

**E**mployees' Provident Fund, the largest superannuation fund in Sri Lanka with a net worth of over Rs.1,144 billion by end of 2012, accounted for 12.7 percent of total assets in the overall financial sector in the country. The Fund continued to provide an effective service to its members with an impressive return on investments while assuring the safety and growth of the Fund.

In 2012, the Fund performed its operations successfully whilst recording an increased income, despite challenging market conditions and declared a relatively high rate of interest of 11.5 percent to its members for the year.

## **Employees' Provident Fund**

Annual Report - 2012





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## **Our Vision**

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**To be the most caring  
superannuation fund in the  
region enabling our members to  
have a contented retirement life**

**To provide maximum retirement  
benefits and an efficient service  
to our members through prudent  
and innovative management of  
the Fund**

## **Our Mission**

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## Message from the Chairman of the Monetary Board and Governor of the Central Bank of Sri Lanka



**My dear Members of the EPF,**

On behalf of the Monetary Board of the Central Bank of Sri Lanka, I am pleased to present the Annual Report of the Employees' Provident Fund for the year 2012.

**I must also state, with immense satisfaction, that the Fund has been able to meet all its obligations towards its Members, Employers and other stakeholders, while contributing to the economy of the country by mobilizing long-term funds from members and managing such funds in a professional and prudent manner.** Accordingly, the EPF has also been able to play an extremely useful role to secure the retired lives of millions of Sri Lankans.

### **Performance and Challenges faced in 2012**

**EPF is the largest fund with an asset base of over Rs. 1.1 trillion and accounts for a substantial 12.7 per cent of the total financial sector in terms of assets.**

**In 2012, the EPF grew at a commendable rate of 12.4 per cent,** supported by the growth in the contributions made by the members, their employers and the income generated through the effective management of the Fund.

By the end of 2012, The number of active Member accounts stood at 2.3 million, while the total number of Member accounts stood at 14.6 million.

The Fund earned a rate of return of 11.61 per cent on its average investment portfolio during the year, which enabled the Fund to appropriate an annual interest rate of 11.5 per cent on the year-end member balances, which was significantly higher than the average long term savings interest rate paid on bank deposits.

**During the five year period from 2009 to 2013, the EPF earned a massive profit of Rs. 558 billion,** which easily superseded the earnings of any other entity with a comparable asset base. In absolute terms, the EPF made profits of Rs. 101.7 billion in 2009, Rs. 111.5 billion in 2010, Rs. 107.5 billion in 2011, Rs. 111.8 billion in 2012 and Rs. 125.6 billion in the year 2013, and such profits were duly credited to all member accounts at the end of each respective year.



**In maintaining a fund in the scope and magnitude of the EPF, prudent and effective risk management is the most crucial factor which determines the success or otherwise of the fund.** Towards that end, the Monetary Board which is the custodian of the moneys of the EPF in terms of the provisions of the EPF Act No. 15 of 1958, has carefully, and with foresight, taken the required prudential steps over time to ensure that modern risk management practices are in place to address and mitigate various risks that a fund of this nature could be exposed to, in its operations. This has been done by having proper systems, processes and structures within the Fund, and by doing so, the possibility of risks crystallizing and disturbing the Fund activities and stability, have been limited to a minimum level.

**Such a risk management system has been maintained in a dynamic manner while being updated from time to time, in keeping with the changes and expected changes in the environment.** The robust internal and external audit functions have also provided further assurance with regard to the operations and risk management of the Fund.

Nevertheless, and notwithstanding the consistent achievement of excellent results by the Fund, as well as the implementation of high quality procedures and practices, there has been a concerted and well orchestrated attempt in recent times, to discredit the operations and the fund management activities of the EPF, by certain politically motivated quarters. These carefully planned efforts have posed a series of challenges to the EPF in recent times. In the face of such attacks, the EPF has had to regularly assure the public and the EPF members about the professional and diligent manner the Fund is being managed. In fact, a fundamental rights application was also made against the Monetary Board in 2012 in relation to the investments in equities, but such action was not granted leave to proceed by the supreme court and was summarily dismissed. Nevertheless, in the face of such challenges, various counter measures had to be implemented, and those had, on many occasions, engaged the top management of the Fund in many hours of work to respond to these frequent and unfair allegations, and such responses were also at a considerable cost to the Fund.

**In that background, the Monetary Board has considered it appropriate to comprehensively discuss some of the key elements of fund management in this statement,** so that all stakeholders, including the review and audit authorities, would better understand and appreciate the principles, practices, fundamentals and challenges confronting fund managers in contemporary times.



One of the regular allegations that had been leveled at the EPF was that many of its investments in the stock market were arbitrary. To deal with such contention, a brief account of the manner in which superannuation funds make equity investments would be useful. World over, equity investments are a well recognized and well-established means of investment, and such investments are usually made with strategies for profit and growth, based on a short or long-term time horizon, or both. In this regard, **the EPF too has, since 2001, established, maintained and gradually improved the required governance system for making equity investments, in keeping with evolving international norms**, and such system is briefly described in the following paragraph.

Whenever new equity investments have to be made by the EPF, the detailed analysis and observations regarding such proposed investments have to be made by the EPF's fund managers who are a team of well-trained officers who possess the required educational and professional qualifications which are pertinent to the investment field. Such investment proposals are then submitted to a committee termed the Investment Committee (IC) comprising of several senior officers of the Central Bank who make a further independent evaluation and analysis. Thereafter, if the IC is satisfied that the new investment is satisfactory, it makes recommendations to the Monetary Board that such investments be made. After considering such recommendations, the Monetary Board makes a final decision on such investments. In addition, as a general routine, the EPF management obtains the prior approval from the Monetary Board for the expected investment plan for the following month. Thus, the members of the Fund could rest assured that there is no room for making arbitrary investments by the EPF fund managers, since there is a carefully laid down procedure for making all new investments as well as for the conduct of the general investment operations.

**Another allegation that had been leveled at the EPF by the same politically motivated persons has been that the EPF had made losses on some of its investments in the stock market.** In this regard too, the background and context of the investment framework needs to be discussed. As is well accepted, the basic premise in investment management is to ensure that an investment portfolio is reasonably well insulated against a plethora of risks, including risks associated with credit, markets, liquidity, concentration, operations (systems and people), global conditions, technological changes, etc. Naturally, therefore, prudent and professional fund manager, strive to identify, measure and manage such risks when investing the funds under their management. The systems, professionalism and experience of the fund managers and underlying investment strategies play the key role in such risk management.





**One of the key strategies that prudent pension and superannuation fund managers employ to respond to the challenges posed by these risks is to follow certain generally accepted practices and conventions, when making investments.** In that context, one of the more important as well as over-riding principles in managing a portfolio is that **the investment portfolio must be reasonably well diversified**, depending on the size of the fund, the assessment of risks, and the overall risk appetite objectives.

Obviously therefore, **the performance of a fund needs to be evaluated by examining the overall rate of return of the entire portfolio, and not just by examining the performance of selected “cherry-picked” individual investments which may not have performed as originally anticipated.** It is a well known phenomenon that individual investments in a portfolio could increase or decrease its market value from time to time. However, what is important to ensure is that **a portfolio must be constructed in such a manner that the portfolio, as a whole, could deliver an above-average return over the medium to long term, even in changing circumstances.** Hence, if the particular portfolio delivers a rate of return that is higher than the average market returns, such a portfolio could be considered as a well managed portfolio.

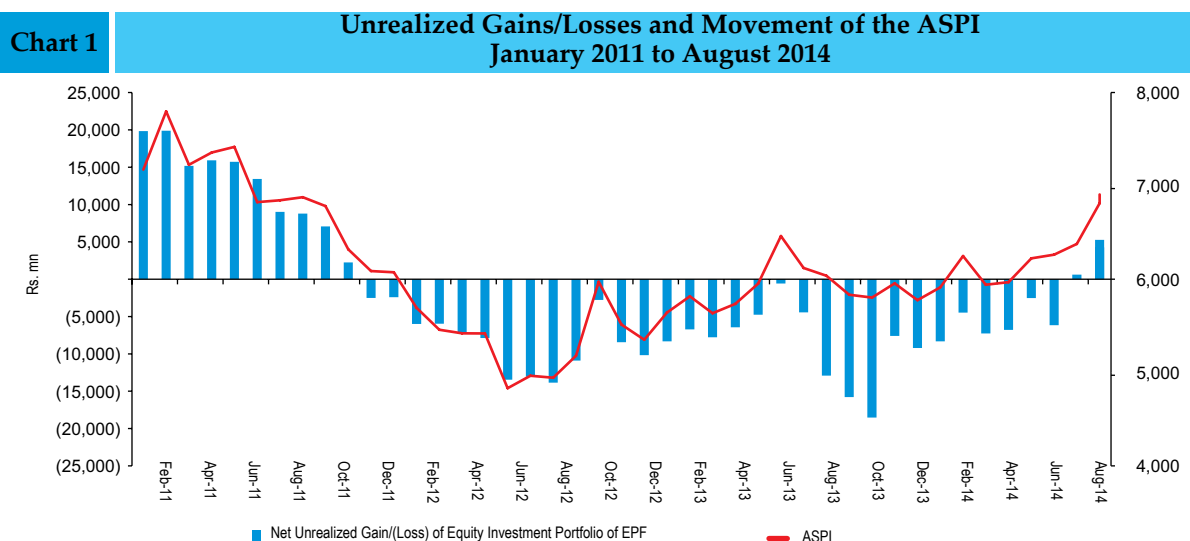
**At the same time, it must be noted that, in any share portfolio, “unrealized” losses and gains may be reflected at various times, due to the periodic fluctuations of market prices of such shares.** In fact, it is an inherent feature of any equity market that all investors have to face and accept depending on the investment strategies and exposure to the stock market. Hence, if shares purchased in the past were to be revalued at a time when market prices have declined, there could be a fall in the value of the investment in the books of accounts. But, it must be noted that such a “loss” is not an actual loss, but only a book loss. In fact, an actual loss would materialize only if shares which are at depressed prices below the purchased price at the time of valuation, are sold at that time. If however, such shares are not disposed at the reduced prices, the reduction in value arising from such revaluations would be “unrealized” and would not affect the profitability of the Fund, unless the instances where such shares are held as a short-term investment in a trading portfolio for the purpose of day-to-day buying and selling. At the same time, if the shares purchased in the past were to be valued at a time when market prices have increased, there would be a gain in the value of such investments. But that too, would not be an actual profit since an actual profit would be earned and realized, only if the relevant shares were sold at the increased prices, unless the investment was held as a short-term investment in a trading portfolio. Hence, if the relevant shares were not disposed at the increased prices, the increase in value arising from such revaluations would be an “unrealized” gain and would not affect the profitability of the Fund.

**Being a superannuation fund, the bulk of the equity investments that have been made by the EPF have been done with a long-term focus, and not with a short-term perspective. Therefore, it must be appreciated that “unrealized” gains or losses**



arising from short-term fluctuations in prices would not affect the profits of EPF, on a net basis. A further reason not to be unduly affected by “unrealized” losses is that the EPF does not have any short-term financial needs that warrant the urgent sale of any part or portion of its share portfolio at a loss. The EPF has more than adequate funds to meet its day-to-day obligations and to make refunds to members and other payments, and its average daily inflows are far greater than that of its average daily outflows. Therefore, the investments made are from the excess funds remaining after meeting all obligations, and hence, there is no need to sell any investments at a loss to raise funds for its daily operations.

It must also be noted that the quantum of “unrealized” gains and losses may change significantly from time to time. For instance, the net “unrealized” gain of the EPF portfolio as at 31st December 2010 was nearly Rs. 18 billion. At that time, however, today’s vociferous critics and, in fact, even the auditors, did not seem to think it was appropriate to comment on such massive “unrealized” gains although they now make adverse comments on “unrealized” losses. Further, although the EPF enjoyed such large “unrealized” gains at that time, it did not attempt to sell such investments to realize the gains, because as always maintained, the EPF had taken a long-term investment view. In fact, it is only if and when the investment managers of the EPF are satisfied that the appropriate time has come to dispose of an investment, that they would dispose of such investment and realize the profit. Nevertheless, with the down-turn in the share market from February 2011 onwards, the net “unrealized” gain of nearly Rs. 18 billion at the end 2010, gradually moved into negative territory during the year, and turned into a net “unrealized” loss of about Rs. 9 billion by the end of 2012; and into a net “unrealized” loss of Rs. 8.3 billion by the end of 2013. But, with the pick-up of the stock market in 2014, by mid August 2014, the net “unrealized” loss had turned into an “unrealized” gain of around Rs. 5.2 billion.



Source: EPF Department, Central Bank of Sri Lanka



This position is clearly reflected in Chart 1 which shows the “unrealized” losses and gains of the EPF portfolio over the period January 2011 to August 2014. At the same time, as it clearly seen by the reported results, the EPF also made realized profits from its investment portfolio in the stock market in the amounts of Rs. 714 million in 2011 and Rs. 1,020 million in 2012.

**It must be firmly understood that these “unrealized” losses as prevalent in the EPF’s investment portfolio over the past several years, did not, in any way, affect the returns paid to members, in the same way that when there were large “unrealized” gains, it did not result in an additional return being credited to the members.** Hence, it must be reiterated that it is only actual and realized gains or realized losses that are taken into consideration when arriving at profits or losses of the EPF.

It may also be pertinent to appreciate that the EPF’s government securities portfolio is a highly mature portfolio, which contains a significant proportion of high interest bearing treasury bonds which were acquired several years ago. Nevertheless, the treasury bonds that are being issued by the Government of Sri Lanka in recent times, are at a much lower rate of interest due to the present day low-inflation and low-interest environment. **Therefore, all stakeholders must appreciate that the payment of high interest rates is not likely to be the future trend in the Sri Lankan financial landscape, and in that scenario, the EPF has to face the added challenge of building a mature portfolio of share investments as well, because in time to come, it is likely that it would be the share investment portfolio that would substantially contribute towards providing an above-average return to the EPF members.**

It must also be appreciated by all stakeholders that investments in equities by a fund of the nature and size of the EPF, have to be made with a long-term focus, and not based on a need for short-term quick gains. Consequently, there may not be very attractive returns immediately or even in the near term, after investing, but it is a normal outcome that prudently invested equity investments would, in all probability, yield highly beneficial results through dividends and capital gains, over the longer time horizon, than the returns that could be expected from fixed-income government securities or corporate bonds.

Another feature that needs to be highlighted is that in its investment activities, the EPF has been able to face the complex risks facing the investment environment, and thereby limit any fall-out to a rather low level, through the use of an effective integrated risk management approach in the asset allocation of the Fund. Accordingly, the credit risk of the EPF is at a minimum level, because a major share of the EPF portfolio is in government securities which are free of risks such as credit and liquidity. Here too, the EPF has been able to manage its massive fixed-income government securities portfolio prudently and professionally in a profitable mix and composition of maturities from the short-term to long-term. Such a strategy has been particularly useful, and the fund managers had taken the required steps to mitigate the risks arising from changes in



securities prices and interest rates, by maintaining separate portfolios in government securities for different purposes, such as short-term investments which are ear-marked for sale at the desired times (face value through profit or loss), and long-term investments (held-to-maturity category). By doing so, the Fund has been able to limit the exposure of "marking to market" requirements arising from the significant changes that may occur in the market prices of the treasury bonds and treasury bills due to changes in the general interest rates and market demand and supply. Consequently, the liquidity risk has been prudently managed avoiding even the remotest of possibilities of being compelled to dispose of any invested assets prematurely, in order to meet the routine financial obligations, such as the payment of refund benefits and/or other operational expenses. **This situation is reflected in the Table 1 below, which clearly indicates that inflows of funds into the EPF are significantly greater than the outflows, thereby confirming that there is absolutely no liquidity risk to pay refunds in the foreseeable future, and that the allegations made by certain elements are completely baseless.**

Table 1	Cash Inflows & Outflows		
Rs mn			
Item	1990	2010	2012
Cash Inflows:			
Contributions	3,937	54,796	70,171
Interest Income (cash basis)	4,188	87,371	83,929
Maturities ( excluding reverse repo)	4,852	303,275	401,679
Dividends & Others	-	2,396	2,989
Total Inflow	12,977	447,838	558,768
Cash Outflow:			
Refunds	1,209	34,896	48,712
Refunds as a % of Total Cash Inflows	9.3	7.8	8.7
Net Inflows	11,768	412,942	510,056

Source: EPF Department, Central Bank of Sri Lanka

In this background, it is also abundantly clear that the EPF has been able to discharge its obligation of providing its members with relatively higher returns in the range of 11 per cent to 13.7 per cent, thus comfortably outperforming the returns on comparable investments in the market.



## Future Prospects and Challenges

From the above, it would be noted that much has been achieved in the past, and that the EPF has been able to deliver on its legal and economic expectations. Nevertheless, there is more to be done, particularly in the context of the potential for savings in Sri Lanka improving at a fairly rapid pace. By the end of 2015, Sri Lanka is expected to reach a US\$ 4,000+ per capita income level, while the GDP is expected to reach a US\$ 100 billion value by 2016. By 2020, the economy is also likely to reach a level of US\$ 150 billion. These projections suggest a quantum leap from the rather modest levels of a US\$ 24 billion economy that Sri Lanka enjoyed, as recently as in 2004. With further expected rapid changes, the opportunities as well as the challenges facing the country's biggest superannuation fund, the EPF, would also undergo a paradigm shift. **In that regard, what is probably the likely scenario around the year 2020?**

First, with the higher level of incomes and the enhancement of the formal economic sectors, the number of EPF members would grow substantially in the years to come. Hence, it is quite likely that by the year 2020, the EPF could possibly have to cater for an active membership of around 3.5 million accounts. Second, the funds under management would increase substantially, and by 2020, a fund value of around Rs. 2.5 trillion would probably be the likely value of the assets of the EPF. Third, the transition to the new value proposition would be quick and sharp, and therefore that journey would need careful preparation and pragmatic responses.

In that background, the Monetary Board is firmly of the view that the EPF administrative operations and fund management activities would need to be further improved and streamlined to meet the new conditions, by using the fresh innovations in Information Communication Technologies (ICT), and other state-of-the-art systems.

**Accordingly, the EPF is planning to move towards a fully automated near-paperless office in the medium term, which innovations would improve the quality, accuracy and efficiency of the EPF operations as well as result in significant administrative cost savings.**

In addition, the Central Bank, together with the Department of Labour is continuing its efforts to expeditiously **re-register EPF Members as per the Members' names as appearing in their National Identity Cards (NICs)**, while assigning the NIC numbers as the Unique Identification (UID) number. This on-going initiative would enable the two institutions to develop and access a common database for the maintenance of the Member accounts, while also **transforming the EPF database into a Member Centric Database (MCD) from an Employer Centric Database**. Already, the re-registering of active EPF Members (contributing members), has been partly completed by collecting NIC information of approximately 1.2 million members by end 2012.



Another major initiative that is currently being implemented is **the e-filing project, whereby Employers have been encouraged to submit their Member details and contributions through electronic means.** For this purpose, the EPF Act was amended in 2012 and it has been made mandatory for Employers with 50 employees or more, to submit their monthly contributions and contribution details, electronically. Several licensed commercial banks have already entered into agreements with the EPF to provide their customers who are Employers, the facility to submit Member related information through the respective banks' electronic systems, and it is hoped that all banks, in due course, would provide similar services to all their customers to do so. As is already known, there are a number of benefits that would accrue to Members, Employers and EPF due to the e-filing of documents, and these benefits include faster crediting of accounts, substantial savings in costs and time because of the reduction in data feeding operations, and greater reduction of discrepancies due to human error. In addition, the e-filing project would also help to improve the Doing Business Ranking of the country, since it would significantly reduce the time taken to make mandatory payments such as EPF contributions.

Another major challenge that the EPF has faced and will have to face, is **the efficient management of the large quantum of documents that is received daily throughout the year.** In fact, the EPF receives more than 2 million documents per month from various sources, and many of such documents need to be carefully referenced, stored and preserved for future use and retrieval. In addition, since the commencement of the EPF in 1958, it has accumulated a massive number of documents which need to be referred at intervals particularly when the EPF has to identify the rightful owner of its nearly 12 million - strong account balances, when making refunds. These needs have resulted in high storage and retrieval costs, while also impeding efficiency in certain instances. In view of those escalating challenge, costs and risks, **the EPF has already initiated a far-reaching project to convert all important documents into digital form, and to establish a state-of-the-art electronic record room.** This project is now progressing satisfactorily, and is due to be completed by early 2015.

In the meantime, over the next few years, **the investment climate is also expected to pose further challenges to the fund managers of the EPF.** These challenges will arise as a result of several new and emerging conditions and trends, which have been taking shape for some time now. These key factors are:

- (a) the planned fiscal consolidation of the government borrowing requirements which is expected to decline significantly, with the tightening of the fiscal deficit.
- (b) the substantial contraction and maintenance of, inflation at low levels for a sustained period of time;
- (c) the consequent environment of falling of interest rates in the country; and
- (d) the likely growth in equity markets and corporate bond markets, in the context of higher economic growth over the medium to long-term.

