by the Monetary Board. While carrying out such functions, with respect to failed LFCs, various actions are taken, including the vesting of assets of persons responsible for the unviable and insolvent condition of such companies, with the Monetary Board as a form of security.
- 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. 01.10.2010 as an act of national interest to protect the funds of depositors. All Licensed

Commercial Banks (LCBs), Licensed Specialized Banks (LSBs) & Licensed Finance Companies shall be the members of this Scheme. The deposits to be insured include the demand, time and savings deposit liabilities of the member institutions excluding all borrowing instruments and specific exclusions as per 5.2 of the said gazette notification. The deposit insurance fund has been created with the transfer of Rs. 350.195 Mn of the investments of Voluntary Deposit Insurance Scheme and Rs. 1,168.306 Mn of investments made out of collections of abandoned property of LCBs. Until 31.12.2014, the amount of compensation payable per-depositor per-institution was limited to Rs. 0.2 Mn or its equivalent in the case of foreign currency deposits if such amount exceeds Rs. 0.2 Mn. With effect from 01.01.2015, this limit was increased to Rs. 0.3 Mn. per-depositor per-institution. The payment of compensation shall not be a liability of the Monetary Board or the Bank & 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 Deposit Insurance Unit established in the Bank Supervision Department, is responsible for operation & management of the scheme under the instructions and supervision of the Director of Bank Supervision in terms of Directions/Regulations and policies as approved

by the Monetary Board from time to time and shall maintain books & accounts distinctly separate from the Financial Statements of the Bank. The Auditor General should be the Auditor.

With effect from 22.11.2013, this scheme was renamed as "Sri Lanka Deposit Insurance and Liquidity Support Scheme" and the deposit insurance fund was renamed as the "Sri Lanka Deposit Insurance and Liquidity Support Fund".

- 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 Regional Development Department (RDD) of the Bank . RDD refines such amounts collected through Bank of Ceylon, Peoples' Bank, Pradeshiya Sanwardana Bank and Lankaputhra Development Bank to agriculture under Viskam Refinance Scheme. The total collections outstanding as at end of the 31 December 2014 amounted to Rs. 367.776 Mn (2013- 390.686 Mn). As at end of 31 December 2014 RDD has granted Rs. 460.010 Mn loans under the refinance scheme and received an interest of Rs. 77.890 Mn for loans given. RDD holds Rs. 45.822 Mn (2013- Nil) of investments in government securities. Further Rs.188.178 Mn (2013- 188.178 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				
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 sub-sector 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 Small and Medium Enterprises (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 residencies.	1,362.00	Collection of recoveries from Participating Financial Institutions (PFIs) as per scheduled date to be transferred to Deputy Secretary to the Treasury (DST).			
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 rising 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 Micro Finance Project	YEN	1,368.00	Setting up of an effective credit delivery mechanism for channeling formal credit to income generating activities	1,402.45				
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 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 the life of the people in the Southern province	564.00				
EIB Contract B	EUR	10.00	Reconstruction of SMEs directly affected by Tsunami	1,553.27				
Susahana	LKR	3,000.00	To provide credit facilities to resume Micro Small and Medium Enterprises (MSMEs) affected by Tsunami.	2,750.00	Collection of recoveries from PFIs as per scheduled date to be transferred to Finance Department (FD).			
Susahana Phase II	LKR	500.00	To provide credit facilities to resume MSMEs affected by the Tsunami	105.54				
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 A/Cs 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				
Second Perennial Crops Development Project - Revolving Fund	LKR	1,200.00	To provide credit facilities to develop the perennial crops sector in the country.	1,199.82				
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				

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				
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				
Post Tsunami Coastal Rehabilitation Resource Management Project	SDR	2.09	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				
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.	881.00	When the Mandatory requirements are fulfilled by contributory Banks, funds will be returned			
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				
Dry Zone Livelihood Support & Partnership Programme	LKR	252.95	To provide facilities to income generating activities in Anuradhapura, Moneragala, Kurunegala and Badulla Districts.	252.95				
Resumption of Economic Activities in the Eastern Province - Phase II	LKR	1,078.27	To extend credit to agriculture, livestock, micro and small enterprises in the Eastern Province.	1,000.00	Collection of recoveries from PFIs as per scheduled date to be transferred to FD.			
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.	1,428.47				
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.	600.00				
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				

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.	938.71				
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.	339.89				
Poverty Alleviation Micro Finance Project II - (Probodini)	YEN	2,305.00	Enhancement of the living standard of households whose monthly income less than Rs. 15,000/= in project location.	3,126.29				The rights and obligations of the agreements will not be assigned, amended, abrogated or waived without the agreement of all relevant parties
Poverty Alleviation Micro Finance Project II (Probodini)– Revolving Fund	LKR	2,764.84	Enhancement of the living standard of households whose monthly income less than Rs. 15,000/= in project location.	2,748.15				
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.	202.62		No Warranties and assurances	Financial Statements should be audited by the external auditors	
Small Farmers and Landless Credit Project - Revolving Fund	LKR	345.69	To promote the intensification of agricultural production by small farmers and the establishment of small scale non- farming rural enterprises	1,259.63				
Dry Zone Livelihood Support & Partnership Programme - Revolving Fund	LKR	252.95	To provide facilities to income generating activities in Anuradhapura, Moneragala, Kurunegala and Badulla Districts.	238.56	Collection of recoveries from PFIs as per scheduled date to be transferred to relevant accounts of the RDD			
Poverty Alleviation Micro Finance Project – Revolving Fund	LKR	1,031.28	Strengthening of economic conditions of low income families	2,931.06				
Saubhagya	LKR	11,234.00	To extend credit to MSMEs and disaster affected MSMEs.	11,234.65				
Awakening North – Phase II	LKR	2,154.25	To extend credit to agriculture, livestock, micro and small enterprises in the Northern Provinces.	2,157.28				

49. INTEREST IN OTHER ENTITIES

The Loan Schemes Susahana, Susahana Phase II, Provincial Development Loan Scheme, Saubhagya Loan Scheme, Awakening North Loan Scheme (Phase II), Resumption of Economic Activities in the East (Phase II) & Repair of Damaged Houses in North and East 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.

Bank also earns a stated percentage, to cover administrative expenses from 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

The Bank Supervision Department (BSD) was established by Section 28 of the Monetary Law Act (MLA) with specific powers and duties to conduct continuous supervision and examination of banks. In addition, bank regulation and supervision are governed by provisions of the Banking Act, No. 30 of 1988 as amended. The major functions of BSD are the preparation and issuance of prudential regulations, guidelines and permissions approved by the Monetary Board, conduct of continuous supervision and periodical examination of licensed banks and the administration of Sri Lanka Deposit Insurance and Liquidity Support Scheme (SLDILSS). In addition, BSD is also engaged in several activities for awareness and capacity building in the banking sector. As at the end of 2014, the banks falling under the regulatory and supervisory purview of the Monetary Law Act and the Banking Act comprised 25 licensed commercial banks (LCBs) and 9 licensed specialised banks (LSBs). The list of these banks are provided in Annex II-1. The main functions and activities performed by BSD during 2014 are summarised below:

2.1 Issuance of Prudential Regulations, Guidelines and Permissions

2.1.1 Issuance of Prudential Regulations and Guidelines

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

- (a) **Implementation of the Standardised Approach for Operational Risk under Basel II:** Guidelines on the Basel II Standardised Approach for computation of risk-weighted amount for calculation of capital charge for operational risk were issued to licensed banks. Banks are permitted to adopt the Standardised Approach or the Alternative Standardised Approach, subject to complying with qualifying criteria set out in the Guidelines.
- (b) **Regulatory Framework on Valuation of Immovable Property:** Licensed banks were required to adopt appropriate prudent policies and procedures approved by the Board on valuation of immovable properties including the eligibility criteria for Valuers.
- (c) **Information Security Management of Licensed Banks:** Considering the rising trend in the automation of banking services and associated IT risks, banks were required to comply with the Baseline Information Security Standard based on ISO 27000 series of international standards from 01 July 2015 onwards.
- (d) **Guidelines on Tax Incentives to Promote Financial Sector Consolidation:** These Guidelines covered the ascertainment of cost of acquisition/merger as a qualifying payment and on the claimability of any unabsorbed input credit in terms of the requirements

of the Inland Revenue Act and the Value Added Tax Act, respectively, and were issued with the concurrence of the Ministry of Finance for the implementation of the 2014 budget proposal to encourage mergers and acquisitions of banks and non-bank financial institutions under the consolidation policy.

- (e) **Maximum Amount of Accommodation:** The existing Directions on Maximum Amount of Accommodation were amended as follows:

- Accommodation granted by an LCB incorporated outside Sri Lanka by utilising funds raised from its head office and/or any branch outside Sri Lanka was excluded from the limits applicable for Maximum Amount of Accommodation.
- Accommodation granted by all licensed banks in excess of the maximum limits of accommodation with the approval of the Monetary Board was excluded when computing the aggregate limit of large accommodation.

- (f) **Minimum Capital Requirement of Licensed Banks:** All LCBs incorporated in Sri Lanka and LSBs were required to maintain a minimum core capital of Rs. 10 billion and Rs. 5 billion, respectively, commencing 01 January 2016, whereas, the minimum capital requirement of foreign banks will remain at Rs. 5 billion.

- (g) **Investment Fund Account:** Instructions were issued to licensed banks to discontinue the operations of the Investment Fund Account, with effect from 01 October 2014, as the stipulated time period of three years ended in 2014.

- (h) **Liquidity Coverage Ratio under Basel III:** A Consultation Paper on the implementation of Basel III Liquidity Standards on Liquidity Coverage Ratio (LCR) was issued to banks with the objective of promoting short-term resilience of the liquidity risk profile of banks by ensuring that banks have an adequate stock of high-quality liquid assets. The observation period of LCR commenced in December, 2014.

2.1.2 Permissions approved by the Monetary Board

- (a) **Branches and Other Banking Outlets:** Approvals were granted for opening 75 new branches, 208 Student Savings Units and one mobile banking unit, relocating 90 branches and installing 167 Automated Teller Machines (ATMs). As at the end of 2014, there were 3,508 branches, 3,046 Student Savings Units and 2,635 ATMs in operation.
- (b) **Issue of Banking Licence:** A banking licence was issued to the Cargills Bank Ltd to engage in commercial banking business in Sri Lanka, subject to conditions that the branch network of the bank shall be limited to a maximum of three branches in the Colombo Municipality area, the bank shall acquire up to three licensed finance companies under the financial sector consolidation programme, the material interest in the

bank held by the Cargills Group shall not exceed 30 per cent and the bank shall be listed in the Colombo Stock Exchange within a period of two years from the date of commencement of banking business.

- (c) **Other Operational Permissions:** BSD processed a large number of requests from licensed banks for other regulatory approvals, including 2 requests to amend Articles of Association, 5 to include subordinated debentures in Tier II capital, 7 to grant facilities exceeding the maximum amount of accommodation, 4 to invest in subsidiaries and 2 to expand business in foreign countries. The proposals submitted by banks on financial sector consolidation process were evaluated, and the necessary approvals were provided for the amendments of Articles of Association, the amalgamation of the Merchant Bank of Sri Lanka PLC, MCSL Financial Services Ltd and MBSL Savings Bank Ltd, the acquisition of certain non-bank financial institutions by banks and a strategic investment to strengthen capital.

2.2 Conduct of Continuous Supervision

BSD continued to supervise banks on an on-going basis to assess their financial condition and to identify early warning signs of impending problems, in order to initiate necessary corrective actions. Continuous supervision was carried out based on periodical financial and performance information submitted by banks and other communications with banks. This process provided input to update the internal supervisory rating of banks, monitor the progress on addressing supervisory concerns identified during the statutory examinations of banks within agreed time targets and conduct a number of meetings with banks' Board of Directors, senior management and external auditors to ensure proper oversight and implementation of timely corrective actions.

During the year, 383 reports on the monthly performance of banks and 4 reports on quarterly performance of the banking sector, and 6 reports on specific matters such as analysis of deposit interest rates, introduction of a credit guarantee scheme for pawning advances, determination of the loan to value ratio for the banking sector, deposits of senior citizens of banks and lending to the shrimp farming industry and the apparel sector were prepared to facilitate policy decisions.

The first review of the Internal Capital Adequacy Assessment Process of banks under Pillar 2 of Basel II was commenced during the year and the findings were communicated to banks for improvement. Further, a preliminary assessment of the impact of Basel III – capital and liquidity standards was conducted.

2.3 Conduct of Periodical Examinations

BSD conducted 42 examinations during 2014, including 9 that continued from the previous year. The risk focused

consolidated supervision approach was adopted to conduct these examinations. Statutory examinations of 30 banks were completed in 2014 through formal discussions with the management of the respective banks and submission of reports to the Monetary Board, while 12 examinations were in the process of completion. In addition, several examinations with limited scope were carried out on specific issues and supervisory concerns related to operations, such as financial reporting and questionable funds transfers.

2.4 Administration of the Sri Lanka Deposit Insurance and Liquidity Support Scheme

As at 31 December 2014, the Scheme comprised 82 member institutions with a total fund of approximately Rs. 18 billion. The investments of the fund covered investments made in Government Securities and loans and receivables, including a loan of Rs. 6 billion to a member institution under the liquidity support for restructuring. Licensed banks which maintained a capital adequacy ratio of 14 per cent or above at the end of the immediately preceding financial year were required to pay a premium of 0.10 per cent per annum on the total amount of all eligible deposits and all other banks were charged a premium of 0.125 per cent per annum. The premium applicable for licensed finance companies was 0.15 per cent per annum. Premia and penalties collected from member institutions during the year amounted to Rs. 4.8 billion.

Subsequent to the proposal approved in the Budget 2015, the deposit insurance coverage per depositor per institution was increased from Rs. 200,000 to Rs. 300,000, with effect from 01 January 2015.

2.5 Awareness and Capacity Building of the Banking Sector

- (a) BSD organised the seventh consecutive Bank Directors' Symposium on 26 November 2014 on the theme "Vision 2020: Aligning the Banking Sector to the Real Economy". The Symposium covered sessions on emerging trends in the global environment with special emphasis on the strategic leadership of bank directors, importance of credit ratings of banks, strategic planning for transformation and empowerment with special focus on banking in the digital era, and the importance of moving away from silo based risk management.
- (b) A technical session was conducted for the Boards of Directors of licensed banks to enhance their knowledge on Internal Capital Adequacy Assessment Process under Pillar 2 of Basel II and best practices in risk management.
- (c) Two workshops were held for Chief Risk Officers and banking sector professionals on the Consultation Paper issued on LCR under Basel III, to discuss observations made by banks on the Consultation Paper and to build capacity in the banking sector.

(d) Building upon the previously issued supervisory guidance on stress testing under the Integrated Risk Management Framework and Pillar 2 of Basel II, Guidelines on Stress Testing were issued to banks, requiring them to develop and implement a stress testing framework and to integrate stress testing results into banks' risk management and decision-making processes.

(e) Meetings with Banks' Chief Executive Officers, Chairmen and Banks' Auditors

BSD continued to function as the Secretariat for the monthly meetings of the Governor with CEOs of banks and quarterly meetings with the Bank Chairmen that serve as a forum for the exchange of views between the Central Bank and the banking sector on matters relating to the developments in the Sri Lankan economy, developments in the monetary and banking sector and regulatory and supervisory improvements. A meeting chaired by the Governor was convened with the Panel of External Auditors to exchange views on issues relating to financial reporting, internal controls of banks, review of the Corporate Governance Directions, submission of Management Letters and areas to focus when planning the next year's financial audits were discussed. In addition, several meetings were held with the Auditors to discuss on bank specific matters, as a part of the supervisory mechanism.

(f) Public Awareness Programmes

During 2014, public awareness campaigns were conducted by BSD along with the Department of Supervision of Non-Bank Financial Institutions to enhance awareness among the general public on financial institutions authorised by the Central Bank to accept deposits from the public and the dangers in engaging in prohibited schemes. Accordingly, 2 public notices were published in several newspapers in all three languages, totaling to 242.

(g) 51 press releases were issued to disseminate information on regulatory developments, including progress on the financial sector consolidation programme.

(h) In addition, 16 senior officers of BSD served as resource persons for training programs organised by the Centre for Banking Studies of the Central Bank and external institutions, including an overseas institution. These programmes mainly covered bank supervision, bank risk management, Corporate Governance, legislation pertaining to banking and finance.

(i) Consolidation of the Financial Sector

BSD facilitated the financial sector consolidation process which was undertaken during the year to strengthen the financial sector through mergers and acquisitions announced in the Budget 2014. The Director and the Additional Director of BSD served as members in the Financial Sector Consolidation Unit

established in the Central Bank, whilst a senior officer served in the technical assistance team. Guidelines on Tax Incentives in terms of the Inland Revenue Act and the Value Added Tax Act to promote financial sector consolidation were formulated with the assistance of the Auditors qualified to audit accounts of banks and the Department of Inland Revenue. Continuous engagement with the related stakeholders such as Securities and Exchange Commission, Auditors qualified to conduct audits of banks, Consultants, officials of the Ministry of Finance, Department of Inland Revenue and Trade Unions was facilitated through several meetings.

(ii) Review of Corporate Governance Directions

BSD facilitated the two committees appointed to review the existing Directions on Corporate Governance. The committees, one comprising bank Chairmen and the other comprising bank Chief Executive Officers were chaired by the Deputy Governor in charge of financial system stability. Accordingly, new international regulatory developments and best practices in Corporate Governance following the global financial crisis and other relevant observations were reviewed and discussed. Accordingly, the Committees decided to strengthen the current practices and processes within the provisions of the existing Directions on Corporate Governance.

(k) Handling Litigation

Litigation on 16 cases with regard to the affairs of the Pramuka Savings and Development Bank Limited, which failed in 2002, matters relating to exchange control regulations, disputes of the Ceylon Petroleum Corporation's oil hedging transactions and investigations on prohibited schemes were handled by BSD with the assistance of the Attorney General's Department and other law enforcement agencies.

(l) Inter Regulatory Institutions Council (IRIC)

IRIC was formed in 2007 consisting of all financial sector primary regulators, with the objective of ensuring appropriate policy directions for the orderly development of the financial sector and strengthening the stability of the financial system. In order to facilitate this, a proposed Act on 'Sharing of Information among Financial Sector Regulators' was endorsed by IRIC and approved by the Cabinet of Ministers, and is now in the legislative process with the Legal Draftsman. BSD facilitated a meeting of IRIC in 2014 to discuss matters related to the minimum capital requirement for stock brokers, development of the corporate debt market, role of regulators in crisis resolution, strengthening corporate governance of licensed institutions and engagement of professionally qualified auditors in all listed companies.

Annex II - 1

List of Licensed Banks

Licensed Commercial Banks

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

Licensed Specialised Banks

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

* DFCC Bank was registered under the Companies Act as a public limited company listed in the Colombo Stock Exchange with the name DFCC Bank PLC w.e.f. 06 January 2015.

** MBSL Savings Bank Ltd was amalgamated with Merchant Bank of Sri Lanka PLC and MBSL Financial Services Ltd under the financial sector consolidation process and operates as a licensed finance company namely, Merchant Bank of Sri Lanka and Finance PLC w.e.f. 01 January 2015.

3. CENTRE FOR BANKING STUDIES (CBS)

The Centre for Banking Studies (CBS) is the training arm of the Central Bank of Sri Lanka (CBSL). It is entrusted with the responsibility of enhancing knowledge and developing the human capital of CBSL and the financial industry in Sri Lanka. It designs and conducts training programmes, seminars and workshops. Participants from central banks of the South Asian Region also participate in some of these programmes. CBS also conducts public seminars on issues of contemporary importance. Special programmes are conducted in collaboration with the Ministry of Education to upgrade knowledge in economics among Advanced Level students, university students and economics teachers.

The focus of the CBS during the year 2014 was raising the standards of its programmes and facilities to be 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.

CBS conducted training courses, workshops and conferences in the areas of Banking Operations and Regulations, Financial Management, Economics, Rural Sector Development, Human Resources, General Management, Information Technology, and Communications Skills. CBS developed its programmes with the intention of comprehensively addressing the training needs of financial institutions both in terms of their core activities and support services. It continued to broaden its presence by expanding its links with other global resource centers. The commencement of the International Diploma in Compliance in collaboration with the International Compliance Association and the University of Manchester was one such highlight in that direction.

During the year 2014, CBS conducted 65 calendar programmes, 67 special programmes (based on demand from financial institutions and knowledge gaps identified by CBS), 8 International Programmes, 4 Diploma Programmes, 3 Certificate Programmes and one Training of Trainers programme. In addition, knowledge sharing events in the form of 12 public lectures, 16 school programmes and 6 programmes for University students were also conducted at CBS during the year. A total of 5,092 participants including 211 foreign participants patronized these programmes. The television series, "Takshilawa", for Advanced Level economics students in Sri Lanka telecast in 2014, was co-ordinated by the CBS.

CBS also commenced a series of regional level programmes in collaboration with the Regional Offices Monitoring Department and the Regional Development Department and 5 regional offices of CBSL. A total of 10 such programmes were conducted during 2014. These programmes covered subject areas ranging from core banking activities such as Lending and Credit Evaluation to ancillary services, such as Pawn Brokering.

CBS also designed its calendar and special programmes to meet the training requirements of 2015 and to cater to the needs of achieving vision 2020.

4. COMMUNICATIONS

The Communications Department (CMD) continued its contribution towards the mission of the Central Bank during the year under review through the dissemination of information and striving to increase the economic awareness of the masses.

CMD's commitment towards building a society with enhanced economic awareness was manifested by the success of "Econ Icon Season 2", an inter school quiz programme in which 550 Sinhala medium and 263 Tamil medium schools from all over the island participated.

4.1 External Communication

The Bank's corporate website www.cbsl.gov.lk recorded 86.9 million visits during the year 2014, which is a 3.94 per cent increase over the 83.6 million visits recorded during the previous year. The website's popularity as an information source on the Central Bank's activities is evident from this growth. Further, the bank's presence in social media continued unceasingly, with making 567 posts on Facebook and 567 tweets on Twitter. There were 51 videos uploaded to YouTube during the year which were viewed by 23,239 people.

During the year, the Department arranged 2 twitter sessions, each of 1 hour duration for the general public to ask questions directly from the Governor. The sessions were successfully conducted and more than 100 twitter users forwarded many queries at each session.

There were 1,800 subscribers to the e-mail alert service maintained by CMD which disseminates Treasury bill rates, inflation rate, SLIBOR and monetary policy etc. In addition, 581 e-mails were sent during the year circulating these routine information.

The number of subscribers to the SMS alert system increased to 913 from the 840 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 require market information as soon as they are published without any time lag.

While improving communication on non-conventional platforms like e-mail, SMS and Social Media, the CMD was successful in maintaining its regular traditional communications as well, issuing 1,866 press releases, 13 gazette notifications and 63 notices during the year under review.

Twenty four media arrangements on various matters relevant to the Bank were held during 2014. In addition, the CMD facilitated the Bank's events such as the announcement of Road Map, panel discussion on Road Map, 18th Commemoration of the CBSL bomb blast, Presentation of Annual Report 2013, South Asia Conference on Financial Reporting for Economic Development, Launch of Bank's Computer Security Incident Response Team (CSIRT), certificate awarding ceremony of the ICA International

Diploma in Compliance, presentation by Governor of Reserve Bank of India, anniversary oration of the Bank, budget highlights 2015, launching of the 25 district coins and Bank Directors Symposium-2014.

CMD represented the Bank at three national level events, "Deyata Kirula" exhibition held in Kuliyaipitiya, "Colombo International Book Fair" held at the Bandaranayake Memorial International Conference Hall and the book exhibition held at the National Library.

4.2 Internal Communication

The intranet site run by CMD "cbsldaily" too continued to retain its popularity as an information portal for the Bank's employees. The site had 404 SLIBOR and exchange rate updates and 176 press releases during the year. The site serves as a news site, a notice board as well as a gateway to the intranet. Four volumes of the official internal newsletter, "Kavuluwa" were published during the year. The media monitoring division submitted 1,600 news clips, articles and public opinions collected from fifteen national newspapers that are published in three languages, in order to update the senior management with current affairs on the economy and matters relevant to the Bank.

