

the prime focus of financial management of the bank. Profits of the Central Bank are distributed in terms of the provisions of the Monetary Law Act and Board approved policies.

11.2 Preparation of the Annual Budget

The annual income and expenditure budget and capital budget of the Central Bank for the year 2017 were prepared in line with action plans under the strategic plan of each department of the Central Bank. This process started in August 2016 and was finalised in November 2016. The approval of the Monetary Board for the budget of the Central Bank was obtained in November 2016 and the budget was made available to the departments on the first day of 2017. Quarterly budgetary performance statements for the year 2016 were submitted to 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 2016 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 2016, the total payments were 4,457 which included 4,186 to local suppliers and 271 to foreign suppliers.
- iii. Nearly 2,752 disbursements amounting to Rs 692.8 bn to the General Treasury and relevant projects and 619 installments amounting to Rs 688.8 billion on repayment of foreign loans were made during the year 2016. In addition, 4 banking arrangements were signed with a foreign bank for projects.

11.4 Management of Internal Funds

- i. A separate unit was established under the FD and commenced operations in March 2016 to centrally manage the investments of Central Bank's internal funds (excluding EPF) as per the decision taken by the Monetary Board. Accordingly, all funds are invested under a Common Investment Policy by the FD and the respective owner Departments perform as the administrator of their funds. Fund Management governance system includes independently operating front office, middle office and back office and decisions are taken at the Investment Committee (IC) chaired by a Deputy Governor. The IC meets to advise and monitor the investments of funds. It had 12 meetings during the year 2016, and reported monthly to the Monetary Board for ratification of investments. Accordingly, FD manages 16 internal funds covering 7 superannuation funds of the staff and pensioners and 4 other funds administered by the FD, Deposit Insurance and Liquidity Support Fund administered by the Bank Supervision Department, 3 funds administered by the Staff Services

Management Department and project funds administered by the Regional Development Department.

- ii. The funds are invested mainly in government securities, fixed deposits in State Banks (Bank of Ceylon, National Savings Bank and People's Bank), high rated corporate debentures and short term reverse repos. The audited financial statements of these funds for 2015 were submitted to the Monetary Board as per the rules of those funds. As at end of 2016, total fund base increased to Rs.79.26 billion.

Table II - 18
Performance of Funds Management - 2016

Department	Rs. bn	
	Portfolio value as at 31st Dec 2016 (invested values)	Portfolio value as at 31st Dec 2015 (invested values)
Finance	48.90	45.80
Bank Supervision	27.21	16.99
Regional Development	3.09	3.04
Staff Services Management	0.06	0.06
Total	79.26	65.89

11.5 Maintaining Fixed Assets Register

FD maintained all records of the fixed assets of the Central Bank in the Fixed Assets Register in the fixed asset module of the General Ledger System. All changes such as new purchases and locations, change of locations, revaluations, depreciation and disposals were recorded in this register during the year 2016. The register was updated during the year 2016 with 1,187 items procured and 253 disposals.

11.6 Maintaining the Database of Staff Loans

FD continuously maintained the loan database of the Central Bank staff with the assistance of the Information Technology Department to facilitate the loan recovery record process and to supply information to employees and to the Management during the year 2016. 2,173 loans amounting to Rs 1.69 bn have been granted to the employees during 2016.

11.7 Other Operations - Procurement Process

According to the Rules of the Central Bank, the officers of the FD are required to attend all Technical Evaluation Committees and Tender Boards for procurement of goods and services and the Board of Survey. Nearly 259 Tender Boards and 57 Technical Evaluation Committees related to those procurements were attended during the year 2016.

12. FINANCIAL INTELLIGENCE UNIT

Financial Intelligence Unit (FIU) was established in 2006 under the Financial Transactions Reporting Act, No. 6 of 2006 (FTRA) as an independent statutory authority. The

FIU, for administrative purposes, has been functioning as a Department within the Central Bank of Sri Lanka since March 2007, in terms of an order made by the Minister of Finance under the FTRA. The key functions of the FIU include collection and receipt of information on financial transactions for the purpose of detecting possible links to Money Laundering (ML) and Terrorist Financing (TF) and other related unlawful activities defined in the FTRA, analysis of suspicious financial transactions relating to above mentioned unlawful activities and dissemination of information of such analyses to relevant law enforcement authorities for investigation. Furthermore, the functions of the FIU are also enforced under the Prevention of Money Laundering Act, No. 5 of 2006 (PMLA) and Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005 (CSTFA).