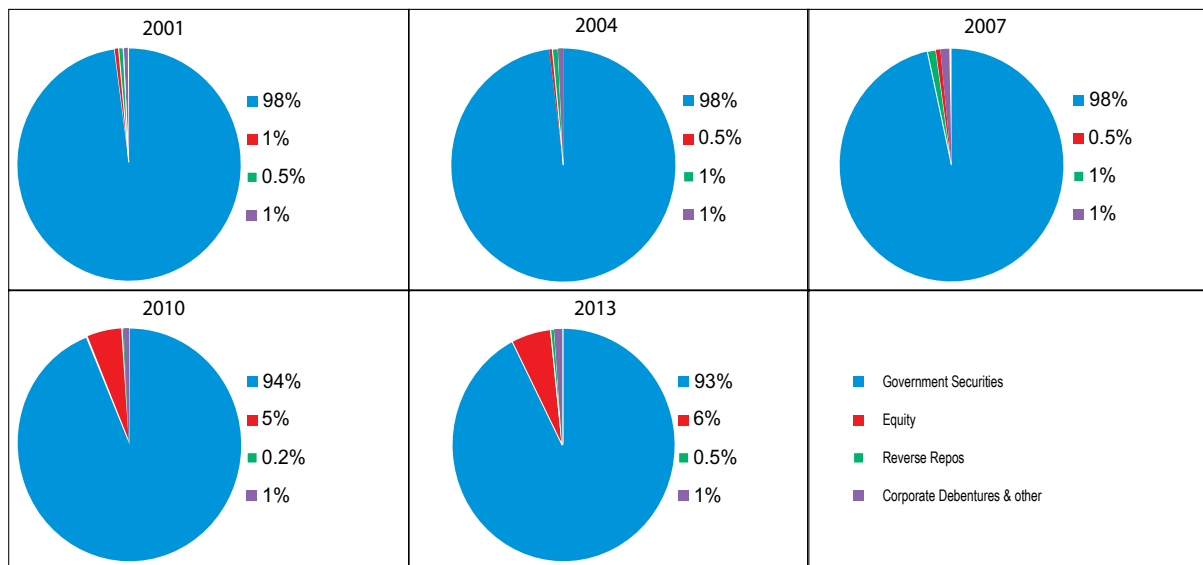




Many of these changes have already been anticipated by the EPF management, and that is evident by the fact that they have gradually activated a process of diversification of the EPF portfolio into equities, which initially began modestly from as far back as 2001. Through such careful diversification, the EPF has been able to mitigate the concentration risk of its portfolio by systematically investing in shares of listed companies in different economic sectors, as well as in corporate bonds and debentures. Please see Charts 2 and 3.

Chart 2

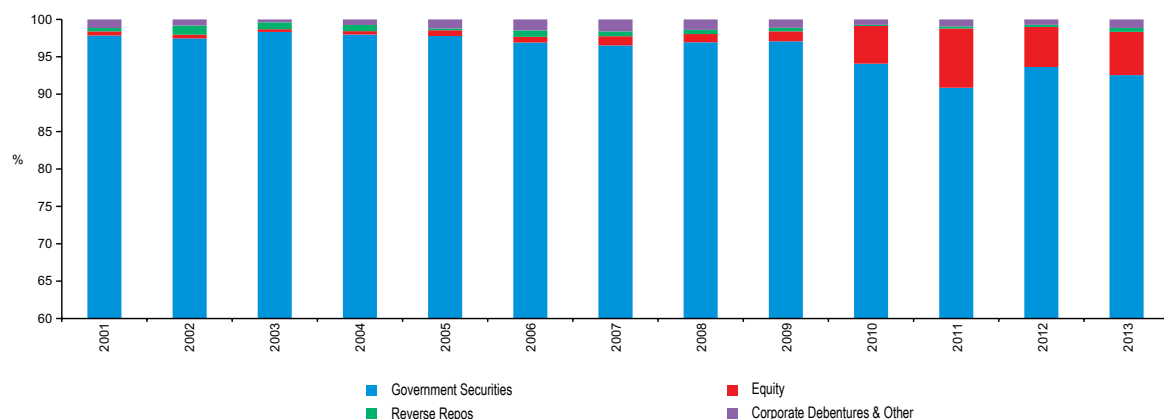
Composition of the EPF Investment Portfolio



Source: EPF Department, Central Bank of Sri Lanka

Chart 3

Composition of the EPF Investment Portfolio

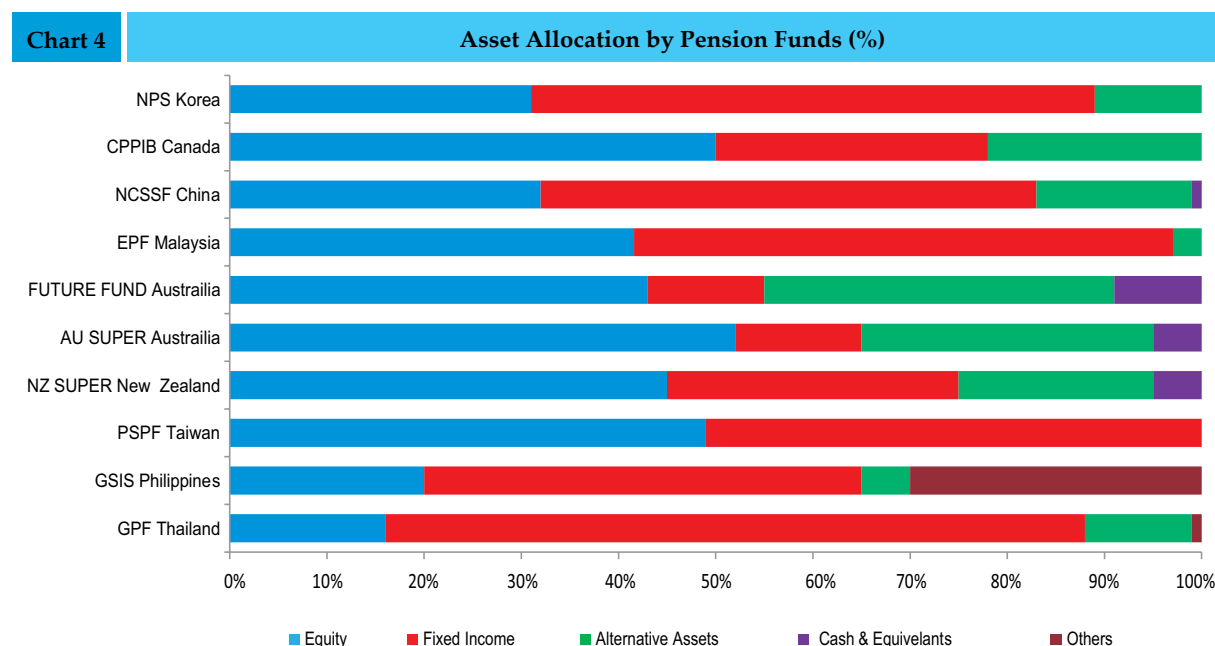


Source: EPF Department, Central Bank of Sri Lanka



It must also be appreciated that the above described trends and conditions are expected to be evident in an even more marked manner in the years to come. In that background, further diversification of the portfolio into new asset classes and economic sectors may need to be considered in the future. In fact, such a policy would be a key risk mitigation tool, since diversification, which is a fundamental concept in portfolio management would be the ideal response to mitigate the risk arising from a concentration of assets in a limited set of instruments only.

**This type of diversification response is quite evident in the case of the asset allocations of many of the pension and retirement benefit funds in emerging economies, and such strategies in peer countries would need to be studied carefully by the EPF management in time to come.** The superannuation funds of many emerging nations often include equity as a major asset class, and those policies seem to have been reasonably successful due to two basic factors: First, the need to match the liabilities of most pension and superannuation funds which are of a 25 to 30 year duration, with similar long-term assets, in order to minimize the risks arising from maturity mismatches. Second, equity investments are the asset class that has provided the highest rate of return among different asset classes over the longer term. These two factors could be particularly observed in the Asia Pacific regions, where equity investments in those countries have accounted for about 30 to 40 percent of the portfolios of the pension funds as shown below in Chart 4.



Source: Introduction to Pension System : Long-Term Benefits for Sri Lanka, Citibank Seminar, June, 2014, Colombo





## Acknowledgements and Appreciations

The Monetary Board wishes to express its appreciation of the efforts of the staff of the Labour Department of the Ministry of Labour, staff of the Employees' Provident Fund Department of the Central Bank of Sri Lanka for carrying out their duties with dedication, skill and expertise. Such efforts have yielded commendable results during 2012 amidst a challenging environment.

The Monetary Board also wishes to express its sincere gratitude to all the Members and Employers of the EPF, who have continued to repose their trust and confidence in the Fund, despite various concerted and determined attempts of certain political elements to damage and destroy this trust, with false and sensational allegations and vituperative innuendo.

In conclusion, the Monetary Board wishes to assure all the Members of the EPF and the general public that the trust reposed in the EPF is well founded, now and in the future, and that every endeavour would be made to ensure that the Fund is able to yield above-average returns while maintaining stability and recording satisfactory growth.

**Ajith Nivard Cabraal**

Governor, Central Bank of Sri Lanka

Chairman of the Monetary Board



## Message from the Commissioner General of Labour



Let me at the outset thank staff of Employees' Provident Fund Department of Central Bank of Sri Lanka, on the occasion of the release of Annual Report 2012, which carries the progress achieved by EPF during the year 2012.

Today, EPF which was established under the Employees' Provident Fund Act, No.15 of 1958, with the main objective of providing contented retirement life for the private and semi-governmental sector employees in Sri Lanka who do not enjoy pension benefits, has grown to be the largest social security system in the country. The objective of the Department of Labour is to provide its members with quality service by expanding its operational and administrative activities each year. Thus, in 2012 there were many new projects being launched for this purpose.

In order to expedite the recovery of the moneys from the institutions who defaulted the EPF payment a computer network was setup by linking District Labour offices located island wide. The activation of the EPF payment monitoring system commenced in 2012. This helped to further expand the EPF payment activities carried out by District Labour Offices. Further, the Department of Labor has taken legal action against 2,991 institutions during the year 2012, for defaulting EPF contributions.

To enhance service to members by aligning with modern technology, development of a database was commenced in 2012 by using fingerprints of members obtained in digital format.

In addition, it was able to get the Employees' Provident Fund (Amendment) Act No.12 of 2012 passed with a view to introducing the 30 per cent premature withdrawal facility. This amendment has enabled the members to withdraw no more than 30 per cent of the funds to the credit of his/her EPF account, subject to meeting the stipulated conditions. Currently, the regulations and administrative functions to implement this are in progress.

I would like to express my gratitude towards the staff of the Department of Labour for their commendable contribution in discharging the statutory responsibilities and



maintaining a healthy relationship with both employees and the employers, and also the staff of Employees' Provident Fund Department of Central Bank of Sri Lanka, for their support in carrying out activities of EPF successfully.

I hope this Annual Report would provide valuable information to employees, employers, officers of administrative and financial institutions and any other parties including students who are interested in this subject.

**V B P K Weerasinghe**

Commissioner General of Labour

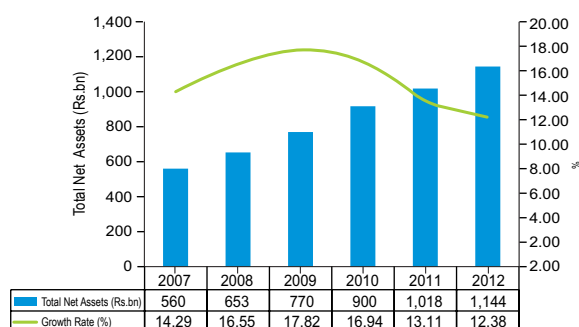


## Performance Highlights

**Table 2 Financial Highlights**

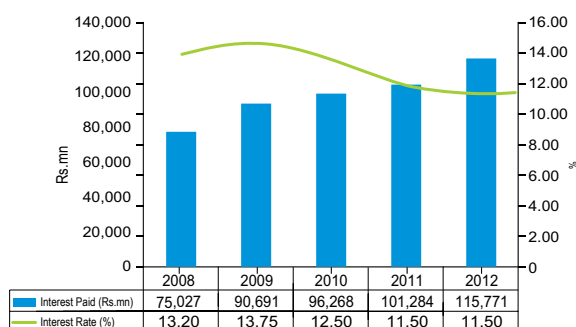
Item	Rs. mn	
	2011	2012
Contributions	61,879	70,171
Refund Payments	47,311	48,712
Net Contributions	14,568	21,459
Gross Income	116,043	121,413
Net Income	107,202	111,829
Transfer (to) / from Reserves	3,500	5,700
Interest paid on Member Balances	101,284	115,771
Rate of Interest paid on Member Balances (%)	11.50	11.50
Rate of Return on Average Portfolio ( %)	12.50	11.61
Operational Expenditure	786	948
Operational Expenses as a percentage of the Total Income (%)	0.68	0.78

**Chart 5 Growth of the Fund**

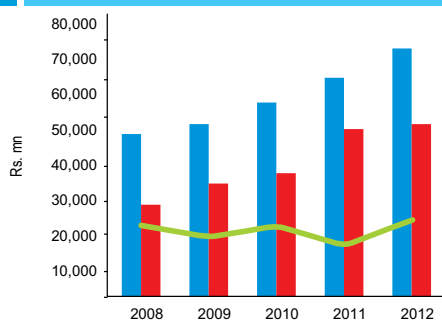


2011 Restated with the adoption of LKAS & SLFRS  
Source: EPF Department, Central Bank of Sri Lanka

**Chart 6 Interest Paid on Members' Closing Balances**

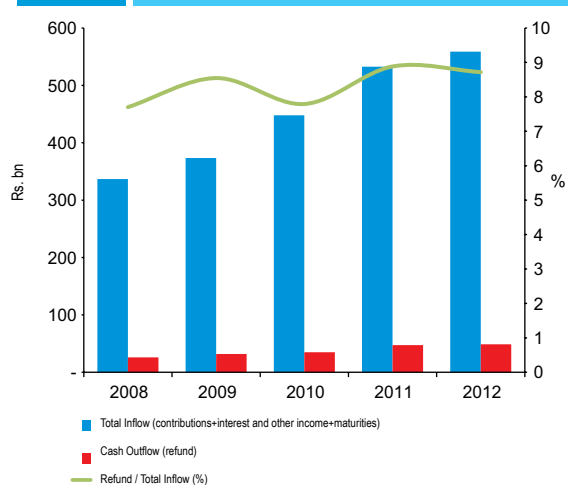


Source: EPF Department, Central Bank of Sri Lanka

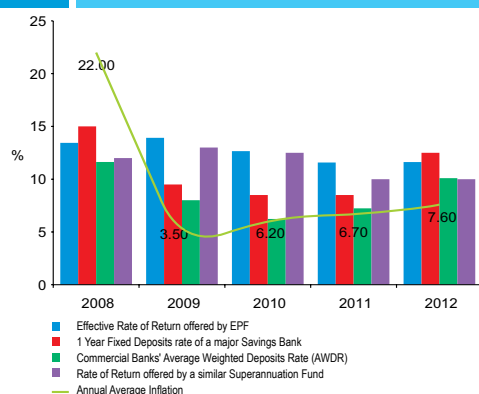
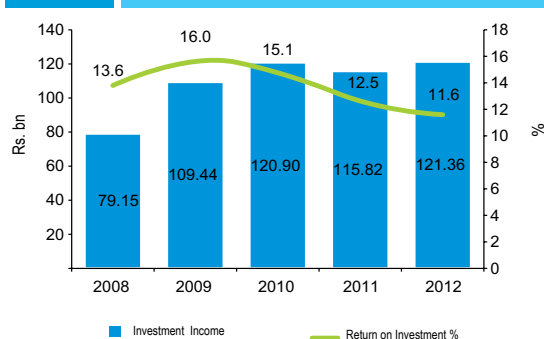
**Chart 7 Contributions, Refunds and Net Contributions**

Contributions (Rs. mn)	45,951	48,712	54,796	61,879	70,171
Refunds (Rs. mn)	25,931	31,901	34,896	47,311	48,712
Net Contributions (Rs. mn)	20,020	16,811	19,900	14,568	21,459

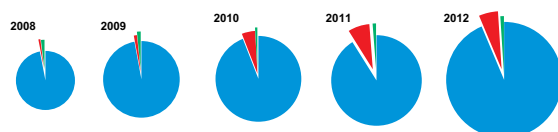
Source: EPF Department, Central Bank of Sri Lanka

**Chart 8 Liquidity Available for Refund Payments**

Source: EPF Department, Central Bank of Sri Lanka

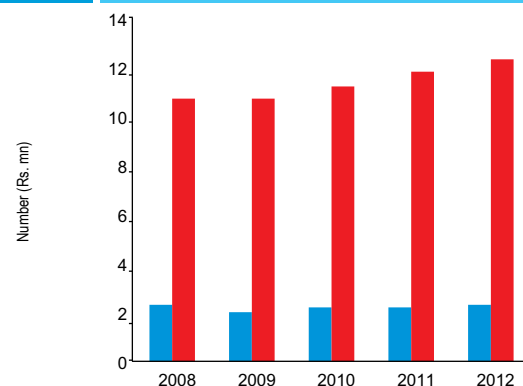
**Chart 9 Effective Rate of Return for Member Balances Vs. Market Rates**Source: EPF Department, Central Bank of Sri Lanka  
Annual Report, Central Bank of Sri Lanka**Chart 10 Return on Average Investment Portfolio**

Source: EPF Department, Central Bank of Sri Lanka

**Chart 11 Composition of Investment Portfolio**

Category	2008	2009	2010	2011	2012
Total Investment Portfolio (Rs. bn)	627.3	738.1	867.1	988.0	1,105.5
Composition					%
Government Securities	97.9	97.1	94.1	90.8	93.6
Equity	1.1	1.3	5.0	7.9	5.4
Debentures and Others	2.0	1.6	0.9	1.3	1.0

Source: EPF Department, Central Bank of Sri Lanka

**Chart 12 Number of Member Accounts**

Source: EPF Department, Central Bank of Sri Lanka



## Operational Highlights

- 1 Paid interest to members at 11.5 per cent.
- 2 Total number of member accounts increased to 14.6 mn.
- 3 Total value of the Fund increased to Rs. 1,144 bn.
- 4 Total number of contributing member accounts increased from 2.2 mn to 2.3 mn.
- 5 Paid retirement benefits of Rs. 48,712 mn to 115,654 members.
- 6 Issued certificates of guarantees to 11, 234 members against their EPF account balances to obtain housing loans from participating lending institutions.
- 7 Conducted twelve mobile services for employees at different geographical locations to strengthen links with the stakeholders.
- 8 Appointed 3 Licensed Commercial Banks as Collecting Agents for online payments of EPF member contributions through the banks web services.



## Regulatory Framework

The Employees' Provident Fund (EPF/the Fund) is the largest superannuation fund in Sri Lanka. It was established under the Employees' Provident Fund Act No.15 of 1958 to provide retirement benefits for the private and semi government sector employees. In terms of the provisions of the Act, the Commissioner of Labour acts as the general administrator of the Fund while the Monetary Board of the Central Bank of Sri Lanka is entrusted with the powers, duties and responsibilities to act as the custodian of the Fund. The Employees' Provident Fund Department of the Central Bank facilitates the Monetary Board in discharging its powers, duties and functions entrusted by the Act.

The EPF is a mandatory defined contributory retirement benefit scheme. The mandatory minimum contribution rate to the Fund is 20 per cent of the gross monthly earnings of the EPF member. The employer and the employee (members) are required to contribute 12 per cent and 8 per cent of the member's gross earnings, respectively, to EPF.

Employers are liable to send contributions and relevant details of their employees to the Fund

periodically. Employers who employ less than 150 employees (C category) send contributions and relevant details (Form C) on a monthly basis and employers who employ more than 150 employees (C3 category) send contributions monthly and relevant member details (Form C3) semi-annually. However, with the amendment to the Act in 2012, all employers having a minimum of 50 employees are required to send the monthly contributions and details through electronic media.

The EPF members are eligible to claim their retirement benefits once they reach the retirement age (50 years for females and 55 years for males). In addition, members are also entitled to withdraw their member account balances in the events of migration, permanent disability, leaving the employment due to marriage (only for female members) and joining a pensionable employment. Legal heirs of a deceased member are eligible to receive the benefits in the case of the death of a member. In addition to the retirement benefits, EPF facilitates members to obtain loans from five approved lending institutions by pledging the balances lying to the credit of their accounts for housing purposes.

### Functions of the Commissioner of Labour

Registration of employers and employees to the Fund.

Carrying out inspections to ensure compliance with the EPF Act and taking legal actions against non-payment of member contributions.

Recovery of surcharges on late contribution payments from employers.

Acceptance of applications for refund of benefits and issuance of Letters of Determination on such applications advising the Central Bank to pay benefits.

Authorization of the amalgamation of previous member accounts of a member.

Approval of housing loans enabling members to obtain housing loans from approved lending institutions by pledging their member balances.



### Functions of the Monetary Board

Receipt of member contributions, surcharges and income.

Maintenance of member accounts.

Investment of excess funds to provide maximum return to the members while ensuring the safety of the Fund.

Crediting annual interest to member accounts at a rate approved by the Monetary Board with the concurrence of the Minister of Labour and Labour Relations and the Minister of Finance.

Preparation of annual accounts and issue of annual statements of accounts to the members.

Effecting refund of benefits in accordance with Letters of Determination issued by the Commissioner of Labour.

Issuing of certificates of credit balances to relevant lending institutions facilitating grant of housing loans.

Submission of information such as financial statements and statement of investments to the Hon. Minister of Labour and Labour Relations and Hon. Minister of Finance within 3 months from the end of each year.