4.3 Public Awareness

Facilitating a widespread public awareness drive on economics and financial literacy is among the top priorities of the CMD. CMD displayed its commitment to this cause by coordinating 10 educational seminars for school teachers and students in different parts of the country, including remote areas such as Trincomalee, Dehiattakandiya, Batticaloa and Hambantota.

Sales of Central Bank publications increased during the year compared to the previous year by 21.07 per cent from 5.03 million to 6.09 million. Meanwhile, the CMD distributed 22,529 copies of different publications free of charge among school children and teachers.

The awareness/educational programmes facilitated by the CMD during the year targeted different segments of society including diplomats, school /university students, school teachers, trainees of the armed forces and foreign delegates visiting Sri Lanka on official invitations of government institutions .

4.4 Tamil Translation Services

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

4.5 Printing Press

A total of 398 printing assignments of the Bank were undertaken by the Printing Press during 2014. These assignments included periodicals such as "News Survey", "Satahana", "Sendewa", "Provincial News" and "Kawuluwa". Central Bank publications such as "64th

Oration”, Central Bank Objectives, “Mudal Ganudenu” (5th and 6th print), Data Folder-2014 (Sinhala/English/Tamil), Occasional Paper No. 70/71 and Staff Studies No. 42 were also printed. Further, printing and supplying of various forms, stationery and other printing requirements of the Bank were also undertaken by the Printing Press during the year under review.

4.6 Photographic coverage of major events of the Bank

The Photographic Unit of the CMD contributed immensely to represent the Central Bank in colour to the world through visual media, both still and video. The Unit covered 485 events of the Bank, and delivered all related services including editing and printing of photographs, video editing, preparation of albums and CD’s and framing of photos whilst maintaining high professional standards.

4.7 Library and Information Centre

The Library and Information Centre (LIC) made its services available to the Bank Staff as well as to external users on their requests during the year, with a collection of 28,930 books, 18,681 reports, 1,813 CD’s and 1,570 journal titles. The LIC also continued its subscriptions to the online databases, ‘Science Direct’ and EBSCO Host which provide a vast knowledge resource on economics, management and finance, to the LIC users. In addition, LIC has subscribed to several other online resources on subjects that are relevant to central banking activities.

The total number of foreign and local journals subscribed by LIC are 96 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 maintains the Economics and Banking Library Network of Sri Lanka “EbanklibnetSL” providing a valuable service to the 24 member libraries in the country, sharing information via e-mail. Further, the LIC is an active member of the Global Central Bank Information Professionals Network (CBFA List) which shares information resources and experiences among the Central Bank libraries across the globe. A Digital library service was also maintained giving access to the Bank Staff through the Library’s Intranet website.

5. CURRENCY

The Monetary Board in terms of Section 48 to 59A of the Monetary Law Act (MLA) is the authority to issue currency as a means of payment in Sri Lanka. The Currency Department (CRD) was initially established in July 1950 as the Department of Banking and Currency to facilitate the exercising of the said authority of the Monetary Board. Accordingly, functions of the CRD at present are the issue of currency notes and coins to meet public demand, arrangement of printing of currency notes and

minting of coins, assisting law enforcement authorities to deal with instances of violations of the provisions of the MLA with respect to the legal tender and conducting public awareness programs to improve currency usage practices and quality.

5.1 Currency Issuance

CRD issued currency (both notes and coins) into the circulation by way of new notes and coins and re-issue of fit (serviceable) notes and coins to meet the demand for currency in the country through currency operations with licensed commercial banks (LCBs) and currency exchange counters. The total currency in circulation as at 31.12.2014 was Rs. 416.2 billion, an increase of 22.5 per cent over that of 31.12.2013 (Table II-1). The per capita currency in circulation also has continued to increase in the case of both value and volume and stood at Rs. 20,133 in value and 421 in pieces as at end 2014.

Table II - 1 Currency in Circulation

Item	Value (Rs. bn)					Change (%)				
	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014
Notes	250.0	287.1	311.1	332.3	408.7	17.8	14.9	8.4	6.8	23.0
Coins	5.7	6.2	7.0	7.5	7.5	7.9	8.4	13.4	6.9	1.1
Total	255.6	293.2	318.1	339.8	416.2	17.5	14.7	8.5	6.8	22.5

(Denomination-wise details are given in Appendix Table 114 of the Part IV of this report).

Chart II - 1 Per Capita Currency in Circulation - Value

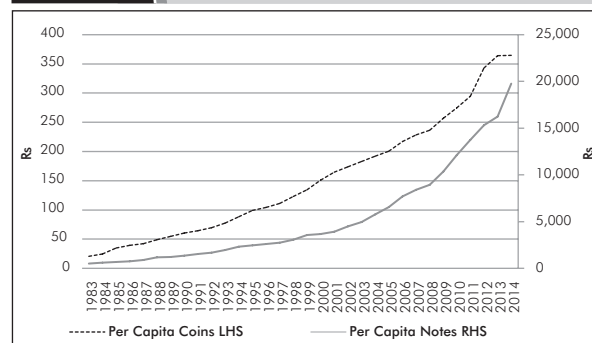
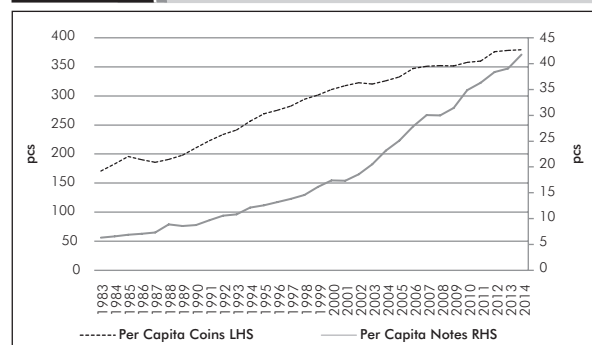


Chart II - 2 Per Capita Currency in Circulation - Volume



a) Currency Operations with Licensed Commercial Banks

As at end 2014, total currency issued by CRD to LCBs was Rs. 431.8 billion in currency notes and Rs. 763.8 million in coins (Table II - 2).

Table II - 2 New and Re-issues of Currency

Currency Issues	Value (Rs. bn)			Change (%)		
	2012	2013	2014	2012	2013	2014
Notes	355.4	401.9	431.8	6.1	13.1	7.7
Coins	0.7	0.5	0.8	58.5	(27.7)	41.1
Total	356.1	402.4	432.6	6.1	13.0	7.5

In currency operation, the CRD accepts currency deposits from LCBs, primarily for the maintenance of statutory reserve requirement of LCBs in the form of both fit (serviceable) and unfit (unserviceable) currency notes and coins (Table II - 3). In 2014, deposits of LCBs declined by 7 per cent when compared to the previous year. The fit currency notes of such deposits are re-issued to circulation through LCBs while unfit currency notes are disintegrated. In 2014, disintegration covered 178.8 million unfit notes amounting to Rs. 55.5 billion.

Table II - 3 Currency Deposits by LCBs

Items	Value (Rs. bn)			Change (%)		
	2012	2013	2014	2012	2013	2014
Notes	331.2	381.0	354.4	11.2	15.0	(7.0)
Coins	0.003	0.001	0.000	(78.3)	(53.3)	0.0
Total	331.2	381.0	354.4	11.2	15.0	(7.0)

CRD encouraged good currency handling practices to extend the effective life of notes to reduce the cost of printing of new notes, ensure clear visibility of security features to identify genuine notes, ease processing of currency notes and create a positive image of the people of the country. Accordingly, 3 meetings with cash managers of all LCBs were conducted to discuss issues on currency sorting and handling practices and barriers to efficient currency processing. In addition, spot checks on currency operations of LCBs were carried out to examine the compliance with guidelines issued by CRD.

(b) Currency Exchange Counter

CRD continued to maintain a currency exchange counter at the Bank of Ceylon Pettah Branch for the purpose of the exchange of currency with the public to satisfy their preferred denominations. During the year 2014, Rs. 2,851.5 million worth of currency notes and Rs. 97.8 million worth of coins were issued through this counter. In addition, preliminary arrangements were made with the People's Bank to provide currency exchange counters through their branch network in the country.

(c) Coin Collection Programme

In order to increase the usage of coins in circulation, the CRD was able to collect 19.2 million pieces of coins lying idle in tills at religious places and households exceeding the maximum target of 18 million pieces for the year through several collection programmes in the country. In addition, arrangements were made with the Regional Offices (ROs) of CBSL to coordinate with LCBs to carry out the collection of idle coins to meet the coin requirement of each region. Necessary coin counting machines were provided by CRD to ROs to carry out the said program successfully.

(d) System Improvements

In 2014, action was taken to complete the installation process of two fully automated currency note processing machines to increase the efficiency in verification, counting, sorting and disintegration of currency notes in an environment friendly manner. After the installation of the briquetting system to compress the waste made out of the disintegration process is now extracted in a more environment friendly manner.

5.2 Currency Printing and Minting

(a) Currency Printing and Minting for Circulation

CRD made arrangements to print 115 million pieces of currency notes and mint 295 million pieces of coins during 2014 to meet the demand for currency, maintain good quality currency notes in circulation and ensure sufficient contingency stocks. The CRD also signed an agreement with the currency note supplier, De La Rue Lanka Currency and Security Print (Pvt) Ltd, for the printing of currency notes to meet the requirement estimated for the period from 2014 to 2017. Several improvements were made to the quality of currency notes by increasing the thickness of currency paper and introducing a coating of varnish for low denominations of currency notes to enhance the durability of the notes.

(b) New Series of Rs.10 Coins Representing 25 Administrative Districts

On 17.11.2014 CRD launched a new series of Rs. 10 coins representing 25 administrative districts of Sri Lanka with unique characteristics/iconic landmark(s) of each district. These coins were designed by Sri Lankan artists selected from a nationwide competition and awards were presented to the winners. Collector items of the 25 district coins in the form of pouches and single coin card sets were prepared and made for sale through the CBSL currency museums. A coffee table book titled "Our People, Our Potential, Our Pride" was also published to coincide with the launch of the new Rs.10 coin series.

(c) Issue of Commemorative Coins

During 2014, CRD made arrangements to mint three commemorative coins. These include the Rs. 5 circulation standard coin to mark the 75th Anniversary of Bank of

Ceylon and the two Rs. 500 un-circulation standard coins to mark the 150th Birth Anniversary of Srimath Anagarika Dharmapala and the visit of His Holiness Pope Francis (Papal visit - 2015) to Sri Lanka. Further, commemorative collector items amounting to 11,324 pieces were sold through the museums of Regional Offices including the Economic History Museum at Colombo.

5.3 Assistance Provided to Law Enforcement Authorities

In 2014, the various measures taken by CRD to assist law enforcement authorities regarding violations of the MLA pertaining to counterfeiting of currency were as follows;

- (a) CRD 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. The number of counterfeit notes detected in 2014 was 8,266 which amounts to 9.57 notes per one million genuine notes in circulation.
- (b) 207 certificates were endorsed and issued with the signature of the Governor as conclusive evidence for imitation of currency notes to facilitate proceedings in the Courts.
- (c) CRD attended 22 Court cases to give evidence on currency counterfeiting cases.

5.4 Public Awareness

CRD continued its public awareness programmes at various levels with a series of events as highlighted below in order to educate the public and public officials on the security features, identification of counterfeit notes and good care of notes and coins.

- (a) CRD conducted 41 seminars/workshops on clean note policy and security features on currency notes at the Center for Banking Studies, various commercial banks, Road Development Authority, National Transport Commission, national schools and etc.
- (b) Video advertisements through eight different TV channels and Digital LCD displays at various public locations were carried out to educate the public on the detection and consequences of counterfeiting currency notes. In addition, information material and leaflets were distributed highlighting the clean note policy and consequences of counterfeiting currency notes to educate the public.
- (c) The mobile currency museum was displayed at five exhibitions in Kuliapitiya, Kandy, Makandura, Thelijawila and Colombo.
- (d) Facilitated about 15,000 persons such as school children, tourists and general public to visit the three money museums of the CBSL.

5.5 Approvals for Reproduction of Currency

Three approvals were granted for the reproduction of currency notes in advertisements in terms of the policy approved by the Monetary Board for such reproduction. This policy is available at the CBSL website.

6. DOMESTIC OPERATIONS

6.1 Functions of DOD

Under the mandate conferred in the Monetary Law Act (MLA), the Domestic Operations Department (DOD) carried out its functions by conducting Open Market Operations (OMO), enforcing Statutory Reserve Requirement (SRR) against deposit liabilities of the LCBs and offering banking services to commercial banks and to the government. The Department also facilitated the maintenance of an efficient and effective domestic payment and settlement system, by offering Intra Day Liquidity Facility (ILF) to commercial banks and primary dealers for the smooth functioning of payments and settlements under the Real Time Gross Settlement (RTGS) System.

6.2 Implementation of Monetary Policy

The conduct of monetary policy continued to rely upon making desired changes in short term interest rates to ensure sustainable price stability. DOD implemented monetary policy operations mainly through OMO. Standing facilities and SRR also played a crucial role in steering short term interest rates at the desired level within the standing rate corridor (SRC) determined by the Monetary Board.

The monetary policy operating framework has undergone certain significant changes in recent years. The extension of the reserve calculation and maintenance period from a one week period to twice per month since May 2013, created sufficient space for the commercial banks to manage their daily liquidity smoothly while minimising the volatility in the inter bank market interest rates. Commencing from 2014, policy rate corridor was renamed as SRC. Overnight repo rate and overnight reverse repo rates were renamed as Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR), respectively. Standing Deposit Facility (SDF) changed to an uncollateralised clean deposit with effect from 03 February 2014. The SLFR was revised downward from 8.50 per cent to 8.00 per cent, while maintaining SDFR constant at 6.50 per cent, thereby compressing the SRC to 150 basis points from the then existing 200 basis points. Furthermore, at the request of the CBSL the Ministry of Finance introduced necessary amendments to exempt the interest payments under SDF from the requirement of With Holding Tax (WHT) with effect from 24 April 2014. This has resulted in removing the distortion in policy rates and aligning the effective official rate with short term market interest rates.

6.3 Market Developments

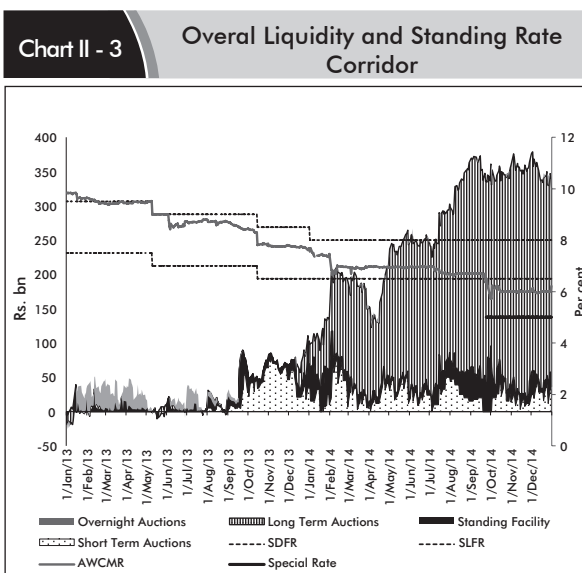
Domestic markets started to witness significant volume of excess reserves commencing August 2013. This has increased further in the subsequent period resulting in a significant surplus reserve position in the domestic money market throughout the year 2014. The growth in excess reserves was mainly driven by utilisation of the proceeds

of international sovereign bond issues. Other contributory factors for these developments were purchases of Treasury bills by the CBSL, foreign currency purchases by the CBSL arising from foreign loan receipts, foreign currency swap transactions and intervention in the foreign exchange market to smoothen exchange rate volatility.

The overall excess reserves that prevailed around Rs.71.7 billion by end 2013, increased to a high of Rs.378.8 billion in early December 2014 before declining to Rs.325.6 billion by end 2014. During 2014, outstanding excess reserves varied in the range of Rs. 89 billion and Rs. 378.8 billion with an average of Rs. 266 billion. Monetary policy implementation encountered an enormous challenge in the face of the unprecedented level of excess reserves that prevailed in the market. It was necessary to restrain the adverse impact resulting from persistently high excess reserves while ensuring the availability of liquidity in the inter bank market to enhance credit flow to the private sector. Accordingly, overnight repurchase (repo), short term repo and long term repo auctions were conducted at different intervals to facilitate steering of short term interest rates at the desired level. In this process more emphasis was given to absorbing excess reserves through long term repo auctions owing to the existence of high excess reserves in the market. Standing facilities were also offered on a daily basis creating the floor and the ceiling for the OMO. SRR applicable to rupee deposit liabilities of the LCBs was maintained at 6 per cent throughout the year.

On account of such effective absorption activities, the CBSL managed to maintain overnight surplus reserves at a comfortable level at a daily average of Rs. 29.1 billion. The overnight Average Weighted Call Money Rate (AWCMR), which hovered above 7.00 per cent until end January 2014, descended gradually thereafter and stabilised towards the floor of the SRC. With effect from 23 September 2014, access to SDF was rationalised further to encourage credit creation by limiting the availability of SDF of the CBSL at 6.50 per cent to a maximum of three times per calendar month while any deposits exceeding three times were accepted only at 5.00 per cent per annum. As a result, AWCMR declined further and settled at 6.00 per cent towards the balance period of the year. On few occasions, SLF was also offered to supply reserves to the rupee market when the overnight market experienced a reserve shortage.

Meanwhile, excess reserves in the money market continued to surpass government security holdings of the CBSL on a continued basis. As a result, the securities borrowed under Government Security Borrowing Programme hitherto adopted were found to be inadequate for repo transactions to absorb excess reserves in the market. To facilitate the smooth implementation of the absorption process, the limit for borrowing of Government securities was enhanced beyond the then existing limit of Rs.150 billion to absorb increasing level of excess reserves in the market.



6.3.1 Open Market Operations

(a) Overnight Auctions

(i) Repo Auctions

In 2014, more emphasis was given to short term repo auctions and long term repo auctions, although in 2013 excess reserves were largely absorbed by overnight repo auctions. Overnight repo auctions were carried out only in 22 occasions in 2014. On average, Rs. 19.6 billion per day was offered for the overnight auction and accepted volume represented 3.3 per cent of the actual surplus reserves on days of surplus. The weighted average yield rate of overnight repo auction varied between 5.6 per cent and 6.6 per cent.

(ii) Reverse Repo Auctions

Reserve position in the domestic market was in surplus positions throughout the year. Therefore, only once DOD conducted reverse repo auctions to ease off an upward pressure on overnight interest rates. In the said auction, Rs. 4 billion was accepted at the weighted average yield rate of 6.72 per cent.

(b) Regular Auctions

(i) Short Term Repo Auctions

Short term auctions have become a common form of auction in 2014. It was introduced in August 2013 to sell repo contracts as a strategy to absorb liquidity upto one week on a same day settlement basis. Overall, monthly absorption by short term auction which was around 20 per cent during the first quarter of 2014 declined gradually to less than 10 per cent towards the end of the year. On average, Rs. 23.5 billion per day was offered and Rs. 15.4 billion was absorbed from the short term repo auction whilst the weighted average yield rate varied in the range of 5.59 per cent and 7.09 per cent.

(ii) Short Term Reverse Repo Auctions

DOD did not conduct short term Reverse Repo auctions during the year of 2014, as the market was in surplus on a continued basis.

(c) Long Term Auctions**(i) Long Term Repo Auctions**

Excess reserves that prevailed since the turn of the year, has shown a gradual increase. Long term repo auctions which were commenced in December 2013 after a considerable stint were extensively used in 2014 to absorb excess liquidity in the market. Most of the time overall monthly excess reserves absorbed by the term repo remained above 80 per cent and it exceeded the 90 per cent level in November 2014. The weighted average yield rates hovered between 5.88 per cent and 6.85 per cent during the year. Although the tenure of the long term repo auctions varied between 11 days and 78 days, trading activities were largely confined to a few liquid tenors such as 35, 56 and 77 days during 2014.

(ii) Long Term Reverse Repo Auctions

DOD did not conduct any Long Term Reverse Repo Auctions during the year 2014.

(d) Standing Facilities

Standing facilities were provided thorough the year at SDFR and SLFR to Participating Institutions (PIs) which were unable to manage their short term liquidity requirements fully through inter bank money market and daily OMO auctions. SDF transactions under the standing facility for the year 2014, reported a daily average of about Rs. 21.4 billion per day and a total of Rs. 5,181.6 billion during the year. The total lend under the SLF was Rs. 9.8 billion in 2014.

(e) Outright Transactions

The CBSL conducted outright sale auctions to absorb excess reserves on a permanent basis by selling Treasury bills out of its own portfolio. However, none of the bids were accepted in 2014 as rates quoted were not consistent with the prevailing market rates and acceptance of such bids would have led to a distortion of market rates.

6.3.2 Statutory Reserve Requirement

The SRR was the minimum amount of reserves that each commercial bank was required to hold in terms of the regulations of the CBSL in the reserve account with the CBSL in proportion to the total deposit liabilities of each bank. The DOD was responsible for both administering the 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 with effect from 01 July 2013.

6.3.3 Bank Rate

The Central Bank's rate of interest (Bank rate) on short term advances to LCBs, stipulated under Section 87 of the MLA, 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.

6.4 Banker to Commercial Banks and the Government**6.4.1 Accounts of Financial Institutions**

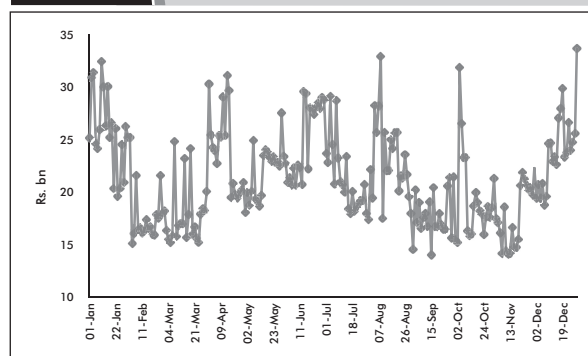
DOD provided current account facilities to commercial banks and primary dealers, to ensure an efficient inter bank payment and settlement system, thus facilitating the Central Bank's role of being the banker to commercial banks. At the end of 2014, CBSL maintained accounts for 25 commercial banks and 8 primary dealers. These accounts were operated on a RTGS basis within the Automated General Ledger system of the Bank.

6.4.2 Government Accounts

DOD 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 60 as at end 2014. During the year, 3 new accounts were opened and one account was closed at the request of the Government. In terms of Section 89 of the MLA, the CBSL provided 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 2014, the ceiling of the provisional advance increased by Rs.18 billion to Rs.146.3 billion corresponding to the higher government revenue estimated for the year 2014 and as at end 2014 provisional advances stood at Rs. 143.9 billion compared to Rs. 109.2 billion at end 2013.

6.5 Provision of Intra-Day Liquidity Facility

DOD ensured the smooth and efficient functioning of the RTGS system by providing ILF to PIs. 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.

Chart II - 4**ILF Drawn in 2014**

The total value and average daily value of ILF drawn during the year amounted to Rs. 5,144 billion and Rs. 21.3 billion respectively. This shows an increase in ILF utilisation over that of the previous year amounting to a total of Rs. 4,674.1 billion with an average of Rs. 19.2 billion, respectively.

6.6 Supervision of Money Brokers

The Money Broking Regulations No. 1 of 2013 was issued under Section 10 (c) of the MLA, No. 58 of 1949 and came into effect from 15 February 2013 with the intention of increasing the coverage of monitoring activities on different types of financial institutions operating in the economy. A total number of nine companies were issued "Certificate of Authorisation" under this regulation in 2013 and designated as "Authorised Money Brokers". The number of authorised money brokers remained unchanged in 2014. DOD conducted 6 on-site supervision for 6 money broking companies during the year and four meetings were held with the Board of Directors of these companies.