12.1 Receipt, Analysis and Dissemination of Information

FIU receives information on financial transactions, including suspicious transactions, from Reporting Institutions through a web-based system, "LankaFin", especially designed to assist in reporting on ML and TF. Licensed commercial banks (LCBs), licensed specialised banks (LSBs), licensed finance companies (LFCs), insurance companies, stock brokers (SBs) and money or value transfer service (MVTs) providers continued to report to the FIU on cash transactions and electronic funds transfers (both local and foreign) of Rs. 1.0 million and above each or its equivalent in foreign currencies. In addition, Suspicious Transactions Reports (STRs) were filed with the FIU by the Reporting Institutions in terms of Section 7 of the FTRA. Accordingly, over 9.07 million of cash/funds transfers and 759 STRs were reported during the year 2016. Moreover, Authorised Money Changers (AMCs) also reported their cash transactions exceeding the threshold amount through the Controller of Exchange who monitors and regulates the AMC sector. In 2016, the FIU disseminated 436 STRs to law enforcement and regulatory authorities.

12.2 Regulation of Reporting Institutions

With the issuance of the Financial Institutions (Customer Due Diligence) Rules, No. 1 of 2016 on 27 January 2016, Financial Institutions are required to identify, assess and manage ML and TF risks posed by their customers, products and services, delivery channels etc. and conduct ongoing customer due diligence based on the 'Risk-based Approach (RBA)'. In 2016, the FIU conducted an initial risk assessment of Financial Institutions in terms of the RBA, considering each institution's inherent risks and risk mitigation process. Financial Institutions were categorised into three groups based on their risk levels identified through this assessment and accordingly 13 examinations were conducted under the RBA during 2016.

12.3 Domestic and International Cooperation

Memorandum of Understanding

In 2016, the FIU signed two Memorandums of Understanding (MOUs) domestically with Inland Revenue Department and Department of Immigration and Emigration and four MOUs internationally with Financial Analysis Unit of the Republic of Panama, State Financial Monitoring Service of Ukraine, Israel Money Laundering and Terror Financing Prohibition Authority and Suspicious Transaction Reporting Office of Singapore to exchange/receive information for financial intelligence purposes. Accordingly, the total number of MOUs signed by FIU with foreign counterparts and domestic agencies increased to 32 and 03, respectively as at end 2016.

Egmont Group

FIU obtained assistance from members of the Egmont Group, the Association of the FIUs consisting of 152 member FIUs globally, in order to carry out investigations and collaborated with member countries to gather intelligence on their investigations. Total number of instances that the FIU exchanged information with Egmont members was 62 in the year 2016. Further, the FIU officers participated in the Egmont Group of Financial Intelligence Units' Meetings held in Monaco in February 2016 and the Egmont Policy and Procedures Working Group Inter-session Meeting held in Qatar in September 2016.

Asia Pacific Group on Money Laundering (APG)

Sri Lanka is a founder member of the APG. Sri Lanka was represented at the 19th Annual Meeting held in San Diego, USA in September 2016 and 19th Annual Typologies and Technical Seminars held in Jeddah, Saudi Arabia in November 2016 by the FIU and other key stakeholders of Anti-Money Laundering and Countering the Financing of Terrorism of the country (AML/CFT).

BIMSTEC Sub-Group on Combating the Financing of Terrorism (BIMSTEC SG-CFT)

FIU hosted and co-chaired the meeting of the 8th SG-CFT of the Bay of Bengal Initiative for Multi Sectoral Technical and Economic Cooperation (BIMSTEC) held in Colombo during 16-17 March, 2016. The meeting was attended by 35 participants from the BIMSTEC countries.

12.4 Institutional Capacity Building and Awareness Programmes

In continued efforts to enhance the awareness on detecting, analysing and reporting of ML and TF related transactions, 28 awareness/training programmes were conducted during the year, accommodating 1,600 participants from LCBs, LSBs, LFCs and MVTs providers. Further, in 2016, the FIU conducted two special study visit programmes for officers from Bangladesh and Maldives to assist them in building their capacity and

share knowledge of current and emerging regulatory and financial intelligence issues. The annual symposium on AML/CFT was also conducted in December 2016 for 123 officers involved with compliance function of the LCBs, LSBs and LFCs with the assistance of local and foreign resource persons.