## Senior Management Team as at 31.12.2012

### Department of Labour (EPF Division)

Name	Designation	Division
Mr. D P K R Weerakoon	Commissioner of Labour	
Mrs. V Umamagal	Deputy Commissioner of Labour	Claim
Ms. P H P I Bandara	Assistant Commissioner of Labour	
Mr. T Yogaragha	Assistant Commissioner of Labour	
Mr. K L K Perera	Deputy Commissioner of Labour	Recovery
Mr. D H T Deshapriya	Assistant Commissioner of Labour	
Mr. U P R Sirinaga	Assistant Commissioner of Labour	
Mr. B Vasanthan	Deputy Commissioner of Labour	IT
Ms. D V T P Dayananda	Assistant Commissioner of Labour	Administration
Mrs. N M Y Thushari	Assistant Commissioner of Labour	Claim L
Mrs. G A D R Gayani	Assistant Commissioner of Labour	
Mrs. D R Perera	Assistant Commissioner of Labour	

### EPF Department of the Central Bank

Name	Designation	Division
Mrs. K Gunatilake	Superintendent	
Mrs. C M D N K Seneviratne	Additional Superintendent	
Mr. L D D Y Perera	Additional Superintendent	
Mr. A G U Thilakarathna	Deputy Superintendent	
Mr. S A L Muthukumara	Deputy Superintendent	
Mrs. S N Thilakawardena	Senior Personal Secretary	
Mrs. O K S P Bandara	Personal Secretary	
Mr. S S P De Silva	Assistant Superintendent	Corporate Services and Administration
Mr. H G L Wickramasinghe	Assistant Superintendent	
Mrs. K G N Wijeratne	Assistant Superintendent	
Mr. M M Sunil Shantha	Assistant Superintendent	Collection
Mrs. V K Dampahalage	Senior Assistant Superintendent	Re-Registration Division
Mrs. B M W S Balasuriya	Assistant Superintendent	
Mr. Sunil Koswattage	Assistant Superintendent	Current Contribution
Mrs. K A Senaratne	Assistant Superintendent	
Ms. G B N A Samaranayaka	Assistant Superintendent	



Mr. K G Tilakasiri	Assistant Superintendent	Statemented Contribution
Ms. P D N Gunatilake	Assistant Superintendent	
Mr. U A Gunawardena	Assistant Superintendent	
Mrs. D M G Piyathilake	Senior Assistant Superintendent	e-Collection
Mr. M N Weerasinghe	Assistant Superintendent	
Mr. J D S J Nanayakkara	Senior Assistant Superintendent	Fund Management Division
Mrs. N L M Abesekara	Senior Assistant Superintendent	
Mrs. I T R M Gunaratne	Assistant Superintendent	
Mr. W G R Harshapriya	Assistant Superintendent	
Mr. T Udayaseelan	Assistant Superintendent	
Ms. D P Udugamakorala	Assistant Superintendent	
Mr. S Pathumanapan	Assistant Superintendent	
Mr. G A C N Ganepola	Assistant Superintendent	
Mr. K L A C N Anuradha	Assistant Superintendent	
Ms. G B M P Dissanayake	Assistant Superintendent	Accounts and Settlements
Ms. D Y S Mahagederawatte	Assistant Superintendent	Record Management
Mrs. K M C Somasiri	Assistant Superintendent	
Mr. M Wickramarathne	Assistant Superintendent	Record Amendments
Mrs. P H D A Attanayake	Assistant Superintendent	
Ms. C P Jayaweera	Assistant Superintendent	
Mrs. H A S Kulasinghe	Assistant Superintendent	Housing Loan
Mr. W A Nandasena	Senior Assistant Superintendent	Refund Control
Mr. S A Jayawardana	Assistant Superintendent	
Mr. G Premadasa	Senior Assistant Superintendent	Refund Payments
Ms. K K C S Kannangara	Assistant Superintendent	
Mr. M M Sunil Shantha	Assistant Superintendent	Public Relations, Inquiries Counter & Call Centre



## Review of Operations

### 1.1 Economic Growth

During 2012, the economy grew at a remarkable rate of 6.4 per cent amidst a challenging global macro-economic environment. Although the economic growth slowed-down during 2012 compared to the impressive growth rates exceeding 8 per cent in the preceding two years, Sri Lanka recorded the highest GDP growth rate within the South Asian region for the second consecutive year. In the year under consideration, export growth was affected by the global uncertainty emanating from European debt crisis, geo-political issues, fiscal concerns in the United States (US), high petroleum prices and the subdued economic activities in developed and emerging markets. Further, the unfavourable weather conditions had a negative impact on the GDP growth in 2012.

During this year, the contribution of Industry sector to the GDP growth in Sri Lanka was particularly noteworthy. The growth in the Industry sector was primarily driven by the construction sub-sector. Nevertheless, the growth in manufacturing sub-sector decelerated during the year owing to the slow-down in domestic and foreign demand. Despite the adverse weather conditions that prevailed in the second half of the year, the Agriculture sector recorded 5.8 per cent growth rate. However, the services sector grew at a moderate rate of 4.6 per cent due to sluggish external trade activities and the deceleration in the transport sub-sector.

### 1.2 Employment and Wages

Although the number of employed persons declined by 0.8 per cent to 8.129 million, due to reduction in unpaid family workers and employers the absolute number and the share of employed population engaged in the private, public and self-employed sectors

increased in 2012. Particularly, the number of employees engaged in the private sector has increased by 1 per cent to 3.356 million. The increase in private sector employees is important for the EPF since such employees account for a larger fraction of the EPF members. In addition, the number of public sector employees increased by 4.3 per cent while self-employed persons increased only marginally. During 2012 also, the private sector employees retained its dominance within the employed labour force with 41.3 per cent share.

The declining trend in unemployment rate observed in the past few years continued in 2012 also. With the expansion of all three sectors in the economy, i.e. agriculture, industry and services sectors, the unemployment rate declined to the lowest level of 4.0 per cent during 2012 from 4.2 per cent in the preceding year.

In addition, formal private sector wages increased by 22.2 per cent during 2012 compared to the preceding year. This increase was entirely driven by the nominal wage rate index of formal Agriculture sector, which rose by 29.3 per cent under the wage revisions in that sector. However, nominal wage indices of the Industry and Commerce and Services sectors remained more or less the same. The rise in formal private sector wages potentially increased the contributions received by the EPF.

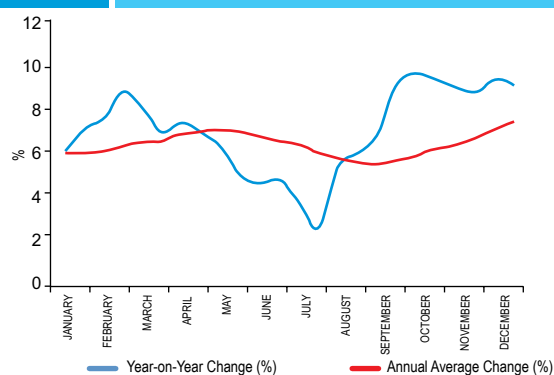
### 1.3 Inflation

For the fourth consecutive year, Sri Lanka's inflation remained at a single digit level during 2012. However, compared to the preceding year inflation increased in 2012 owing to the cost pressures and supply-side factors. The year-on-year headline inflation, which was 2.7 per cent in February 2012 rose



to 9.8 per cent by July and remained at high single digit level throughout the year. The upward revision of administered prices of petroleum products, electricity, LP gas and bus fares, the increase in duties on several imported commodities, depreciation of the Sri Lankan Rupee and escalated food prices due to unfavourable weather conditions are the primary causes for rising inflation.

**Chart 13** Colombo Consumer Price Index



Source: Central Bank of Sri Lanka

## 1.4 Fiscal Policy

The government of Sri Lanka aimed at fiscal policy consolidation during 2012 through tax policy reforms, rationalizing recurrent expenditure and maintaining the public investments to boost the economic growth. Accordingly, government was able to maintain the fiscal deficit at 6.4 per cent of the GDP during 2012 compared to the deficit of 6.9 per cent of the GDP in 2011.

The government debt management strategy in 2012 aimed at meeting government financing requirements at the lowest possible costs and managing the risks at prudent levels. During the year under review, the overall budget deficit of Rs. 489 billion was primarily financed through the foreign sources.

Although the budgetary estimate of foreign financing was 42 per cent for 2012, the actual foreign financing contributed to 59 per cent of the total financing requirements of the year. In contrast, foreign financing

accounted for 49 per cent of the government borrowing requirements in the preceding year. During 2012, the net foreign financing amounted to Rs. 286.5 billion while net financing raised through domestic sources was Rs. 200.4 billion.

Amongst the domestic financing sources, banking sector played an important role as a creditor to the government. The government's borrowings from the banking sector amounted to Rs. 131.5 billion, while borrowings from the non-bank institutions were only Rs. 68.9 billion. Accordingly, the borrowings from the non-bank sector have increased by 74.9 per cent in 2012 compared to the previous year. As in the preceding years, EPF and the National Savings Bank were the key institutional investors in the non-bank sector. The planned reduction in budget deficit as percentage of GDP to 4 per cent in the medium term, is a concern for the EPF, since it points to the need for diversification of asset portfolio in to different assets on an urgent basis.

## 1.5 Monetary Policy

Throughout the year 2012, the Central Bank used a tight monetary policy stance to curtail the high monetary and credit expansion and the demand driven inflationary pressure. In February 2012, Central Bank increased the policy rates by 50 basis points each and allowed the market to determine the exchange rate to a greater extent. In April 2012, Central Bank further increased the Repo rate by 25 basis points to 7.75 per cent and the Reverse Repo rate by 75 basis points to 9.75 per cent. Also, Central Bank issued directions to the licensed banks to reduce the Rupee credit growth to 18 per cent or to 23 per cent for the banks that finance the difference through the funds mobilized offshore. Due to this tight monetary policy stance, the credit growth decelerated substantially towards the end of the year. In view of the credit growth deceleration and the benign



inflation expectations, Central Bank was able to relax its monetary policy stance in December 2012 by reducing the policy rates by 25 basis points each.

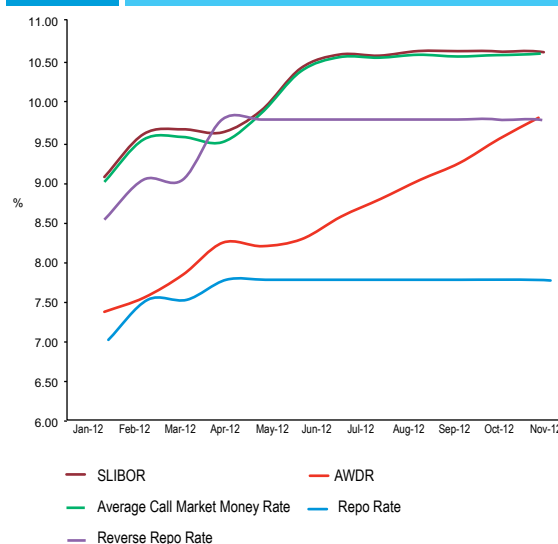
By and large, the market liquidity level remained in excess during the first eight months of the year and was on a balanced level thereafter. Open Market Operations were used on long-term basis by the Central Bank to address the structural liquidity imbalances.

### 1.6 Interest Rates

During the first half of 2012, the market interest rates increased due to the increase in policy rates and the ceiling on bank lending. Accordingly, Average Weighted Call Money Rate (AWCMR) increased by 120 basis points in line with the upward revision in policy interest rates in February and April 2012. AWCMR reached the highest level of 10.71 per cent in mid-July and remained stable thereafter around 10.54 per cent, close to the upper bound of the policy rates. However, with the reduction in policy rates and the expectations on termination of credit ceiling led to a sharp downward adjustment in AWCMR during mid-December. Further, the movement in the Sri Lanka Inter-bank Offered Rate (SLIBOR) was in line with the AWCMR.

The deposits rates that started to rise in the fourth quarter of 2011 continued to increase throughout the year 2012. The tight liquidity conditions and aggressive deposit mobilization by the financial institutions to secure a larger share of the market resulted in rising deposit rates. The Average Weighted Deposit Rate (AWDR) increased to 10.10 per cent by December 2012 from 7.24 per cent at the end of the preceding year. In comparison, EPF paid 11.5 per cent rate of return to the EPF members in the year under review.

**Chart 14 Trends in Selected Interest Rates - 2012**



Source: Central Bank of Sri Lanka

**Table 3 Secondary Market Yield Rates on Government Securities**

		End of Quarter				
		Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
Treasury bills	91 days	8.60	10.90	11.05	11.30	10.10
	182 days	8.78	11.00	12.50	12.73	11.30
	364 days	9.25	11.15	12.81	12.98	11.65
Treasury bonds	2 years	9.45	11.70	13.20	13.20	11.70
	3 years	9.85	11.95	13.75	13.33	11.75
	4 years	9.92	12.10	14.03	13.60	11.95
	5 years	9.95	-	14.15	13.80	11.85

Source: Central Bank of Sri Lanka





## 2.1 Government Securities Market

The yield rates of Government Securities in the primary market increased during 2012 owing to the increased policy rates, tight liquidity conditions and high government borrowing requirements. This increasing trend continued until May 2012. But the credit ceiling imposed on the commercial banks boosted the appetite for Treasury bills leading to a reduction in Treasury bills' yield rates in the primary market. Further, the average weighted yield rates of Treasury bills declined due to various strategies of the Central Bank, such as gradual reduction in the issue of Treasury bills to the market and the discontinuation of direct placement of Treasury bills. Therefore, the yield rate of 91-days Treasury bills declined in May 2012 while yield rates on other maturities stabilized thereafter. Further, yield rates declined across all maturities during December 2012 with the downward revision of policy rates.

The secondary market yield rates of Government Securities increased until August 2012 in tandem with the upward movement in the entire interest rate structure. With the stabilization of the primary market yield rates, the secondary market yield rates showed a declining trend across all maturities since September 2012. Further, the increased demand for Treasury bonds by the foreign investors also contributed to the decline in secondary market yield rates.

## 2.2 Corporate Debt Securities Market

Compared to the previous year, the corporate debt securities market was relatively active during 2012. During the year under review, the value of commercial papers issued by the firms amounted to Rs. 36.9 billion while this was merely Rs. 13.6 billion in 2011. In addition, investors witnessed nine listings of corporate debentures by two

banking institutions during the year. These debentures carried both fixed and floating interest rates and a maturity period of five years. The funds mobilized by the corporate debenture issues in 2012 amounted to Rs. 12.5 billion. However, the secondary market for corporate debt instruments continued to be remain stagnant during 2012 as in the previous years.

## 2.3 Equity Market

The equity market showed dismal performance during 2012 compared to the upsurge witnessed in the market in 2009 and 2010. The downward trend in equity market indices, which started in late 2010, continued during 2011 and in the first half of 2012 also. The limits imposed on stock brokers' credit, liquidity constraints in the market, spill-over effects of global financial markets, volatility of the exchange rate and high yields on fixed income securities were the main reasons for stock market downturn.

Nevertheless, a positive recovery was observed in the equity market during the second half of 2012. The relaxation of rules imposed by the Securities and Exchange Commission (SEC) on broker credit and trading, revision of policy interest rates, gradual recovery of the Sri Lankan Rupee against the US dollar (USD) and the continued foreign investor participation helped the recovery of equity market. Accordingly, All Share Price Index (ASPI) declined only by 7 per cent during 2012 compared to the 8.5 per cent dip witnessed in 2011. By end 2012, the Milanka Price Index (MPI) declined by 2 per cent compared the preceding year-end. In view of meeting the investors' demand for transparent and rule-based benchmark, the S&P SL 20 index was introduced on June 27, 2012. By end 2012, this index increased by 8 per cent since its introduction. Except for the Food, Beverage and Tobacco sector, all other sub-sectors



contributed to the decline in the equity market.

In tandem with the decline in indices, the market capitalization in the Colombo Stock Exchange (CSE) declined by 2 per cent to Rs. 2.17 trillion by end 2012 from Rs. 2.21 trillion by end 2011. During the year under review, there were six new listings via Initial Public Offering (IPO), 19 Rights Issues and 12 new listing via Introduction. Accordingly, the number of companies listed in the CSE increased by 15 to 287 by end 2012.

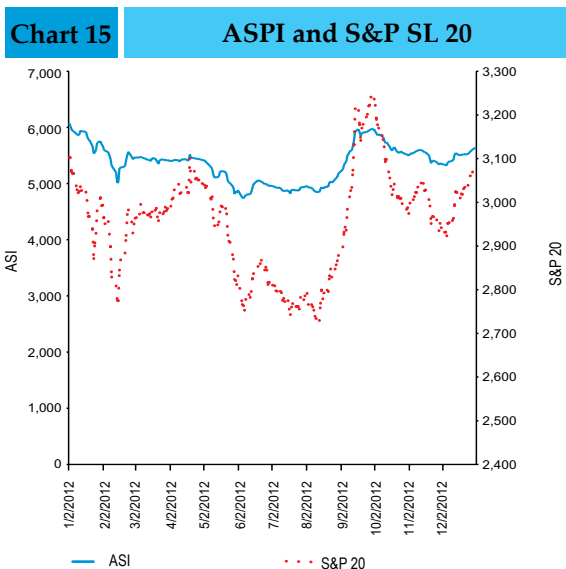
Further, the turnover of the equity market declined to Rs. 214 billion in 2012 compared to the Rs. 546 billion-turnover in 2011. Therefore, average daily turnover of the CSE was only Rs. 884 million relative to the Rs. 2,286 million in the preceding year. As in the previous years, domestic investors dominated the investor-base. Contribution of the domestic investors to the turnover and number of transaction were 75 per cent and 97 per cent, respectively.

Although the CSE experienced a net foreign outflow during 2010 and 2011, foreign investor participation in the Sri Lanka's equity market increased in 2012. The foreign

purchases and sales amounted to Rs. 72.7 billion and Rs. 34 billion, respectively, which resulted in a net foreign inflow of Rs. 38.7 billion (i.e. USD 304 million). During 2011, the net foreign outflow from the Sri Lanka's equity market was Rs. 19 billion (i.e. USD 167 million). Institutional investors dominated the foreign investor-base with 95.8 per cent contribution to the foreign purchases.

### 3. Review of the Performance of EPF

The total assets of the Fund reached Rs. 1,144 billion by end 2012 recording a 12.4 percent growth over Rs. 1,018 billion by end 2011. The increase mainly came from member contribution and the income generated through the prudent management of the Fund during 2012. The total number of member accounts reached 14.6 million by end 2012, which is an increase of 4.3 per cent compared to 14 million recorded by end 2011. The number of contributing member accounts increased to 2.3 million by end 2012 from 2.2 million reported by end 2011 whilst non-contributing member accounts stood at 12.3 million by end 2012, compared to 11.8 million by end 2011. Meanwhile, the number of contributing employers increases to 68,140 by 5.5 per cent by end 2012 from 64,562 reported by end 2011.



Source: Colombo Stock Exchange

#### 3.1 Member Contributions and Payment of Retirement Benefits

In 2012, member contribution increased by 13.4 per cent to Rs. 70.2 billion from Rs. 61.9 billion in 2011. The total amount paid as refund benefits to the members and their heirs in 2012 was Rs. 48.7 billion, which was an increase of 3 per cent over that of Rs. 47.3 billion paid in 2011. Accordingly, the net contribution (gross contribution less refund benefits) also increased by 47.3 per cent to Rs. 21.5 billion compared to 14.6 billion in the previous



Table 4

## EPF Refund Payment 2012

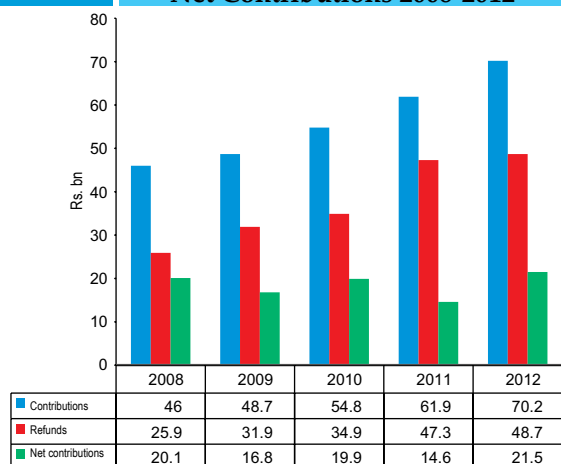
Reason for EPF Refund	Number of Refund Applications		Total Amount of Refund Benefits (a)	
	No.	%	Amount (Rs.bn)	%
Reaching of Retirement Age	74,161	61.0	35.79	75.3
Retirement due to Marriage	27,114	22.8	4.85	9.5
Migration	1,654	1.7	1.95	5.2
Medical Reasons	1,080	1.1	0.53	1.2
Death of Member	5,181	8.2	2.09	4.3
Joining a Pensionable Job	5,293	4.3	0.96	1.9
Others	1,171	1.0	1.77	2.7
<b>Total</b>	<b>115,654</b>	<b>100.0</b>	<b>47.94</b>	<b>100.0</b>

Source: EPF Department, Central Bank of Sri Lanka

(a) This includes only the first payment of refunds excluding part payments, unclaimed payments and retained payments.

year.