7. ECONOMIC RESEARCH

As per the Section 25 of the Monetary Law Act (MLA) of 1949, the Economic Research Department (ERD) was established in 1950 for the purpose of conducting economic research for the guidance of the Monetary Board and the Governor in formulating, implementing, and executing policies and measures and for the information of the public, in the subjects of money and banking and other economic subjects of general interest. In facilitating ERD to discharge such responsibilities, the MLA has vested the authority with the Director of Economic Research (DER) or any officer authorised by DER to obtain from any person any information that DER may consider necessary for the purpose of proper discharge of the functions and responsibilities of the Central Bank of Sri Lanka (CBSL).

ERD discharged its main responsibilities of achieving its goals of maintaining economic and price stability to sustain the high economic growth and maintaining external sector stability to improve the economy's resilience to external shocks. The provision of timely and prudent policy recommendations to the management and the Monetary Board made possible a number of economic achievements in 2014. ERD continued to conduct comprehensive research during 2014 on important current domestic, regional and global issues. In discharging its responsibility as the economic advisor to the government, ERD provided proactive policy advice to the government to strengthen and maintain macroeconomic stability. In addition, ERD actively engaged in data collection, dissemination, knowledge sharing and capacity building of stakeholders during the year.

7.1 Maintaining Economic and Price Stability

ERD announced the desired path for monetary expansion at the beginning of the year and closely monitored the trends and developments in real, external, fiscal and monetary sectors of the economy throughout the year to maintain economic and price stability. ERD compiled and analysed

macroeconomic statistics and provided technical inputs to the Monetary Policy Committee (MPC), which evaluated emerging monetary and macroeconomic developments and made appropriate recommendations on the future direction of the monetary policy stance for the consideration of the Monetary Board. In this process, ERD continued to project headline and core inflation based on probability density functions (fan charts) while estimating the output gap measures. In addition, ERD continued to strengthen its modelling and forecasting capabilities during the year. In this regard, preliminary work has been completed to obtain technical assistance from the International Monetary Fund (IMF) to design a Dynamic Stochastic General Equilibrium (DSGE) model for Sri Lanka. Further, a Technical Assistance Mission of the IMF visited ERD in January 2015 to improve the compilation of monetary and financial statistics. ERD also facilitated monthly meetings of the Monetary Policy Consultative Committee (MPCC), which provided the views of the private sector to support the process of monetary policy decision making.

Considering the fact that communication is an integral component of monetary policy to anchor inflation expectations of the general public, ERD continued its efforts to improve awareness of the general public and market participants on key macroeconomic variables. As such, the Central Bank announced its broad monetary policy strategy for 2014 and beyond at the beginning of the year enabling the general public and the market participants to make informed decisions with a long term view. Monetary policy decisions taken by the Monetary Board were also communicated to the public through monthly monetary policy press releases. These were instrumental in managing market expectations and avoiding undue speculations about the monetary policy direction of the Central Bank. Policy recommendations of ERD and timely implementation of such policies helped the Central Bank to sustain inflation at single digits for a period of over five years and to record historically low interest rates encouraging credit flows to the private sector to provide necessary impetus for higher growth.

7.2 Maintaining External Sector Stability

ERD continued to monitor and assess external sector developments and recommend appropriate policy measures in order to maintain external sector stability. External sector developments were communicated to the public through monthly press releases. Further, ERD continued to improve the compilation and dissemination of External Sector Statistics (ESS) during 2014. Such major improvements include quarterly publishing of Balance of Payments (BOP) statistics in the BPM6 (IMF Balance of Payments Manual 6) format, publishing of International Investment Position (IIP) statistics on a quarterly basis, submission of Quarterly External Debt Statistics (QEDS) in BPM6 format to the World Bank, participation in Coordinated Direct Investment Survey (CDIS) initiated by the IMF and publication of International Reserve Data Template (RDT) on a monthly basis. Further,

ERD initiated a number of new surveys covering more than 2,000 companies in the private sector. A key survey introduced was the Annual International Investment Survey (AIIS), which collects information on foreign assets and liabilities of private sector corporates. In addition, 8 annual surveys on trade in services were carried out. ERD continued to provide analytical inputs on the developments in the domestic foreign exchange market for various internal committees including the MPC and Market Operations Committee (MOC). In order to closely monitor foreign exchange market conditions and to gauge the pressure on the domestic currency, a new Exchange Market Pressure Index (EMPI) was developed taking into account the changes in exchange rate, interest rate and international reserves.

ERD continued to work on graduating to Special Data Dissemination Standard (SDDS) of the IMF from the General Data Dissemination System (GDDS) followed currently by Sri Lanka. Subscription to SDDS would ensure consistency and transparency in data compilation and dissemination. Further, a Technical Assistance Mission of the IMF also visited Sri Lanka in January 2015 to review country's progress in moving into SDDS and provided a positive assessment on the process. ERD also coordinated the implementation of Tourism Satellite Account (TSA) system for Sri Lanka and several meetings were held during the year with the participation of the Sri Lanka Tourism Development Authority (SLTDA) and the Department of Census and Statistics (DCS).

7.3 Dissemination of Information through Publication of Statutory and Other Reports

ERD coordinated the preparation of the policy statement of the Central Bank, "Road Map 2014: Monetary and Financial Sector Policies for 2014 and Beyond" for the eighth consecutive year with the intention of enhancing the predictability and transparency of Central Bank policies, and this policy statement was announced on 02 January 2014.

As required under Section 35 of the MLA, ERD prepared the Annual Report of Central Bank for 2013 in all three languages and presented it to the Hon. Minister of Finance and Planning within the stipulated time period. Major sections of the Annual Report included a detailed description on the monetary policy stance and macroeconomic developments while it also contained the accounts and operations of the Central Bank and statistical appendices. Further, as required by Section 116 (1) of the MLA, ERD prepared the September 15th report and submitted to the Hon. Minister of Finance and Planning facilitating the preparation of the National Budget for 2015. This confidential report included an analysis of the economic performance during the first half of the year and the economic outlook for 2014 along with the medium term prospects and projections for 2015, effects of fiscal policy on the ability of the Central Bank to

achieve its objectives and some policy proposals for the Budget 2015. In addition, ERD also published the Recent Economic Developments: Highlights of 2014 and Prospects for 2015 in November 2014.

In fulfilling the responsibility of disseminating important economic data and information on different dimensions of the economy for the benefit of the general public, ERD issued press releases on monetary policy, external sector performance and other emerging economic matters on a regular basis and published the Monthly Statistical Bulletin as well as other economic and financial indicators on a daily, weekly and monthly basis on the Central Bank website. ERD initiated publishing a macroeconomic chart pack consisting of useful economic and financial data and information on the Central Bank website during the year to further strengthen the information dissemination process.

7.4 Providing Proactive Policy Advice

ERD continued to provide proactive policy advice to the government and other stakeholders on various economic issues in 2014 as well. In this regard, ERD submitted several policy papers to the Monetary Board giving recommendations as appropriate to facilitate macroeconomic stability. In addition to the policy proposals submitted in the September 15th report, ERD provided independent observations on macroeconomic implications on 112 Cabinet Papers during the year. ERD also evaluated terms and conditions and monetary implications of 23 foreign loans obtained by the government and 48 unsolicited loan proposals submitted by the line ministries.

Senior officers of ERD served in several internal and external policy advisory committees during the year. Representations at external committees included, Investment Committee, National Data Committee, Committee on Commercial Hub, Subcommittee of Techno-economic Analysis on Extension of Validity Period of Retired Independent Power Producers (IPPs), National Operational Committee on the 3rd UN conference on Housing and Sustainable Urban Development and Committee on Developing the Tourism Satellite Account. In addition, senior officers of ERD represented the Central Bank at various meetings conducted by ministries, other government institutions and private institutions.

In addition to coordinating the meetings of MPC and MPCC, senior officers of the department also participated in other internal committees, such as Financial Sector Stability Committee, Market Operations Committee, Domestic Debt Management Committee, Foreign Reserve Management Committee, and the Risk Management Committee as well as in other committees, such as working group on National Risk Assessment on Money Laundering and Terrorist Financing during 2014.

7.5 Engage in Policy Research and Knowledge Sharing Activities

The primary focus of ERD is to undertake policy research to guide the formulation and the implementation of monetary policy, in line with broad macroeconomic objectives of the country. As in previous years, ERD prepared comprehensive reports on economic and monetary analysis, including both global and domestic developments for monthly MPC meetings to facilitate monetary policy recommendations to the Monetary Board.

The Research Advisory Panel (RAP), which was set up to facilitate research and knowledge sharing activities within ERD, continued its activities, such as publishing of Staff Studies, conducting Departmental Economic Seminars, conducting International Research Conference (IRC), etc. during the year. The Macroeconomic Modelling Unit (MMU) of ERD provided an opportunity for officers to conduct research on important contemporary issues. With the support of this initiative, officers of ERD were able to produce 6 research papers during the year.

ERD published Volume 43 of Staff Studies, the research journal of the Central Bank, which included 3 comprehensive research papers completed by ERD officers during the year. In addition, research papers completed by ERD officers were published in international journals such as Journal of International Financial Markets Institutions and Money and International Journal of Business and Social Science in 2014. At the same time, an ERD officer presented a research paper in an international research conference held in Turkey in February 2015. Articles written by ERD officers were also published in the Central Bank publications such as "News Survey" and "Satahana" as well as publications of outside organisations. Senior officers of ERD also evaluated 39 research papers and 19 research proposals submitted by postgraduate aspirants of the CBSL during the year. The RAP also took initiatives to conduct series of research methodology workshops in order to enhance research skills of the CBSL officers. The first series of workshops, which mainly targets ERD officers, commenced its activities in February 2015.

20 Departmental Seminars were conducted during the year with a view to enhancing knowledge on emerging issues and also to provide an opportunity to share knowledge among ERD officers. Officers in ERD and "Graduate Trainees" posted to ERD presented their research findings as well as special issues relating to the domestic and global economy at these seminars. In addition, ERD organised the "Monthly Economic Forum" in collaboration with Human Resources Department by inviting professionals from various disciplines to share their knowledge and experience with the officials of the Central Bank.

Officers of the ERD contributed immensely to improve the knowledge in monetary policy and central banking among the interested parties within and outside the Central Bank. In this regard, many officers continued to serve as resource persons for various educational programmes organised by the Centre for Banking Studies, educational institutions such as universities, schools and various other government and private sector institutions. Knowledge enhancing programmes, such as, "Thakshilawa" TV educational programme, "Econ Icon" programme, "Vision 2020" TV series, "Interbank Quiz Competition" programme, Annual Export Awards programme, etc. attracted the service of ERD officers in different capacities in 2014. ERD officers also made presentations on macroeconomic developments to various foreign and local delegations and investors that visited the CBSL during the year. Furthermore, ERD officials conducted industry visits to various industries in order to gain a better understanding on the performance and issues in different industries.

ERD successfully conducted the International Research Conference (IRC) for the Seventh consecutive year in 2014 by providing a great platform to present recent research findings and share views among researchers from central banks, universities and other research institutions. 8 research papers, which were selected out of 27 research papers through a rigorous selection procedure, were presented at the conference under the theme of "Growth and Stability in a Challenging Global and Domestic Environment". Two ERD officers presented their papers at the IRC 2014. In the meantime, ERD published and released the conference proceedings for the IRC 2013.

7.6 Strengthening Engagement with International Organisations

ERD continued its relations with the IMF, the SEACEN Centre, the SEANZA group and the SAARCFINANCE group of Central Bank Governors and Finance Secretaries on behalf of Sri Lanka, while assisting the Ministry of Finance and Planning to coordinate their work with the World Bank (WB), Asian Development Bank (ADB) and other multilateral and bilateral agencies. ERD staff regularly represented the Central Bank at international meetings, fora and conferences by engaging in policy dialogues. ERD facilitated the hosting of the 28th SAARCFINANCE Group Meeting and SAARCFINANCE Governors' Symposium at the Central Bank of Sri Lanka on 24 July 2014. The 28th SAARCFINANCE Group Meeting was attended by Governors of Central Banks and Secretaries of Ministries of Finance and other delegates from the SAARC region. Further, officials of ERD represented the CBSL at the bilateral discussions organised by the External Affairs Ministry of Sri Lanka with the Abu Dhabi External Affairs Ministry and also represented in investor meetings namely in "Workshop Euroasia" held in Rome, third Swiss Sri-Lanka business forum held in Zurich and other investment oversight committees.

ERD continued to provide economic updates to international organisations such as IMF and WB, as well as to international investors, rating agencies and advisors, ambassadors and other relevant stakeholders on a regular basis. ERD worked closely with three international sovereign rating agencies, namely, Fitch Ratings, S&P Ratings and Moody's Ratings and the Rating Advisors while observations were provided on seven rating reports. Further, ERD addressed policy related inquiries and prepared presentations on current macroeconomic conditions for international sovereign bonds issues. Further, ERD facilitated a visit from representatives of the IMF in May 2014, the IMF Article IV mission and in February 2015 the third Post Program Monitoring Mission.

8. EMPLOYEES' PROVIDENT FUND

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

8.1 Functions of the Department

The EPF Department is entrusted with responsibilities of collection of member contributions and surcharges, maintenance of general accounts and 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 Commissioner of Labour in the performance of their duties and functions. In 2014, the 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 the Activities

(a) Membership, Member Balances and Refunds

Total number of member accounts is estimated to be around 15.4 million by end 2014, which was an increase of 1.3 per cent compared to that of 15.2 million recorded at end 2013 (Table II-4).

The total value of the Fund increased by 14.4 percent to Rs.1,486.9 billion as at end 2014

compared to Rs.1,300 billion as at end 2013, both due to the income generated from investments and net contributions (after deducting refunds from contributions) received. Total liability to the members including member interest stood at Rs.1,445.5 billion as at end 2014 recording a 12.8 per cent increase from Rs.1,281.9 billion as at end 2013 (Table II-4). The net contribution decreased to Rs.24.9 billion compared to Rs.30.0 billion recorded in the previous year, while the total amount of refunds made to the members and their legal heirs in 2014 amounted to Rs. 65.1 billion, which was an increase of 29.7 per cent over 2013. The net income of the Fund for 2014 increased to Rs.150.7 billion compared to Rs.125.6 billion during previous years registering a growth of 19.9 per cent.

Table II - 4 Selected Key Information of the Fund

Item	2013	2014 (a)	Change (%)
Total number of member accounts (mn)	15.2	15.4	1.3
Contributing member accounts (mn)	2.4	2.4	-
Non-contributing member accounts (mn)	12.8	13.0	1.6
Contributing employers	69,148	71,000	2.7
Total contributions (Rs.bn)	80.2	90.0	12.2
Total refunds (Rs. bn)	50.2	65.1	29.7
Number of refunds	114,114	127,492	11.7
Net income (Rs.bn)	125.6	150.7	19.9
Total liability to members (Rs.bn)	1,281.9	1,445.5	12.8
Total value of the Fund (Rs.bn)	1,300.0	1,486.9	14.4

(a) Provisional

Source: EPF Department, Central Bank of Sri Lanka

(b) Investment of the Fund and Return

(i) Investment Portfolio:

The total investment portfolio (book value) of the Fund grew by 14.3 per cent from Rs.1,257.3 billion in 2013 to Rs.1,437.7 billion in 2014 (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 91.2 per cent in Government Securities, 6.7 per cent in equity and 1.5 per cent in corporate debentures, commercial papers and trust certificates. The remaining 0.6 per cent was in high liquid assets such as reverse repos on Government Securities to meet day to day liquidity requirements. The maturity profile of the Government Securities portfolio together with yield rates is given in the Table II-6.

Table II - 5 Investment Portfolio

Type of Investment	2013		2014(a)	
	Amount (Rs.bn)	Share (%)	Amount (Rs.bn)	Share (%)
Treasury Bonds & Bills	1,140.5	90.7	1,287.5	89.6
Rupees Loans to Government	23.1	1.8	23.1	1.6
Equity	72.8	5.8	96.6	6.7
Corporate Debts	14.3	1.2	22.4	1.5
Reverse Repos	6.6	0.5	8.1	0.6
Total	1,257.3	100.0	1,437.7	100.0

(a) Provisional

Source: EPF Department, Central Bank of Sri Lanka

Table II - 6 Maturity Profile of Government Securities Portfolio (As at end of 2014)

Maturity	Maturity Value (Rs.bn)(a)	Share (%)	Weighted Average Yield (%)
Less than 1 year	102.3	6.9	9.8
1-2 years	157.3	10.7	9.9
3-4 years	199.9	13.6	10.7
More than 5 years	1,014.7	68.8	11.6
Total	1,474.2	100.0	11.1

(a) Provisional

Source: EPF Department, Central Bank of Sri Lanka

(ii) Investment Income:

The Fund earned a total income of Rs.163.2 billion in 2014, recording an increase of 19.7 per cent compared to that of the previous year (Table II-7). Interest income was the major source of income (78.1 per cent of the income) to the Fund. Interest income grew by 21.4 per cent from Rs.105 billion in 2013 to Rs.127.5 billion in 2014. Further, income generated from equity portfolio which included both capital gains and dividends increased by 67.7 per cent to Rs. 5,598 million in 2014, compared to Rs. 3,339 million earned in 2013. However, amortisation gains from discounted Treasury bonds reduced by 3.9 per cent to Rs. 25.9 billion in 2014 from Rs. 27.0 billion in 2013 (Table II-7).

Table II - 7 Income on Investments

Source of Income	2013		2014(a)	
	Amount (Rs.mn)	Share (%)	Amount (Rs.mn)	Share (%)
Interest	105,038	77.0	127,499	78.1
Amortisation gains	26,956	19.8	25,897	15.9
Capital gains from Government securities	1,019	0.8	4,082	2.5
Marked to market gain/loss	(45)	-	89	0.1
Capital gains from equity	113	0.1	2,277	1.4
Dividends	3,226	2.4	3,321	2.0
Premium- discount on redemption of mortgage	(4)	-	-	-
Total	136,303	100.0	163,165	100.0

(a) Provisional

Source: EPF Department, Central Bank of Sri Lanka

(iii) Expenditure:

Although the total operational expenditure of the Fund increased by 6.5 per cent to Rs.1,043 million in 2014 compared to Rs.979 million in 2013, as a ratio of total gross income, it was maintained at 0.64 per cent in 2014, compared to 0.72 per cent in 2013 (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 (%)
	2013	2014(a)	
Personnel expenses	569	579	1.8
Administrative expenses	364	421	15.7
Other expenses	46	43	(6.5)
Total	979	1,043	6.5
Total Expenses as a % of Gross Revenue	0.72	0.64	

(a) Provisional

Source: EPF Department, Central Bank of Sri Lanka

(c) Payment of Interest on Member Balances

A sum of Rs.141.6 billion was available for distribution as interest to the members of the Fund as at end 2014, compared to Rs.123.4 billion in 2013 (Table II-9). After transferring Rs.4.0 billion to the reserves, the income was adequate to pay interest at 10.5 per cent on member balances in 2014 (Table II-10).

Table II - 9 Payment of Interest to Members

Item	Amount (Rs.mn)		Change (%)
	2013	2014(a)	
Gross revenue	136,657	163,873	19.9
Total operating expenses	(979)	(1,043)	6.5
Income tax	(10,069)	(12,169)	20.9
Net income for the year	125,610	150,662	19.9
Prior year adjustment	28	-	(100.0)
Prior year retained profit	28	141	403.6
Interest paid on current year refunds	(2,233)	(3,201)	43.4
Provision for Dividend	-	(6,000)	-
Net income available for distribution (after payment of interest on current year refunds)	123,433	141,602	14.7
Transfers from /(to) reserves	3,700	(4,000)	(208.1)
Net income available for distribution after transferring from / (to) reserves	127,133	137,602	8.2
Interest paid on member balances	(126,992)	(137,291)	8.1
Retained profit	141	311	120.6
Interest rate paid on member balances %	11.0	10.5	

(a) Provisional

Source: EPF Department, Central Bank of Sri Lanka

Year	Interest Rate Paid (%)	Effective Interest Rate (%) ¹
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	11.00	11.14
2014 (a)	10.50	10.60

(a) Provisional

Source: EPF Department, Central Bank of Sri Lanka

8.3 Member Services

(a) Member Account Statements

Issuing of account statements to the members through their employers for the first half of 2014 commenced in December, 2014. Arrangements will also be made to issue account statements for the second half of 2014 by end of July 2015.

(b) Housing Loan Facility

Under the Housing Loan Scheme, introduced in 1988 with the objective of facilitating the members to obtain housing loans from participating lending institutions, viz., Housing Development and Finance Corporation Bank, State Mortgage and Investment Bank, Bank of Ceylon, People's Bank and Co-operative Rural Banks. The EPF issued 17,786 certificates of guarantees to members against their EPF balances, to participating lending institutions for the approval of housing loans amounting to Rs. 8,021 million (Table II-11). Further, nearly Rs. 2,394 million was deducted from the relevant member accounts and was remitted to the participating lending institutions in 2014 to settle the loans in arrears during 2013.

Year	Issued Certificates (No.)	Credit Approved (Rs. mn)	Amount Remitted to Lending Institutions (Rs. mn)
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	16,268	6,914	2,178
2014(a)	17,786	8,021	2,394
Total	144,784	44,150	16,542

(a) Provisional

Source: EPF Department, Central Bank of Sri Lanka

¹ EIR = (Interest paid to members) / [(Beginning of the year member balances + year end member balances before crediting interest) / 2]

(c) Public Awareness

Improving awareness on EPF operations among stakeholders has become a prerequisite to facilitate the move towards a fully automated near paperless environment.

Improving awareness of members and other stakeholders on EPF services was undertaken through mobile services, awareness programmes for bank officials on housing loan management and participating at national level corporate events and exhibitions and using a combined mix of communication media such as posters, leaflets, video clips and presentations.

During 2014, 4 mobile services were conducted covering the estates of Kahawatte Plantations PLC namely Pelmadulla Estate, Hunuwella Estate, Rilhena Estate, Poronuwa Estate, Opatha Estate, Welladura Estate, Haupe Estate and Andana Estate and another two other mobile services were conducted at Sinhala Maha Vidyala - Trincomalee parallel to the Multi Service Camp organised by the Lions Club of Sri Jayawardanapura and at Moratuwa in parallel to the Medical and Communal Hospitality Day.

Mobile Services were conducted with the collaboration of Department of Labour and other government organisations such as Department of Registrar of Persons, Registrar General's Department, Police Department and respective District/Divisional Secretariats. The following services were delivered at the mobile services to the EPF members and the public.

- I. Issuing of EPF balance statements
- II. Amendment of EPF member details and accounts
- III. Re-registration of member details
- IV. Promoting online member service. i.e. Short Message System (SMS) and Internet inquiry facility
- V. Issuing of National Identity Cards and related services by Department of Registrar of Persons
- VI. Issuing of Birth Certificates / Presumptive Age Certificates / Null Reports and related services by Registrar General's Department
- VII. Providing advice on overall EPF procedures

Awareness programmes were conducted for relevant employers, managers and other administrative staff members of respective employers prior to each mobile service with the view of enhancing the effectiveness of the mobile services.

The Department also participated at 3 national level exhibitions and corporate events namely Deyata Kirula Exhibition - 2014 at Kuliapitiya, National HR Service Providers' Exhibition - 2014 conducted by the Institute of Personal Management (IPM) of Sri Lanka and Industrial Exhibition and Trade Fair - 2014 conducted by The Institute of Incorporated Engineers of Sri Lanka.

During the year 2014, public awareness programmes mainly focused on estate sector organisations since the majority of the visitors to EPF office in Colombo were from this sector. The total number of EPF members served during the year was more than 12,000.

(d) e-Return System for EPF Payments

During the year, EPF Department took several measures, 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 by EPF Act No. 2 of 2012 to make this system mandatory for employers with a minimum of 50 employees. The regulations on the amendments were gazetted in May 2013.

Under this system, EPF Department has obtained 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 who are employers contributing to the fund.