12.5 Mutual Evaluation and Follow-up Work

In line with the revised recommendations of the Financial Action Task Force (FATF), the third round Mutual Evaluation (ME) on Sri Lanka was conducted during 2014/15 by the APG with the intention of assessing Sri Lanka's AML/CFT compliance vis-à-vis the international AML/CFT standards. The Mutual Evaluation Report (MER) adopted in September 2015 recommended a series of actions to be implemented by Sri Lanka under APG's 'expedite enhanced follow up' process. The FIU introduced the following key measures in order to address the deficiencies highlighted in the MER.

- Adoption of the National AML/CFT Policy for 2015 - 2020 with the approval of Cabinet of Ministers.
- Formulation of an institution-wise action plan in consultation with respective stakeholders based on recommendations of MER and obtaining the approval of Cabinet of Ministers to implement the same.
- Recommendation of amendments to the FTRA and PMLA by a reconstituted Legal Review Committee.
- Issuance of Customer Due Diligence Rules No. 1 of 2016 covering every institution engaged in finance business as defined in the FTRA.
- Finalisation of Customer Due Diligence Rules for the Designated Non-Financial Businesses and Professions (DNFBPs).
- Assessment of financial sector risk and introduction of risk-based AML/CFT supervision.

13. HUMAN RESOURCES

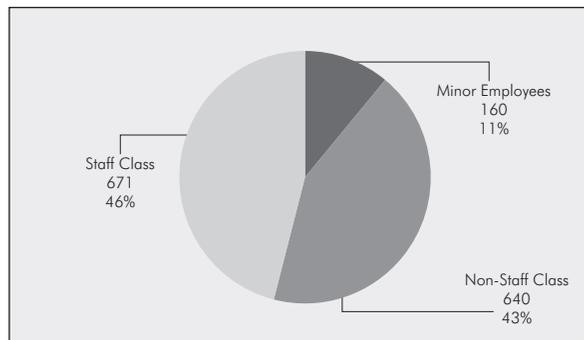
Human Resources Department (HRD) in 2016 undertook various measures such as motivation of existing staff, recruitment of new staff, performance management, promotions, job rotation and grievance handling with the objective of ensuring the availability of a highly productive, motivated and contented team of employees who could contribute towards the achievement of the Central Bank objectives. HRD also continued to maintain a profound relationship among the Central Bank management, all categories of employees and the trade unions, which helped to maintain industrial harmony and thereby improve the overall operational efficiency of the Bank during the year. The structure of the human resources of the Bank with a summary of activities carried out by the HRD during the year are given below.

13.1 Human Resources Structure

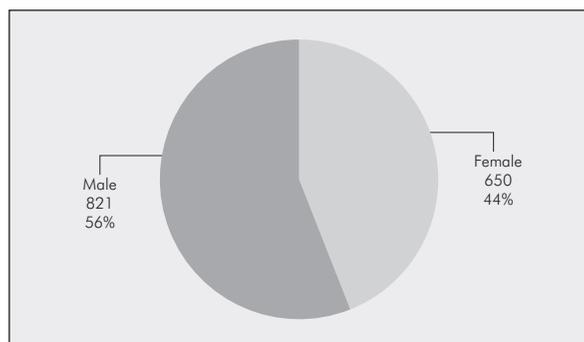
The total number of employees of the Central Bank as at end December 2016 stood at 1,471 consisting of 671 Staff Class (SC), 640 Non-Staff Class (NSC) and 160 Minor Employees (MEE). The class-wise, gender-wise and age-wise composition of the staff are shown in the following charts.

Chart II - 6
Composition of the Staff as at 31.12.2016

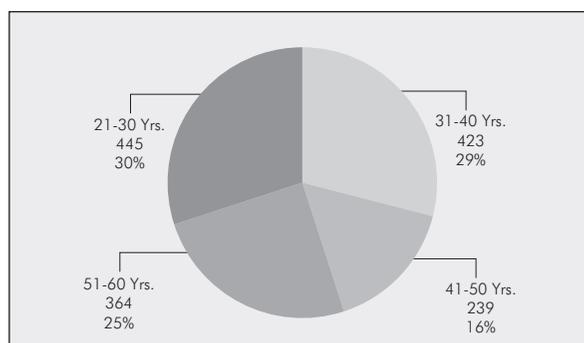
(a) Composition of Employees : Class-wise



(b) Composition of Employees : Gender-wise



(c) Composition of Employees : Age-wise



13.2 Educational and Professional Qualifications of the Employees

The Bank maintained a diverse and talented pool of employees mostly among the SC and NSC in 2016. Table II-19 shows the details of the educational and