Chart 16 Contributions, Refunds and Net Contributions 2008-2012



Source: EPF Department, Central Bank of Sri Lanka

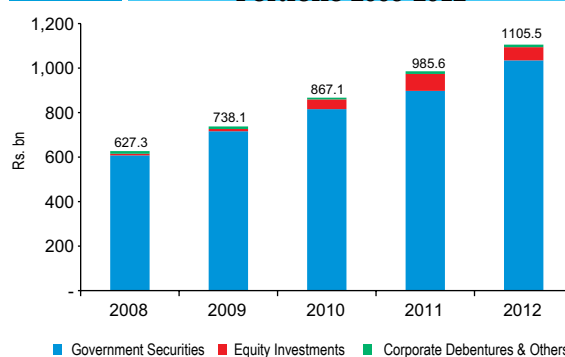
As depicted in Chart 16, both the contributions and refund payments over the last 5 years have shown an increasing trend. As shown in Table 4 EPF refund payments are made to the members who have reached their retirement age. Further, a considerable portion of refunds claims were made to female members, who have resigned from their jobs due to marriage.

### 3.2 Investment Portfolio of EPF

The total investment portfolio (Book Value)

of the Fund grew by 12.2 per cent from Rs. 985.6 billion in 2011 to Rs. 1,105.5 billion in 2012. The growth in the investment portfolio was mainly driven by the return on investment and the growth in member contributions.

Chart 17 Composition of the Investment Portfolio 2008-2012



Source: EPF Department, Central Bank of Sri Lanka

As usual, in 2012 the major portion of the Fund was invested in government securities which compared of 93.6 per cent of total investments. 5.4 per cent was invested in equity and 0.7 per cent was placed in corporate debentures. The balance 0.3 per cent was invested in high liquid assets such as reverse repos on government securities to meet liquidity requirements of the Fund. Compared to previous year, the share of investment in government securities has increased by 2.8 per cent while share of



**Table 5** Maturity Profile of Government Securities Portfolio – End 2012

Maturity	Book Value (Rs. mn)	Share	Weighted Average Yield (%)
Less than 1 year	231,193	22.3	12.7
1-2 years	126,146	12.2	9.8
3-4 years	209,817	20.3	10.1
More than 5 years	468,082	45.2	11.1
<b>Total</b>	<b>1,035,238</b>	<b>100.0</b>	<b>11.1</b>

Source: EPF Department, Central Bank of Sri Lanka

equity has reduced by 2.5 per cent.

### 3.2.1 Government Securities Portfolio

The government securities portfolio consisting of Treasury bonds, Rupee loans and Treasury bills grew by Rs. 137.5 billion to Rs. 1,035.2 billion in 2012 from Rs. 897.7 billion in 2011. By end of 2012 the Treasury bond portfolio stood at 91.5 per cent of the total portfolio while the share of Rupee loan marginally decreased from 2.3 per cent to 2.1 per cent due to maturity of the instruments during 2012.

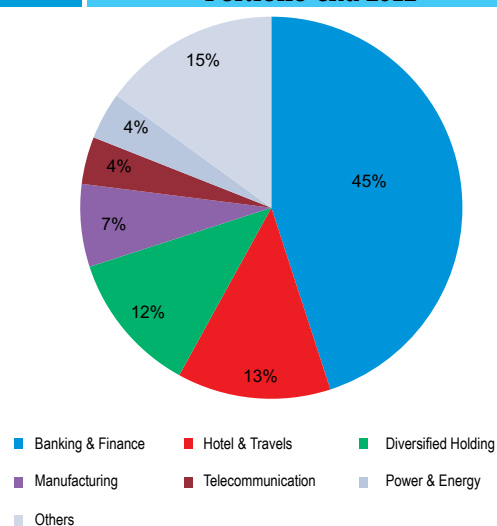
During 2012, Rs. 119.75 billion was earned as interest income, amortization gain and capital gain from the government securities portfolio, representing 98.4 per cent of the total gross income of the Fund. In 2012, the realized rate of return over the average government securities portfolio was 12.1 per cent, while the weighted average yield of the government securities portfolio by end 2012 was 11.1 per cent (Table 5). As given in the Table 5 out of the total government securities portfolio, 54.8 per cent will mature within next 4 year period while 45.2 per cent will mature after 5 years.

### 3.2.2 Equity Portfolio

Equity portfolio which consists of both listed and unlisted equities, decreased by Rs. 16.7 billion from Rs. 78.3 billion in 2011 to Rs. 59.2 billion in 2012 due to the sale of part of the listed portfolio. The equity portfolio

which consisted of an investment portfolio of Rs. 59.1 billion and a trading portfolio of Rs. 0.1 billion was approximately 5.4 per cent of the total portfolio as at the end of 2012.

EPF continued to maintain a well-diversified Available For Sale (AFS) portfolio consisting of fundamentally sound companies, especially in the sectors of banking and finance, diversified holdings, hotels and finance, diversified holdings, hotels and travels, manufacturing and construction and engineering sectors listed in CSE (Chart 18). The equity portfolio generated an income of Rs. 2.6 billion in the year 2012 through dividends, capital gains and marking to market gain/ loss of trading portfolio recording 8.3 per cent increase relative to Rs. 2.4 billion earned in 2011.

**Chart 18** Sectorial Composition of the Equity Portfolio-end 2012

Source: EPF Department, Central Bank of Sri Lanka

**Table 6** **Income on Investments**

Source of Income	2011		2012		Growth%
	Rs.mn	Share (%)	Rs.mn	Share (%)	
Interest and Amortization Gain	113,400	97.7	118,696	97.8	4.7
Capital gain from Government Securities	10	..	34	..	240.0
Marked to market gain/(loss)	(267)	(0.2)	(388)	(0.3)	45.3
Capital gains from Equity	715	0.6	1,020	0.8	42.7
Dividends	1,963	1.7	1,996	1.6	1.7
Other	222	0.2	55	0.1	(75.2)
<b>Total</b>	<b>116,043</b>	<b>100.0</b>	<b>121,413</b>	<b>100.0</b>	<b>4.6</b>

Source: EPF Department, Central Bank of Sri Lanka

### 3.2.3 Corporate Debt Portfolio

EPF invests in investment grade corporate debt instruments such as corporate debentures, trust certificates and mortgage backed securities. During 2012, the Fund invested in several debt issues in the market. The corporate debt portfolio of the Fund stood at Rs. 8 billion as at 31.12.2012, which is only 1 per cent of the total portfolio. The Fund earned interest income of Rs. 1,049 million from corporate debt portfolio and the rate of return on average portfolio was 12.2 per cent per annum.

### 3.2.4 Reverse Repurchase and Treasury bond Lending

The daily excess cash is invested in the Repo market in order to manage the liquidity of the Fund. During 2012, the Fund earned an interest income of Rs. 251 million from reverse repo transactions.

### 3.2.5 Income of the Fund

The gross income of the Fund for the year 2012 increased by Rs. 4.6 billion to Rs. 121.4 billion from Rs. 116.0 billion in 2011 (Table 6). The highest contributors to the income were interest income and amortization gain that represent 97.8 per cent of the total

income while dividend and capital gains represented 2.4 per cent. There was a 0.3 per cent loss from marking to market of the trading portfolio of listed equity.

Interest income and amortization gain income increased by Rs. 5.3 billion to Rs. 118.7 billion in 2012. Capital gains from listed equities recorded a considerable increase from Rs. 715 million in 2011 to Rs. 1,020 million in 2012 due to the selling of some shares in early part of 2012. Overall, the rate of return on total portfolio decreased to 11.6 per cent in 2012 from 12.5 per cent in 2011 mainly due to the maturity of the high yielding government securities in 2012.

### 3.3 Operational Expenditure

The total operational expenditure of the Fund increased to Rs. 947.7 million in 2012, registering a 20.6 per cent growth compared to Rs. 785.7 million in 2011 mainly due to the increase in personal expenses, as in the case of previous years. Nevertheless, the Fund was able to maintain its total operational expenditure at 0.78 per cent of its total gross income during the year under review. Maintaining operational expenditure below 1 per cent of the gross income has been a key feature of the Fund over past several years.

**Table 7** Operational Expenditure

Item	2011 (Rs.mn)	2012 (Rs.mn)	Change (%)
Personnel Expenses	417	514	23.3
Administrative Expenses	335	397	18.5
Other Expenses	34	37	8.9
Total	786	948	20.6
<b>Total Expenses as a % of Gross Revenue</b>	<b>0.68</b>	<b>0.78</b>	<b>12.82</b>

Source: EPF Department, Central Bank of Sri Lanka

### 3.4 Tax Expenditure

During the year 2012, EPF paid Rs. 8,637 million as income taxes recording a 7.2 per cent increase compared to the income tax payment of Rs. 8,055 million in 2011.

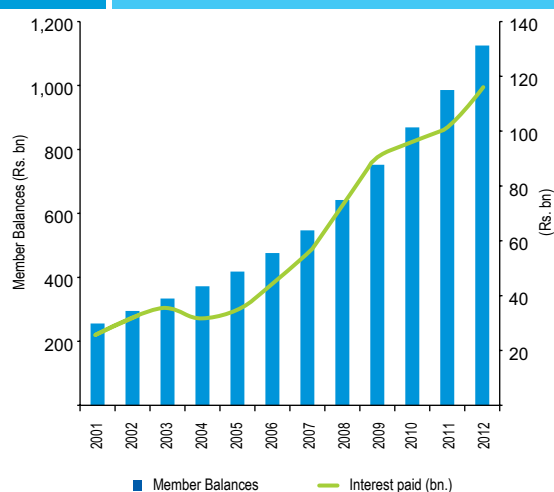
### 3.5 Member Account Balances and Interest Paid

In 2012, a sum of Rs. 115.7 billion was distributed to members as interest, enhancing the members' balance by 14.0 per cent to Rs. 1,124 billion compared to Rs. 986 billion in 2011.

Despite the declining interest rate environment, the Fund was able to declare an interest rate of 11.5 per cent for the year ending 31 December 2012.

### 3.6 Risk Management

As the largest national superannuation fund, EPF manages long-term savings of private sector and semi government sector employees to give maximum retirement benefits while ensuring safety and growth of the fund. On the other hand, EPF is a systematically important entity in the financial sector as it represents nearly 12.7 per cent of the assets of the major financial institution as at 31 December 2012. Therefore, prudent management of risks associated with the Fund is critically important for the members' wealth and the entire financial system of the country. The key risks faced by the Fund are credit, market, liquidity and operational risks.

**Chart 19** Member Balances and Interest Paid

Source: EPF Department, Central Bank of Sri Lanka

#### 3.6.1 Credit Risk

This risk that the Fund will incur losses owing to the failure of a counter party or an issuer to meet its obligation to settle its outstanding is the credit risk. The credit risk of the Fund is minimal as 94 per cent of the investment was increased in government securities. Further, the Fund invests only in highly creditworthy corporate debt instruments which accounted for about 1 per cent of the portfolio, after a thorough analysis by taking the risk and return into consideration. In addition, all Reverse Repo investments of the Fund have been collateralized by adequate government securities.

**Table 8** Liquidity Available for Refund Payments

Year	Cash Inflow				Cash Outflow (Refund)	Refund / Total Inflow %
	Contributions	Interest and other Income	Maturities	Total		
2008	45.95	55.03	235.75	336.73	25.93	7.7
2009	48.71	75.11	249.47	373.30	31.90	8.5
2010	54.80	89.77	303.28	447.84	34.90	7.8
2011	61.88	89.80	380.94	532.62	47.31	8.9
2012	70.17	86.92	401.68	558.77	48.71	8.7

Source: EPF Department, Central Bank of Sri Lanka

### 3.6.2 Market Risk

Market risk is the possibility that changes in market prices such as interest rate, equity prices, and exchange rates will affect the Fund's income and the value of its holdings of its investments. At present, the market risks faced by the Fund is of two fold; interest rate risk and equity price risk. When the market interest rates increase the value of the Treasury bond trading portfolio deteriorates, and when the interest rates decrease the Fund will have to invest at low interest rates. However, this risk has been mitigated to some extent by the proactive measures taken by the Fund by selecting Treasury bonds of different maturity and yields appropriately and by limiting the size of the trading portfolio.

The equity price risk is the reduction in the value of the equity portfolio due to the decline in the share prices. This has been minimized by setting upper limits on equity portfolio, diversifying into growing sectors such as banking, finance and insurance, diversified holdings, hotels and travels, construction and engineering, manufacturing and telecommunication. Further, EPF has carefully analysed and invested only in financially sound or under-priced stocks in the market. Market risk on equity portfolio is relatively low since exposure of equity market is only 5.4 per cent from the total portfolio of the Fund.

### 3.6.3 Liquidity Risk

Liquidity risk is the potential loss financially or otherwise arising from the inability to meet financial obligations as they fall due. Over the year the Fund receives contributions exceeding the refund benefit payments for a given month or a year. Further, Fund receives regular interest income and maturity proceeds throughout the year. The annual refund payment of the Fund is around 8 per cent of cash inflow (Table 8). In addition EPF is in a position to sell tradable securities or retain maturity proceeds if the need arises. As a daily liquidity management process, EPF actively participates in the overnight Repo market, to maintain adequate funds on a daily basis while earning reasonable return on excess cash. Accordingly, liquidity risk of the Fund is very minimal.

### 3.6.4 Operational Risk

EPF adopts proactive measures and prompt corrective measures to minimize the operational risk faced by the Fund. The members' accounts of the Fund are maintained in the AS 400 system, which has been upgraded to a new ledger system in January 2011. This new system records all transactions centrally, while facilitating greater integration of the processes in the EPF system at the CBSL, leading to significant improvement in operational efficiency and greater accuracy of data, with minimum manual interventions. Regular internal



audit of all operations of the Fund ensures that any deviations from internal controls and operation weaknesses are highlighted to the management. Operational risk of the Fund has been further minimized by maintaining an online real time backup system which enables the Fund to carry out its functions without any disruptions. In addition, the Business Continuity Plan (BCP) and the Disaster Recovery Sites (DRS) are being tested every year to ensure the smooth functioning of the operations in the event of any unforeseen event.

### 3.7 Housing Loan Facility

In 1998, EPF introduced an ancillary facility enabling the members to obtain housing loans from 6 participating lending institutions, namely, Bank of Ceylon, People's Bank, State Mortgage and Investment Bank, Housing Development and Finance Corporation (HDFC), Co-operative Rural Banks and National Housing Development Authority. In 2012, EPF continued to issue certificates of guarantees to members against their EPF balances under this scheme.

During the year, 11,234 member balance certificates were issued to participating lending institutions for the approval of housing loans amounting to Rs. 3,973 million. Further, in 2012, Rs. 2,019 million was deducted from relevant member accounts and remitted to the participating lending institutions in settling the loan arrears for 2011.

Although the housing loan scheme is an additional facility offered by EPF, some members do not utilise the facility wisely as they default the repayment of loans. As a result EPF has to deduct the arrears of instalments and the interest at penal rate charged by the lending institutions from the relevant member accounts and remits such funds to the relevant lending institution in accordance with the EPF (Amendment) Act No. 42 of 1988. This would drastically reduce the EPF balance of such members resulting in lower than expected benefits

**Table 9 Housing Loan Facility**

Year	Certificates Issued (No)	Credit Approved by EPF (Rs.Mn)	Amount Remitted to Lending Institutions (Rs.Mn)
2001	16,066	2,091	381
2002	19,502	2,673	541
2003	18,689	2,792	670
2004	14,307	2,452	735
2005	14,600	2,766	900
2006	15,136	3,049	1,078
2007	12,969	2,872	1,240
2008	12,519	3,008	1,192
2009	10,383	2,680	1,552
2010	13,848	4,512	2,093
2011	20,041	6,355	1,896
2012	11,234	3,973	2,019
<b>Total</b>	<b>192,232</b>	<b>40,871</b>	<b>14,559</b>

Source: EPF Department, Central Bank of Sri Lanka

at their retirement. In 2012, the lending institutions charged a penal interest rate of around 2 to 4 per cent per month, which amounted to an effective annual penal rate of around 24 to 36 per cent. Therefore, to gain the maximum benefits from this facility the members who obtain housing loans under this scheme should be aware of the consequences of defaulting housing loan repayments.

### 3.8 Enforcement of Law

In accordance with the EPF Act, the Department of Labour is responsible for general administration of the Fund and enforcement of the EPF Act. Accordingly, during the year 2012, the district labour offices and sub offices registered 9,799 employers and 412,255 employees covering all provinces including the Northern and the Eastern provinces. More than 37 per cent of the employers registered during the year 2012, were from the Western province while the Northern and the Eastern provinces accounted for 24 per cent of the total employer registrations.





As per the provisions of the Act, the Department of Labour is empowered to take legal actions against employers who do not pay member contributions. Accordingly, district labour offices and sub labour offices have sent 13,134 1st notices and 7,874 red notices claiming Rs. 4,604 million and Rs. 2,792 million, respectively. Further, Rs. 2,991 million has been recovered by the Department of Labour by filing legal cases against 2,991 institutions which had failed to settle the arrears within 28 days after receiving the red notices.

### 3.9 Re-registration of EPF Members

Re-registration of EPF members is one of the key projects launched jointly by the EPF Department and the Department of Labour to re-register EPF members by names as appearing in their National Identity Cards (NICs) and assign NIC numbers as the Unique Identification (UID) Number which enables both institutions to use a common database for maintenance of the member accounts. Accordingly, EPF database will transform in to a Member Centric Database (MCD) from Employer Centric Database.

Under the Re-registration of active EPF members (contributing members), NIC information of approx. 1.2 million members was collected by end 2012. Of which, 79 per cent of members were assigned UIDs, while the balance is being processed after obtaining verification from their employers, as discrepancies between collected data and the existing data were observed.

Registering of new EPF members under NIC information on real time basis commenced in November, 2010 and was carried out during the year 2012 as well. Accordingly, 40,000 new EPF members were registered and updated to the New Member Registry (NMR) during the year. A monthly monitoring system has been put in place to capture NIC information of all new members to whom member contributions are received by the EPF for the first time in each month.

Linking of previous member accounts of active members to UIDs was carried out during the year 2012. Accordingly, a total of 6,000 previous member accounts were linked to UIDs in the year. This facility provides a value addition for members to access and view their EPF balances of multiple accounts by providing their NIC numbers through Internet and Short Messaging System (SMS).

### 3.10 E-Collection System for EPF Contributions

The EPF Department has introduced a new system for employers to submit member contribution details electronically (e>Returns) as a replacement for manual payment system (C and C3 returns). Submission of e>Returns, a total paperless solution, helps to minimize the difficulties currently faced by both the EPF Department and the employers. The system was continued with the initiative and the voluntary participation of employers up to 2012. In 2012, legal provisions to legalize this system have been approved through the amendments introduced to EPF Act by the Employees' Provident Fund (Amendment) Act No.2 of 2012.

A Direct Debit Payment Scheme has also been introduced for employers to transfer the monthly contribution directly from their bank to the EPF's bank account.

The EPF Department conducted 12 awareness campaigns and workshops on e-Return system for employers during 2012. As a result, registered number of employers with the system has increased to 1,385 in 2012 from 1,098 in 2011.

The EPF Department look steps to obtain the services of commercial banks by appointing them as collecting agents under this scheme. Accordingly, the Commercial Bank of Ceylon PLC and Bank of Ceylon commenced e-collection services to their customers with effect from October 2011 and September 2012, respectively. By end 2012,



a total of 235 employers were registered under this facility. Further, Sampath Bank PLC, People's Bank and Hatton National Bank PLC were working on initiating the required IT systems to provide a similar service to their customers.

### 3.11 Creating an e-database (The Image Scanning Project)

EPF was in the process of converting its operations to a near-paperless environment through an Image Scanning Project (ISP). ISP is expected to enhance the operational efficiency of the EPF Department by minimizing the time, space, cost, human resources and be supportive in achieving the objectives of other on-going projects.

The main tasks of the project are:

- I. Scanning of existing documents (master files/Form D/Form RR6/NIC copy).
- II. Supply, installation, integrating and commissioning of an integrated Document Management System (DMS) for storage and retrieval of scanned images.
- III. Linking of scanned images and the DMS with the existing EPF information system.
- IV. Installation of required Information & Communication Technology (ICT) infrastructure for future scanning of Form C/C3, Form D, Form RR6 and NIC copy at the point of reception.

### 3.12 Public Awareness

Awareness through networking was given prominence by the Department during 2012. Such awareness programmes were mainly conducted at organizations with large number of members/employees registered with EPF. Further, different categories of stakeholders; members, employers, job

market entrants, labour officials, rural bank officials and the general public were also addressed to improve their awareness on EPF related matters.

In 2012, twelve mobile services were conducted for employers at different geographical locations. These mobile services were held at Henfold Estate, Kurunegala Municipal Council, Udunuwara A.G.A Division, Moratuwa on Medical & Communal Hospitality Day, Colombo HR Service Providers Exhibition, Kurunegala Unichela Pvt. Limited, Meddacombr Estate of Elpitiya Plantations PLC, Colombo MAS Slimtex, Katunayake, Active Trading Pvt. Ltd. and Mega Career & Trade Fair in Hatton.

Mobile services were organized in collaboration with other relevant organizations such as Department of Labour, Department of Registration of Persons, Registrar General's Department and Police Department. Accordingly, the following services were delivered through the mobile services.

- Issuing of EPF balance statements to members.
- Amendment of name and National Identity Card (NIC) numbers of members.
- Re-registration of members.
- Promoting of member registration for SMS & Internet facilities.
- Counseling of members.
- Issuing of applications for EPF members to obtain NICs by officers of Department of Registration of Persons.
- Issuing of applications for EPF members to obtain Birth Certificates/Presumptive Age certificates by the Registrar General's Department.