Further, in order to improve efficiency of current e-Return system, a new model for on-line verification of member details was introduced in 2014 with the assistance of the IT Department of the Central Bank. The new model is expected to minimise the manual intervention in e-Return process by automation of validating member details and expedite the updating process of member accounts. Thus, participating commercial banks were in the process of modifying the required IT systems to provide the new facility, while two other commercial banks (NDB and Seylan Bank) were in the process of developing their IT systems to provide the service to their customers. The new model will be implemented during the first quarter of 2015.

The Direct Debit Payment Scheme, which enables employers to transfer the monthly contribution directly from their bank to EPF's bank account while sending contribution details through e-mail directly to EPF, was also continued.

By end 2014, 3,706 employers had been registered under the scheme to send member contribution details and payments online. This facility, which currently covers 44 per cent of total 2.4 million active members, enables EPF to update member accounts immediately and accurately.

EPF Department conducted 27 awareness campaign programmes and workshops on the e-Return system for employers and officers of the Department of Labour during 2014. As a result, registered number of employers with the system has increased to 3,706 by end 2014 from 1,868 as at end 2013.

(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 in 2009 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 2014, NIC details of approximately 1.6 million active EPF members (contributing members) had been collected. Of these, 75 per cent of the member accounts (1.2 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 was 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 2014, 139,266 existing and new members were registered and 129,891 were added to the New Member Registry (NMR).

Linking of previous member accounts of active members to UIDs was also carried out during 2014. Accordingly, 38,694 previous member accounts were linked to UIDs during the year. This facility enables members to access and view EPF balances of their multiple accounts by providing their NIC numbers through the Internet and SMS.

(f) The Image Scanning Project (ISP)

The Image Scanning Project (ISP) was implemented with the view of improving efficiency of services by establishing a near-paperless operating system in the Department.

The four main phases of the project are,

- I. Conversion of existing document into electronic form,
- II. Real time scanning of documents,
- III. Establishment of the e-Records Room and
- IV. Linking of the Document Management System with the existing EPF computer systems.

As at the end of year 2014, the EPF has completed scanning 90 per cent of the master files up to 2012, 100 per cent of Form RR1, 90 per cent of Form RR6 and 100 per cent of Form D.

During the year, a service provider (KPMG) was selected for conducting an audit on scanned documents and related databases, through stipulated tender procedures. Auditing of 40 per cent of the Master Files had been finalised by the end of the year.

In establishing the e-Records room, procurement of all required hardware was finalised and access to the e-record solution (IBM File net) was arranged and images of 80 per cent of the master files had been made available to the relevant users. As a result member detail amendment function of the Records Amendment Division was shifted to the Lloyd's Building successfully. The users were also provided with training on IBM File net.

The System Requirement Specification (SRS) report for scanning documents on a real time basis and minimising paper involvement in the normal operation was drafted during the year after carrying out a special study and a detailed analysis of the existing operating system and the user requirements. A series of discussions were conducted in this regard with the participation of relevant users, the management team and the service provider. A number of presentations and demonstrations were made prior to finalising the report and obtaining the management's approval. The service provider and the project team had launched a test run for scanning the documents on a real time basis by the end of the year.

Integrating the document management system to the AS400 system will commence by the end of the first quarter of 2015.

9. EXCHANGE CONTROL

The Exchange Control Department (ECD) continued to perform its duties and discharge its statutory responsibilities in terms of the provisions of the Exchange Control Act (ECA) No. 24 of 1953 during 2014. These include implementation of policies under the provisions of the ECA on foreign exchange transactions in the interest of the economy of the country through the issuance of Directions to Authorised Dealers (ADs), issuance of Gazette Notifications, granting of approvals and licenses for specific foreign exchange transactions, surveillance on various foreign exchange transactions and investigations into violations

of the provisions of the ECA. A summary of such policies implemented in 2014 is given below.

9.1 Issuance of Directions

In 2014, ECD issued 12 Directions to ADs as summarised below. These Directions appear in the Part III of this Report.

- (a) **Foreign Travel Cards (FTCs):** Permitting ADs to issue FTCs to individuals resident in Sri Lanka to obtain foreign exchange for travelling abroad.
- (b) **Special Foreign Investment Deposit Accounts (SFIDAs):** Removing the requirement to maintain a minimum balance of US dollars 10,000/- in an SFIDA.
- (c) **Remittance of funds in advance to obtain student visa:** Permitting ADs to make outward remittances in advance to meet the living expenses of students residing in Sri Lanka who are applying for student visa in foreign states, where such a payment is necessitated by the visa granting authority.
- (d) **Resident Foreign Currency (RFC) Accounts:** Permitting ADs to transfer funds from an RFC account to an account maintained outside Sri Lanka by a student residing in Sri Lanka for obtaining student visa.
- (e) **Resident Non National Foreign Currency (RNNFC) Accounts:** Permitting ADs to transfer funds from an RNNFC account to an account maintained outside Sri Lanka by a student residing in Sri Lanka for obtaining student visa.
- (f) **Foreign Currency Accounts for International Services Providers and their Employees (FCAISPE):** Permitting ADs to transfer funds from an FCAISPE account to an account maintained outside Sri Lanka by a student residing in Sri Lanka for obtaining student visa.
- (g) **Foreign Exchange Earners' Accounts (FEEAs):** Permitting payments to a person outside Sri Lanka in relation to a foreign contract undertaken by the account holder out of existing funds in the FEEA.
- (h) **Credit facilities to importers resident in Sri Lanka by suppliers resident outside Sri Lanka:** Permitting ADs to make outward remittances in respect of payment of interest on credit facilities offered to importers of goods by the suppliers of such goods.
- (i) **Letters of Credit (LCs):** Permitting ADs to issue, extend the validity period and amend clauses of LCs.
- (ii) **Loans to Foreign Exchange Earners' Account (FEEA) Holders:** Permitting ADs to grant loans to FEEA holders for any purpose.
- (k) **Opening and maintaining accounts in Chinese Renminbi (RMB):** Permitting ADs to open and maintain foreign currency accounts denominated in RMB.
- (l) **Issuance of Foreign Currency Notes for Travel Purposes:** Permitting ADs to issue foreign currency notes up to US dollars 10,000 or its equivalent in

any other convertible foreign currency as a part of the foreign travel allowance for persons resident in Sri Lanka.

9.2 Issuance of Gazette Notifications

In 2014, the ECD issued 5 new Gazette Notifications as summarised below. The Gazette Notifications appear in Part III of this Report.

- (a) Permission for ADs to acquire, hold and transfer International Sovereign Bonds issued outside Sri Lanka by the Government of Sri Lanka in the years 2010, 2011 and 2012, from the secondary market (Gazette No. 1854/3 dated 17 March 2014).
- (b) Permission for persons resident in Sri Lanka who intend to proceed outside Sri Lanka for studies to open and maintain accounts with Banks outside Sri Lanka (Gazette No. 1864/38 dated 28 May 2014).
- (c) Permission for foreign investors to invest through Securities Investment Account (SIA) in non-listed debentures denominated in Sri Lanka Rupees (Gazette No. 1864/39 dated 28 May 2014).
- (d) Amended the Gazette Notification No. 1789/34 dated 20 December 2012 permitting certain types of account holders to obtain Electronic Fund Transfer Cards from ADs (Gazette No. 1864/40 dated 28 May 2014).
- (e) Rescinded the Gazette Notification No. 641/15 dated 20 December 1990 removing the conditions and requirements which have been imposed on persons in or resident in Sri Lanka performing the service of Freight Forwarding (Gazette No. 1895/15 dated 31 December 2014).

9.3 Issue of Approvals / Permits

- (a) **Approvals** : Granted approvals for 9 companies to invest US dollars 105.2 million and for 18 companies to borrow a sum of US dollars 248.5 million from abroad.
- (b) **Permits / Licenses**
 - (i) Five new money changing permits were issued to 4 limited liability companies and to a tourist hotel. Accordingly, the total number of authorised money changers stood at 84 which comprised of 10 licensed finance companies, 2 licensed specialised banks, a supermarket, a tourist hotel and 70 other limited liability companies. Further, the total number of money changers permitted to sell foreign currencies was 18 including 5 limited liability companies, 10 licensed finance companies, 2 licensed specialised banks and a supermarket as at the end of 2014.
 - (ii) Seventeen new companies were registered as freight forwarders, increasing the total number of freight forwarders to 555.

9.4 Transfer of Migrants' Funds

During the year 2014, permission was granted to ADs to open 257 Migrant Blocked Accounts in order to release the migration allowance to Sri Lankan emigrants who have obtained Permanent Residency (PR) in another country after 12 June 2013. Further, 330 Sri Lankan migrants who have obtained the Permanent Residency in another country before 12 June 2013 were given permission to remit funds outside Sri Lanka through Non Resident Blocked Accounts.

9.5 Surveillance / Investigations

138 investigations were conducted during 2014 on non-compliance with exchange control regulations and Rs.15.3 million collected as penalties on such violations were transferred to the Consolidated Fund. Most investigations covered unauthorised payments by residents to non-residents, violations of conditions given in permits by restricted dealers and issue and transfer of securities contravening the procedure set out in the general permissions.

9.6 Public Awareness

The official website of the ECD was launched on 01 January 2014 to increase public awareness on Exchange Control regulations. 10 exchange control awareness programmes were conducted in collaboration with the Centre for Banking Studies of the Central Bank of Sri Lanka targeting banks, financial institutions, members of the Institute of Chartered Accountants of Sri Lanka, company directors, investors and other interested parties. Further, 14 awareness programmes were conducted across the country to enhance knowledge on current foreign exchange policies and recent relaxations of capital account transactions among various stakeholders.

10. FACILITIES MANAGEMENT

During the year 2014, the Facilities Management Department (FMD) ensured the operational reliability of critical services while maintaining a pleasing and comfortable working environment for the staff to work towards achieving the objectives of the Central Bank of Sri Lanka (CBSL).

In line with the Strategic Plan for 2014, FMD continued to carry out its primary functions aiming to achieve its goals including the maintenance and up-keeping of the Bank's premises and maintenance of a high degree of operational reliability of all critical services such as electricity supply, air conditioning, water supply, transport and communication. The Department was able to achieve almost 100 per cent reliability in providing these facilities contributing to ensuring the business continuity of the Bank.

FMD was able to enhance "Value for Money" for 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 progress of projects to ensure completion on agreed dates while meeting required standards.

During the year, the Bank completed a project for the upgrading and beautification of premises by which a spacious and more comfortable waiting area was provided for the general public, who visit the Bank for various purposes, was provided.

The Currency Museum and the Economic History Museum were established in the Central Point Building formerly named as National Mutual Building which is a 100 year old colonial building acquired and renovated by the CBSL.

CBSL substantially completed the construction work of the building complex in Kilinochchi with a floor area of approximately 18,000 sq.ft. to house its Regional Office/Jaffna, with the main purpose of expediting the development activities in the Province by promoting development finance, banking and financial activities and public awareness in related activities. Locating the Regional Office in Kilinochchi will facilitate to provide its services to all districts in the Province.

Further, the Bank commenced the construction work of a new building complex at the Centre for Banking Studies in Rajagiriya to expand the activities of its training institute.

CBSL substantially completed the construction works of the multi-storey car park at its Head Office premises and opened it for parking of vehicles from 28 August, 2014, which helped to fulfil a long awaited requirement of the Bank staff.

The refurbishment work of the "Whiteaways Building" that was purchased by the Bank from the Government of Sri Lanka was continued during the year to restore this historic building to its original glory.

In addition, FMD completed a number of projects in the year 2014, including fixing a modern access control system, refurbishing of water chillers and main air handling units and strengthening of the fleet of vehicles by improving the conditions the vehicles to mitigate operational risk. The Department was able to provide uninterrupted transport facilities for a number of international conferences sponsored by CBSL, in addition to the normal functions of the Bank.

11. FINANCE

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

11.1 Preparation of the Financial Statements

- (i) **Monthly Balance Sheet:** As per the requirement of the Monetary Law Act, the monthly balance sheets for December 2013 and January to November 2014 were prepared and published in the Government Gazette during the year 2014.
- (ii) **Annual Financial Statements:** International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) have been adopted for this purpose since 2002. These statements are published in the Annual Report of the Central Bank. The FD updated accounting systems and procedures to comply with relevant accounting standards and requirements on a continuous basis during the year 2014. Audited Financial Statements of the Central Bank for the year 2014 are presented at the beginning of Part II of the Annual Report.

11.2 Preparation of the Annual Budget and the Activity Base Budget

The annual income and expenditure budget and capital budget of the Central Bank for the year 2015 were prepared in line with the action plans of the strategic plan of each department of the Central Bank. The activity-based and functional budget were also prepared along with the budget to show the activity-wise cost and function-wise cost of the Central Bank. This process started in August 2014 and was finalised in December 2014. The approval of the Monetary Board has also been obtained in December 2014 and the budget was made available to the departments on the first day of 2015. Quarterly budgetary performance statements for the year 2014 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

- (i) All internal payments for employee remunerations, staff loans, operational expenses, etc., were made in 2014 within the time targets.
- (ii) All external payments to local and foreign suppliers were made as per the procedures laid down under the standing orders of the Central Bank. During the year 2014, the total payments were 5,586 which included 5,225 to local suppliers and 361 to foreign suppliers.
- (iii) Nearly 2,915 disbursements to the General Treasury and relevant projects and 558 installments on repayment of foreign loans were made during the year 2014.

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 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 7.31 per cent for the year 2014. The audited financial statements of these funds for 2013 were submitted to the Monetary Board as per the rules of those funds.

Table II - 12 Performance of Funds Management - 2014

Amounts in Rs. mn

Funds	Inflows	Out flows	Investments	Investments Year-end	Average Yield (% p.a.)
Superannuation funds	21,836.3	3,249.8	18,594.1	37,794.3	7.33
Medical funds	75.0	0.9	73.1	112.9	7.73
Special funds	1,342.1	22.5	1,319.7	2,071.6	7.04
Total	23,253.4	3,273.2	19,986.9	39,978.8	7.31

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 of locations, change of locations, revaluations, depreciation and disposals were recorded in this register during the year 2014. The register was updated during the year 2014 with 1,396 items procured and 944 retirements.

11.6 Maintaining the Data Base of Staff Loans

The FD continuously maintained the loan data base of the CBSL staff with the assistance of the IT Department to facilitate the loan recovery record process and to supply information to employees and to the Management during the year 2014.

11.7 Other Operations

(i) Procurement Process

According to the Rules of the Central Bank standing orders, the officers of the FD are required to participate in all Technical Evaluation Committees and Tender Boards for procurement of goods and services and the Board of Survey. Nearly 400 Tender Boards and all Technical Evaluation Committees related to those procurements were attended during the year 2014.

(ii) Reporting Improvements

A new integrated General Ledger Accounting System (iGLAS) developed in-house by the Information Technology Department of the Central Bank with the assistance of the FD in line with accounting standards was implemented on January 1, 2014, replacing the Oracle General Ledger System that has been in operation since 2003. A new payroll module and a new loan module for the staff of the Central Bank were also developed in-house by the IT Department of the Central Bank with the assistance of the FD to replace IHRM System that has been outsourced since 1996. The new payroll module was implemented with effect from January, 2015.

(iii) Investment Oversight Committee

The Investment Oversight Committee continued its contribution to fund management activities during the year 2014 as well. The committee established by the Monetary Board to advise and monitor the investments of sixteen funds managed by Departments of Finance, Bank Supervision and Staff Services Management and funds of several projects managed by the Regional Development Department of the Central Bank. It is chaired by the Assistant Governor in charge of FD and meets monthly and the FD provides secretarial service for the monthly meetings of the committee with the Heads and other officers of the respective departments. The Committee had 12 meetings during the year 2014 and reported quarterly to the Monetary Board for ratification of investments. At the end of 2014, the total value of the funds under management was Rs. 52.2 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 the Central Bank of Sri Lanka since 2007. The key functions of the FIU include collection and receipt of information on financial transactions for the purpose of identifying possible links to Money Laundering (ML), Terrorist Financing (TF) and other related unlawful activities defined in the FTRA, investigations into suspicious financial transactions relating to the above unlawful activities and dissemination of information of such investigations to relevant law enforcement and/or regulatory authorities for appropriate actions. The highlights of key functions and other activities of the FIU during 2014 as stipulated in the FTRA were as follows.

12.1 Conduct of National Risk Assessment

Recommendation 1 of the Financial Action Task Force (FATF) requires countries to identify, assess and understand the Money Laundering and Terrorist Financing (ML/TF) risk and apply a Risk Based Approach (RBA) to ensure that the measures to prevent/mitigate ML/TF risks are commensurate with the risks identified. Accordingly, National Risk Assessment (NRA) on ML/TF was carried out with the technical assistance of the World Bank for the purpose of developing a risk based Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) framework and facilitating the allocation of available resources in the most effective way to control, mitigate and eliminate the identified risks. The FIU of Sri Lanka, as the AML/CFT regulator in the country played a major role in conducting the country's NRA during 2014 with the participation of more than 80 officials representing 23 key government and private sector institutions, under the guidance of the Advisory Board for the FIU.

12.2 Conduct of Mutual Evaluation (ME)

The first Mutual Evaluation (ME) on Sri Lanka was conducted by the Asia Pacific Group on Money Laundering (APG) in 2006. The second ME on Sri Lanka was conducted in 2014 by the APG with the intention of assessing the Sri Lanka's AML/CFT framework against the new FATF standards of 2012 on AML/CFT. Sri Lanka's AML/CFT legal and institutional framework as well as the effectiveness of the implementation was assessed by a panel of 8 experts representing APG member countries and the APG Secretariat. At the final phase of the ME process, FIU-Sri Lanka also facilitated the said panel of experts to visit Sri Lanka and conduct an on-site review by having discussions with more than 50 institutions in Sri Lanka representing both public and private sectors.

12.3 Collection of Information, Investigations and Dissemination

Licensed Commercial Banks (LCBs), Licensed Specialised Banks (LSBs), Licensed Finance Companies (LFCs), Stock Brokers (SBs) and Insurance Companies (ICs) continued to report to the FIU on cash transactions and electronic fund transfers, both local and foreign with the value of Rs. 1.0 million and above or its equivalent in foreign currencies through the FIU's on-line database management system 'LankaFIN'. The Authorised Money Changers (AMC) also reported their cash transactions of Rs 1.0 million and above equivalent in foreign currencies through the Controller of Exchange who monitors and regulates the AMC sector. Accordingly, over 5.5 million of cash/fund transfers and 718 suspicious transactions (STRs) were reported during the year 2014. After conducting preliminary investigations, 189 STRs were referred to the law enforcement and regulatory authorities for further investigation. Based on the investigations conducted by the Criminal Investigations Department (CID), the Attorney General's Department has filed 7 indictments against money laundering and 3 indictments against terrorist financing as at end of 2014.

12.4 Examinations of Reporting Institutions

During the year 2014, FIU conducted 4 examinations on banking and finance company sector institutions to assess their exposure to risk of ML/TF and non-compliance with the provisions of the FTRA and other rules and directions issued by the FIU. Further, FIU conducted 5 one-on-one meetings with reporting institutions during 2014.

12.5 Other Activities

(i) Signing of Memorandums 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, the FIU signed 3 Memorandums of Understanding (MOUs) with Financial Intelligence Units of Albania, Peru

and Myanmar during the year. Accordingly, the total number of such MOUs signed, increased to 27 as at end of 2014.

(ii) Institutional Capacity Building and Awareness Programmes:

The FIU continued its efforts to enhance the awareness on detecting, analysing and reporting of ML/TF related transactions and conducted 22 awareness/training programmes during the year, accommodating more than 1200 participants from LCBs, LSBs and LFCs. The FIU also conducted 3 special programmes for Hon. Judges of the High Courts, Hon. District Court Judges and Magistrates and Officers of the Attorney General's Department during the year.

(iii) International Relations:

- (a) Egmont Group : The FIU obtained assistance from members of the Egmont Group, the Association of the FIUs consisting of 139 member FIUs globally to carry out investigations and collaborated with the member countries to gather evidence on their investigations. Total number of instances that FIU exchanged information with foreign Egmont members stood at 18 in the year 2014.
- (b) Asia Pacific Group on Money Laundering: As a founder member of Asia Pacific Group on Money Laundering (APG), FIU officials represented Sri Lanka at APG's 17th Annual Meeting held in Macao SAR, China in July 2014 and its 17th Annual Typologies and Technical Seminars held in Thailand in November 2014.

13. FINANCIAL SECTOR RESEARCH

The Financial System Stability Department (FSSD) was established in 2007 with a view to put in place a comprehensive macro-prudential approach, which complements supervision at an individual financial institution level and also looks at the broad market and economic factors that could have a material impact on the stability of the domestic financial system. Preserving the financial system stability is one of the statutory objectives of the Central Bank as per the Monetary Law Act.

The scope of the Department has since been widened in consideration of the anticipated rapid development of the domestic financial sector. Accordingly, conducting of comprehensive analysis and research related to the financial sector have also been added to the scope of the Department and therefore, it was renamed 'Financial Sector Research Department' (FSRD) with effect from 7 November 2014.

In line with its mandate, FSRD, in 2014, conducted research on topics relating to the development of the financial sector and strengthening of the financial system stability

and continued to perform macro-prudential surveillance to assess risks and vulnerabilities in the domestic financial system. Thereby FSRD proposed appropriate policy measures on the basis of the findings of such researches and surveillances so carried out; and continued to raise awareness about developments relating to the financial sector as well as financial system stability among policy makers and other stakeholders.

13.1 Activities During the Year

(a) Research

Four research studies were conducted during 2014. These studies were on the topics: (i) Consolidation in the financial sector, country experiences, (ii) An Early Warning System Model to assess the pressure on the Sri Lankan Rupee, (iii) Network Analysis Approach to analyse the contagion risk in Sri Lanka's Banking Sector, and (iv) Housing Loans as a Financial Product.

(b) Macro-Prudential Surveillance

The Department continued performing the macro-prudential surveillance on the domestic financial system in 2014 whilst strengthening such surveillance mechanisms. The primary objective of such surveillance was to limit systemic risks with the goal of maintaining financial system stability and minimising the incidence and impact of disruption in the provision of key financial products and services that can have negative implications on the real economy. The macro-prudential surveillance carried out by the Department in 2014 was mainly based upon three pillars, i.e., the assessment of system-wide vulnerabilities and the identification of threats to the financial system from the build-up, assessment of exposures to macro-financial shocks, and the assessment of the impact of possible spillover effects on the financial system from individual institutions and markets due to their interconnectedness.

Accordingly, FSRD collected necessary and available data from the relevant departments of the CBSL and other institutions outside the CBSL. The data mainly related to the soundness and risk exposures of banks and non-bank financial institutions, corporate sector, the payment and settlement systems, macro-economic performance, and money and capital markets. FSRD, using the data, has updated several macro-prudential indices, including the Banking Soundness Index (BSI), the Financial Market Stability Indicator (FMSI), the Macroeconomic Stability Indicator (MSI), and then compiled the Financial System Stability Indicator (FSSI) to identify early signs of system-wide vulnerabilities and threats to the financial system, exposures to potential macro-financial shocks. The Department also continued to compile the Corporate Sector

Creditworthiness Indicator (CSCI) on a quarterly basis to assess the creditworthiness of the corporate sector in Sri Lanka.

The Department also conducted micro stress tests for the banking sector for credit risk, market risk and liquidity risk in order to assess the impact of possible spillover effects on the stability of the financial system from individual banks, during the year. Macro stress tests were also conducted to assess the potential impact of credit risk of the banking sector on overall system stability.

(c) Publications

The Financial System Stability Review (FSSR) 2013 was published in June 2014. The FSRD also compiled the chapter on 'Financial Sector Performance and System Stability' in the Annual Report 2013 and the chapter on 'Financial Sector Developments and Stability' in the Recent Economic Developments - 2014.

(d) Coordination of the Committees on Financial System Stability

FSRD continued to serve as the secretariat for the Financial System Stability Committee (FSSC) and the Financial System Stability Consultative Committee (FSSCC).

