

Table II - 12 Performance of Internally Managed Funds - 2012

| Funds | Inflows | Out flows | Investments | Investments Year-end | Rs. mn Average Yield (% p.a.) |
|----------------------|-----------------|----------------|----------------|----------------------|-------------------------------|
| Superannuation funds | 11,509.1 | 3,296.6 | 8,212.5 | 34,246.6 | 11.52 |
| Medical funds | 31.0 | 1.0 | 30.0 | 93.9 | 12.26 |
| Special funds | 657.0 | 13.9 | 643.1 | 1,141.2 | 12.63 |
| Total | 12,197.1 | 3,311.5 | 8,885.6 | 35,481.7 | 11.66 |

11.5 Maintaining the Fixed Assets Register

The FD maintained the Fixed Assets Register in the fixed asset module of the General Ledger System. All changes such as new purchases and locations, changing of locations, revaluations, depreciation and disposals were recorded in this register during the year 2012. Nearly 693 changes were incorporated to the Register in 2012.

11.6 Maintaining the Data Base of Staff Loans

The FD continuously maintained the loan data base of Central Bank staff with the assistance of the Information Technology Department to facilitate recovery process of loans and provide information to the employees and to the Management during the year 2012.

11.7 Other Operations

(a) Procurement Process

According to the Rules of the Central Bank, the officers of the Finance Department attended all Technical Evaluation Committees and Tender Boards for procurement of goods and services and the Board of Survey carried out by the Secretariat Department during the year 2012. Nearly 261 Tender Boards meetings were attended during the year 2012.

(b) New GL System

The Central Bank has been using the Oracle General Ledger System for its accounting function since the year 2003 and is now in the process of developing in-house a General Ledger System to be launched with effect from 01.01.2014. The Information Technology Department is developing this new GL System and the Finance Department is involved in updating the chart of accounts and assists continuously to the Information Technology Department.

(c) Investment Oversight Committee

The role of the Investment Oversight Committee established by the Monetary Board is to advise and monitor the investments of funds managed by several Departments of the Central Bank. This

committee meets monthly and the FD provides secretariat service for the monthly meeting of this committee with the Heads and other officers of the respective Departments. The Committee had 12 meetings during the year 2012 and submitted papers quarterly to the Monetary Board.

12. FINANCIAL INTELLIGENCE UNIT

The Financial Intelligence Unit (FIU) has been established in terms of the provision of the Financial Transactions Reporting Act No 6 of 2006 (FTRA) and 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 detecting possible links to Money Laundering (ML), Terrorist Financing (TF) and other unlawful activities defined in the FTRA, investigations into suspicious financial transactions relating to the above and dissemination of information and details of such investigation to relevant law enforcement and regulatory authorities for appropriate actions and conduct of examination of reporting institutions. The highlights of key functions and other activities of the FIU during 2012 as stipulated in the FTRA were as follows.

12.1 Collection of Information, Investigations and Dissemination

Licensed Commercial Banks (LCBs), Licensed Specialised Banks (LSBs), Licensed Finance Companies (LFCs), Stock Broking Firms (SBs) and Insurance Companies (ICs) continued to report to the FIU on cash transactions and electronic funds transfers (both local and foreign) of Rs. 1.0 million and above or its equivalent in foreign currencies through the FIU's on-line database management system, "LankaFIN". Accordingly, over 3.9 million of cash/fund transfers and 559 suspicious transactions (STRs) were reported during the year 2012. After conducting preliminary investigations, 56 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 so far filed seven indictments against money laundering and three indictments against terrorist financing including four indictments that were filed in 2012.

12.2 Examinations of Reporting Institutions

During the year 2012, FIU conducted sixteen examinations on reporting institutions covering all sectors, to assess their exposure to risk of ML and TF and non-compliances with the provision of FTRA and other rules and directions issued by the FIU.

12.3 Other Activities

(a) 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 four Memorandums of Understanding (MOUs) with Financial Crime Enforcement Network (FinCen) of USA, The Financial Information Unit of the Bank of Mongolia, Federal Financial Monitoring Service of Russian Federation and Saudi Arabian Financial Investigation Unit. Accordingly, the total number of such MOUs signed increased to 20 as at end of 2012.

(b) Improvement in the Regulatory Framework

In February 2012, the Financial Action Task Force (FATF), the Global Anti Money Laundering (AML) and Countering the Financing of Terrorism (CFT) standards and policy setter has re-classified 40+9 recommendations into 40 recommendations and widened their scope to include the financing of the proliferation of weapons of mass destruction in addition to money laundering and terrorist financing. Such proliferation is identified as a most serious security concern globally and, therefore, the FATF has adopted a new recommendation (recommendation 7 under the revised FATF recommendations) aimed at ensuring effective implementation of sanctions declared by the United Nations Security Council (UNSC). With the view to further strengthening the financial regulatory framework in Sri Lanka in line with the changes in such international standards and best practices on national level, the Advisory Committee for the FIU formed a legal review committee, comprising relevant authorities to revise FTRA to strengthen the operations of the FIU. Further, the FIU was in the process of finalizing rules to be issued to Authorized Money Changing Companies in relation to Know-Your-Customer and Customer-Due-Diligence (KYC/CDD) requirements and has planned to issue such rules during 2013.

(c) Institutional Capacity Building and Awareness Programmes

In continued efforts to enhance the awareness on detecting, analyzing and reporting of money laundering and terrorist financing transactions, 28 awareness/training programmes were conducted during the year, accommodating more than 1825 participants from LCBs, LSBs, LFCs, Sri Lanka Police, educational and public institutions. Two such programmes were conducted with the assistance from the AUSTRAC, Australian FIU.

(d) International Relations

- (i) Egmont Group :** The FIU obtained assistance from members of the Egmont Group, the Association of FIUs consisting of 132 FIUs globally to carry out investigations and collaborated with member countries for gathering evidence on their investigations. The total number of instances that FIU exchanged information with foreign Egmont members was 23 in the year 2012.

- (ii) Asia Pacific Group on Money Laundering :** Sri Lanka, as a founder member of the Asia Pacific Group on Money Laundering (APG), attended its 15th Annual Meeting held in Australia in July 2012 and the 15th Annual Typologies and Capacity Building Workshop held in Vietnam in November 2012 focusing on vulnerabilities in cash courier services and trade based money laundering.

13. FINANCIAL STABILITY STUDIES

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

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

13.1 Activities during the Year

(a) Research

Several research studies were carried out during 2012. The main studies were on credit growth and the determinants of banking sector profitability.

(b) Macro-Prudential Surveillance

- (i) Financial Soundness Indicators were compiled for the banking, non-bank and corporate sectors on a periodic basis to monitor the health of key financial and non-financial institutions.
- (ii) Financial Sector Risk Assessment Reports highlighting developments, risks and vulnerabilities in all relevant sectors were submitted to the Financial Systems Stability Committee, (FSSC) regularly.
- (iii) The Banking Soundness Index (BSI) was improved incorporating a sub indicator for corporate governance of the banking sector. BSI was updated on a quarterly basis.
- (iv) The Financial Market Stability Indicator (FMSI) to assess the stability in the money and bond, equity and forex markets was improved after testing the relevance of the variables. This indicator was updated on a monthly basis.
- (v) A new Macro-economic Stability Indicator (MESI) was constructed to assess the stability in macro economic sectors such as fiscal, real, monetary and external sectors as well as the global environment. MESI was updated on a quarterly basis.