**EMPLOYEES' PROVIDENT FUND**  
**STATEMENT OF INCOME AND EXPENDITURE FOR THE YEAR ENDED**  
**31<sup>st</sup> DECEMBER 2012**

(Rs.)

	Notes	2012		Total	
		Monetary Board	Labour Dept.	2012	2011
Interest Income	1	90,904,169,498	-	90,904,169,498	84,673,560,227
Dividend Income	2	1,996,329,740	-	1,996,329,740	1,963,273,422
Realised Capital Gain / (Loss)	3	1,054,177,803	-	1,054,177,803	724,640,967
Amortization Gain	4	27,791,502,310	-	27,791,502,310	28,726,516,148
Net gain / (loss) from financial instruments at fair value through profit or loss	5	(387,735,742)	-	(387,735,742)	(267,206,331)
<b>Investment Income</b>		<b>121,358,443,609</b>	<b>-</b>	<b>121,358,443,609</b>	<b>115,820,784,433</b>
Other Income	6	50,575,946	4,050,764	54,626,710	222,327,067
<b>Total Gross Income</b>		<b>121,409,019,555</b>	<b>4,050,764</b>	<b>121,413,070,319</b>	<b>116,043,111,500</b>
Total Operating Expenditure	7	(537,351,390)	(410,355,553)	(947,706,943)	(785,747,131)
<b>Operating Profit before income tax</b>		<b>120,871,668,165</b>	<b>(406,304,789)</b>	<b>120,465,363,376</b>	<b>115,257,364,369</b>
Less: Income Tax		(8,636,643,180)		(8,636,643,180)	(8,055,297,870)
<b>Profit for the Year</b>		<b>112,235,024,985</b>	<b>(406,304,789)</b>	<b>111,828,720,197</b>	<b>107,202,066,499</b>
Add-Retained comprehensive income from the previous year				368,792,047	293,931,074
<b>Profit available for distribution</b>				<b>112,197,512,243</b>	<b>107,495,997,573</b>
Less - Interest Paid on refunds-Current Year				(2,098,085,270)	(2,343,039,090)
Add / (Less) - Transfers from / (to) Profit Equalization Reserve				5,700,000,000	(3,500,000,000)
Interest on Member Balances as at 31 <sup>st</sup> December 2012 @ 11.50% (2011-11.50%)				(115,771,416,227)	(101,284,166,436)
<b>Carried Forward balance for the next year</b>				<b>28,010,746</b>	<b>368,792,047</b>

On Behalf of the Monetary Board

Certified By

K Gunathilake  
 Superintendent  
 Employees' Provident Fund

Date : 18/02/2013

Prepared By

G B M P Dissanayake  
 Assistant Superintendent  
 Employees' Provident Fund





**EMPLOYEES' PROVIDENT FUND**  
**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED**  
**31<sup>st</sup> DECEMBER 2012**

(Rs.)

	Notes	Total	
		2012	Restated 2011
Profit for the year		111,828,720,197	107,202,066,499
<b>Other Comprehensive Income</b>			
Net change in fair value of available-for-sale financial assets	8	(6,240,881,426)	(2,367,430,983)
<b>Total Comprehensive Income for the period</b>		<b>105,587,838,770</b>	<b>104,834,635,516</b>

On Behalf of the Monetary Board

Certified By

K Gunathilake  
 Superintendent  
 Employees' Provident Fund

Date : 18/02/2013

Prepared By

G B M P Dissanayake  
 Assistant Superintendent  
 Employees' Provident Fund



## EMPLOYEES' PROVIDENT FUND

### STATEMENT OF FINANCIAL POSITION AS AT 31<sup>st</sup> DECEMBER 2012

(Rs.)

	Note	2012	Restated 2011	Restated 2010
Property, plant & equipment (NBV)	9	584,952,243	494,764,779	214,022,022
<b>Financial Assets</b>	10			
Treasury Bonds		980,371,915,815	874,572,559,685	768,900,946,449
Rupee Loan		23,100,000,000	23,100,000,000	40,921,000,000
Treasury Bills		31,757,671,753	-	5,936,349,430
Listed Equity		54,744,901,555	71,405,897,425	57,029,447,126
Unlisted Equity		4,480,625,000	4,480,625,000	4,480,625,000
Corporate Debentures		7,981,853,041	9,237,746,504	6,285,997,690
Reverse Repo		3,106,900,000	2,802,100,000	1,357,000,000
		<b>1,105,543,867,164</b>	<b>985,598,928,614</b>	<b>884,911,365,695</b>
<b>Current Assets</b>				
Inventory		12,416,925	8,172,914	9,362,613
Interest Receivables		30,807,809,156	25,570,393,546	28,024,941,778
Contributions Receivable		6,239,874,709	5,430,068,285	4,540,823,513
Other Current Assets/Receivables	11	1,116,540,675	1,205,141,516	1,329,874,793
Cash and Cash Equivalents	12	2,377,212,886	2,025,632,477	1,310,405,686
		<b>40,553,854,350</b>	<b>34,239,408,738</b>	<b>35,215,408,383</b>
<b>Less: Current Liabilities</b>				
Creditors	13	10,366,364	7,987,850	2,094,146,943
Accrued Expenses		240,005,104	91,185,623	89,916,665
Other Current Liabilities	14	2,023,301,642	2,529,608,902	656,770,432
		<b>(2,273,673,110)</b>	<b>(2,628,782,375)</b>	<b>(2,840,834,040)</b>
<b>Net Current Assets</b>		<b>38,280,181,241</b>	<b>31,610,626,363</b>	<b>32,374,574,343</b>
<b>Total Net Assets</b>		<b>1,144,409,000,648</b>	<b>1,017,704,319,756</b>	<b>917,499,962,060</b>
<b>Represented By</b>				
Member Balances	15	1,124,508,128,334	986,045,793,692	869,199,254,939
Reserves	16	19,872,696,568	31,289,569,017	48,006,611,047
Retained Profit		28,010,746	368,792,047	293,931,074
		<b>19,900,707,314</b>	<b>31,658,361,064</b>	<b>48,300,542,121</b>
<b>Total Net Worth of the Fund</b>		<b>1,144,408,835,648</b>	<b>1,017,704,154,756</b>	<b>917,499,797,060</b>
<b>Non-Current Liabilities</b>				
Provision for Gratuity		165,000	165,000	165,000
<b>Net worth of the Fund &amp; Non-current Liabilities</b>		<b>1,144,409,000,648</b>	<b>1,017,704,319,756</b>	<b>917,499,962,060</b>

On Behalf of the Monetary Board

Certified By

K Gunathilake  
Superintendent  
Employees' Provident Fund

Date : 18/02/2013

Prepared By

G B M P Dissanayake  
Assistant Superintendent  
Employees' Provident Fund



## EMPLOYEES' PROVIDENT FUND

### RECEIPTS AND PAYMENTS ACCOUNT FOR THE YEAR ENDED 31<sup>st</sup> DECEMBER 2012

	Notes	2012			Restated 2011 Total
		Monetary Board	Labour Dept.	Total	
Cash balance at the beginning of the year		2,025,632,477	47,595,217	2,073,227,694	1,472,933,961
Add: Total Receipts	17	157,088,616,231	579,247,017	157,667,863,248	151,435,387,103
Less: Total Payments	18	156,737,045,822	581,930,495	157,318,976,317	150,835,093,370
<b>Cash balance at the end of the year</b>		<b>2,377,212,886</b>	<b>44,911,739</b>	<b>2,422,114,625</b>	<b>2,073,227,694</b>

On Behalf of the Monetary Board

Certified By

K Gunathilake  
Superintendent  
Employees' Provident Fund

Date : 18/02/2013

Prepared By

G B M P Dissanayake  
Assistant Superintendent  
Employees' Provident Fund



## EMPLOYEES' PROVIDENT FUND

### CASH FLOW STATEMENT FOR THE YEAR ENDED 31<sup>st</sup> DECEMBER 2012

(Rs.)

Description	2012	Restated 2011
<b>Cash flow from operating activities:</b>		
Interest received from Investments	83,928,914,594	86,070,971,262
Capital Gains on sale of T/Bill, Bonds & Shares	1,054,177,803	724,640,967
Dividends received from Shares	1,881,100,206	1,851,639,102
Surcharges	50,736,975	113,160,172
Other Income	5,978,873	144,367,937
Recoveries from Debtors	-	(2,429)
Re - imbursement of Expenses	-	(27,241,554)
Advances	(1,702,500)	25,136,334
Operating Expenses	(645,754,880)	(623,094,532)
Settlement of Creditors	(2,092,881,197)	(1,973,696,812)
<b>Cash generated from operations</b>	<b>84,180,569,874</b>	<b>86,305,880,447</b>
Payment of Tax	(18,918,362,215)	(13,571,791,103)
<b>Net cash from operating activities</b>	<b>65,262,207,659</b>	<b>72,734,089,343</b>
<b>Cash flow from investment activities:</b>		
Investments	(487,822,962,364)	(467,249,516,811)
Maturities of Investments	401,678,999,670	380,942,026,911
<b>Cash generated from investments</b>	<b>(86,143,962,694)</b>	<b>(86,307,489,900)</b>
Acquisition of Fixed Assets	(191,775,238)	(224,968,474)
<b>Net cash used in investing activities</b>	<b>(86,335,737,932)</b>	<b>(86,532,458,374)</b>
<b>Cash flow from financing activities:</b>		
Contributions	70,170,727,965	61,878,995,006
General Deposit	10,882,301	(7,001,939)
Refunds	(48,711,597,845)	(47,310,802,028)
<b>Net cash from financing activities</b>	<b>21,470,012,421</b>	<b>14,561,191,039</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>396,482,148</b>	<b>762,822,008</b>
<b>Cash &amp; cash equivalents at the beginning of the year</b>	<b>2,025,632,477</b>	<b>1,310,405,686</b>
<b>Cash &amp; cash equivalents at the end of the year-Before Adjustments</b>	<b>2,422,124,625</b>	<b>2,073,227,694</b>
<b>Adjustments: Cash balance at the end of the year -Labour Dept.</b>	<b>(44,911,739)</b>	<b>(47,595,217)</b>
<b>Cash &amp; cash equivalents at the end of the year</b>	<b>2,377,212,886</b>	<b>2,025,632,477</b>

On Behalf of the Monetary Board

Certified By

K Gunathilake  
Superintendent  
Employees' Provident Fund

Date : 18/02/2013

Prepared By

G B M P Dissanayake  
Assistant Superintendent  
Employees' Provident Fund



# **EMPLOYEES' PROVIDENT FUND STATEMENT OF INVESTMENTS AS AT 31<sup>st</sup> DECEMBER 2012**

(Rs.)

2012					Class of Investments	Note	Restated 2011				
Face value	Cost	Amortized Value	Market Value	Book Value			Face value	Cost	Amortized Value	Market Value	Book Value
23,100,000,000	23,100,000,000	23,100,000,000	23,100,000,000	23,100,000,000	Rupee Loan	21	23,100,000,000	23,100,000,000	23,100,000,000	23,100,000,000	23,100,000,000
1,117,360,267,000	939,109,002,211	980,371,915,815	950,709,557,308	980,371,915,815	Treasury Bonds	21	927,373,717,000	823,140,421,731	874,368,823,883	877,973,114,218	874,572,559,685
33,409,900,000	30,962,701,825	31,757,671,753	31,811,458,284	31,757,671,753	Treasury Bills	21	-	-	-	-	-
3,106,900,000	3,106,900,000	3,106,900,000	3,106,900,000	3,106,900,000	Reverse Repos	22	2,802,100,000	2,802,100,000	2,802,100,000	2,802,100,000	2,802,100,000
5,316,930,000	5,316,930,000	5,316,930,000	5,316,930,000	5,316,930,000	Corporate Debentures	21	6,152,500,000	6,152,500,000	6,152,500,000	6,152,500,000	6,152,500,000
500,000,000	500,000,000	500,000,000	500,000,000	500,000,000	Mortgage Backed Securities	21	500,000,000	500,000,000	500,000,000	500,000,000	500,000,000
2,493,372,496	1,942,880,973	2,164,923,041	2,164,923,041	2,164,923,041	Trust Certificates	21	2,834,902,632	2,462,048,888	2,585,246,504	2,585,246,504	2,585,246,504
-	63,102,761,384	63,102,761,384	54,744,901,555	54,744,901,555	Listed Equity	19/20	-	73,948,947,927	73,948,947,927	71,405,897,425	71,405,897,425
-	4,480,625,000	4,480,625,000	4,480,625,000	4,480,625,000	Unlisted Equity	20	-	4,480,625,000	4,480,625,000	4,480,625,000	4,480,625,000
<b>1,185,287,369,496</b>	<b>1,071,621,801,393</b>	<b>1,113,901,726,993</b>	<b>1,075,935,295,188</b>	<b>1,105,543,867,164</b>	<b>Total</b>		<b>962,763,219,632</b>	<b>936,586,643,546</b>	<b>987,938,243,314</b>	<b>988,999,483,147</b>	<b>985,598,928,614</b>

On Behalf of the Monetary Board

Certified By

K Gunathilake  
Superintendent  
Employees' Provident Fund

Prepared By

G B M P Dissanayake  
Assistant Superintendent  
Employees' Provident Fund

Date : 18/02/2013



# **EMPLOYEES' PROVIDENT FUND** **STATEMENT OF CHANGES IN MEMBERS' EQUITY / WELTH FOR THE YEAR ENDED 31<sup>st</sup> DECEMBER 2012**

(Rs.)

Description	Members Balance	Building Reserve Fund	Technology Advancement Reserve Fund	Profit Equalisation Reserve Fund	General Reserve Fund	Investment Revaluation Reserve	Retained Profit	General Deposit Account	Total
<b>Balance as at 31<sup>st</sup> December 2010</b>	868,895,015,717	3,157,000,000	350,000,000	20,000,000,000	6,650,000,000	-	293,931,075	304,239,221	899,650,186,013
Net change in fair value of available-for-sale financial assets						(2,367,430,983)			(2,367,430,983)
Net Profit for the Year 2011							107,202,066,499		107,202,066,499
Net Contributions	15,520,078,603							42,458,714	15,562,537,317
Member Interest Paid During the Period							(2,343,039,090)		(2,343,039,090)
Member Interest for the year 2011 at 11.50%	101,284,166,436						(101,284,166,436)		-
Transfers from Retained Profit				3,500,000,000			(3,500,000,000)		-
<b>Balance at 31<sup>st</sup> December 2011</b>	985,699,260,756	3,157,000,000	350,000,000	23,500,000,000	6,650,000,000	(2,367,430,983)	368,792,048	346,697,935	1,017,704,319,756
Prior Year Adjustment									-
Net change in fair value of available-for-sale financial assets						(6,240,881,426)			(6,240,881,426)
Net change in fair value of available-for-sale financial assets transferred to profit or loss						524,008,977			524,008,977
Net Profit for the year - 2012							111,828,720,196	(5,020,172)	111,823,700,024
Net Contributions	22,695,773,588								22,695,773,588
Member Interest Paid - 2012							(2,098,085,270)		(2,098,085,270)
Member Interest (2012:11.50%)	115,771,416,227						(115,771,416,227)		-
Transfers (from) / to Retained Profit				(5,700,000,000)			5,700,000,000		-
<b>Balance as at 31<sup>st</sup> December 2012</b>	1,124,166,450,571	3,157,000,000	350,000,000	17,800,000,000	6,650,000,000	(8,084,303,432)	28,010,747	341,677,763	1,144,408,835,648

On Behalf of the Monetary Board

Certified By

**K Gunathilake**  
 Superintendent  
 Employees' Provident Fund

Prepared By

**G B M P Dissanayake**  
 Assistant Superintendent  
 Employees' Provident Fund

Date : 18/02/2013



## EMPLOYEES' PROVIDENT FUND ACCOUNTING POLICY

### Reporting Entity and Statutory Base

The Employees' Provident Fund ("EPF" or "the Fund") is a mandatory defined contributory retirement scheme for the corporate and mercantile sector employees in Sri Lanka established under the EPF Act No.15 of 1958. The general administration of the Fund has been vested with the Commissioner of Labour, while the Monetary Board of the Central Bank of Sri Lanka has been charged with the responsibility as the custodian of the Fund.

In terms of Section 5(1) (h) and (i) of EPF Act No.15 of 1958, the Monetary Board is required to maintain a general account in respect of the Fund and prepare the following financial statements annually.

- a. Statement of Income and Expenditure,
- b. Statement of Assets and Liabilities,
- c. Statement of Receipts and Payments, and
- d. Statement of Investments, showing the face value, purchase price and market value of each type of investment.

### Accounting Policies

#### 2.1 Basis of Preparation

The financial statements have been prepared on a historical cost basis, except for financial assets designated at fair value through profit and loss and available for sale. The financial statements of the Fund presented in Sri Lankan Rupees (SLR) except where otherwise indicated.

#### 2.2 Statement of Compliance

The financial statements of the Fund incorporating the above financial statements have been prepared in accordance with generally accepted accounting principles and the new Sri Lanka Accounting Standards (SLFRS & LKAS) laid down by the Institute of Chartered Accountants of Sri Lanka. These SLFRS/LKAS have materially converged with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB).

#### 2.3 Changes in Accounting Policies

As SLFRS and LKAS are effective from 01<sup>st</sup> January 2012, certain accounting policies, methods and presentations have been changed or improved and the significant changes are described below. Except for those changes, the accounting policies adopted are consistent with those used in the previous year.





## **2.4 Use of Estimates and Assumptions**

The preparation of financial statements requires the use of estimates and assumptions about future conditions. The use of available information and the application of judgment are inherent in the formation of estimates; actual results in the future may differ from estimates upon which financial information is prepared. The significant accounting policies where judgment is necessarily applied are those which relate to the valuation of financial instruments, the impairment of assets, depreciation of Property Plant and Equipment, deferred tax assets and provisions for liabilities.

## **2.5 Going Concern**

The Fund is satisfied with its ability to continue as a going concern as it has the resources to continue in business for the foreseeable future. Therefore, the financial statements have been prepared on the going concern basis.

## **2.6 Events Occurring after the Balance Sheet Date and Contingent Liabilities**

All material events occurring after the date of the Balance Sheet has been considered when preparing the financial statements. Provisions have been made for all known liabilities.

## **3. Summary of Significant Accounting Policies**

### **3.1 Financial Assets and Bases of their Valuation**

#### **3.1.1 Recognition and Measurement of Financial Assets**

Financial assets are recognized when, and only when the Fund becomes a party to the contractual provision of a financial instrument. The financial assets mainly include held to maturity investments, securities at fair value through profit and loss, loans and receivables and available for sale investments. All financial assets are initially recognized at cost, being the fair value of the consideration given, plus, in the case of financial assets not at fair value through profit and loss, directly attributable transaction cost including acquisition charges associated with the transactions.

Classification and subsequent measurement bases of financial assets are as follows.

#### **(a) Held to Maturity (HTM) Investments**

Financial assets with fixed or determinable payments and fixed maturity that EPF intend and is able to hold until maturity are categorized under held for maturity investments. HTM investments are subsequently measured at amortised cost using the effective interest rate method, less any impairment. Premiums and discounts arising on the purchase of HTM investments are included in the calculation of their effective interest rates. Gains and loss are recognized in the income statement when HTM investments are derecognized or impaired.



**(b) Securities at Fair Value through Profit or Loss (FVTPL)**

Financial assets classified as held for trading are included in the category of Securities at fair value through profit or loss and financial assets designated upon initial recognition as securities at FVTPL. Attributable transaction costs are recognized in the Income Statement.

FVTPL securities are subsequently valued at fair value as indicated by market values. Changes in market value are recognized as an increase or decrease in the value of the securities while resulting net gains and losses are recognized in the Income Statement.

**(c) Loans & Receivables (L&R)**

Financial assets that EPF is receivable with fixed or determinable payments that are not quoted in an active market are classified under L & R. Securities purchased under agreement to re-sell (reverse Repos) are also classified as L& R. L& R are subsequently measured at amortized cost using the effective interest method, less any impairment losses. Gains and loss are recognized in the income statement when L & R are derecognized or impaired.

**(d) Available For Sale (AFS)**

Equity instruments that are not classified as FVTPL, debt instruments that are not classified under the above three categories and those securities designated as AFS investments at the initial acquisitions are classified as AFS financial assets.

AFS assets are continued to measure at fair value in the statement of financial position. Fair value changes on AFS assets are recognized in Other Comprehensive Income and accumulated under members' wealth, through the Revaluation Reserve until AFS assets are either sold or become impaired.

If the available-for-sale financial asset is impaired, the difference between the financial asset's carrying cost and the current fair value is recognized in the Income Statement. Interest income is recognized on available-for-sale debt securities using the effective interest rate method. Dividends are recognized in the income statement when the right to receive payment has been established.

**3.1.2 Impairment of Financial Assets**

At each balance sheet date, an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset. Impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that



loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Objective evidence of impairment of securities may include specific information about the issuer such as a significant financial difficulty of the issuer, a breach of contract such as a default, bankruptcy or other financial distress, but may also include information about significant changes in the market condition that provides evidence that the cost of the securities may not be recovered. A significant or prolonged decline in the fair value of the asset below its cost is also objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition.