(e) Other Activities

FSRD continued to provide relevant risk reports and information to other Departments and agencies by way of contributing to their regular reports, publications and their effective functioning. Further, FSRD conducted a special study on the slow growth of private sector credit enabling the Central Bank to take necessary policy measures.

14. GOVERNOR'S SECRETARIAT

During the year, the Governor's Secretariat Department (GSD) provided secretarial and protocol assistance to facilitate the performance of functions and duties of the Governor. The secretarial assistance provided included the scheduling of appointments and meetings, preparation and compilation of presentations, speeches, notes, articles, etc., and provision of financial market information, media news and other reports. The protocol assistance included arranging Governor's local and foreign travels and functions hosted by the Governor and the Deputy Governors and services provided to VIP visitors of the Governor and the Bank.

The GSD, which was established on 29 June 2009 was closed down with effect from 9 February 2015. The functions were assigned to the Secretariat Department.

15. HUMAN RESOURCES MANAGEMENT

The strategic objective of the Human Resources Department (HRD) is to ensure the availability of a highly productive, motivated and contented team of employees, who contribute to achieve the overall objectives of the Central Bank, amidst emerging challenges. In 2014 too, the HRD continued to carry out strategic and operational human resource management functions, while adopting the market best practices. The main focus of the HRD during the year was to enhance the knowledge, skills and competencies of the employees to enable them to discharge their duties in a more productive and efficient manner. Accordingly, the key functions performed by the HRD were training and development, performance management, succession planning and promotions, recruitment, job rotation, maintaining a close dialog with all internal stakeholders and other general administrative activities, in line with the strategies identified in the Strategic Plan of the CBSL.

15.1 Human Resources Structure

The total number of employees of the CBSL as at end December 2014 stood at 1,483. The staff consisted of 675 staff class employees, 645 non-staff class employees, 161 minor employees and 2 employees who were providing their services under fixed term contracts. During the year, 38 staff class employees, 20 non-staff class employees and 1 minor employee retired, while 6 staff class employees and 10 non staff class employees resigned from service.

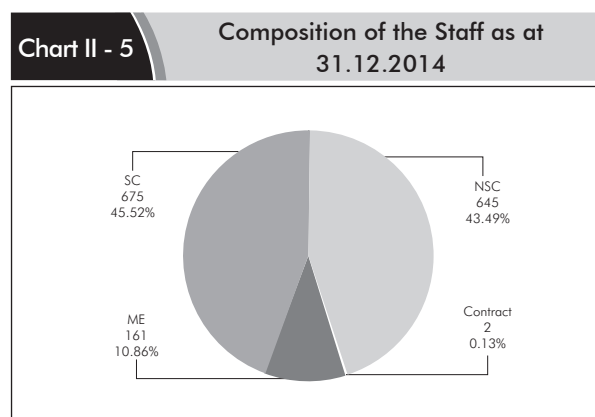


Table II - 13 Educational/Professional Qualifications of Staff Class (SC) Officers of CBSL as at 31.12.2014

Categories	No. of Officers			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
(i) SC Grade IV & above	59	19	78	56	15	53	3	3	4	...
(ii) SC Grade III.2	42	14	56	52	8	32	1	1	14	...
(iii) SC Grade III.1	17	25	42	48	2	16	1	4	17	...
(iv) SC Grade II	91	115	206	42	28	41	3	26	80	5
(v) SC Grade I	136	157	293	40	10	19	2	54	87	25
Total	345	330	675	44	63	161	10	88	202	30

15.2 Educational and Professional Qualifications of the Employees of the CBSL

The CBSL consists of a rich pool of qualified and talented staff. As at end December 2014, there were 10 PhD holders; while 554 staff class employees possessed a first degree, a postgraduate degree or a professional qualification. The total number of employees in both staff class and non staff class, who had acquired a first degree, a postgraduate degree or a professional qualification as at end 2014 were 636. Table II -13 shows the details of the educational and professional qualifications possessed by the staff class employees of the CBSL, as at end December 2014.

These employees were positioned in the 27 departments and 5 regional offices of the CBSL, taking into consideration their qualifications, skills, competencies and experience, to enable each department and regional office to perform its functions in an efficient and productive manner.

15.3 Functions of the HRD

(a) Training and Development

Section 27 of the Monetary Law Act. No.58 of 1949 has vested powers on the CBSL to bear the cost of studies and training of the staff of the CBSL abroad or in Sri Lanka in the areas of economics, banking, statistics and other relevant subjects. Accordingly in 2014, the HRD continued to provide short-term foreign and local training opportunities to upgrade the competencies and skills of the staff to keep pace with changes taking place in the economic and financial environment around the globe. In addition, long-term foreign and local training opportunities were also provided to enhance the intellectual capacity of the staff.

(i) Short-term Training

As in other years, with the objective of minimising competency gaps of the Bank employees identified through the annual competency mapping process carried out at the end of 2013, the HRD provided 3,046 appropriate short-term foreign and local training opportunities to the Bank staff during the year 2014, as scheduled in the training plan for 2014.

(ii) Short-term Foreign Training

Short-term foreign training opportunities provided by the HRD in 2014 included training programmes, workshops, seminars and study visits conducted by the reputed foreign training institutions, central banks such as Bank of England, Deutsche Bundesbank, Reserve Bank of India, Bank Negara Malaysia and Federal Reserve System of USA and international funding agencies and research organisations such as International Monetary Fund (IMF), World Bank, Asian Development Bank, SEACEN, Bank for International Settlements (BIS), National Institute of Business Management (NIBM) in India and Asia Pacific Rural & Agricultural Credit Association (APRACA) Center for Training & Research for Agricultural Banking (CENTRAB) etc. Table II -14 below shows the details of the short-term foreign training opportunities provided to CBSL employees in 2014.

Field	No. of Participants
Economics	77
Financial Stability	67
Reserves Management	24
Public Debt Management/ Portfolio Management	33
Currency Management	3
IT and Payment Systems	21
Central Banking	24
Microfinance	17
Human Resources Management	26
Other	23
Total	315

The Training Sub-Committee of the CBSL continued to evaluate the effectiveness of the short-term foreign training received by the respective officers, by way of assigning them various assignments to be carried out using the knowledge and the exposure gained through the training programmes. Accordingly, 146 such assignments were completed during 2014 by the officers who participated in the short-term foreign training programmes. Preparation of improved guidelines for supervision of financial institutions, conducting seminars using knowledge gained through the training for the purpose of knowledge sharing and public awareness and drafting proposals for improving the existing systems and processes were the main value additions made by the participants of the short-term foreign training programmes during 2014. Nearly, 30 per cent of the completed assignments were related to improving existing systems, processes and procedures, which supported enhancing the overall performance of the CBSL. The details of the value additions and completion of assignments during 2014 are summarised in Table II -15 below.

Table II - 15 Completion of Assignments by Participants of Short term Foreign Training Programmes during 2014

Category	No. of Assignments
Guidelines for supervision of financial institutions	4
Knowledge sharing and public awareness	100
Proposals for improving systems and processes	42
Total	146

(iii) Short-term Local Training

During 2014, the HRD provided 1,523 short-term local training opportunities to the Bank staff mainly at the Centre for Banking Studies (CBS), the training arm of the CBSL, and other reputed local institutions. The number of officers who participated in the training programmes conducted by the CBS and other institutions were 668 and 855, respectively. When providing local training opportunities, priority was given to the areas such as economics, bank supervision, financial and capital markets, microfinance, information technology, communication, internal auditing and management, enabling the participants to enhance their knowledge and improve performance.

(iv) Workshops and Language Training Programmes

Having recognised the specific requirements of the selected groups of Bank employees, the HRD, in collaboration with the CBS, organised 9 workshops in 2014 covering the areas, such as leadership, employee engagement, motivation, personal grooming, presentation skills and report writing. This includes the one-month comprehensive training programme arranged especially for the 27 officers who were promoted to the staff class in 2014, from the non-staff class. The HRD also in collaboration with the Official Languages Department continued to provide Tamil language training to facilitate the Bank staff to obtain proficiency in Tamil language with the view of providing a better service to the Tamil speaking community.

In addition, under the Monthly Economic Forum organised by the HRD in collaboration with the Economic Research Department, 9 presentation delivered by industry specialists on different, timely topics relating to economics, banking and finance, were arranged during the year, facilitating enhancing the knowledge of the employees of the CBSL.

(v) Long-term Training

The HRD continued to facilitate the staff class officers to pursue their postgraduate studies, which aimed at enhancing their intellectual capacity. During the year 2014, the HRD facilitated 5 officers and 24 officers

to pursue PhD programmes and Master's degree programmes, respectively, in reputed universities in the UK, USA and Australia. Meanwhile, 2 officers and 11 officers resumed duties in the CBSL upon the successful completion of PhD programmes and Master's degree programmes, respectively, in 2014. Table II – 16 below shows the number of officers who commenced and completed postgraduate studies under the CBSL scholarship programme from 2010 to 2014.

(b) Performance Management

The employee performance management system of the CBSL comprises 4 steps, namely, preparation of job descriptions of the employees, setting goals in line with the Strategic Plan, monitoring performance on a continuous basis and evaluation of performance. In the process of evaluating performance, the level of performance of each employee is assessed by assigning ratings for the performance, generic competencies and technical competencies as specified in the evaluation format. The final performance ratings are used as one of the components in the promotion criteria.

In 2014, the HRD completed evaluation of performance of all employees for the year 2013 as scheduled in the Strategic Plan. The individual and departmental goal setting process for the year 2014 was also completed as per the time targets set out in the Strategic Plan. Further, the HRD monitored the mid-year performance review process of the departments which was implemented to assess the level of performance of the staff members during the first half of the year.

(c) Succession Planning and Promotions

Ensuring effective succession planning in the CBSL, the HRD facilitated promoting 4 Heads of Department to the post of Assistant Governor and 11 Deputy Heads of Department to the post of Additional Head of Department, in 2014.

Under the promotion scheme for granting promotions from non-staff class to staff class, in 2014, 27 officers who were in non-staff class grade IV and V were promoted to staff class grade I. Further, 66 staff members were also granted respective grade promotions in line with the applicable promotion criteria.

(d) Recruitment

In 2014, the HRD recruited 4 Technical Officers and 1 Litho Machine Operator under the lateral

recruitment policy of the CBSL to enhance the efficiency of the services provided by the Facilities Management Department, Currency Department and Communications Department of the CBSL. In addition, during the year, the HRD facilitated to obtain some services on outsourced basis for the Facilities Management Department, Security Services Department, Staff Services Management Department and Statistics Department of the CBSL.

(e) Job Rotation

The CBSL implements the annual job rotation scheme with the objective of developing a multi-skilled work force and enhancing overall productivity of the Bank. Accordingly, in 2014 the HRD effected transfers of 29 staff class officers, 52 non-staff class officers and 14 minor employees under the job rotation scheme, w.e.f. 01 July 2014.

(f) Employer- Employee Relations

In 2014, the HRD continued to perform its role as the facilitator for maintaining industrial harmony in the CBSL, by arranging periodical meetings between the Management and the Trade Unions. Accordingly, 7 such meetings were arranged and they helped to resolve a number of issues relating to promotions, training, welfare and general administration of the CBSL.

(g) Other General Administrative Activities

The HRD organised 20 Corporate Management Committee (CMC) Meetings, during 2014, facilitating the senior management to discuss and arrive on decisions on various administrative matters of the CBSL. The HRD also arranged 12 Heads of Department Meetings (HDMs) during the year making a platform for the Heads of Department to discuss different issues, which fall within the scope of their respective departments with the management and make collective decisions accordingly. This forum also facilitated the management to monitor the progress of the implementation of the decisions taken at the HDM.

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

In addition to enriching the human capital of the CBSL, the HRD continued to carry out corporate social responsibility

Table II - 16

Number of Officers Who Commenced and Completed Postgraduate Studies under the CBSL Scholarship Programme

Studies	2010		2011		2012		2013		2014	
	Commenced	Completed	Commenced	Completed	Commenced	Completed	Commenced	Completed	Commenced	Completed
Master's Degree	15	6	17	10	18	17	11	19	24	11
PhD	1	1	2	2	4	2	6	0	5	2

programmes through implementing the CBSL's six-month training programme for graduates, three-month internship programme for undergraduates and the one-year accounts training programme for the students of CA Sri Lanka. The objectives of these programmes were to provide the opportunity to young talented students to acquire practical experience on the theoretical subjects learnt at the universities/CA Sri Lanka.

(a) Graduate Training Programme

The CBSL initiated a graduate training programme in 2013, in response to a request made by the Ministry of Higher Education to facilitate the fresh graduates to acquire work experience in the CBSL. The HRD continued the graduate training programme in 2014, facilitating 5 graduates from 3 local universities to acquire six-month work experience in the CBSL enabling them to improve their employability in the job market.

(b) Internship Programme for Undergraduates

The CBSL has been conducting a three-month internship programme since 2011, with the aim of providing opportunities for undergraduates to acquire practical knowledge relating to the theoretical subjects learnt at universities and to acquire hands-on experience in the relevant departments. This programme also facilitates undergraduates to improve their personality and professionalism, which are prerequisites to enhance their employability in the job market. In 2014, the HRD, in collaboration with other departments successfully conducted 4 internship programmes to train 116 students selected from 12 local universities, 3 foreign universities, Sri Lanka Institute of Information Technology and Sri Lanka Law College. During the period from 2011- 2014, the HRD had facilitated 355 students to obtain training under this internship programme.

(c) Accounts Training for Students of CA Sri Lanka

In 2014, the HRD continued to facilitate the students of CA Sri Lanka to fulfill the one year compulsory training requirement for the Certificate Level of the Chartered Accountancy course, by working under the supervision of experienced Chartered Accountants of the CBSL. Accordingly, 25 students were provided the opportunity to work as Accounts Trainees in the CBSL during the year.

15.5 Meetings Attended by the Governor Abroad During the Year 2014

1. "Invest Sri Lanka" Investor Forum in Singapore and attending investor meetings in Washington in January.
2. Investor meetings in London and Washington, IMF/World Bank Spring meetings in Washington DC and attending investor meetings in Bangkok and Los Angeles in April.

3. Delivering the keynote address at the "Invest Sri Lanka" Investor Forum in London in May.
4. Delivering the keynote address at the opening session of "Eurasia" workshop in Rome, delivering the keynote address at the 3rd Swiss-Sri Lanka Business Forum in Zurich, delivering a speech at the Conference for high level officials on the Macroeconomic Outlook for Mongolia and meeting with investors in Singapore in June.
5. Meeting Mr. Zhou Xiaochuan, Governor of the People's Bank of China in China in August.
6. Meeting Mr. Shiek Ahmed Al-Fahad Al-Sabah, Chairman of the OCA Sports Congress and President of Olympic Council of Asia in Kuwait, delivering the keynote address at the "Invest Sri Lanka" Investor Forum in New York, investor meeting in Washington and attending 33rd OCA General Assembly in Incheon in Korea in September.
7. Making an address at the Conservative Friends for Sri Lanka (CFSL)'s event, "Sri Lanka – From Peace and Reconciliation to Prosperity" of Conservative Party Conference held in London and delivering the keynote speech at the CRC Corporate Renewal Conference in Australia in October.
8. Delivering a speech on "financial inclusion" at the India Economic Summit of the World Economic Forum in India in November.

15.6 Promotions/Appointments

1. Mr. P. Samarasiri, Assistant Governor, was appointed as Deputy Governor with effect from 01 June 2014.
2. The following promotions and appointments to Staff Class Special Grade were made effective from 28 August 2014.
 - i. Mr. S. R. Attygalle, who has been released to the Ministry of Finance, was appointed as Assistant Governor
 - ii. Mr. H. A. Karunaratna was appointed as Assistant Governor
 - iii. Mr. C. P. A. Karunatilake was appointed as Assistant Governor
 - iv. Mr. D. Wasantha was appointed as Assistant Governor
3. The following promotions and appointments to Staff Class Grade IV were made effective from 28 August 2014.
 - i. Dr. M. Z. M. Aazim was promoted and appointed as Acting Additional Superintendent of the Public Debt Department.
 - ii. Mr. K. M. Abeykoon was promoted and appointed as Acting Additional Director of the Human Resources Department.

- iii. Mr. K. V. K. Alwis was promoted and appointed as Acting Additional Director of the Information Technology Department.
- iv. Mr. K. H. A. S. Ariyaratna was promoted and appointed as Acting Additional Director of the Centre for Banking Studies.
- v. Mrs. K. N. N. M. Bandara was promoted and appointed as Acting Additional Director of the Economic Research Department.
- vi. Mrs. D. V. S. Dayawansa was promoted and appointed as Acting Additional Secretary of the Secretariat Department.
- vii. Mr. R. M. Jayawardena was promoted and appointed as Acting Additional Director of the Facilities Management Department.
- viii. Dr. R. A. Perera was promoted and appointed as Acting Additional Director of the Policy Review and Monitoring Department.
- ix. Mr. K. D. R. Piyatilleke was promoted and appointed as Acting Additional Director of the Regional Development Department.
- x. Mr. A. G. U. Thilakarathna was promoted and appointed as Acting Additional Superintendent of the Employees' Provident Fund Department.
- xi. Mr. P. A. Wijeratne was promoted and appointed as Acting Additional Chief Accountant of the Finance Department.
4. Mr. J. P. R. Karunaratne, Superintendent of the Currency Department, was appointed as Acting Director of the Supervision of Non-Bank Financial Institutions Department with effect from 06 February 2014 and subsequently he was appointed as the Director of the same department with effect from 29 April 2014.
5. Mr. H. M. Ekanayake, Director of the Supervision of Non-Bank Financial Institutions Department, was appointed as Director of Financial Sector Research Department with effect from 29 April 2014.
6. Mrs. C. M. D. N. K. Seneviratne, Additional Superintendent of the Employees' Provident Fund Department, was appointed as Acting Superintendent of the Currency Department with effect from 29 April 2014 and subsequently she was appointed as Superintendent of the same department with effect from 29 October 2014.
7. Mr. M. S. K. Dharmawardena, Additional Director of the Regional Development Department, was appointed as the Additional Superintendent of the Employees' Provident Fund Department with effect from 29 April 2014.
8. Mr. T. D. H. Karunaratne, Additional Director of the Human Resources Department, was appointed as Additional Superintendent of the Employees' Provident Fund Department with effect from 29 April 2014.
9. Mr. D. M. Rupasinghe, Director of the Financial Intelligence Unit, was appointed as Contoller of Exchange with effect from 11 June 2014.
10. Mr. H. Amarathunga, Director of the Regional Offices Monitoring Department, was appointed as Director of the Financial Intelligence Unit with effect from 17 June 2014.
11. Mr. D. A. G. K. Wijetunga, Additional Director of the Domestic Operations Department, was appointed as Acting Director of the Regional Offices Monitoring Department with effect from 17 June 2014 and subsequently he was appointed as Director of the same department with effect from 17 December 2014.
12. Mr. C. N. Wijayasekera, Additional Director of the International Operations Department, was appointed as Additional Director of the Supervision of Non-Bank Financial Institutions Department with effect from 17 June 2014 and subsequently he was appointed as Acting Director of the Centre for Banking Studies with effect from 29 August 2014.
13. Mr. M. I. Sufiyan, Chief Accountant of the Finance Department, was appointed as Secretary of the Central Bank with effect from 29 August 2014.
14. Mr. P. V. L. Nandasiri, Additional Chief Accountant of the Finance Department, was appointed as Acting Chief Accountant of the same department with effect from 29 August 2014.
15. Mr. A. A. M. Thassim, Additional Director of the International Operations Department, was appointed as Acting Director of the same department with effect from 29 August 2014.
16. Mr. T. H. B. Sarathchandra, Additional Director of the Statistics Department, was appointed as Additional Director of the International Operations Department with effect from 15 September 2014.
17. Mr. K. H. A. S. Ariyaratna, Acting Additional Director of the Centre for Banking Studies, was appointed as Acting Additional Director of the Statistics Department with effect from 15 September 2014.
18. Mrs. D. V. S. Dayawansa, Acting Additional Secretary of the Central Bank, was appointed as Acting Additional Director of the Regional Development Department with effect from 15 September 2014.
19. Mr. R. M. Jayawardena, Acting Additional Director of the Facilities Management Department, was appointed as Acting Additional Director of the Payments and Settlements Department with effect from 15 September 2014.

20. Mr. K. D. R. Piyatilleke, Acting Additional Director of the Regional Development Department, was appointed as Acting Additional Director of the Facilities Management Department with effect from 15 September 2014.
21. Mr. H. B. D. Karunaratne, Additional Director of the Supervision of Non-Bank Financial Institutions Department, was appointed as Additional Director of the Domestic Operations Department with effect from 31 December 2014.

15.7 Retirements

1. Mr. A. Kamalasinghe, Assistant Governor, retired from the Bank service with effect from 21 July 2014.
2. Mr. W. R. A. Dharmaratne, Director of the Financial Sector Research Department, retired from the Bank service with effect from 29 July 2014.
3. Mr. P. H. O. Chandrawansa, Controller of Exchange, retired from the Bank service with effect from 11 September 2014.

15.8 Officers on Release

1. Mr. K. D. Ranasinghe, Assistant Governor, to the International Monetary Fund as an Alternate Executive Director.
2. Mr. S. R. Attygalle, Assistant Governor, to the Ministry of Finance.
3. Mrs. K. M. A. N. Daulagala, Staff Class Grade IV officer, to the Ministry of Finance.
4. Mr. K. M. M. Siriwardana, Staff Class Grade IV officer, to the Ministry of Finance.
5. Mr. M. Mahinda Saliya, Staff Class Grade II officer, to the Ministry of Finance.
6. Mr. S. G. S. D. Jayasekera, Staff Class Grade II officer, to the Ministry of Defence.
7. Mr. S. J. K. Guruge, Staff Class Grade II officer, to the Ministry of Defence.
8. Mr. J. A. A. Priyantha, Staff Class Grade II officer, to the Presidential Secretariat.
9. Mrs. S. Ranasinghe, Staff Class Grade II officer, to the Ministry of Justice.
10. Mrs. H. S. S. Silva, Staff Class Grade II officer, to the International Monetary Fund.
11. Mr. J. N. Danthanarayana, Staff Class Grade I officer, to the Ministry of Defence.
12. Mr. S. P. Sedara, Staff Class Grade I officer, to the Ministry of Defence.
13. Mrs. H. M. N. S. Gunawardena, Legal officer (contract), to the Ministry of Finance.

15.9 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

2014 was a noteworthy year for the Information Technology Department (ITD) due to delivery of cutting edge, innovative, enterprise level applications that enabled CBSL to step up in its journey towards avoiding the middle income trap. Entrusted with the task of fulfilling the information and communication technology (ICT) needs of CBSL, ITD made its contributions under five broad areas as given below to improve productivity and efficiency of processes.

- i. Introduction of innovative products and services
- ii. Continuous enhancements of the ICT infrastructure
- iii. Contribution to projects of national interest
- iv. IT risk management
- v. Uplifting ICT skills

(i) Introduction of Innovative Products and Services

The ITD continued to provide innovative and cost-effective products and services enabling improvement of quality, productivity, efficiency and high availability of the business processes while providing support and maintaining all existing automated applications. Some of the major development projects that were undertaken during the year are as follows.

- Integrated General Ledger and Accounting System (iGLAS) to cater to the diverse and unique central banking accounting needs while complying with industry accepted best practices and standards. The quality of iGLAS was recognised at the National Best Quality Software Awards organised by the British Computer Society and at e-Swabhimani Awards organised by the Information and Communication Technology Agency.
- Application software upgrade of LankaSettle, the high value payment system, from CAS/CSS version 3.6 to CAS/CSS 3.7.
- A common database for debt instruments for the Public Debt Department to facilitate a repository of information and to centralise operations relating to primary issuances and placements of debt instruments.
- The regulatory Financial reporting system (FinNet) was enhanced with additional regulatory returns (reports), to comply with the International Financial Reporting Standards (IFRS). This serves the needs of Bank Supervision, Economic Research and Supervision of Non-Bank Financial Institutions Departments.
- New web services for EPF member contribution collection with real time data validation to speed up and increase the efficiency of the process.
- Staff payroll and loan recovery modules of Human Resource (HR) management System (eHRNet) to minimise manual operations, decentralise the tasks and eliminate duplication of work.
- Currency Inventory Management System (CIMS) to seamlessly manage the flow of currency between vaults and to provide an inventory of any currency denomination at any given time.

- Enhancements to Mansala, the e-meeting point of the CBSL, through the introduction of value-added features for self-accessing of personal information and help desk services for IT and Exchange Control Departments for better service delivery.

(ii) Continuous Enhancements of the ICT Infrastructure

The ICT infrastructure of the CBSL was maintained with a view to provide high service availability and enhancements were continuously introduced to meet evolving business and technology demands and industry standards. Accordingly,

- ITD has achieved 99.8 per cent system availability for the systemically important payment and settlement system and other critical systems.
- Servers used for SWIFT communication were replaced with faster and more responsive servers to deliver better performance and to handle the anticipated growth in volume of SWIFT messages.
- Corporate IT network was upgraded and standardised with a view to provide better service availability, reliability and scalability.
- The regional offices (ROO) were connected with the corporate network through a Virtual Private Network (VPN) allowing the ROO to engage in effective delivery of business functions, access corporate IT services and communicate with the head office through video conferencing facility. Further, internal computer networks at ROO were enhanced either through reorganising the existing wired networks or establishing Wi-Fi networks.
- Procurement process was finalised for renewing the existing enterprise agreement to implement enhanced features of the newest innovations in real-time collaboration, digital rights management, electronic communication, and desktop management using Microsoft products.

(iii) Contribution to Projects of National Interest

ITD continued to work as an effective catalyst for payment system reforms in the country by providing technical expertise for projects of national interest as per the road map of the National Payment Council. ITD officials contributed their technical expertise to the following national projects during the year:

- Common ATM Switch (CAS), Common Electronic Funds Transfer Switch (CEFTS), Common Mobile Payment Switch (CMobS) and Common PoS Switch (CPOS) under the Common Card and Payment Switch (CCAPS) project implemented by LankaClear (Pvt) Ltd (LCPL).
- Automation of the activities of the Inland Revenue Department.
- Procurement of the Integrated Treasury Management Information System (ITMIS) of the General Treasury and building interfaces between the CBSL information systems and ITMIS.

- Procurement of a new automated system for Credit Information Bureau (CRIB) with enhanced features.

(iv) IT Risk Management

Considering the importance of an effective IT risk management framework in establishing a risk conscious culture, the following measures were taken to proactively mitigate risk and strengthen the IT security within the financial sector.

- Baseline Security Standards (BSS) based on ISO/IEC 27000 series of international standards for information security management, which sets out a minimum acceptable level of information security, was introduced within licensed banks.
- Bank Computer Security Incident Response Team (BankCSIRT) was established as a centralised body to coordinate information security efforts under LCPL. BankCSIRT is governed by a steering committee representing CBSL, Sri Lanka Computer Emergency Response Team, LCPL and Sri Lanka Banks' Association.
- Information Security Management (ISM) was introduced as a new core function of ITD with a view to strengthen the security of CBSL information systems against possible cyber threats. Security tests of information systems of the CBSL were carried out using expertise available with the department's staff and observations were used to strengthen the security.
- Information Security Policy (ISP) version 2.3 and other relevant policy documents approved by the Monetary Board were reviewed and modifications and enhancements were incorporated into the ISP version 3.0 to ensure that the recent changes in the IT infrastructure and information security management function of the CBSL were properly addressed.

(v) Uplifting ICT Skills

ITD continued to enhance the knowledge of the ITD staff by providing opportunities for short term training as well as post graduate studies, both locally and abroad. Accordingly, 35 officers participated in short term training locally and 6 officers attended short term training programs abroad. Further, one officer commenced post graduate studies abroad.

ITD also released officers to the Centre for Banking Studies as resource persons and conducted departmental awareness sessions as and when necessary.

As a means of strengthening regional cooperation among the central banks, ITD disseminated their knowledge and expertise to visiting teams from Bangladesh Bank, Nepal Rastra Bank and Royal Monetary Authority of Bhutan.

The ITD compiled and distributed technical tips and videos through e-mail and on 'Mansala' (the e-meeting point) in order to uplift the technical knowledge of all employees of the CBSL.

17. INTERNAL AUDIT

The internal audit function has been in operation since 1951 in the CBSL. The mission, scope of work, accountability, independence, responsibility and the authority of the Director and the staff of the Internal Audit Department (IAD) have been included in the Internal Audit Charter. Audits were performed in line with the global standards and industry best practices.

A summary of the activities carried out by the Department during 2014 is given below.

17.1 Conduct of Audit Assignments

(a) Annual Audit Plan for 2014

The Annual Audit Plan (AAP) was prepared based on the Audit Universe of the CBSL. In this regard, the activities included in the Activity Based Costing System were reviewed. Accordingly, significant activities were selected for the AAP, covering all the clusters of the CBSL. Information Systems audits were also included in the AAP. The AAP was implemented with the approval of the Monetary Board Advisory Audit Committee (AAC).

(b) Internal Audit Procedure

Each audit engagement was carried out in four sequential steps, i.e., planning, performing, communicating and taking resolution actions. During the performing stage, audit evidences were gathered and documented. In line with global standards, four step process was followed for the communication of audit results; conduct of closing conference in order to get audit observations validated, communication of audit observations in writing, issuing of draft audit report and issuing of final report. Follow-up audits were also conducted at regular intervals to obtain assurances that the agreed audit recommendations were implemented by process owners.

(c) Reporting the Progress of the Conduct of Audits

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

17.2 Awareness Programmes and Provision of Training

An informative seminar on 'Cloud Computing' was arranged for the IAD staff in collaboration with an external expert. Further, internal presentations and knowledge sharing sessions were conducted regularly for the benefit of IAD staff. As requested by the Human Resources Department, the IAD continued to provide training on internal audit and related disciplines to graduates, undergraduates and the students of the Institute of Chartered Accountants of Sri Lanka in 2014.

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 IAD provided secretarial facilitation for the AAC.

As mandated, six (06) AAC meetings were conducted during the year. The progress of internal audit together with management responses to internal audit reports were reviewed by AAC.

17.4 Facilitation for External Audit

The Auditor General conducts the external audit of the CBSL 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, the Auditor General has appointed M/s. Ernst & Young, Chartered Accountants. Accordingly, the IAD provided technical inputs to the Secretary to the Monetary Board to gather required information, analyse the findings and handle correspondence.

18. INTERNATIONAL OPERATIONS

The Monetary Board has vested the responsibilities of international reserves management and monitors the domestic foreign exchange market in the International Operations Department (IOD). The legal framework for the international reserves management of Sri Lanka is specified in the Monetary Law Act (MLA), which provides for the composition of the international reserves and their maintenance, prescribes measures to preserve the external stability of the Rupee, outlines the scope of foreign exchange operations of the CBSL and the powers and responsibilities vested in the Monetary Board with respect to the management of the country's international reserves. Restrictions on asset types, counterparties, instruments and issuers are set out in Section 67 of the MLA. Apart from these provisions, the Monetary Board can act to widen the scope of reserves management activities to better achieve the reserves management objectives.

18.1 International Reserves Management

The IOD manages the investments of international reserves in accordance with the Foreign Reserves Management Guidelines approved by the Monetary Board, under the supervision of the Foreign Reserves Management Committee (FRMC) taking into consideration the safety, liquidity and return objectives. The international reserves, which are denominated in several major currencies, are mainly invested in fixed income securities (FIS), money market instruments and gold. The FIS portfolio is invested in highly rated government securities, government guaranteed securities, securities of government agencies

and supranational institutions. Further, FIS and money market transactions are performed with highly rated central banks, commercial banks and investment houses, which are counterparties approved by the management, paying due consideration to the strength and creditworthiness of the counterparty. Liquidity requirements, debt service payments, risk management parameters, income generating abilities and specific directions of the Monetary Board are the key factors considered in determining the asset and currency compositions of the foreign reserves portfolio.

2014 marked the first full year of policy divergence among major central banks following the global financial crisis. The Federal Reserve Bank (FRB) executed its tapering cycle during 2014 following improvements in economic fundamentals. Reserve management during the first half of 2014 was centered on the expectations of possible interest rate hikes by FRB and Bank of England (BOE). With these developments, gold prices fell sharply during the year. However, the plunge in oil prices, which began in June 2014 and continued for the remainder of the year exerted upward pressure on gold prices towards the latter part of the year. The drop in oil and commodity prices triggered deflationary pressures across the globe. Following these developments, the Bank of Japan (BoJ) expanded its monetary easing program, while the European Central Bank (ECB) began its own form of quantitative easing through purchasing of covered bonds and asset backed securities. Further, ECB announced a plan to buy government bonds beginning March 2015. People's Bank of China also entered the easing cycle with extended stimulus in late 2014. In this challenging environment, the international operations of the CBSL generated a realised foreign income of US dollars 173.3 million (approximately Rs. 22.9 billion) during the year 2014 through foreign currency trading, money market investments and capital gains and coupon income derived from fixed income securities.

As advanced economies continued their trek towards stimulating stagnant economies, the IOD initiated a process of building relationships among central banks within the Asian region. Accordingly, the CBSL signed investment agreements with People's Bank of China and Reserve Bank of India to enable further diversification of reserves management activities. CBSL also signed a bilateral currency swap agreement with People's Bank of China to facilitate rapidly growing bilateral trade and investments between the two countries.

18.2 Risk Management

The Middle Office of the IOD was instrumental in assessing the risks arising from the management of the international reserves portfolio, to ensure compliance with the established portfolio and risk management policies and parameters specified in the Foreign Reserves Management Guidelines. Risk profiles featuring the potentially damaging effects of a diverse array of risks were compiled on a regular basis to take cautious, yet decisive and timely actions. The returns

generated through active trading activities were weighed against the strategic targets and the passively managed benchmark portfolio to ascertain the effectiveness of reserves management strategies.

Given the high levels of uncertainty that prevailed during the year, brought about by the end of the tapering of QE3 by the FRB, and the unconventional monetary policies pursued by BoJ and the ECB, the international markets remained volatile. This posed a huge threat in completing the investment strategy developed for the year 2014. While some elements of the investment strategy were implemented, others had to be revised in the middle of the year to be in line with changing global economic and financial developments. Several new treasury management instruments were pursued including Bank for International Settlement Investment Product in Chinese Yuan as well as futures and options products for risk mitigation purposes.

Potential exchange rate or currency risks were identified and currencies were diversified in the emerging markets, including India and South Korea. Sensitivity analysis was used to gauge the risk exposure of the FIS portfolio to changes in interest rates. Exposures to short term depletion in the value of the FIS portfolio were estimated by using modified duration calculations while Value at Risk (VaR) computations were used to ensure that the risk was kept within the manageable levels.

Exposure to interest rate risk was reduced through mid-year revisions to the durations of the fixed income and money market investments, in view of the rising yields in the United States. International Swap and Derivative Association (ISDA) agreements were entered into with the Bank for International Settlements (BIS) and Barclays Bank PLC in order to facilitate Money and Capital market transactions and arrangements were made to sign ISDA with several other counterparties.

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. The system, which was set up in 2003, underwent a full revision during the year whereby counterparty evaluation and selection criteria, product eligibility and the limit framework were upgraded to accommodate better management of credit risk. Potential risks our counterparties are exposed to, were also captured through monitoring their Credit Default Swaps (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 honored in a timely manner. The strengthening of the verification processes and revisiting the investment guidelines have helped mitigate the exposure to operational risks arising from the live operations of the new trading system,

employees and processes that are in place to support the management of the international reserves.

18.3 Domestic Foreign Exchange Market Developments

During 2014, the IOD ensured smooth operations in the domestic foreign exchange market while curbing excess volatility in the exchange rate through continuous monitoring of its activities. Further, adherence by Licensed Commercial Banks (LCBs) to their stipulated limits on daily net foreign exchange positions was also monitored.

The daily net foreign exchange open positions of LCBs were revised upwards with effect from 01 July 2014 from US dollars 120 million to US dollars 189 million. This was done to provide more flexibility to LCBs in managing their foreign exchange transactions with the improvement in economic activities. At the same time, a new reporting format was introduced in collaboration with the Bank Supervision Department for the LCBs to report their daily net foreign exchange open positions. This was introduced with a view to obtain accurate and up to date information on their daily net foreign exchange open positions which is essential for management information reporting purposes. This also brought about operational efficiencies and reduced costs related to reporting activities. Total interbank foreign exchange transactions have picked up during the year to US dollars 15.5 billion level from US dollars 13.7 billion in 2013 (Table II - 17). However, transactions to settlement on Spot and Tom basis have slightly dropped while cash and forward settlements have increased markedly. Further, CBSL transactions with commercial banks indicated a net purchase position of US dollars 545 million (Table II - 18).

Table II - 17 Inter-Bank Foreign Exchange Transactions Volume - 2014

US\$ mn

Month	Spot	Tom	Cash	Forward	Total
January	249.20	230.75	182.25	524.41	1,186.60
February	213.35	176.85	198.58	521.36	1,110.14
March	266.28	243.14	292.13	465.62	1,267.16
April	319.80	219.50	194.52	453.40	1,187.22
May	389.28	275.20	269.10	593.73	1,527.30
June	339.78	279.10	259.45	531.39	1,409.71
July	629.44	299.38	263.38	780.14	1,972.33
August	320.25	214.20	259.30	533.89	1,327.64
September	181.90	272.18	288.05	534.91	1,277.04
October	215.15	178.68	221.30	548.08	1,163.21
November	166.80	121.55	148.03	561.38	997.75
December	188.06	148.25	89.00	626.33	1,051.64
Total	3,479.27	2,658.77	2,665.07	6,674.63	15,477.74

Source : International Operations Department, Central Bank of Sri Lanka

Table II - 18 Purchases and Sales of Foreign Exchange by the Central Bank - 2014

US\$ mn

Month	Purchases	Sales	Net Purchases/(Sales)
January	73.75	50.45	23.30
February	40.95	19.30	21.65
March	81.90	74.25	7.65
April	257.60	11.75	248.85
May	131.50	-	131.50
June	124.20	3.00	121.20
July	250.00	10.00	240.00
August	315.20	44.50	270.70
September	96.60	173.90	(77.30)
October	1.50	200.15	(198.65)
November	30.00	79.85	(49.85)
December	4.00	195.10	(191.10)
Total	1,407.20	862.25	544.95

Source : International Operations Department, Central Bank of Sri Lanka

19. PAYMENTS AND SETTLEMENTS

In terms of Section 62A of the Monetary Law Act (MLA), the Central Bank is entrusted with the responsibility of establishing and operating systems for transfer of funds, settlement of payment obligations and issuance of system rules to participating institutions. In addition, the Central Bank is responsible for implementation of the provisions of the Payment and Settlement Systems Act, No. 28 of 2005 (PSSA). The Payments and Settlements Department (PSD) was established in 2002 to undertake the responsibilities of the Central Bank under MLA and later the PSSA. Main functions of the PSD are; operation of the Real Time Gross Settlement System, providing back-office service for financial transactions, management of the SWIFT Communication System, facilitating transactions under the Asian Clearing Union, policy formulation and oversight of Payment and Settlement Systems. A summary of the main functions performed by the PSD during 2014 is given below:

19.1 Operation of the Real Time Gross Settlement (RTGS) System

RTGS System settles time critical large value inter-participant payments on real time gross basis and facilitates the provision of the Intraday Liquidity Facility (ILF) to the Participating Institutions (PIs) to ensure smooth functioning of the RTGS System. PIs of the RTGS System are the Central Bank, licensed commercial banks, non-bank primary dealers, Employees Provident Fund and Central Depository System of the Colombo Stock Exchange. As at end 2014, the number of PIs were 36. During the year, the total number of transactions settled by the RTGS System was 317,940 with a total value of Rs. 59,551 billion. The ILF provided as against collateral of Government Securities amounted to Rs. 5,144 billion. Adhering to the international best practices, the RTGS system availability was maintained at 99.79 per cent.

19.2 Providing Back-office Service for Financial Transactions

(a) Back-office Service for Foreign Exchange Transactions

During 2014, back-office service provided to facilitate international reserve management of the Central Bank covered the following:

- (i) Settled 22,229 transactions relating to foreign exchange trading and funding, money market activities, fixed income securities, gold trading, Asian Clearing Union transactions and repo/reverse repo transactions amounting to US dollars 466 billion
- (ii) Extended services to new products such as interest rate Swaps, future-contracts, OTC currency options, unit trust products and floating rate bonds

(b) Back-office Service for Open Market Operations

The back-office functions of open market operations facilitated the management of the liquidity requirements of the LankaSettle participants. During 2014, PSD effected and facilitated 2,832 repo transactions amounting to Rs. 4,279 billion, 3,451 Standard Deposit Facility transactions amounting to Rs. 4,340 billion and 17 Standing Lending Facility transactions amounting to Rs. 13.75 billion.

19.3 Management of the SWIFT Communication System

SWIFT is the communication platform for exchanging payment instructions and other relevant information in financial transactions in a safe and secure environment. During 2014, total SWIFT messages sent and received were 1,641,947 and 866,570, respectively, facilitating domestic and foreign exchange transactions of CBSL. Servers used for SWIFT system were replaced and a new version of application was introduced for enhancing efficiency in line with international standards.

19.4 Facilitating Transactions under the Asian Clearing Union

The Asian Clearing Union (ACU) is the mutual arrangement for payments and settlements of international trade transactions among nine Asian member countries. During 2014, PSD facilitated 6,222 transactions amounting to the value of Rs. 343.8 billion through the ACU mechanism. The value of net settlements made under the ACU mechanism was Rs. 287.4 billion. The 43rd meeting of the ACU Board of Directors was held in Iran in May 2014 and the Deputy Governor and the Director of PSD participated at the meeting as a Director of the Board of Directors and the Alternate Director, respectively.

19.5 Policy Formulation and Oversight of Payment and Settlement Systems

The PSD continued its regulatory and oversight activities to ensure security and efficiency of the electronic retail payment systems while strengthening the business continuity

arrangements to ensure smooth functioning of payment and settlement systems. Accordingly, the following major activities were carried out by PSD during 2014.

- (i) Applications submitted by 6 institutions were evaluated and licences were issued to them to function as service providers of payment cards as per the provisions of the Payment Cards and Mobile Payment Systems Regulations No. 1 of 2013.
- (ii) A mobile telephone network operator (MTNO) that had been authorised to provide mobile phone based e-money services was granted approval to offer respective services to subscribers of other MTNOs as well.
- (iii) The approval was granted to extend single purpose stored value transport card and fare collection system operated in the Western Province by a MTNO to other transport service sectors. Accordingly, respective services shall be provided to Sri Lanka Transport Board, North Central Province Transport Authority, inter-provincial private transport services of the National Transport Commission and for toll collection in expressways operated by the Road Development Authority.
- (iv) All financial acquirers (entities that make arrangements with merchants to accept payment cards as a means of payment) were instructed to take necessary action to stop double swiping of payment cards by merchants. This instruction was intended for customer protection as the practice of merchants swiping payment cards at their own devices in addition to swiping at the POS machines of the respective financial acquirers could lead to unauthorised use of cardholder data stored in payment cards.
- (v) Assistance was provided to establish the sub-switches of the Common Card and Payment Switch (CCAPS) by LankaClear (Pvt) Ltd. in order to implement a nation-wide common platform for electronic retail payment systems. Accordingly, PSD facilitated the establishment of the Common Electronic Fund Transfer Switch (CEFTS) to provide a common infrastructure to settle payments effected through multiple electronic payment channels such as ATM, internet banking, mobile phone banking and kiosks. In this regard, following directions were issued.
 - (a) The General Direction No. 1 of 2014 on Fees Chargeable on the Transactions effected through the Common ATM Switch was issued replacing the General Direction No. 2 of 2013 on Fees Chargeable on the Transactions effected through the Common ATM Switch.
 - (b) The General Direction No. 2 of 2014 on Operations of the CEFTS stipulating prudential and obligatory requirements to LankaClear (Pvt) Ltd. and members of the CEFTS.

- (vi) Carried out off-site surveillance to ensure compliance of the service providers with the Credit Card and Mobile Payment Guidelines in order to protect customers by providing secure and reliable payment systems to carry out day to day retail payments.
- (vii) Evaluation of the Business Continuity Plans of the LankaSettle participants and LankaClear (Pvt) Ltd. in order to ensure their readiness to continue business operations in an emergency.

19.6 Public Awareness

PSD continued to publish the quarterly "Payments Bulletin" on the Central Bank website for dissemination of information on payment and settlement systems in the country. Further, PSD conducted 11 awareness programmes on a needs basis to educate the officers of regional central banks, general public and the banking community on payment systems and other related issues.

20. POLICY REVIEW AND MONITORING

The Policy Review and Monitoring Department (PRMD) is responsible for coordinating the preparation of the Strategic Plan, monitoring the progress of the implementation of the Strategic Plan and conducting policy reviews and studies on policy measures adopted by the Central Bank.

20.1 Coordinating the Strategic Planning and Monitoring Process

The Strategic Plan for 2014- 2018 under the theme 'Step Up-Avoid the Trap' was launched at the Work Commencement Ceremony on 01 January 2014. Thereafter, workshops were held to create awareness among the bank staff on the goals and strategies of the departments as well as the mechanisms to be adopted to achieve the strategic objectives and the key performance indicators (KPI) used to measure the progress of the implementation of the Strategic Plan.

Review meetings were held every quarter with the departments to monitor the progress of the Strategic Plan and the progress was reported to the Strategic Plan Review Committee (SPRC). The recommendations and suggestions made by the SPRC were communicated to the departments for necessary action. In 2014, the departments and provincial offices recorded an achievement of 97.6 per cent of the work assigned under the Strategic Plan for 2014-2018.

20.2 Organising the Strategic Planning Retreat

The ninth Strategic Planning Retreat was organised by the PRMD in October 2014. The retreat was attended by members of the Monetary Board, the corporate management team, heads of department and selected staff and members of the consultative committees. The performance of the Strategic Plan of 2014-2018 during the first three quarters of the year was reviewed and the Strategic Plan for the six year period 2015-2020 under the

new theme '7k+@2020.sl' was formulated. The Strategic Plan 2015-2020 envisages achieving a per capita income of over US dollars 7,000 by 2020.

20.3 Conducting Policy Reviews and Studies

During the year, the PRMD produced a booklet titled 'Objectives, Functions & Organisation' of the Central Bank of Sri Lanka. Further, the PRMD was involved in several policy related studies such as 'A Proposal for a Credit Guarantee Corporation and Credit Guarantee Scheme', 'Determinants of Export Performance', 'Financial Sector Laws' and 'Export Sector Developments in Sri Lanka: Trends and Challenges'. The staff of PRMD also engaged in knowledge sharing sessions by conducting presentations and discussion on topics such as 'Dividend Policy', 'Global Age Watch Index', 'Financial Inclusion' and 'Sri Lankan Supply Chains'.

The e-Policy and Procedure Library, which provides an electronic collection of policy related materials continued to be updated with 776 documents now available in the library.

21. PUBLIC DEBT

The Public Debt Department (PDD) was established on 28 August 1950, at the inception of the Central Bank of Sri Lanka to discharge statutory responsibilities of the Central Bank as agent of the government for management of public debt in terms of section 113 of the Monetary Law Act. Major functions of the PDD are the raising of funds to meet the gross borrowing requirement of the government as stated in the Appropriation Act, timely payment of debt service obligations, facilitation of smooth functioning of settlement of Government Securities through LankaSecure system and maintenance of Title Registry in Government Securities on real-time basis in the Central Depository System (CDS). In addition, PDD also engages in development of debt markets and regulation and supervision of PDs in terms of Local Treasury Bills ordinance and the Registered Stock and Securities Ordinance to ensure safety of investors of Government Securities and stability of the Primary Dealer (PD) system.