### 3.1.3 De-recognition of Financial Assets

Financial assets are de-recognised when the contractual right to receive cash flows from the assets has expired; or when the Fund has transferred its contractual right to receive the cash flows of the financial assets, and either:

- substantially all the risks and rewards of ownership have been transferred; or
- The Fund has neither retained nor transferred substantially all the risks and rewards, but has not retained control.

## 3.2 Other Assets

### 3.2.1 Property , Plant and Equipment (PPE)

PPE is stated at cost less accumulated depreciation and accumulated impairment in value. Depreciation has been charged on straight-line method at the following rates in order to write off the cost of such assets over their estimated effective life-time.

Asset Class	Depreciation Rate
Buildings	02%
Plant and Machinery	25%
Office Equipment	25%
Furniture & Fittings	10%
Motor Vehicles	20%
Computer Equipment	50%

The carrying values of PPE are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

An item of PPE 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 is included in the Income Statement in the year the asset is de-recognized.



### **3.2.2 Intangible Assets**

Computer software not integral to computer hardware are shown as intangible assets and recognized at cost. Subsequent to the initial recognition, they are carried at cost less any accumulated amortization based on useful life of two years.

### **3.2.3 Inventories**

Inventories are carried at weighted average cost. Allowance is made for slow moving inventories.

### **3.2.4 Receivables**

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

### **3.2.5 Impairment of Non- Financial Assets**

The Fund assesses at the end of each financial period if events or changes in circumstances indicate that there is an indication that a non- financial assets may be impaired. If such indication exists, the Fund makes an estimated recoverable amount of the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and written down to its recoverable amount.

## **3.3 Liabilities**

### **3.3.1 Unclaimed Benefits**

EPF benefits which are duly refunded to the members or the beneficiaries, but returned for various reasons and retained in the Retained Benefit Account over one year are credited to the Unclaimed Benefits Account until they are re-claimed.

### **3.3.2 Retained Benefits**

EPF benefits, retained on the instructions of the Commissioner of Labour are shown as Retained Benefits until instructions are received to release them. Such credits are not retained for more than one accounting period in this account.

### **3.3.3 Under Payments & Over Payments (Refunds)**

The balance shown in the Under Payments & Over Payments (Refunds) Account represents payment of benefits to be made as part payments.

### **3.3.4 Provisions**

Provisions are recognised when the Fund has an obligation at present ( 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 reliable estimate can be made of the amount of the obligation.

### **3.3.5 De-recognition of Liabilities**

Financial liabilities are de-recognised when they are extinguished, that is when the obligation is discharged, cancelled, or expires.



### **3.4 Revenue and Expenses**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and revenue can be reliably measured. Expenses are recognized 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 managing the Fund by both the EPF Department of the Central Bank and the EPF Section of the Department of Labour has been charged to the Fund as its expenditure.

The following specific recognition criteria are considered before revenues and expenses are recognised.

#### **3.4.1 Interest Income**

Interest income is recognised in the Income Statement for all interest bearing instruments on an accrual basis using the effective yield method based on actual purchase price less impairment loss. Interest income includes coupon income and any gain or loss on amortization of discount or premium of the instruments.

#### **3.4.2 Dividends**

Dividend income is recognized when the Fund's right to receive the payment is established.

#### **3.4.3 Personnel Expenses**

Personnel expenses include all staff related expenses incurred by both the EPF Department of the Central Bank and the EPF Section of the Department of Labour. The Fund does not maintain separate pension fund or other post employee benefits plans.

#### **3.4.4 Income Tax**

The income tax is calculated to the extent of the tax payable on investment income. Income tax liability of the Fund is 10% of the gross income earned as interest, dividends and net surcharges. There is no liability on capital gains earned on Treasury bills, Treasury bonds and shares, since they are exempted from tax as per the Inland Revenue Act.

Since EPF changed its accounting policy (w.e.f. 01.09.2006) to value the Treasury bonds and bills portfolio at after tax weighted average cost (WAC) and to amortize subsequently, the amortization gain was recorded net of tax.

Accordingly, the proportion of WHT applicable for the income earned on Treasury bonds and bills for the year is added back to the amortization gain account in order to give a fair view about the amortization gain and the income tax expenditure.

### **3.5 Statement of Comprehensive Income**

EPF prepares its Income Statement using two separate statements to show comprehensive income and other comprehensive income.



### ***3.6 Cash Flow Statement***

The Cash Flow Statement has been prepared using the “direct method” of preparing cash flows in accordance with LKAS 07– Cash Flow Statement. Cash and cash equivalents comprise short term, highly- liquid investments that are readily convertible to cash and subject to an insignificant risk of changes in value.

### ***3.7 Receipts and Payments Account***

Statement of Receipts and Payments represents all receipts received in the form of cash during the year and payments made in cash during the year.

**EMPLOYEES' PROVIDENT FUND****Notes to the Income and Expenditure Statement for the year ended 31<sup>st</sup> December 2012****1. INTEREST INCOME****(Rs.)**

	2012			2011
	Monetary Board	Labour Dept.	Total	Total
Interest from SL R-Loans	2,247,000,000		2,247,000,000	4,494,276,925
Interest from T-Bonds- FVTP	80,152,862		80,152,862	331,607,898
Interest from T-Bonds- HTM	86,097,955,986		86,097,955,986	78,762,365,063
Interest from T-Bills	1,178,685,268		1,178,685,268	32,650,569
Interest from Reverse Repos	251,193,811		251,193,811	255,799,221
Interest from Listed Debentures	46,569,389		46,569,389	2,375,616
Interest from Unlisted Debentures	662,751,480		662,751,480	600,461,482
Interest from Investment in Trust Certificates	282,160,702		282,160,702	134,090,026
Interest from Investment in Mortgaged Back Securities	57,700,000		57,700,000	59,933,425
<b>Interest Income</b>	<b>90,904,169,498</b>	<b>-</b>	<b>90,904,169,498</b>	<b>84,673,560,227</b>

**2. DIVIDEND INCOME****(Rs.)**

	2012			2011
	Monetary Board	Labour Dept.	Total	Total
Dividend income from listed ordinary shares	1,629,666,874		1,629,666,874	1,272,355,918
Dividend income from Unlisted ordinary shares	216,457,386		216,457,386	541,002,841
Dividend income from Unlisted preference shares	150,205,480		150,205,480	149,914,664
<b>Dividend Income</b>	<b>1,996,329,740</b>	<b>-</b>	<b>1,996,329,740</b>	<b>1,963,273,422</b>

**3. REALIZED CAPITAL GAIN/(LOSS)****(Rs.)**

	2012			2011
	Monetary Board	Labour Dept.	Total	Total
Capital gain/(loss) on dealing of T Bonds-FVTP	-		-	9,645,477
Capital gain/(loss) on dealing of T Bonds-HTM	33,897,943		33,897,943	-
Capital gain/(loss) on dealing of OS -FVTP	14,897,563		14,897,563	110,294,560
Capital gain/(loss) on dealing of OS -AFS	1,005,382,297		1,005,382,297	604,700,930
<b>Capital gain/(loss)</b>	<b>1,054,177,803</b>	<b>-</b>	<b>1,054,177,803</b>	<b>724,640,967</b>





## EMPLOYEES' PROVIDENT FUND

### Notes to the Income and Expenditure Statement for the year ended 31<sup>st</sup> December 2012

#### 4. AMORTIZATION GAIN

(Rs.)

	2012			2011
	Monetary Board	Labour Dept.	Total	Total
Amortization gain/(loss) -T-Bond-HTM	27,791,502,310		27,791,502,310	28,726,516,148
<b>Amortization Gain</b>	<b>27,791,502,310</b>	<b>-</b>	<b>27,791,502,310</b>	<b>28,726,516,148</b>

#### 5. NET GAIN FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

(Rs.)

	2012			2011
	Monetary Board	Labour Dept.	Total	Total
Gain/(loss) Equity	(117,619,396)		(117,619,396)	(174,077,469)
Gain/(loss) on T-Bonds	(270,116,346)		(270,116,346)	(93,128,863)
<b>Net gain/(loss) from financial instruments at fair value through profit or loss</b>	<b>(387,735,742)</b>	<b>-</b>	<b>(387,735,742)</b>	<b>(267,206,331)</b>

#### 6. OTHER INCOME

	2012			2011 (Rs.)
	Monetary Board	Labour Dept.	Total	Total
Surcharges	50,537,962		50,537,962	112,961,262
Fee Income from Security Lending	-		-	105,483,513
Sale of stamps	1,500		1,500	700
Other Income	36,484	4,050,764	4,087,248	3,881,592
<b>Other Income</b>	<b>50,575,946</b>	<b>4,050,764</b>	<b>54,626,710</b>	<b>222,327,067</b>

#### 7. TOTAL OPERATING EXPENDITURE

(Rs.)

	2012			2011
	Monetary Board	Labour Dept.	Total	Total
Personnel Expenses	287,634,732	226,584,331	514,219,063	416,968,530
Administration Expenses	224,536,256	171,722,601	396,258,857	334,782,316
Other expenses	25,180,402	12,048,621	37,229,023	33,996,285
<b>Operating Expenditure</b>	<b>537,351,390</b>	<b>410,355,553</b>	<b>947,706,943</b>	<b>785,747,131</b>

**EMPLOYEES' PROVIDENT FUND****Notes to the Comprehensive Income Statement for the year ended  
31<sup>st</sup> December 2012****8. NET CHANGE IN FAIR VALUE OF AVAILABLE-FOR-SALE FINANCIAL ASSETS**

				(Rs.)
	2012			2011
	Monetary Board	Labour Dept.	Total	Total
Fair value gain/(loss) for AFS assets Listed Equity	(6,240,881,426)		(6,240,881,426)	(2,367,430,983)
Net gain/ (loss) from financial instruments of Available for Sale	(6,240,881,426)	-	(6,240,881,426)	(2,367,430,983)



# **EMPLOYEES' PROVIDENT FUND** **Notes to the Statement of Financial Position as at 31<sup>st</sup> December 2012**

## **9. PROPERTY, PLANT AND EQUIPMENT**

Asset Class	Cost		Accumulated Depreciation		Net Book Value		2012 Total	2011 Total
	Monetary Board	Labour Dept.	Monetary Board	Labour Dept.	Monetary Board	Labour Dept.		
Building and Structure		439,147,335		3,598,214		435,549,121	435,549,121	338,380,011
Computer Equipment	61,513,395	337,505,839	56,024,358	296,248,251	5,489,038	41,257,588	46,746,626	70,744,287
Office Furniture	22,137,387	31,201,056	10,851,610	24,271,314	11,285,777	6,929,742	18,215,519	12,451,259
Office Equipment	7,774,434	209,392,820	5,656,125	203,077,835	2,118,309	6,314,985	8,433,295	17,112,077
Motor Vehicles	-	97,202,274	-	46,474,514	-	50,727,761	50,727,761	54,971,632
Computer Software	22,595,880	-	22,160,385	-	435,495	-	435,495	1,059,883
Other	2,567,354	24,489,427	1,860,251	352,104	707,103	24,137,323	24,844,426	45,632
<b>Total</b>	<b>116,588,451</b>	<b>1,138,938,751</b>	<b>96,552,728</b>	<b>574,022,231</b>	<b>20,035,723</b>	<b>564,916,520</b>	<b>584,952,243</b>	<b>494,764,779</b>

(Rs.)

**EMPLOYEES' PROVIDENT FUND****Notes to the Statement of Financial Position as at 31<sup>st</sup> December 2012****10. FINANCIAL ASSETS****(Rs.)**

<b>Instrument</b>	<b>Fair Value Through Profit or Loss</b>	<b>Available For Sale</b>	<b>Held To Maturity</b>	<b>Loans &amp; Receivables</b>	<b>Total 2012</b>	<b>Total 2011</b>
Treasury Bonds	-	-	980,371,915,815	-	980,371,915,815	874,572,559,685
Rupee Loan	-	-	23,100,000,000	-	23,100,000,000	23,100,000,000
Treasury Bills	-	-	31,757,671,753	-	31,757,671,753	-
Listed Equity	147,603,472	54,597,298,083	-	-	54,744,901,555	71,405,897,425
Unlisted Equity	-	4,480,625,000	-	-	4,480,625,000	4,480,625,000
Corporate Debentures & others	-	-	7,981,853,041	-	7,981,853,041	9,237,746,504
Reverse Repos	-	-	-	3,106,900,000	3,106,900,000	2,802,100,000
<b>Total</b>	<b>147,603,472</b>	<b>59,077,923,083</b>	<b>1,043,211,440,609</b>	<b>3,106,900,000</b>	<b>1,105,543,867,164</b>	<b>985,598,928,614</b>



## EMPLOYEES' PROVIDENT FUND

### Notes to the Statement of Financial Position as at 31<sup>st</sup> December 2012

#### 11. OTHER CURRENT ASSETS / RECEIVABLES

(Rs.)

	2012			2011
	Monetary Board	Labour Dept.	Total	Total
Dividend Receivables	45,575,786	-	45,575,786	54,151,458
Other Receivables	1,736,722	-	1,736,722	1,736,722
Tax Paid at Source	544,646,451	-	544,646,451	674,911,772
Prepayments	12,773,071	1,369,555	14,142,626	4,516,822
Other Current Assets	111,750,020	1,404,179	113,154,199	112,228,600
CGL Imprest	-	397,800,922	397,800,922	358,112,173
O/B Recon Investment	(516,031)	-	(516,031)	(516,031)
<b>Total</b>	<b>715,966,019</b>	<b>400,574,656</b>	<b>1,116,540,675</b>	<b>1,205,141,516</b>

#### 12. CASH AND CASH EQUIVALENTS

(Rs.)

	Monetary Board	
	2012	2011
BOC Main Account	2,259,151,459	1,896,481,559
BOC Taxable Account **	(6,276,289)	4,810,964
Bank of Ceylon 7 **	(12,867,942)	(13,220,160)
Bank of Ceylon 6	33,052	33,053
People's Bank	130,385,237	129,834,703
SLIP Account	6,777,369	6,777,369
RTGS	-	909,141
Petty Cash	10,000	5,850
<b>Total</b>	<b>2,377,212,886</b>	<b>2,025,632,477</b>
Note**: Although the book balances of the Bank Accounts show overdrafts, physically these accounts had favourable balances.		

#### 13. CREDITORS

(Rs.)

	2012			2011
	Monetary Board	Labour Dept.	Total	Total
Vendor - Domestic	9,328,828		9,328,828	6,950,314
Retention - Fixed Assets	343,752		343,752	343,752
Sundry Creditors	693,784		693,784	693,784
<b>Total</b>	<b>10,366,364</b>	<b>-</b>	<b>10,366,364</b>	<b>7,987,850</b>

**EMPLOYEES' PROVIDENT FUND****Notes to the Statement of Financial Position as at 31<sup>st</sup> December 2012****14. OTHER CURRENT LIABILITIES**

(Rs.)

	2012			2011
	Monetary Board	Labour Dept.	Total	Total
EPF Contributions Payable	30,040	1,320,018	1,350,058	1,350,058
ETF Contributions Payable	(172)	-	(172)	(172)
Good Received /Invoice Received Clearing-Inventory	(2,448,747)	-	(2,448,747)	112,763
Good Received /Invoice Received Clearing-Services/Assets	71,787	-	71,787	66,967
Housing Loan Defaults Payable	2,095,000,000	-	2,095,000,000	1,975,000,000
Other Payables	(3,870)	-	(3,870)	(3,870)
Refund Claims Payable	34,890,774	-	34,890,774	503,036,227
Tax	(138,321,959)	-	(138,321,959)	50,698,449
Investment Clearing A/C	32,763,772	-	32,763,772	(651,519)
<b>Total</b>	<b>2,021,981,624</b>	<b>1,320,018</b>	<b>2,023,301,642</b>	<b>2,529,608,902</b>

**15. MEMBER BALANCES**

(Rs.)

	Balance as at 01.01.2012	Debits during the year	Credits during the year	Balance as at 31.12.2012
Current Year Contribution - Contribution No 01 A/C	63,921,057,569	242,566,139,375	211,995,438,064	33,350,356,258
Stated Contribution - Contribution No 02 A/C	808,976,211,833	44,028,140,042	199,645,027,991	964,593,099,782
Contribution from Comm. of Labour - CL No 01 A/C	4,671,769,511	1,637,162,951	2,374,655,520	5,409,262,080
U/P O/P Contributions A/C	1,187,649,767	260,148,413	498,282,002	1,425,783,355
Contribution for 1997/98 - 96 Contribution A/C	193,376	-	-	193,376
Members Collection A/C	1,404,446	140,637,096,733	140,642,971,413	7,279,126
SLTB Suspense Account	-	-	126,513,344	126,513,344
Unclaimed Benefits	120,476,636	179,656,251	184,505,578	125,325,963
Retained Benefits	13,160,612	2,969,345	23,947,385	34,138,653
Refunds-Part payments(U/P O/P Refunds)	(268,279,574)	309,458,809	241,705,009	(336,033,374)
General Deposit Account	346,697,934	29,314,265	24,294,093	341,677,762
Interest Payable	107,075,451,582	103,426,560,460	115,781,640,886	119,430,532,008
<b>Total</b>	<b>986,045,793,692</b>	<b>533,076,646,645</b>	<b>671,538,981,286</b>	<b>1,124,508,128,334</b>



## EMPLOYEES' PROVIDENT FUND

### Notes to the Statement of Financial Position as at 31<sup>st</sup> December 2012

#### 16. RESERVES

(Rs.)

	Balance as at 01.01.2012	Transfers During the year	Balance as at 31.12.2012
Building Reserve Fund	3,157,000,000		3,157,000,000
Technology Advancement Reserve Fund	350,000,000		350,000,000
Investment Revaluation Reserve	(2,367,430,983)	(5,716,872,449)	(8,084,303,432)
Profit Equalisation Reserve Fund	23,500,000,000	(5,700,000,000)	17,800,000,000
General Reserve Fund	6,650,000,000		6,650,000,000
<b>Total</b>	<b>31,289,569,017</b>	<b>(11,416,872,449)</b>	<b>19,872,696,568</b>



**EMPLOYEES' PROVIDENT FUND****Notes to the Receipts and Payments Account for the year ended 31<sup>st</sup> December 2012****17. RECEIPTS****(Rs.)**

	<b>2012</b>			<b>2011</b>
	<b>Monetary Board</b>	<b>Labour Dept.</b>	<b>Total</b>	<b>Total</b>
Contributions	70,170,727,965	-	70,170,727,965	61,878,995,006
Re - imbursement of Expenses by the EPF-CBSL	-	540,764,959	540,764,959	539,843,822
Imprest Account ( Commissioner of Labour )	-	26,378,261	26,378,261	15,953,319
General Deposit Account - (EPF Contributions )	-	6,071,044	6,071,044	134,598,703
Income - Interest from Investments	83,928,914,594	-	83,928,914,594	86,070,971,262
Less: Income tax			-	-
Surcharges	50,537,962	199,013	50,736,975	113,160,172
Capital Gain on sale of T. Bonds/T Bills	33,897,943	-	33,897,943	9,645,477
Capital Gain on dealing of Shares	1,020,279,860	-	1,020,279,860	714,995,490
Dividends	1,881,100,206	-	1,881,100,206	1,851,639,102
Sundry Income	145,133	5,833,740	5,978,873	114,456,749
Debtors	-	-	-	(2,429)
Settlement of Advances	241,972	-	241,972	1,175,261
Unclaimed Benefits	2,770,596	-	2,770,596	(10,044,829)
<b>Total</b>	<b>157,088,616,231</b>	<b>579,247,017</b>	<b>157,667,863,248</b>	<b>151,435,387,103</b>



## EMPLOYEES' PROVIDENT FUND

### Notes to the Receipts and Payments Account for the Year ended 31<sup>st</sup> December 2012

#### 18. PAYMENTS

(Rs.)

	2012			2011
	Monetary Board	Labour Dept.	Total	Total
Refunds	48,404,961,062	-	48,404,961,062	47,172,086,633
Investments	487,822,962,364	-	487,822,962,364	467,249,516,811
Less - Maturity Proceeds	(401,678,999,670)	-	(401,678,999,670)	(380,942,026,911)
	86,143,962,695	-	86,143,962,695	86,307,489,900
WHT paid on Investment	18,918,362,215	-	18,918,362,215	13,571,791,103
Operating Expenses	316,727,158	329,027,721	645,754,880	623,094,532
Settlement of creditors/payables	2,096,846,977	-	2,096,846,977	1,973,696,812
Income Tax Retained on Refund Benefits	(3,965,780)	-	(3,965,780)	-
Reimbursement of expenses - Comm. Labour	540,764,959	-	540,764,959	516,662,149
Under payments and over payments - Refunds	309,407,379	-	309,407,379	128,670,566
Fixed Assets Acquisition	8,034,685	183,740,553	191,775,238	224,968,474
Advances - Staff	86,500	-	86,500	44,000
- Miscellaneous	1,857,972	-	1,857,972	12,460,284
General Deposit Account (E. P. F. Contributions)	-	21,567,004	21,567,004	304,128,917
Adjustments: Cash balance at the beginning of the year -Labour Dept.	-	47,595,217	47,595,217	-
<b>Total</b>	<b>156,737,045,822</b>	<b>581,930,495</b>	<b>157,318,976,317</b>	<b>150,835,093,370</b>

**EMPLOYEES' PROVIDENT FUND****Notes to the Statement of Investments as at 31<sup>st</sup> December 2012****19. FAIR VALUE THROUGH PROFIT OR LOSS****LISTED EQUITY****(Rs.)**

<b>Stock</b>	<b>Cost</b>	<b>Book value / Market Value</b>
ACL Placstics PLC	7,053,195	6,113,880
Bogawantalawa Tea State PLC	1,050,584	486,009
C W Mackie PLC	9,058,348	6,978,660
Chemanex PLC	68,990	37,500
Free Lanka Capital Holdings PLC	524,500	251,760
John Keells Holdings PLC	79,817,621	78,049,839
Kegalle Plantations PLC	24,733,977	12,719,200
Malwatte Valley Plantations PLC (Voting)	8,782,890	3,722,400
Malwatte Valley Plantations PLC (NV)	3,100,739	1,522,400
Palm Garden Hotel PLC	54,108,598	37,604,000
Sigiriya Village PLC	13,279	21,824
Tea Smallholders Factories PLC	136,949	96,000
<b>Total</b>	<b>188,449,670</b>	<b>147,603,472</b>



## EMPLOYEES' PROVIDENT FUND

### Notes to the Statement of Investments as at 31<sup>st</sup> December 2012

#### 20. AVAILABLE FOR SALE

##### EQUITY

(Rs.)