21.1 Raising of Funds to Meet the Government Gross Borrowing Requirement as Specified in the Appropriation Act.

In 2014, PDD raised funds from domestic and foreign sources mainly through the issuance of Treasury bills (T-bills), Treasury bonds (T-bonds), Sri Lanka Development Bonds (SLDBs) and International Sovereign Bonds (ISBs) for financing the government's gross borrowing requirement. A summary of such financing activities under the said instruments is given below:

- (a) **Treasury Bills:** The face value of total T-bill issuances in 2014 amounted to Rs.1,121.7 billion. These issuances were made mainly through weekly primary auctions. Total foreign investments in T-bills, including the reinvestments, amounted to Rs.55.4 billion in 2014. Total T-bill

maturities for the year 2014 amounted to Rs.1,145.5 billion. Accordingly, T-bills amounted to Rs.23.8 billion were retired by using funds raised through the issuance of medium to long term T-bonds.

- (b) **Treasury Bonds:** The face value of total T-bond issuances in 2014 amounted to Rs.860.7 billion. These issuances were made through 15 primary auctions and direct issuance basis. T-bonds amounting Rs.470.8 billion matured during the year. Issuance of 30-year T-bond continued in the year under review. In 2014, gross investments by foreigners in T-bonds amounted to Rs.401.7 billion.
- (c) **Sri Lanka Development Bonds:** SLDBs amounting to US dollars 731.5 million were issued in 2014. SLDBs totaling US dollars 571.0 million matured during the year.
- (d) **International Sovereign Bonds:** In 2014, ISBs amounting to US dollars 1,500 million were issued in two auctions, one in January 2014 for US dollars 1,000 million and the other in April 2014 for US dollars 500 million in line with the overall government borrowing programme of the year.

Financing strategies in view of the prevalence of low and stable interest rate environment in 2014 enabled PDD to actively opt to issue long term debt instruments to expand the Average Time to Maturity (ATM) of the outstanding domestic debt stock to 5.75 years by end 2014 from 4.82 years at end 2013. During 2014, issuance strategy of T-bonds tilted in favour of issuance of premium bonds to offset the negative carry of outstanding bonds issuance in the past at deep discounts. Also, by way of successful regular issuances of longer term T-bonds in the primary market, the longer end of the yield curve was not only activated but also lengthened which in turn was influential in eliminating the anomalies between the primary and secondary market yield curves for Government Securities and enabled effective benchmarking during 2014.

21.2 Servicing of Public Debt

Total debt service payments made in the year amounted to Rs.1,076.3 billion that consist of domestic debt of Rs.777.5 billion and foreign debt of Rs.298.8 billion of the government.

21.3 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 the LankaSecure system. The total value of holdings in scripless securities in LankaSecure amounted to Rs.4,092.0 billion as at end December 2014.

Two new participants, Cargills Bank Ltd and Perpetual Treasuries Ltd were appointed as dealer direct participants of LankaSecure during 2014, increasing the number of dealer direct participants to 33.

21.4 Maintenance of the Title Registry in Government Securities

Facilitation of the real-time updating of the Title Registry of Government Securities in the CDS maintained at PDD helped in enhancing liquidity and secondary market activities in Government Securities. The process of efficient and accurate recording of the changes in titles of Government Securities and sending periodic statements to the account holders in CDS on their holdings, transactions and payments were further improved in 2014 with the commencement of sending periodic statements in the electronic form through e-mail in place of printed statements for account holders who opted for such facility. PDD sent 1,786 e-statements from April to December 2014 and 25,740 semiannual statements of holdings, 70,126 monthly statements of transactions and 52,620 payment statements by mail to the account holders of CDS. Furthermore, investors in Government Securities were provided with the facility to view their updated securities accounts online through internet account verification facility of "LankaSecureNet". The total number of registered account holders of CDS stood at 86,944 as at end December 2014.

21.5 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 2014 with the following measures:

- (a) Standardisation of documentation for market repurchase/reverse repurchase transactions, i.e. the Master Repo Agreements (MRAs) and Customer Agreements (CAs) in consultation with the Association of Primary Dealers (APD), legal consultants and other stakeholders, with a view to safeguard the investors and PDs.
- (b) Implementation of the Customer Charter with a view to further improve the quality and content of dispensing Customer service to ensure meeting the demands and expectations of the investors in Government Securities.
- (c) Taking further steps to introduce a Central Counter Party (CCP) and an E-trading Platform to trade Government securities. PDD has been working closely with the Securities and Exchange Commission (SEC), Colombo Stock Exchange (CSE) and PDs to introduce enhancements to CSE's E-trading platform to trade Government securities. A Consultant cum Project Manager has been appointed with CSE taking a lead role in driving this project, and market studies phase has started already.

21.6 Regulation of Primary Dealers in Government Securities

PDD continued regulation and supervision of Primary Dealers in Government Securities (PDs) in 2014, in terms of the Local Treasury Bills Ordinance and the Registered Stock

and Securities Ordinance, with a view of ensuring stability of the PD system and the safety of investors in Government Securities. A summary of regulatory actions taken by PDD in 2014 is given below.

(a) Prudential Regulation

With a view of further strengthening the stability of the PD system and the safety of investors in Government Securities, more emphasis was given for assessing the compliance of each PD with the regulations and directions issued by CBSL, action taken to fill the identified gaps between such regulations and directions and operating systems.

(b) Examination of Primary Dealers

PD's exposure to various risks (market, liquidity, operational etc.) and adequacy of resources to mitigate any residual risks were assessed during the on-site examinations. Accordingly, fifteen risk-based on-site examinations were completed in 2014. Time bound action plans have been put in place to rectify the remaining supervisory concerns highlighted in such examination reports. The progress of the rectification of regulatory concerns was monitored through quarterly reports received from respective PDs.

(c) Off-site Surveillance

PDD continued to engage in off-site surveillance of PDs through FInNet System, which is an online monitoring mechanism of the financial soundness and operational performance of individual PDs as well as the industry as a whole. Prompt corrective actions were taken by PDD, as and when necessary, based on the findings of such monitoring action. Many improvements were also introduced to the FInNet System in order to enhance the effectiveness of financial reporting by PDs.

(d) Regulatory Approvals

During 2014, Union Bank of Colombo PLC was appointed as a PD in Government Securities, increasing the total number of PDs to 16 by end 2014.

(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 2014. These meetings served as the forum for exchanging of views on the 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.

21.7 Ensuring the Availability of International Sovereign Rating

The Central Bank of Sri Lanka 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 considering rating as a direct function of 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 2014.

Annex II-2	Primary Dealers in Government Securities (in alphabetical order)
1.	Acuity Securities Ltd
2.	Bank of Ceylon
3.	Capital Alliance Ltd
4.	Commercial Bank of Ceylon PLC
5.	Entrust Securities PLC
6.	First Capital Treasuries Ltd
7.	NatWealth Securities Ltd
8.	NSB Fund Management Co. Ltd
9.	Pan Asia Banking Corporation PLC
10.	People's Bank
11.	Perpetual Treasuries Ltd
12.	Sampath Bank PLC
13.	Seylan Bank PLC
14.	The Hongkong and Shanghai Banking Corporation Ltd
15.	Union Bank of Colombo PLC
16.	WealthTrust Securities Ltd

22. REGIONAL DEVELOPMENT

The Regional Development Department (RDD) was established in January 2002 by amalgamating hitherto existing two departments of Rural Credit Department and Development Finance Department, with the main objective of supporting the policies to achieve balanced growth and promoting financial inclusiveness in the country by implementing refinance schemes and administering credit guarantee schemes through Participating Financial Institutions (PFIs). Loan schemes, which provided either refinance facilities or interest subsidy to PFIs, were directed to the Agriculture and Animal Husbandry, Small and Medium Enterprises (SMEs) and Microfinance and other sectors.

During the year, policy decisions were taken by RDD to revise the rates of interest and the maximum loan amount that could be granted under several loan schemes. Under the task of enhancing awareness and improving skills among beneficiaries of loans and the public, the Department conducted a series of awareness building programmes using print, electronic and broadcast media.

During 2014, 14 credit schemes were implemented and coordinated by RDD (Table II-19). Of these schemes, three were implemented targeting the Agriculture and Animal Husbandry sector while 6 credit lines were for the Small and

Medium Enterprise (SME) sector. The balance 5 schemes were intended for the Microfinance and other sectors. These credit schemes and credit supplementary services were funded by the Government of Sri Lanka (GOSL), the Central Bank of Sri Lanka (CBSL), donor agencies and PFIs. A brief account of the performance of loan schemes implemented by RDD is given below.

22.1. Agriculture and Animal Husbandry Sector

The Sarusara or New Comprehensive Rural Credit Scheme (NCRCS) and the Commercial Scale Dairy Development Loan Scheme (CSDDL) continued to be the major schemes operated to provide credit to this sector.

- The provision of credit facilities through NCRCS was instrumental in increasing agricultural produce available in the market, which in turn helped maintain the food prices at reasonable levels. The Commercial Scale Dairy Development Loan Scheme (CSDDL) continued to provide financial assistance to all dairy related activities including farm development, processing, transportation, storing and marketing. The Scheme intended to support achieving the target of self-sufficiency in milk in Sri Lanka.
- The total loans disbursed under these two schemes amounted to Rs. 7,700 million, which accounted for 48.3 per cent of total disbursements extended under all credit schemes operated by the Department.
- Under NCRCS, the total value of loans disbursed among 86,143 farmers amounted to Rs. 6,749 million to meet their working capital requirements in 2014. However, NCRCS recorded a decline of 17 per cent in terms of value of loans and 11 per cent in terms of the number of loans, due to adverse weather conditions experienced in 2014. Of this amount, Rs. 4,338 million was disbursed among 54,527 farmers during the 2013/2014 Maha season while the balance Rs. 2,411 million was disbursed among 31,616 farmers during the Yala season.
- Jaffna District received the highest amount of agriculture loans disbursed under NCRCS (19 per cent), followed by Anuradhapura (14 per cent), Hambantota (10 per cent) and Ampara (10 per cent) districts.
- In order to carry out cultivation without any disruption, RDD rescheduled the loans obtained by farmers, who were adversely affected by bad weather conditions.
- With effect from June 2014, the interest rate applicable to loans granted under NCRCS was reduced from 9 per cent to 7 per cent in line with the market trends and the maximum loan amount was increased to meet the increased cost of cultivation.
- Under CSDDL, Rs. 951 million was disbursed among 604 dairy farmers and dairy entrepreneurs during the year. The spread of foot-and-mouth disease among cattle in several districts since the beginning of 2014

and restrictions imposed subsequently on dairy farming activities by the respective authorities had an adverse impact on the credit demand under CSDDL.

22.2 SME Sector Development

RDD continued to provide financial assistance to SMEs by disbursing Rs.5,254 million loans to 27,675 borrowers through six credit schemes during 2014.

- "Saubhagya", the main credit scheme that provided loans through PFIs to SME sector covering the entire island, disbursed Rs. 3,280 million among 13,590 entrepreneurs. When providing loans under the Saubhagya credit scheme, special attention was paid to new and innovative businesses and women and graduate entrepreneurs.
- Considering the low interest rates in the market, the rate of interest for the loans granted under the Saubhagya scheme was reduced from 9 per cent to 8 per cent, with effect from 05 December 2014.
- The Self-Employment Promotion Initiative Loan Scheme (SEPI), which provided loans to youth, who had obtained vocational training qualifications from specified accredited technical institutions to commence small scale enterprises, disbursed Rs. 49 million during the year.
- The Awakening North Loan Scheme (ANLS) - Phase II and the Loan Scheme for the Resumption of Economic Activities in the Eastern Province (REAEP) - Phase III disbursed Rs. 1,719 million SME loans to 11,546 borrowers during 2014. REAEP - Phase III was terminated on 16 October 2014, after its successful implementation for about five and half years.
- Further, the Small Holder Plantation Entrepreneurship Development Programme (SPEnDP) and the Dry Zone Livelihood Support and Partnership Programme (DZLiSPP) together disbursed Rs. 205 million to 2,317 borrowers during the year.

22.3 Microfinance and Other Sectors

With a view to broadening the financial outreach among the masses and promoting poverty alleviation, the CBSL continued to cater to the segment of low income earners by implementing four credit schemes namely, Poverty Alleviation Microfinance Project II (PAMP II), Poverty Alleviation Microfinance Project II - Revolving Fund (PAMP II-RF), Poverty Alleviation Microfinance Project - Revolving Fund (PAMP-RF) and Small Farmers Landless Credit Project - Revolving Fund (SFLCP-RF) for the Microfinance sector during 2014.

- These 4 schemes together disbursed loans amounting to Rs. 2,674 million among 44,744 beneficiaries during the year. Of the total disbursements, 33 per cent of loans were granted for the Small Industries and 30 per cent was for the Agriculture sector, followed by Trade (17 per cent) Services (14 per cent) and Livestock and Fisheries (5 per cent) sectors.
- Under the special loan scheme for Repair of Damaged Houses in the North and East, loans

Table II-19

Lending Programmes Implemented by the Regional Development Department in 2014

Amounts in Rs. mn

	Name of the Project	Source of Funds	Broad Mission	Total Fund Allocation	Funds Disbursed in 2014	Balance to be Disbursed	Annual Interest Rate to Borrowers (by the year end)
1	Agriculture and Animal Husbandry Sector						
1.1	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 modernizing tea factories to obtain HACCP* certification.	1,100	13	161	9%
1.2	New Comprehensive Rural Credit Scheme (NCRCS)	PFI's own funds and Govt. 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	6,749	N.A.*	7%
1.3	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 promoting commercial scale dairy farms.	Depends on the demand for funds	951	N.A.	6%
2	Micro, Small and Medium Enterprises Sector						
2.1	Self-Employment Promotion Initiative Loan Scheme (SEPI)	GOSL	To provide financial assistance to youth trained by recognized vocational training institutions.	250	49	48	9%
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.	2,157	719	81	9%
2.3	Resumption of Economic Activities in the Eastern Province Loan Scheme – Phase III (REAP-Ph III)	CBSL	Enhancing living standards of Eastern Province community by financing existing and new income generating activities.	1,000	1,000	Concluded	9%
2.4	The Prosperity Loan Scheme ("Saubagya")	CBSL	To start up or expand any micro, small and medium scale enterprise (MSME) or any MSME affected by disasters.	11,234	3,280	Fully utilized	8%
2.5	Small Holder Plantation Entrepreneurship Development Program (SPeNDP)	IFAD*	Improving the livelihood of marginalized 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.	474	90	130	9%
2.6	Dry Zone Livelihood Support and Partnership Programme (DZLiSPP) - Revolving Fund	GOSL	Poverty alleviation and assisting in income generation among the poor farmers in the districts of Monaragala, Kurunegala, Badulla and Anuradhapura.	253	115	14	10%
3	Microfinance and other Sectors						
3.1	Small Farmers & 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.	346	234	Recoveries will be revolved	12% - 14%
3.2	Poverty Alleviation Microfinance Project – Revolving Fund (PAMP-RF)	GOSL	Poverty alleviation through promotion of income generating activities and organizing low income groups to link them with formal banking system.	1,031	401	Recoveries will be revolved	12%
3.3	Poverty Alleviation Microfinance Project II (PAMP II)	GOSL JICA*		2,000	246	-	12%
3.4	Poverty Alleviation Microfinance Project II-Revolving Fund (PAMP II - RF)	GOSL		2,764	1,792	Recoveries will be revolved	12% - PFI to borrower 14% - OPA* to borrower
3.5	Repair of Damaged Houses in the North and East	CBSL	To provide credit facilities for repairing the damaged houses those were damaged during the conflict in the Northern and Eastern Provinces.	600	304	Concluded	8%

* HACCP - Hazard Analysis and Critical Control Points

N.A. - Not Applicable

IFAD - International Fund for Agricultural Development

JICA - Japan International Cooperation Agency

OPA - On Lending Partner Agencies

amounting to Rs. 304 million were disbursed among 2,988 beneficiaries. This scheme was concluded on 27 October 2014, after the full utilisation of funds allocated for the scheme.

22.4. Credit Guarantee Scheme

- A Credit Guarantee scheme for Pawning Advances (CGSPA) was introduced by RDD on 17 June 2014. The purpose of this Scheme was to increase the credit growth in the Agriculture and SME sectors and reduce the risk exposure of PFIs due to the decline in gold prices. Under the CGSPA, pawning advances totaling Rs. 11,290 million was disbursed by Licensed Banks by end 2014.
- The rate of interest on pawning advances, which was initially fixed at 15 per cent per annum, was reduced to 12 per cent per annum on 09 October 2014. From January 2015, the operational period of the scheme was extended till end June 2015 and opened for the Licensed Finance Companies as well.

22.5 Awareness Building

A number of workshops and programmes, including the formation of Self Help Groups, educating them about financial management, entrepreneurship development, post-harvest technology and workshops for entrepreneurs, and programmes on Training of Trainers (TOT) were conducted by the Department to promote financial inclusiveness. Details of the programmes conducted by RDD are given in Table II - 20.

Table II - 20 Awareness Programmes Conducted by RDD during 2014

Type of Programme	No. of Programmes
Financial Literacy	81
Entrepreneurship Development	57
Training of Trainers (TOT sessions)	31
Project Appraisal Workshops	106
Post-harvest Technology	13
Radio Programmes	35
Television Programmes	8
Paper Advertisements	27

23. REGIONAL OFFICES MONITORING

In terms of section 33 of the Monetary Law Act, the Regional Offices Monitoring Department (ROMD) was established in 2009 with the objectives of formulating policies and programmes to be implemented by Regional Offices (ROs) of the Central Bank and monitoring the activities and performance of ROs. In 2014, 5 Regional Offices established in terms of section 7 of Monetary Law Act at Matara, Anuradhapura, Matale, Jaffna and Trincomalee were in operation. Major functions of ROs include coordinating and guiding banks and financial institutions on activities to enhance access to finance in the respective regions, conducting

awareness and financial literacy programmes among farmers, entrepreneurs and general public, providing institutional support to relevant Departments of the CBSL and arranging educational seminars to students and teachers at schools on economic, banking and finance subjects. Operations of ROMD and ROs during 2014 are summarised below.

23.1 Formulating Policies and Programmes for ROs

- Prepared programme calendars for all ROs based on Strategic Plan 2014-2018 and formulated Strategic Plan 2015-2020 for ROMD and all ROs.
- Designed a questionnaire to conduct a survey on Small and Medium Enterprises (SMEs) and a format for a provincial statistical booklet and finalised identification of a Panel of Experts in SMEs and prepared training modules on Financial Literacy programmes for stakeholders.
- Opening of New Branches and Restructuring Existing ROs – A policy decision was taken to establish three new ROs at Kilinochchi, Kegalle and Moneragala with a view to expand RO activities across the country and preparation was in the process to open new ROs in 2015. Accordingly, operating districts for ROs are as follows.
 - Regional Office, Matara - Galle, Matara and Hambantota
 - Regional Office, Anuradhapura - Anuradhapura, Puttlam and Kurunegala
 - Regional Office, Matale - Matale, Kandy and Nuwara-Eliya
 - Regional Office, Jaffna - Jaffna and Mullaitivu
 - Regional Office, Trincomalee - Trincomalee, Batticaloa and Polonnaruwa
 - Regional Office, Kilinochchi-Kilinochchi, Vavuniya and Mannar
 - Regional Office, Kegalle - Kegalle, Ratnapura, Gampaha, Colombo and Kalutara
 - Regional Office, Moneragala - Moneragala, Badulla and Ampara

23.2 Monitoring the Performance of ROs

The monitoring was based on daily activity reports, weekly advance reports and weekly and monthly progress reports submitted by ROs, meetings with Regional Managers (RMM) and visits of ROMD staff and the senior management to ROs.

23.3 Promoting Regional Development Activities

During 2014, ROs actively engaged in promoting Micro, Small and Medium Enterprises (MSMEs) sector in the respective regions through many initiatives such as promoting access to finance, transferring new technology, developing technical and entrepreneurial skills, introducing best practices, improving financial literacy, arranging marketing linkages and trade fairs, training on post-harvest technology and arranging exposure visits to meet

exemplary entrepreneurs. The programmes conducted for this purpose include 17 Micro, Small and Medium Enterprises (MSME) workshops for 1,389 entrepreneurs, 80 best practices programmes in agriculture for 3,677 agri-business enterprises and farmers, 43 skill development programmes for 2,030 SME entrepreneurs and farmers, 90 awareness programmes on CBSL credit schemes for 11,385 participants, 91 financial literacy programmes for 11,588 participants, 11 programmes with Panel of Experts for 1,823 participants and 12 exposure visits for 423 farmers and SME entrepreneurs.

23.4 Institutional Support to Other Departments of the CBSL

The ROs actively supported to carryout functions of several Departments of the CBSL at the regional level by way of conducting awareness programmes on clean note policy, identification of forged notes, unauthorised financial institutions and investment schemes, EPF related inquiries, exchange control regulations and educational seminars for GCE A/L students and teachers. Such awareness programmes covered the following.

- (i) 84 programmes on currency notes, clean note policy and identification of forged notes attended by 7,765 participants.
- (ii) 151 programmes on risk, on dealing with unauthorised financial institutions and prohibited schemes attended by 16,396 persons.
- (iii) 10 programmes on Government Securities attended by 952 participants.
- (iv) 49 seminars on Economic, Banking and Finance subjects for 5,722 G.C.E. (A/L) students and teachers.

24. SECRETARIAT

Secretariat Department (SD) is one of the first departments established at the inception of the Central Bank. The main functions of the SD are procurement of goods and services, formulation and implementation of leave policies, administration of superannuation funds, provision of travel and other general services, and provision of legal services.

- (a) **Procurement of Goods and Services:** In 2014, SD continued to facilitate efficient functioning of the CBSL through timely procurement of goods and services. The SD procured capital and non-capital goods and services amounting to Rs.173.9 million during the year mainly through tenders while assuring quality and timeliness under competitive prices. As in the past, procurement planning was continued further to monitor the procurement management process of the CBSL in order to streamline the timely supply of goods and services to user departments. As a result, the SD was able to complete 89 per cent of the total procurement requirements of the Bank for the year. In addition, the SD obtained a cost effective and comprehensive

insurance cover for all CBSL properties, including the Public Liability Insurance.

- (b) **Administration of Superannuation Funds:** SD administered the Central Bank Pension Scheme, Widows' and Orphans' Pension Fund (W & OP) and Widowers' and Orphans' Pension Fund (WR & OP). 82 employees retired under these schemes during 2014, and total number of pensioners was 2,108 at the end of the year.
- (c) **Provision of General Services and Implementation of Leave Policies:** SD provided 481 training allowances for foreign travels and trainings of employees and reimbursed 175 subscriptions made by employees to the recognised professional bodies in 2014. In addition, 465 approvals were granted to employees for private and official travels abroad.
- (d) **Conducting the Board of Survey (BOS) and Organising Events:** During the year, a Board of Survey (BOS) was conducted in CBSL Head Office for the disposal of obsolete and unserviceable office equipment, and the income amounting to Rs. 0.7 million was generated through this process. In 2014, the SD coordinated and organised various commemorative events such as New Year Work Commencement Ceremony and Long Service Awards, Independence Day Ceremony and the 64th Anniversary Oration to mark the establishment of CBSL.
- (e) **Provision of Legal Services:** Legal 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 confronting by the Bank, necessary assistance was provided by preparing suitable laws and by-laws in respect of the banking and financial sector.

25. SECURITY SERVICES

Security Services Department (SSD) with the co-operation of the Security Forces and Police continued to strengthen the security of the CBSL to protect its employees, buildings, properties, currency consignments in transit and collection of coins during the year. Strengthening of Security Services involved primarily in two areas, i.e. system improvement and training as summarised below.

25.1 System Improvement

(a) Centralised Integrated Access Control System

The process for installation of the latest Centralised Integrated Access Control System which was started in late 2013 with the assistance of Facilities Management Department and Information Technology Department continued to nearing completion.

(b) New Car Park : Fire Suppression System and Cargo Scanner

Installation of the fire suppression system for the CBSL new car park was commenced and is expected to be completed by second quarter of 2015. The cargo scanner was relocated at the new car park at CBSL head office. Operational fitness of all fire-fighting equipment located at head office and all other outside premises was checked, repaired and replaced on a regular basis.

(c) Radio Communication System

Radio communication system used for communication among the offices and cash transportation within the Colombo limit was upgraded and all radio sets were replaced with new radio sets to ensure uninterrupted communication.

(d) Card Counter/Reception

Action was taken to provide a facelift to the card counter/reception at the main entrance of the head office with the assistance of Facilities Management Department and the Communication Department was entrusted with reception duties during the normal office hours.

(e) Business Continuity Plan

SSD participated and co-operated in all Business Continuity Drills conducted by Payment and Settlement Department and Information Technology Department.

25.2 Training**(a) Fire Prevention, Fire Fighting and First Aid Programmes**

A two day comprehensive training programme on fire prevention, fire fighting, first-aid and disaster management was conducted for 90 fire-wardens selected from all Departments of CBSL with the assistance of Fire Services Department, St. John Ambulance and Disaster Management Centre. Further, a demonstration on fire-fighting and fire-drills was conducted for all employees at the head office with the assistance of Air Force and Colombo Fire Brigade. Six security officers selected from the SSD attended an advanced fire-fighting programme at CINEC Maritime Campus, Malabe.

(b) Skills and Competency Building

Two day residential programme for 30 security officers was conducted at the National Institute of Plantation Management in order to enhance the skills and competencies of the security officers on providing security for important locations, VIP handling, escort duties and public relations. Further, 7 staff class officers and 71 non-staff class officers attended various

technical and academic training programmes and workshops. One staff officer participated in a two day training on Business Continuity Planning and Risk Management in Malaysia.

(c) Weapon Handling and Live Firing

Weapon handling and live firing were conducted for all security officers with the co-operation of the Sri Lanka Army during the last quarter of the year.

26. STAFF SERVICES MANAGEMENT

The Staff Services Management Department (SSMD) 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, their registered dependents together with widows/widowers was approximately 10,200.

During 2014, SSMD granted 1,595 loans which included Housing Loans, Provident Fund Loans, Vehicle Loans, Computer Loans and other loans under the Staff Benefit Scheme. Those 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 effective supervision of loan disbursement to employees.

The CBSL restaurant continued to provide breakfast and lunch to the CBSL staff. New food items for breakfast, lunch and evening snacks were introduced at the restaurant. Further, the tea service/herbal drink provided by SSMD was supplemented with fresh milk served in the morning and evening. A survey was conducted on the demand for fresh milk and herbal drinks. Action was also taken to improve the environment of the restaurants and restaurant facilities during 2015.

SSMD continued to reimburse medical expenditure incurred by all registered beneficiaries under MBS. The total amount of reimbursement of medical expenditure increased by 8 per cent compared to the previous year. The medical facilities at the Medical Centre were made available to the 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. New equipment were provided to the Medical Centre at the request of the Medical Officer. During the year, SSMD conducted five awareness programmes to enhance the health related knowledge of the CBSL staff.

27. STATISTICS

In 2014, the Statistics Department fulfilled its main functions of forecasting and estimating of key macroeconomic variables using more sophisticated econometric modelling techniques, compiling price and wage indices and the Sri Lanka Prosperity Index. Estimating the Provincial Gross Domestic Product, conducting surveys to collect forward looking data to facilitate the monetary policy decision making process, processing data collected through the Country Wide Data Collection System (CWDCS), timely dissemination of statistics and information through publications and press releases, and contributing to improve Sri Lanka's position in key indices of global rankings were also completed during the year.

27.1 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) to facilitate the monetary policy formulation. Inflation projections are updated frequently to reflect the realised and perceived changes that 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 on analysis on price developments.

A range of inflation forecasting methods were used at the Department with different time frames. Short term Inflation forecasts were mainly based on recent price trends, and short term price movements associated with expected market developments. Medium to long term forecasts are derived with econometric techniques. The process of improving these forecasting methods continued through 2014, by incorporating new variables reflecting both supply and demand sides that impact on inflation.

Forecasts for the Gross Domestic Production (GDP) growth were prepared with sectoral composition on quarterly and annual basis using the primary and secondary data related to each sub-sector of the economy. The indicators related to sub-sectors of the economy were used in compiling indicator based forecasts, while econometric techniques were used for model based forecasts to improve the accuracy of the projections.

27.2 Compiling Price and Wage Indices

The Provincial Consumer Price Indices (PCPIs) 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 monitor price movements at provincial level. Price data used in compiling PCPIs were collected through the CWDCS which is maintained by the Department and other reliable secondary sources.

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 the CWDCS, and from other relevant government and private sector institutions.

Compilation of wage rate indices to assess the movements of salaries and wages in the economy was continued along with the introduction of two new indices. As in the previous years, the Department computed nominal and real wage rate indices for public sector employees and real wage rate indices for formal private sector employees. Informal private sector wage movements in agriculture and building construction sub-sectors were analysed based on daily wage information collected through the CWDCS. Considering the need to improve wage movement analyses, the Department introduced a new Public Sector Wage Rate Index, with greater representation of public sector employment and wage structure. In addition, an index to measure informal private sector wage movements was also introduced to assess wage movements.

27.3 Compiling the Sri Lanka Prosperity Index

The Sri Lanka Prosperity Index (SLPI) was first introduced in 2008 by the Central Bank in order to fulfill the need for a composite indicator to assess the overall status of prosperity in the country as a whole and also in each of its provinces. The SLPI is a multi-dimensional indicator reflecting the economic and social developments. The SLPI is comprised of three sub-indices, namely, Economic and Business Climate, Well-Being of the People and Social Infrastructure. The SLPI is compiled by the Statistics Department on annual basis and the last compilation was for 2013.

27.4 Estimation of the Provincial Gross Domestic Product

The Provincial Gross Domestic Product (PGDP) in nominal terms for 2013 was estimated by disaggregating the GDP estimated by the DCS. The information on PGDP is useful to the provincial authorities as well as the national planners of the central government to introduce and implement appropriate strategies to narrow down income disparities among provinces.

27.5 Statistical Surveys

Statistics Department initiated a quarterly Business Outlook Survey (BOS) from the second quarter of 2014 to assess future business conditions and to capture the short term market developments through qualitative indicators, which are useful in monitoring current economic situations and for forecasting future trends. Accordingly, this survey will serve as an early warning indicator. The target population of this survey was large scale enterprises covering all three sectors of Agriculture, Industry and Services. The sample was selected using judgmental sampling method with stratification based on sectoral contribution to the GDP. Data based on a standard questionnaire was collected

through face to face interviews and telephone interviews depending on the preference of the respondents. The survey was conducted during the last week of each quarter and first week of the succeeding quarter. Three rounds of the survey were carried out continuously during the year and Business Survey Indices (BSI) namely, Business Condition, Profitability, Skilled Labour Availability, Sales and Demand were computed based on the results of the survey and these results were presented to the MPC.

Recognising the importance of identifying areas which need improvements or policy changes to improve the Global Competitiveness Index (GCI) score, the Department outsourced a survey to an independent research firm which is similar to the World Economic Forum's (WEF) Executive Opinion Survey. This survey was carried out during the period from August to October covering 150 institutions representing all three sectors within the Western Province. The survey results were presented to the management to identify the areas that need reforms.

Survey on private sector credit conditions was initiated during the second half of the year to capture information relating to the developments in the credit market. Accordingly, two surveys namely, a Credit Demand Survey (CDS) and a Credit Supply Survey (CSS) were designed to capture the demand side and supply side developments, respectively. With regard to the CDS, the target population was Small and Medium Enterprises (SMEs) of the economy. The respective sample frame was developed through a list of institutions obtained from Employees' Trust Fund (ETF) and a stratified random sample was selected stratifying the sample frame into small enterprises and medium enterprises. Data based on a standard questionnaire is expected to be collected through face to face and telephone interviews or via e-mails. When considering the CSS, data through a standard questionnaire is expected to be collected through similar techniques as CDS, using a full enumeration of the target population which is all banking institutions of the country. The Statistics Department expects to conduct these surveys commencing from 2015 with semi-annual frequency.

The Department initiated a postal survey to collect information to assess recent business conditions experienced by the Pawn Brokering Industry in light of declining bank interest rates along with fluctuations observed in gold prices in 2014.

The Inflation Expectations Survey (IES) has been conducted by the Department on monthly basis since its introduction in 2006. 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 months period. The results of the survey on monthly basis were reported to the MPC and the MB.

The Annual Public Sector Employment Survey (APSES) is conducted to ascertain current developments in the level and trends of public sector employment in the country. As reported in APSES of 2013, government and semi government organisations which offer employment for greater than or equal to 1,000 excluding Provincial Councils (other than Colombo, Dehiwala and Kandy Municipal Councils) are selected as the sample of the Quarterly Public Sector Employment Survey (QPSES). The information collected through a QPSES is used by the department as a leading indicator to estimate GDP projection for the value addition of the Government Services sub-sector. Based on the survey findings, annual and quarterly analytical reports were prepared in 2014.

Moreover, information collected on the labour force and the labour market was analysed under the categories of employment, unemployment and foreign employment along with focus on labour relations, labour market reforms and labour productivity.

27.6 Country Wide Data Collection System (CWDCS)

The CWDCS continued its operations through an island-wide network of school teachers who function as statistical investigators. These statistical investigators submit 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 the CWDCS also utilises the service of 4 non-teacher investigators to report wholesale and retail prices from the Pettah Market, the Maradagamula Rice Market and the Dambulla and Narahenpita Special Economic Centers, on a daily and weekly basis. Considering the expansion of economic activities in the Northern and Eastern provinces, 4 new data collection centres were established in these regions in 2014. With this improvement, the system now covers 106 data collection centers.

The Department utilises data collected through the CWDCS for an array 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. The Department carries out regular on-site and off-site supervision of the data reported by the statistical investigators to ensure accuracy and timeliness of the data. Besides, accuracy of this data is further verified by using the price data collected directly from selected markets in the Colombo District. The supervision of data collection at selected centres in different provinces is carried out through the respective provincial offices of the Central Bank.

Following the usual practice, the data collection process was improved during the year, by introducing updated formats for data collection to accommodate economic activities and associated market developments that have emerged recently. The data format used for the Early Warning System (EWS) was

also revised during the year to make it more informative and user-friendly. The usual CWDCS regional seminars were conducted in Colombo, Matara, and Anuradhapura in 2014 as well to share experiences and to obtain feedback on diverse price developments across identified regions and to discuss issues relating to the operation of the programme. The seminars also provided the statistical investigators with educative sessions on current developments in the economy.

27.7 Improving Sri Lanka's Position in Global Rankings

Ease of Doing Business Ranking

During 2014, the Statistics Department carried out several key activities with a view to improve Sri Lanka's "Ease of Doing Business" ranking. These activities included organising a high level meeting with the participation of key stakeholders to articulate reform targets to improve the "Ease of Doing Business" ranking within the next 5 years. It intended to facilitate a World Bank Doing Business visiting mission to discuss with public and private officials who are working in areas related to the Doing Business indicators. Discussions with over 50 stakeholders were conducted in order to monitor the progress of achievement of set reform targets, timely dissemination of information to the World Bank Group on reforms implemented focusing on variables tracked in the compilation of Sri Lanka's "Ease of Doing Business" ranking. The World Bank recognised that during 2013/2014, Sri Lanka has implemented regulatory reforms in the areas of – Getting Electricity, Paying Taxes, Trading Across Borders and Protecting Minority Investors. As a result, Sri Lanka's "Ease of Doing Business" ranking improved in 2015 to the 99th position out of 189 countries compared to the rank of 105 in the previous year.

Other Global Rankings

Global Indices namely Worldwide Governance Indicators, The Global Competitiveness Index, Index of Economic Freedom, Human Development Index, Economic Freedom of the World Index and Corruption Perceptions Index were monitored continuously, and information regarding the current position of Sri Lanka was submitted to the management. Macroeconomic information and data were provided to the compilers of above mentioned indices on a weekly and monthly basis.

27.8 Dissemination of Statistics

The Statistics Department is responsible for disseminating a wide range of socio-economic data of current developments to policy makers, researchers, academics, professionals, students and the general public. The Department released its two main annual publications titled "Economic and Social Statistics of Sri Lanka 2014 – Volume XXXVI" for the third consecutive year in all three languages in April 2014 and "Sri Lanka Socio Economic Data Folder 2014 – Volume XXXVII" in June 2014. In addition, it also published the Weekly and Monthly Economic Indicators in 2014. The Department also contributed to two chapters of the

Central Bank Annual Report 2013 and Recent Economic Developments and made regular contributions to Monthly Bulletins. Further, the prices of selected food commodities obtained from the DCS were also reported weekly to the Ministry of Economic Development for policy purposes.

The Department's webpage - StaNet on the local area network and the CBSL website were also updated on a regular basis. In 2014, actions were initiated to develop an electronic database management system to store information obtained from the economic and price stability cluster to generate information for reports published by the Department. This information system will be available to other Departments through the intranet upon completion of this project.

28. SUPERVISION OF NON-BANK FINANCIAL INSTITUTIONS

The Department of Supervision of Non-Bank Financial Institutions (SNBFI) was established in 1988 to regulate and supervise finance business with the enactment of the Finance Companies Act No.78 of 1988 (FCA) replacing the Control of Finance Companies Act, No.27 of 1979. The SNBFI's operations are now governed by the Finance Business Act, No.42 of 2011 (FBA) which replaced FCA and became effective from 09.11.2011. The regulation and supervision of finance leasing business is also under the purview of SNBFI with the enactment of the Finance Leasing Act, No.56 of 2000 (FLA). The major functions of SNBFI include supervision of licensed companies through periodic on-site examinations and continuous off-site surveillance, granting regulatory approvals, formulating and implementing regulatory prudential requirements, investigating and taking legal action on companies conducting finance business without authority, conducting of public awareness programmes to educate general public on the risk of depositing with unauthorised financial institutions, attending to public complaints and facilitating Court proceedings relating to non-bank financial sector and unauthorised institutions. As at end 2014, there were 48 Licensed Finance Companies (LFCs) and 75 Registered Finance Leasing Establishments (RFLEs) comprising of 13 Licensed Commercial Banks (LCBs), 7 Licensed Specialised Banks (LSBs), 47 LFCs and 8 Specialised Leasing Companies (SLCs) in operation. The names of these LFCs and RFLEs are provided at the end of this report. Regulatory prudential requirements issued in 2014 are given in Part III of this report.

28.1 Supervision of LFCs/SLCs

(i) On-site Examinations

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 potential risks. During 2014, SNBFI conducted examinations

of 43 LFCs/SLCs. The examination reports and recommendations approved by the Monetary Board with time bound action plans for corrective actions were provided to the respective Boards of Directors. In addition, 9 LFCs/SLCs were examined on a limited scope basis concentrating on weaker areas.

(ii) Off-site Surveillance

Continuous off-site surveillance of all LFCs/SLCs was carried out by examining financial information received through periodic returns submitted by LFCs/SLCs. SNBFI identified potential risk areas through an 'Early Warning and Follow up System' and remedial actions were recommended to mitigate such risks. An internal supervisory rating system also has been implemented to rank LFCs based on their financial strength for supervisory monitoring. In addition, the progress of implementation of the time bound action plans incorporated in the on-site examination reports was evaluated on a quarterly basis to ensure that LFCs/SLCs take measures to address the respective concerns within the agreed timeframe.

(iii) Implementation of the Financial Sector Consolidation Programme

In terms of the proposal approved in the Budget 2014, the Monetary Board launched a regulator associated programme for mergers and acquisitions of LFCs/SLCs and Licensed Banks to consolidate the financial sector by removing small unviable institutions. Accordingly, the plan announced by the Central Bank was to reduce the number of LFCs/SLCs to around 20 from 58. In order to assist mergers and acquisitions on voluntary basis, the Central Bank allocated Rs.163 million to meet expenses involved in due diligence and valuation of institutions by the Central Bank approved audit firms. As at end 2014, the Central Bank released Rs.105 million for such services of 9 audit firms in respect of 39 institutions. The government provided a tax incentive for institutions involved in mergers and acquisitions. During 2014, 10 mergers and acquisitions involving LFCs/SLCs have been completed, whilst by end 2014, 22 LFCs/SLCs were in the process of merger/acquisition. However, this consolidation programme is under review by a committee appointed by the Government.

(iv) Resolution Actions on Weak Companies

Several companies confronted with liquidity crisis in latter part of 2008 consequent to public concerns on group/holding companies were under close supervision to restructure such companies in order to pay off deposit liabilities. During the year, SNBFI closely monitored the performance of the weak companies through regular meetings held with Boards of Directors, senior management, managing agents and prospective investors. The Central Bank granted Rs.6 billion funding

support through the Sri Lanka Deposit Insurance and Liquidity Support Scheme to a restructured LFC and reconstituted the Board of Directors of this company. Further, another weak LFC was capitalised by its parent company and the Board of Directors was reconstituted subsequently.

28.2 Granting of Regulatory Approvals

Regulatory approvals were granted to LFCs/SLCs to amend the Articles of Associations, invest in subsidiaries, issue debentures, increase share capital and outsource business operations. Further, approvals were granted for new appointments of Directors and officers performing executive functions after assessment of their fitness and propriety. During 2014, approvals were granted for opening of 75 new branches and Prime Grameen Micro Finance Ltd. was registered under FLA. Finance leasing licences of Lisvin Investments Ltd. and Koshiba Leasing Co. Ltd. were cancelled under FLA. No new licenses were issued under FBA.

28.3 Issue of Directions and Prudential Requirements

Maximum limit on rates of interest that could be offered by LFCs on time deposits, non-transferable certificates of deposits and debt instruments were revised. The details of this revision are given at Part I under the major economic policy changes and measures.

28.4 Investigation on Conduct of Finance Business without Authority

During 2014, SNBFI continued 24 investigations under section 42 of FBA on persons/institutions conducting finance business without authority. The Monetary Board determined one institution as carrying on finance business without authority and referred another institution to the Attorney General's Department to initiate legal action. Further, 4 investigations were closed as it was revealed that respective institutions had not engaged in unauthorised finance business.

28.5 Awareness Programmes

The meetings chaired by the Governor of the Central Bank with the Chief Executive Officers (CEOs) of LFCs/SLCs were held on a quarterly basis to exchange views on supervisory and prudential concerns. SNBFI conducted its annual Symposium for Directors and CEOs of LFCs/SLCs which mainly focused on the future regulatory outlook, the need for a new finance business model, importance of corporate governance and information systems management.

SNBFI conducted 20 public awareness programmes and broadcast 18 radio advertisements with the view to educate the public of the risk of investing in unauthorised financial institutions. Around 28,000 leaflets containing lists of Licenced Banks and LFCs with other useful information were distributed among the general public. Further, the list of institutions authorised to accept deposits was published in the newspapers in all three languages to enhance the financial literacy among the public.

Annex II-3

Licensed Finance Companies and Registered Finance Leasing Establishments Licensed with the Central Bank of Sri Lanka in Accordance with the Law (As at end 2014)

Licensed Finance Companies	
1. Abans Finance PLC	26. Lanka ORIX Finance PLC
2. Alliance Finance Co. PLC	27. MCSL Financial Services Ltd.
3. AMW Capital Leasing and Finance PLC	28. Melsta Regal Finance Ltd.
4. Arpico Finance Co. PLC	29. Mercantile Investments and Finance PLC
5. Asia Asset Finance PLC	30. Multi 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 & Finance PLC
9. Bimpuh Finance PLC	34. People's Merchant Finance PLC
10. BRAC Lanka Finance PLC	35. Prime Grameen Micro Finance Ltd.
11. Capital Alliance Finance PLC	36. Richard Peiris Finance Ltd. (formerly, Richard Peiris Arpico Finance Ltd.)
12. Central Finance Co. PLC	37. Senkadagala Finance PLC
13. Central Investments and Finance PLC*	38. Singer Finance (Lanka) PLC
14. Chilaw Finance PLC	39. Sinhaputhra Finance PLC
15. Citizens Development Business Finance PLC	40. Siyapatha Finance PLC
16. City Finance Corporation Ltd.	41. Softlogic Finance PLC
17. Commercial Credit and Finance PLC	42. Swarnamahar Financial Services PLC
18. Commercial Leasing & Finance PLC	43. The Finance Co. PLC
19. Deshodaya Development Finance Co. Ltd.	44. The Standard Credit Finance Ltd.
20. ETI Finance Ltd.	45. TKS Finance Ltd.
21. George Steuart Finance PLC	46. Trade Finance & Investments PLC
22. Ideal Finance Ltd.	47. U B Finance Co. Ltd.
23. Indra Finance Ltd.	48. Vallibel Finance PLC
24. Kanrich Finance Ltd.	
25. L B Finance PLC	
	* Managed by the managing agent appointed by the Central Bank of Sri Lanka and undergoing restructuring. In the meantime, deposit mobilisation has been suspended.
Registered Finance Leasing Establishments	
(A) Licensed Commercial Banks	3 Lankaputhra Development Bank Ltd.
1 Amana Bank PLC	4 MBSL Savings Bank Ltd.
2 Bank of Ceylon	5 Pradeshiya Sanwardana Bank
3 Commercial Bank of Ceylon PLC	6 Sanasa Development Bank PLC
4 DFCC Vardhana Bank PLC	7 Sri Lanka Savings Bank Ltd.
5 Hatton National Bank PLC	
6 MCB Bank Ltd.	(C) Specialised Leasing Companies
7 National Development Bank PLC	1 Assetline Leasing Co. Ltd.
8 Nations Trust Bank PLC	2 Co-operative Leasing Co. Ltd.
9 Pan Asia Banking Corporation PLC	3 Isuru Leasing Co. Ltd.
10 People's Bank	4 Laugfs Capital Ltd.
11 Sampath Bank PLC	5 LOLC Micro Credit Ltd.
12 Seylan Bank PLC	6 Merchant Bank of Sri Lanka PLC
13 Union Bank of Colombo PLC	7 Newest Capital Ltd.
	8 SMB Leasing PLC
(B) Licensed Specialised Banks	(D) Licensed Finance Companies listed above except Deshodaya Development Finance Co. Ltd.
1 DFCC Bank	
2 Housing Development Finance Corporation Bank of Sri Lanka	

28.6 Attending to Public Complaints

SNBFI mediated to resolve complaints received with regard to LFCs/SLCs from the general public. Such complaints were directed to respective LFC/SLC for resolution.

28.7 Facilitating Court Proceedings on Failed Financial Institutions

(i) Plan of Action for Golden Key Credit Card Company Ltd. (GKCC)

In terms of the judgement of the Supreme Court, the Central Bank was involved in supervision of repayment of deposits by GKCC. The Plan of Action prepared by the Central Bank to settle the Security Deposit Holders of GKCC was approved by the Supreme Court on 04 April 2013. Further, the Central Bank provided guidance to the Board of Directors of GKCC, monitored the progress of implementation of the Plan of Action by GKCC and reported to the Monetary Board of such progress on quarterly basis. A member from SNBFI was nominated

to the Supreme Court appointed task force to identify the assets of former Directors of GKCC. Further, SNBFI held quarterly progress review meetings with GKCC and reported the progress of implementation of the Plan of Action by GKCC to the Monetary Board. As at end 2014, GKCC has completed Phase I, II and III of the repayment plan and distributed Rs. 2,066.8 million approximately among 6,500 Security Deposit Holders.

(ii) Other Unauthorised Financial Institutions

SNBFI submitted a Plan of Action to the Supreme Court with respect to The Finance and Guarantee Property Developers Private Ltd. and F&G Real Estate Company Ltd. to facilitate repayments to depositors of these companies.

(iii) In addition, during the year SNBFI carried out work relating to Court proceedings of 14 cases out of which 2 cases were closed.