Stock	Cost	Market value
<b>Listed Equity</b>		
ACL Cables PLC	162,879,449	227,796,228
Aitken Spence Company PLC	494,336,252	547,327,560
Aitken Spence Hotels PLC	1,590,089,511	2,172,893,845
Amaya Leisure PLC	340,028,021	388,142,076
Asian Hotels PLC	1,642,728,376	1,599,892,457
Asiri Surgical Hospital PLC	1,680,649	2,211,075
Browns & Co PLC	1,769,404,852	821,746,145
Bukith Darah PLC	1,532,917,150	1,203,136,308
CIC Holdings PLC - Non Voting	192,174,270	134,527,313
CIC Holdings PLC Voting	449,805,454	247,640,905
Cargills (Cey) PLC	1,364,040,065	1,062,772,158
Carsons Cumberbatch PLC	1,632,133,647	1,461,577,482
Central Finance Company PLC	1,745,813,840	1,063,063,052
Ceylon Cold Stores PLC	27,026,584	152,300,000
Ceylon Glass Company PLC	515,527,586	516,328,116
Ceylon Grain Elevators PLC	1,005,584,993	318,357,666
Ceylon Hospitals PLC (NV)	25,410,556	77,342,857
Ceylon Hotels Corporation PLC	711,242,903	468,278,142
Ceylon Theatres PLC	954,596,027	751,761,160
Chevron Lubricants Lanka PLC	249,263,948	516,022,332
Colombo Dockyard PLC	2,571,844,873	2,385,457,760
Commercial Bank of Ceylon PLC	7,795,536,650	7,688,040,304
DFCC PLC	3,395,967,521	2,751,259,536
DIMO PLC	1,265,738,355	739,192,745
Dialog Telekom PLC	1,660,339,146	1,472,943,805
Dipped Products PLC	888,569,146	860,228,160
Eden Hotels PLC	213,341,783	175,632,900
Galadari PLC	810,321,610	336,713,240
Hatton National bank PLC	4,956,264,453	4,504,618,576
Haycarb PLC	212,329,485	217,982,427
Hayleys PLC	455,629,302	551,118,372
Hayleys MGT PLC	199,555,228	47,133,120
Hemas Holdings PLC	607,825,728	735,996,294
Hotel Services PLC	485,792,684	317,872,806
John Keells Holding PLC	2,849,118	2,163,388
John Keells Hotels PLC	934,672,605	846,248,554
Lanka IOC PLC	343,034,360	182,794,950
Lanka Orix Leasing Co PLC	1,600,934,230	807,627,469
Lanka Tiles PLC	429,782,093	341,614,130
Lanka Walltiles PLC	74,559,013	85,188,704
Laufgs Gas PLC(Non Voting)	706,343,981	330,155,790

**EMPLOYEES' PROVIDENT FUND****Notes to the Statement of Investments as at 31<sup>st</sup> December 2012 Contd.****EQUITY****(Rs.)**

<b>Stock</b>	<b>Cost</b>	<b>Market value</b>
Laugfs Gas PLC (Voting)	2,684,119,965	1,482,183,680
Light House Hotel PLC	309,422,269	270,002,880
Mackood Energy PLC	19,999,000	18,856,200
National Development Bank PLC	1,399,456,780	2,180,233,199
Nawaloka Hospitals PLC	3,325,079	2,354,400
Nestle Lanka PLC	30,752,320	225,958,300
Overseas Realty PLC	665,633,871	611,019,230
Peoples' Leasing Company PLC	1,088,967,972	816,875,268
Raigam Wayamba Saltern PLC	120,691,019	70,394,500
Richard Pieris Company PLC	1,432,247,818	1,070,014,756
Royal Ceremics Lanka PLC	992,601,477	892,778,238
Softlogic Holdings PLC	133,137,480	78,812,450
Sampath Bank PLC	2,543,773,960	3,200,601,951
Seylan Bank PLC (Non Voting)	589,754,755	575,617,501
Seylan Bank PLC (Voting)	1,045,623,871	895,520,864
Sierra Cables PLC	30,564,660	19,471,277
Sri Lanka Telecom PLC	680,232,420	931,963,011
Taj Samudra Hotel PLC	319,203,353	198,928,608
Tangerine Beach Hotels PLC	127,441,267	108,785,702
Textured Jersey Lanka PLC	203,802,870	122,937,480
The Finance Company PLC	205,489,613	96,223,680
Tokyo Cement PLC (NV)	292,059,585	187,967,351
Trans Asia Hotels PLC	263,154,670	317,918,800
Vallibel One PLC	1,714,940,146	1,108,778,850
<b>Sub total</b>	<b>62,914,311,714</b>	<b>54,597,298,083</b>
<b><u>Unlisted Equity</u></b>		
Fitch Ratings Lanka Limited	625,000	625,000
Sri Lankan Airlines	500,000,000	500,000,000
Sri Lankan Catering Preference 15%	1,005,000,000	1,005,000,000
West Coast Power (Pvt) Ltd	2,975,000,000	2,975,000,000
<b>Sub total</b>	<b>4,480,625,000</b>	<b>4,480,625,000</b>
<b>Total</b>	<b>67,394,936,714</b>	<b>59,077,923,083</b>



## EMPLOYEES' PROVIDENT FUND

### Notes to the Statement of Investments as at 31<sup>st</sup> December 2012

#### 21. HELD TO MATURITY

##### Sri Lanka Rupee Loans

(Rs.)

Security	Face Value	Cost	Market Value
2009-2015 9.50%	19,600,000,000	19,600,000,000	19,600,000,000
2009-2015 A 11.00%	3,500,000,000	3,500,000,000	3,500,000,000
<b>Sub Total</b>	<b>23,100,000,000</b>	<b>23,100,000,000</b>	<b>23,100,000,000</b>

##### Treasury Bonds

(Rs.)

Series	Face Value	Amortised Cost	Purchase Cost	Market Value
07.00%2023A	55,308,500,000	45,737,288,777	45,147,558,132	37,739,920,901
07.50%2013A	33,145,000,000	32,258,055,879	26,453,903,950	32,484,221,280
07.50%2013B	31,775,000,000	30,236,412,379	23,529,313,357	30,888,223,300
07.50%2018A	43,491,700,000	39,237,624,125	38,566,204,923	35,756,570,680
08.50%2013A	28,507,000,000	28,443,744,734	23,257,151,164	28,480,146,406
08.50%2013B	28,209,000,000	27,751,668,640	24,395,481,090	27,861,944,673
08.50%2018A	40,032,500,000	34,166,577,912	32,133,609,540	35,000,815,075
10.50%2013A	34,525,000,000	34,137,561,841	29,097,167,230	34,502,420,650
11.75 % 2014B	31,408,200,000	31,276,286,220	30,914,832,089	31,424,940,571
13.50%2013A	14,014,000,000	13,993,700,912	13,484,855,614	14,045,195,164
11.75%2015A	30,120,500,000	29,848,326,410	29,456,891,067	30,082,126,483
11.50% 2013A	27,752,100,000	27,905,322,798	28,643,370,687	27,877,150,963
08.50%2019A	54,196,700,000	51,295,289,311	50,845,502,745	45,614,273,178
11.00% 2015A	11,339,100,000	11,309,051,777	11,266,133,227	11,113,644,675
11.25% 2014A	11,395,100,000	11,348,592,577	11,258,154,587	11,320,177,218
11.00% 2015B	33,104,500,000	33,938,125,035	34,618,149,855	32,365,177,202
07.00%2014A	21,074,000,000	20,440,877,342	19,252,629,619	20,024,894,132
07.25%2016A	10,551,200,000	9,921,603,054	9,577,812,378	9,207,230,349
06.40%2016A	29,873,700,000	27,159,145,183	25,782,898,323	25,087,694,270
06.50%2015A	12,028,500,000	11,323,799,959	10,899,850,573	10,638,534,654
06.20%2020A	64,320,167,000	52,403,632,207	51,016,767,094	45,560,868,694
06.60%2014A	3,242,000,000	3,170,952,489	3,047,022,878	3,071,649,110
06.60%2014B	42,804,000,000	41,865,651,070	40,719,042,814	40,010,525,352
06.75%2013A	4,746,000,000	4,708,970,609	4,614,713,442	4,614,521,562
06.60%2014A	16,401,000,000	16,119,886,189	15,674,072,255	15,539,209,455
06.50%2015A	7,052,000,000	6,695,031,185	6,474,427,100	6,237,099,088
06.20%2015A	8,929,000,000	8,598,591,074	8,335,119,509	8,032,108,737
07.25%2016A	25,184,400,000	23,990,075,707	23,564,143,018	21,976,511,866
08.50%2018B	44,706,900,000	40,089,991,302	39,611,489,778	38,722,657,901
08.50%2019A	20,881,000,000	20,377,173,737	20,273,229,415	17,574,347,483
05.80%2017A	19,426,300,000	17,409,255,946	16,822,073,655	15,709,038,642
05.35%2026A	58,208,900,000	27,884,843,245	27,615,541,757	31,440,547,784
06.40%2016A	800,000,000	746,754,134	727,493,329	671,833,600

**EMPLOYEES' PROVIDENT FUND****Notes to the Statement of Investments as at 31<sup>st</sup> December 2012 Contd.**

(Rs.)

Series	Face Value	Amortised Cost	Purchase Cost	Market Value
05.80%2017B	21,468,800,000	18,851,190,563	18,323,632,673	17,009,837,584
05.65%2019A	3,000,000,000	2,282,456,962	2,213,813,000	2,180,691,000
06.40%2016B	4,300,000,000	3,689,713,953	3,606,863,000	3,594,249,600
08.00%2022A	39,445,100,000	29,587,708,510	29,161,548,590	30,319,397,225
08.00%2017A	24,052,400,000	22,107,944,956	21,766,524,740	21,080,677,875
06.20%2015B	3,000,000,000	2,682,800,503	2,598,424,000	2,653,758,000
08.00%2032A	60,099,000,000	34,662,268,627	34,545,718,061	39,992,518,956
08.00%2016A	12,265,600,000	11,185,483,304	10,994,883,802	10,813,586,006
05.80%2017A	3,268,500,000	2,629,743,218	2,541,190,345	2,643,065,988
08.00%2016B	4,223,300,000	3,766,011,350	3,688,439,039	3,751,189,963
08.00%2019A	12,256,700,000	9,327,609,088	9,160,793,769	9,811,733,484
09.00%2014A	2,000,000,000	1,924,041,855	1,896,106,000	1,917,586,000
08.50%2015A	2,000,000,000	1,853,835,723	1,822,164,000	1,835,000,000
08.00%2017B	8,229,000,000	6,598,894,735	6,468,446,595	7,296,078,270
08.00%2020A	9,225,000,000	6,588,692,186	6,487,112,250	7,322,721,975
08.00%2022A	7,973,900,000	5,329,871,316	5,265,330,154	6,129,122,287
08.00%2018A	2,000,000,000	1,513,785,207	1,491,406,000	1,682,122,000
<b>Total</b>	<b>1,117,360,267,000</b>	<b>980,371,915,815</b>	<b>939,109,002,211</b>	<b>950,709,557,308</b>

**Treasury Bills**

(Rs.)

Item	Face Value	Amortised Cost	Purchase Cost	Market Value
358D	1,665,000,000	1,630,960,656	1,500,323,175	1,637,610,750
147D	1,574,700,000	1,572,669,130	1,500,065,519	1,571,824,598
182D	4,250,000,000	4,128,484,934	3,998,684,750	4,144,068,750
179D	6,366,400,000	6,186,242,688	5,999,943,650	6,207,717,480
361D	3,382,900,000	3,096,507,622	2,999,982,783	3,098,340,601
364D	627,400,000	567,010,957	556,946,117	568,420,008
358D	3,370,500,000	3,062,028,601	2,999,920,266	3,053,649,407
182D	1,000,000,000	959,410,000	943,174,000	965,603,000
182D	2,000,000,000	1,923,491,297	1,886,792,000	1,931,206,000
182D	1,000,000,000	954,862,330	942,951,000	955,959,000
182D	1,500,000,000	1,423,111,747	1,418,641,500	1,417,048,500
361D	1,673,000,000	1,500,522,065	1,500,522,065	1,480,215,191
182D	5,000,000,000	4,752,369,725	4,714,755,000	4,779,795,000
<b>Total</b>	<b>33,409,900,000</b>	<b>31,757,671,753</b>	<b>30,962,701,825</b>	<b>31,811,458,284</b>





## EMPLOYEES' PROVIDENT FUND

Notes to the Statement of Investments as at 31<sup>st</sup> December 2012 Contd.

### Corporate Debentures and Other Investments

(Rs.)

Instrument	Face Value	Purchase Cost	Market Value
<b>Corporate Debentures</b>			
HDFC Bank	195,000,000	195,000,000	195,000,000
SMIB Bank	195,000,000	195,000,000	195,000,000
BOC	300,000,000	300,000,000	300,000,000
BOC	200,000,000	200,000,000	200,000,000
Lanka ORIX Leasing Company PLC	500,000,000	500,000,000	500,000,000
NTB	1,000,000,000	1,000,000,000	1,000,000,000
DFCC Vardhana Bank Debenture	500,000,000	500,000,000	500,000,000
HNB	2,000,000,000	2,000,000,000	2,000,000,000
MBSL	162,500,000	162,500,000	162,500,000
PABC	250,000,000	250,000,000	250,000,000
Sampath Bank	14,430,000	14,430,000	14,430,000
<b>Sub Total</b>	<b>5,316,930,000</b>	<b>5,316,930,000</b>	<b>5,316,930,000</b>
<b>Mortgage Backed Security</b>			
NDB Housing Mortgage Backed Security	500,000,000	500,000,000	500,000,000
<b>Sub Total</b>	<b>500,000,000</b>	<b>500,000,000</b>	<b>500,000,000</b>
<b>Trust Certificates</b>			
Commercial Leasing	94,632,546	73,433,744	93,643,748
LB Finace	487,622,564	388,700,000	451,281,154
PLC	1,823,690,555	1,404,247,229	1,533,788,738
Senkadagala Finance	87,426,830	76,500,000	86,209,401
<b>Sub Total</b>	<b>2,493,372,496</b>	<b>1,942,880,973</b>	<b>2,164,923,041</b>
<b>Total</b>	<b>8,310,302,496</b>	<b>7,759,810,973</b>	<b>7,981,853,041</b>

(Rs.)

Held to Maturity Instruments	Book Value
Sri Lanka Rupee Loans	23,100,000,000
Treasury Bonds	980,371,915,815
Treasury Bills	31,757,671,753
Corporate Debentures and Other Investments	7,981,853,041
<b>Total</b>	<b>1,043,211,440,608</b>

**EMPLOYEES' PROVIDENT FUND****Notes to the Statement of Investments as at 31<sup>st</sup> December 2012****22. LOANS & RECEIVABLES****REVERSE REPURCHASE AGREEMENTS (REVERSE REPO)****(Rs.)**

<b>Business Partner</b>	<b>Rate</b>	<b>Face Value</b>	<b>Cost Value</b>	<b>Market Value</b>
Wealth Trust Securities Limited	9.05	300,000,000	300,000,000	300,000,000
NatWealth Securities	9.05	289,000,000	289,000,000	289,000,000
National Savings Bank	9.05	1,347,000,000	1,347,000,000	1,347,000,000
NSB Fund Management Co. Ltd.	9.05	650,900,000	650,900,000	650,900,000
Bank of Ceylon	7.92	520,000,000	520,000,000	520,000,000
<b>Total</b>		<b>3,106,900,000</b>	<b>3,106,900,000</b>	<b>3,106,900,000</b>

Notes to the Statement of Investments as at 31<sup>st</sup> December 2012

### (i) Movement of Long term Investments

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## EMPLOYEES' PROVIDENT FUND

Notes to the Statement of Investments as at 31<sup>st</sup> December 2012 Contd.

(Rs.)										
SUB TOTAL		6,152,500,000	264,430,000	1,100,000,000					5,316,930,000	0.5
Type of Investment	Rate	Opening Balance	Investments	Maturities	Sales	Transfers	Amortization / Revaluation	Closing Balance	2012 (%)	2011 (%)
Listed Equity		73,086,911,313	5,018,155,587	-	15,800,232,387	376,767,000	(8,084,303,430)	54,597,298,083	5.1	7.4
Unlisted Equity		4,480,625,000	-	-	-	-	-	4,480,625,000	0.4	0.5
Mortgage Backed Securities		500,000,000	-	-	-	-	-	500,000,000	0.0	0.1
Trust Certificate		2,585,246,504	1,270,000,000	1,972,785,725	-	-	282,462,262	2,164,923,041	0.2	0.3
<b>Total Long Term Investments</b>		<b>981,337,087,512</b>	<b>270,096,533,252</b>	<b>176,637,235,725</b>	<b>19,202,864,444</b>	<b>3,247,405,644</b>	<b>11,690,765,700</b>	<b>1,070,531,691,939</b>	<b>100.0</b>	<b>100.0</b>
										<b>0.6</b>
										<b>Change %</b>
										<b>(0.1)</b>
										<b>(2.3)</b>
										<b>(0.0)</b>
										<b>(0.0)</b>
										<b>(0.1)</b>
										<b>(0.0)</b>

### (ii) Movement of Short Term Investment

Type of Investment	Rate	Opening Balance	Investments	Maturities	Sales	Transfers	Amortization / Marked to Market gain/(loss)	Closing Balance	2012 (%)	2011 (%)	Change %
Treasury Bonds	6.50 11.75	540,753,000 2,600,001,990	- -	- -	- -	(499,155,600) (2,371,483,044)	(41,597,400) (228,518,946)	- -	- -	8.2 39.2	(8.2) (39.2)
<b>SUB TOTAL</b>		<b>3,140,754,990</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,870,638,644)</b>	<b>(270,116,346)</b>	<b>-</b>	<b>-</b>	<b>47.4</b>	<b>(47.4)</b>
Treasury Bills		-	40,458,186,485	9,879,200,000	-	-	1,178,685,268	31,757,671,753	90.7	-	90.7
Listed Equity		686,417,096	54,108,598	-	43,214,673	(118,831,951)	(430,875,598)	147,603,472	0.4	10.4	(9.9)
Reverse Repo		2,802,100,000	683,598,574,000	683,293,774,000	-	-	-	3,106,900,000	8.9	42.3	(33.4)
<b>Total Short Term Investments</b>		<b>6,629,272,086</b>	<b>724,110,869,083</b>	<b>693,172,974,000</b>	<b>43,214,673</b>	<b>2,989,470,595</b>	<b>477,693,324</b>	<b>35,012,175,225</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>
<b>Grand Total</b>		<b>987,966,359,598</b>	<b>994,207,402,334</b>	<b>869,810,209,725</b>	<b>19,246,079,177</b>	<b>257,935,049</b>	<b>12,168,459,024</b>	<b>1,105,543,867,164</b>			



## EMPLOYEES' PROVIDENT FUND

Notes to the Statement of Investments as at 31<sup>st</sup> December 2012

### 24. CLASSIFICATION OF MATURITY PROFILE OF THE PORTFOLIO AS AT 31<sup>st</sup> DECEMBER 2012

(Rs. mn)

Type of Investment	Rate	Maturity In												Not Define	Total	
		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2026			2032
Treasury Bond	5.35 5.65 5.80 6.20 6.40 6.50 6.60 6.75 7.00 7.25 7.50 8.00 8.50 9.00 10.50 11.00 11.25 11.50 11.75 13.50			11,929 19,081	34,974	44,164		3,000	64,320				58,209		58,209 3,000 44,164 76,249 34,974 19,081 62,447 4,746 76,383 35,735 108,412 179,770 218,534 2,000 34,525 44,444 11,395 27,752 61,526 14,014	
Sub Totals Sri Lankan Rupee Loan		202,673	128,323	107,574	87,198	76,445	130,232	90,335	73,545	-	47,419	55,309	58,209	60,099	-	1,117,360
Sub Totals	9.50 11.00			19,600 3,500												19,600 3,500
Corporate Debentures		-	-	23,100	-	-	-	-	-	-	-	-	-	-	-	23,100
HDFC Bank									195							195
SMIB Bank									195							195
Sampath Bank						14										14
BOC		300														300
BOC				200												200
Lanka ORIX Leasing				500												500
Company PLC					1,000 500											1,000 500
NTB																
DFCC Vardhana Bank																
HNB																
MBSL			163													
PABC DC						250										250
Sub Total		300	163	700	1,500	264	-	-	390	2,000	-	-	-	-	-	5,317
Treasury Bills		33,410														33,410
Mortgage Backd Securities									500							500
Trust Certificates				360												2,493
Listed Equity		1,370	763												54,745	54,745
Unlisted Equity															4,481	4,481
Reverse - Repo		3,107														3,107
Grand total		240,860	129,249	131,734	88,698	76,709	130,232	90,335	74,435	2,000	47,419	55,309	58,209	60,099	59,226	1,244,513



## 25. RECONCILIATION OF FINANCIAL POSITION UNDER SLAS AND SLFRS AS AT 31<sup>st</sup> DECEMBER 2011

### Asset side of the Balance Sheet

(Rs.)

Total Net Assets as per the previous Sri Lanka Accounting Standard (SLAS)			1,020,071,750,739
<b>Add:</b>			
	<b>As per SLAS (A)</b>	<b>As per SLFRS (B)</b>	<b>Difference (B-A)</b>
<b>Investment Portfolio</b>			
Rupee Loan	23,100,000,000	23,100,000,000	-
Treasury Bonds	874,572,559,685	874,572,559,685	-
Treasury Bills	-	-	-
Reverse Repo	2,802,100,000	2,802,100,000	-
Corporate Debentures	6,152,500,000	6,152,500,000	-
Mortgage Backed Securities	500,000,000	500,000,000	-
Trust Certificates	2,585,246,504	2,585,246,504	-
Listed Equity	73,773,328,408	71,405,897,425	(2,367,430,983)
Unlisted Equity	4,480,625,000	4,480,625,000	-
<b>Total</b>	<b>987,966,359,597</b>	<b>985,598,928,614</b>	<b>(2,367,430,983)</b>
<b>Total Net Assets as per the new Sri Lanka Accounting Standard (SLFRS)</b>			<b>1,017,704,319,756</b>

### Liability side of the Balance Sheet

(Rs.)

Net worth of the Fund & Non-current Liabilities as per the previous Sri Lanka Accounting Standard(SLAS)			1,020,071,750,739
<b>Add:</b>			
	<b>As per SLAS (A)</b>	<b>As per SLFRS (B)</b>	<b>Difference (B-A)</b>
<b>Reserve</b>			
Building Reserve Fund	3,157,000,000	3,157,000,000	-
Technology Advancement Reserve Fund	350,000,000	350,000,000	-
Profit Equalization Reserve Fund	23,500,000,000	23,500,000,000	-
General Reserve Fund	6,650,000,000	6,650,000,000	-
Investment Revaluation Reserve	-	(2,367,430,983)	(2,367,430,983)
<b>Total</b>	<b>33,657,000,000</b>	<b>31,289,569,017</b>	<b>(2,367,430,983)</b>
<b>Total Net Assets as per the new Sri Lanka Accounting Standard (SLFRS)</b>			<b>1,017,704,319,756</b>



**විගණකාධිපති දෙපාර්තමේන්තුව**  
**கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்**  
**AUDITOR GENERAL'S DEPARTMENT**



මගේ අංකය } LS/D/EPF/FA/12  
 எனது இல. }

ඔබේ අංකය }  
 உமது இல. }

දිනය } 19 June 2014  
 திகதி }

Honourable Minister,  
 Ministry of Labour and Labour Relations

**Report of the Auditor General on the Financial Statements of the Employees' Provident Fund for the year ended 31 December 2012 in terms of Section 6(3) of the Employees' Provident Fund Act, No. 15 of 1958..**

The audit of financial statements of the Employees' Provident Fund for the year ended 31 December 2012 comprising the statement of financial position as at 31 December 2012 and comprehensive income statement, statement of changes in equity and cash flow statement 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 provision in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 6(3) of the Employees' Provident Fund Act, No. 15 of 1958. My comments and observations which I consider should be published with the Annual Report of the Fund in terms of Section 6(3) of the Employees' Provident Fund Act, appear in this report.

**1:2 Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

**1:3 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 Sri Lanka Auditing Standards. Those



Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgements, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund'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 Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

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

**1:4 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

**2. Financial Statements**

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**2:1 Qualified Opinion**

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In my opinion, except for the effects of the matters described in paragraph 2:2 of this report, the financial statements give a true and fair view of the financial position of the Employees' Provident Fund as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with the Sri Lanka Accounting Standards.





## **2:2 Comments on Financial Statements**

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### **2:2:1 Sri Lanka Accounting Standards**

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The following observations are made.

- (a) According to Section 34 of Sri Lanka Accounting Standard 16, the fixed assets should be revalued at least once in 03 or 05 years. Nevertheless, the fixed assets of the Fund costing Rs.76,656,104 which had been fully depreciated had not been revalued.
- (b) Even though it was stated that an impairment test in terms of Section 58 of Sri Lanka Accounting Standard 39 had been done to ascertain whether the investments made in companies of which financial assets had been classified and brought to account as investments were subject to impairment during the year under review, adequate evidence in that connection had not been furnished to audit.

Nevertheless, an impairment test had been done at the end of the year 2013. The yard stick applied in that connection had been 20 per cent decrease in the Share Market Price as against the cost or such occurrence for over 20 years. According to the test done based on this policy, the Share Market value of the investments made in the shares of 02 companies as at 31 December 2012 amounted to Rs.189,944,490 and Rs.6,794,537 respectively and as compared with the cost of those amounting to Rs.1,005,584,993 and Rs.43,925,523 the impairment in the value amounted to Rs.815,640,503 and Rs.37,130,986 or 18.9 per cent and 15.5 per cent respectively.

### **2:2:2 Accounting Deficiencies**

-----

A sum of Rs.56,916,275 spent as recurrent expenditure during the year ended 31 December 2012 had been brought to account under the purchase of fixed assets and the purchase of computers and accessories and that included the expenditure on repairs to motor vehicles and repairs to machinery, consultancy fees. ABH computerization,



charges on training programmes and newspaper notices, Finger Print Project and the payments made to the Government Factory.

### 2:2:3 Unsettled Balances

-----

The following observations are made.

- (a) The recoveries made to the Employees' Provident Fund by the Commissioner General of Labour by instituting cases under the Employees' Provident Fund and recoveries of outstanding installments and not settled by crediting to the accounts of the respective members as at 31 December 2012 amounted to Rs.5,409,262,080.

*According to the Central Bank of Sri Lanka this amount comprised the moneys recovered on Courts decisions on the cases filed against the employers who do not pay the contributions to the Employees' Provident Fund regularly and the money recovered through the intervention of Labour Officers and that action will be taken to settle this balance in the order of the full payment of installments.*

- (b) The balance retained in the General Deposit Account as at 31 December 2012 without being credited to the accounts of the beneficiaries as contributions to the Employees' Provident Fund amounted to Rs.341,677,762.
- (c) The balance of the Shortage and Excess Contributions Account which had been increasing from the inception of the Fund amounting to Rs.1,425,783,355 had not been settled.

### 2:2:4 Lack of Evidence for Audit

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The Register of Fixed Assets and the schedules required for the confirmation of the existence, the value and the accuracy of the fixed assets amounting to Rs.1,138,938,751 relating to the Employees' Provident Fund belonging to the Department of Labour had not been furnished to audit.



### 3. Financial Review

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#### 3:1 Financial and Results

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The net result of the operations of the Fund for the year under review had been an after tax surplus of Rs.111,828,720,197 as compared with the net surplus of Rs.107,202,066,499 for the preceding year. As such the net surplus for the year under review as compared with the preceding year indicated an increase of Rs.4,626,653,698. The increase of the investment income by a sum of Rs.5,537,659,176 had been the main reason for the financial result.

#### 3:2 Management Inefficiencies

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The following observations are made.

(a) The contributions and the surcharges receivable in terms of the Employees' Provident Fund Act had not been received as shown below.

- \* The surcharges recoverable from 396 institutions registered under the Fund according to the database of the Central Bank of Sri Lanka, in respect of the period 2009 to 2012 amounting to Rs.101,140,260 had not been recovered even by 30 April 2014.
- \* Action had not been taken even up to 30 April 2014 for the recovery of the outstanding contributions and surcharges amounting to Rs.175,449,814 due from 148 institutions relating to the area of authority of the District Labour Office, Colombo East.
- \* Notices as required had not been sent for the recovery of the surcharges of the Employees' Provident Fund amounting to Rs.14,379,993 recoverable from 169 Local Authorities in respect of the period from the year 2000 to the end of the year 2013.
- \* The outstanding contributions and the surcharges relating to the period from the year 2009 to January 2013 amounting to Rs.145,268,636



recoverable from 297 institutions in the area of authority of the District Labour Office, Gampaha had not been recovered.

\* The outstanding contributions and surcharges relating to the period from the year 2010 to the year 2012 amounting to Rs.184,570,423 recoverable from 205 institutions in the area of authority of the District Labour Office, Avissawella had not been recovered.

\* The contributions and surcharges for the Employees' Provident Fund in respect of the employees of 22 Depots of Sri Lanka Transport Board amounting to Rs.498,374,779 had not been recovered.

(b) The money relating to the 10,641 cases filed throughout the Island from the year 2010 to the end of the year 2013 for the recovery of contributions to Employees' Provident Fund amounted to Rs.8,244,403,544. The information on the amount of money collected through those cases and the number of cases settled out of those had not been updated by the Employees' Provident Fund.

(c) The outstanding contributions to the Employees' Provident Fund in respect of the period from 01 January 2007 to 31 December 2009 due from 22 Plantation Companies of the Sri Lanka State Plantations Corporation and the Janatha Estates Development Board in the area of authority of the District Labour Office, Kandy North but not paid and the related surcharge amounted to Rs.30,226,443 and Rs.13,786,734 respectively. In addition, those Plantation Companies had not paid the contributions to the Employees' Provident Fund for the period from the year 2010 to the end of the year 2013. *The Commissioner General of Labour informed that action has been taken to file cases and to take Courts action for the recovery of a sum of Rs.208,378,193 due from the year 2010 to 30 June 2013 from 31 State Plantation Companies.*

(d) The total of the outstanding contributions and the surcharges relating to the years 2003 to 2006 recoverable to the Employees' Provident Fund from 14 Janatha Estates Companies in the area of authority of the District Labour Office, Kandy South amounted to Rs.42,066,439. Those Estates Companies had not paid the contributions to the Employees' Provident Fund from the year 2007 to the end of the year 2013. *The Commissioner General of Labour informed that cases*





*had been filed in 26 instances for the recovery of a sum of Rs.171,734,992 due from 15 Estates Companies in respect of the period from the year 2003 to the year 2013 and that action is being taken in respect of 108 instances for filing cases for the recovery of money.*

- (e) Action had not been taken for the settlement of the balances of the Unclaimed Benefits Account and the Retained Benefits Account as at 31 December 2012 amounting to Rs.125,325,963 and Rs.34,138,653 respectively.

### 3:3 Transactions of Contentious Nature

The following observations are made.

- (a) Capital goods valued at Rs.2,093,000 purchased from funds of the Employees' Provident Fund had been recorded in the stock books of the Department of Labour.
- (b) The Pay As You Earn Tax amounting to Rs.6,459,092 which should be recovered from the employment income of the officers of the Central Bank of Sri Lanka attached to the Employees' Provident Fund had been paid from the Employees' Provident Fund without being recovered from the respective officers.

## 4. Operating Review

### 4:1 Performance

#### 4:1:1 Operating Performance

The following observations are made.

- (a) The performance as at the end of the year under review had been as follows.

Particulars	Actual Number	Number related to the Activities of the Fund	Percentage
Employment in the Private and Semi-Government Sector	3,832,840	2,250,000	58.70



Employers	227,612	68,771	30.21
Number of Members' Accounts of the Fund (Millions)	14.25	2.25	15.79

(Source : Report of the Central Bank of Sri Lanka 2012)

The amount credited as at 01 January 2012 to 12,000,000 Members accounts which do not remit contributions at present (dormant) amounted to Rs.497,306,421,269 and the interest for the year 2012 credited to those account holders amounted to Rs.57,190,238,790.

(b) Benefit's paid to Members

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The percentages of benefits paid to the Members from the year 2007 to the year 2012 are given below.

Year	2012	2011	2010	2009	2008	2007
-----	-----	-----	-----	-----	-----	-----
Percentage of Benefits paid	11.5	11.5	12.5	13.75	13.2	11.2

A sum of Rs.101,284,166,436 had been utilized for the payment of members benefits in the year 2011 and a sum of Rs.115,771,416,227 was required for the payment of members benefits at the same percentage for the year under review. As the increase in the income for the year under review as compared with the preceding year had been only Rs.4,626,653,698, the additional money required for the payment of same dividend of 11.5 per cent paid in the preceding year amounting to Rs.5,700,000,000 had been transferred from the Dividend Equalization Reserve to income.

(c) According to the new Section 23A inserted immediately after Section 23 of the Principal Act by the Employees' Provident Fund (Amendment) Act, No. 2 of 2012, provision had been made for the members who fulfil the requirements of the Principal Act to be given 30 per cent of the money deposited to the credit of



the Fund as contributions for purposes of housing and medical treatment. But that has not been implemented up to date. *The Commissioner General of Labour informed that the Regulations relating to the Act, No. 2 of 2012 have been presented to Parliament and action to provide the benefits will be taken after approval of the Regulations.*

- (d) Several State Banks and Statutory Institutions affiliated to the State had introduced a Loan Scheme from the year 1998 for the grant of housing loans by placing the balance in the account in the Employees' Provident Fund as security. Loans amounting to Rs.40,871 million had been approved through 192,232 loan certificates under that scheme during the period from the year 2000 to 2012 and the loans defaulted by the borrowers during the said period amounted to Rs.14,559 million.

#### 4:1:2 Investments and Investment Income

-----

The following observations are made in connection with the overall investment of Rs.63,102,761,384 made by the Employees' Provident Fund as at 31 December 2012 on long term and short term basis in 72 companies listed in the share market.

- (a) The overall long term and short term investments made by the Employees' Provident Fund in the share market as at 16 December 2013 had increased to Rs.70,520,488,212. Out of that investment the share price of Rs.50,700,023,800 made in 64 companies had diminished by a sum of Rs.14,410,838,379 as at that date while the value of shares of the investments amounting to Rs.17,821,779,895 made in the shares in 22 Companies had appreciated in the Stock Market by a sum of Rs.4,015,715,500. Nevertheless, the overall investment of the Fund in the Share Market as at 10 June 2014 in 82 companies amounted to Rs.74,840,763,800 and as at that date the Share Market value of the investments made in 48 companies had diminished by a sum of Rs.9,651,570,175 while the appreciation of the Share Market value of 34 companies amounted to Rs.8,996,856,733.
- (b) The Fund had not received any income whatsoever from the dates of investments in relation to the investment of Rs.500,000,000 made in 1,863,676 units of an Airline Company in July 2010, the investment of Rs.205,489,613



made in 5,091,200 shares a Finance Company from 23 February 2011 to 01 November 2011 and the investment of Rs.810,321,611 made for the purchase of 23,712,200 shares a Hotel Company by 31 May 2010. *Nevertheless, the Central Bank of Sri Lanka is of the view that though the investment is not in a profitable status at present, those being converted to more profitable status in the future can be expected as the investments are in a stage of being converted to profitability status.*

- (c) Even though the share price of 20,942,989 shares of the Communications Company purchased for Rs.680,232,429 had appreciated in the share market, the Fund could not obtain capital gains from the sale of those shares, as those had not been transacted in the Share Market from the year 2009. Even though dividends at the rates of 3.39 per cent, 0.81 per cent, 1.67 per cent and 2.62 per cent had been received for the investment in the years 2008 and 2009, 2010, 2011 and 2012 respectively, such income as compared with the investment made, had been very low. *Nevertheless, the Central Bank of Sri Lanka is of the view that the dividends and capital gain from this Company will increase in the future as the Communications Sector is geared to expand together with the economic development of Sri Lanka.*
- (d) The Employees' Provident Fund had invested sums of Rs.3,890,902,522, Rs.6,877,822,908, Rs.39,133,587,926, Rs.73,948,947,927 and Rs.63,102,761,384 in the Share Market in the years 2008, 2009, 2010, 2011 and 2012 respectively. The income received from those investments in the years 2008, 2009, 2010, 2011 and 2012 had been 8.93 per cent, 22.99 per cent, 5.08 per cent, 3.58 per cent and 3.77 per cent respectively.
- (e) The Fund had not received any income from the investment of Rs.8,793,951,889 made in 14 Companies as at 31 December 2012. Out of those 14 Companies, the investments made in 6 companies amounted Rs.7,358,547,720. *Nevertheless, the Central Bank of Sri Lanka is of the view that there is no intention of reaping larger benefits in the short term as the total investment in 14 companies had been made with the objective of obtaining long term benefits and that is the normal practice followed in portfolio investments.*





- (f) Five Companies in which the Employees' Provident Fund had invested Rs.2,412,402,036 had incurred losses in the year of accounts 2012/2013. Out of those 05 Companies, 04 Companies in which Rs.2,206,912,423 had been invested had incurred losses in the year of accounts 2011/2012 as well. The Fund had not received an income whatsoever from the respective Companies in the two years of accounts.
- (g) The Fund had invested sum of Rs.2,684,119,949 and Rs.706,343,975 in 17.28 per cent of shares with voting right and 34.70 per cent of shares without voting rights of a certain Gas Company. According to second paragraph of Section 2.5(c) of the Investment Policy Statement issued in December 2011 the expectation of investments made in any Company should be the improvement of the benefits. Nevertheless, the income received for this investment in the years 2011 and 2012 had been only 3.36 per cent. By 31 March 2013, the Fund had reached the second place in the ownership of shares with voting rights and the first place in the ownership of shares without voting rights. The share market value of the shares with voting rights and the value of shares without voting rights of this Company had diminished by Rs.1,063,963,496 and Rs.328,152,141 respectively by 16 December 2013. *According to the central Bank of Sri Lanka it is expected that the investment made in this profit making Company with expectation of long terms benefits would appreciate in due course.*
- (h) The shares of 37 Companies included in the Trade Portfolio purchased for trading in the Share Market for a period less than one year costing Rs.773,665,828 had diminished over and over again and the expected objectives therefrom had not been achieved. Accordingly 28,915,417 shares of 25 Companies costing Rs.585,216,158 had been transferred to the Investment Portfolio on 06 December 2012. The net diminution of the market value of all 37 Companies as at that date had been Rs.240,122,387 or 31 per cent of the cost.
- (i) Even though the investments made in the Hotels Sector had appreciated by Rs.3,882,771,148, Rs.7,219,711,549 and Rs.7,746,506,674 in the years 2010, 2011 and 2012, the income received during those years amounted to Rs.56,511,978, Rs.146,632,975 and Rs.146,122,343 respectively. The percentage of the income received on this investment had been 1.46 per cent, 2.03 per cent and 1.89 per cent in the years 2010, 2011 and 2012 respectively.



Nevertheless, the Central Bank of Sri Lanka is of the view the investment in this Sector which expects to attract 2.5 million tourists to Sri Lanka is highly profitable the benefits as well would be of long term.

- (j) The Fund had purchased the shares of 47 Companies in the year 2012 at a cost of Rs.5,018,155,587. That investment included Rs.141,140,617 invested in 03 Companies which had incurred losses, not yielded an income and the share prices of which had diminished, Rs.588,329,845 invested in 04 Companies which had not yielded an income and the share prices of which had diminished and Rs.2,719,273,541 invested in 15 Companies in which the share prices had diminished. *Nevertheless, the Central Bank of Sri Lanka is of the view that the normal strategy in case of diminution price in the Stock Market is to increase the investment and reduce the Weighted average price, that investments are made by taking into consideration the primary matters and that forecasts of price fluctuations are not done.*
- (k) The transactions of the Share Market in the years 2010, 2011 and 2012 had yielded capital gains amounting to Rs.714,995,491, Rs.1,020,279,860 and Rs.102,895,132 in the years 2010, 2011 and 2012 respectively. The decrease in the income in the year 2012 as compared with the year 2011 represented 89.92 per cent. This had been due to the rapid diminution of the share prices in Share Market in the year 2012.

#### 4:2 Idle and Underutilized Assets

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The following observations are made.

- (a) Five machines purchased at a cost of Rs.2,391,800 in the year 2008 under the Project for the issue of New Identity Cards to the Members of the Employees' Provident Fund and Re-registration had not been used for the achievement of the objectives even by 30 June 2013.
- (b) Even though 15,000 Memory Chips had been purchased at a cost of Rs.10,965,000 for the computer work on the issue of new identity cards referred to above, those Memory Chips remained idle without being used even by 30 June 2013.



#### 4:3 Staff Administration

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Action had not been taken even up to March 2014 to fill the following 88 vacancies in Employees' Provident Fund staff of the Department of Labour that existed as at 31 December 2012.

	Approved Number	Actual Number	Number of Vacancies
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Staff Grades	30	15	15
Non-staff Grades	188	124	64
Minor Grades	42	33	09
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Total	260	172	88
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#### 5. Accountability and Good Governance

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##### 5:1 Internal Audit

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The internal audit of the activities of the Fund is done by the Department of Labour and due to the inadequacy of staff, limited areas of the Fund only had been covered by that Internal Audit.

The Central Bank of Sri Lanka had outsourced the internal audit of the financial control of the Fund to a private audit firm and that audit had not covered certain important areas of the Fund. The audit fee paid to that private audit firm in the year 2012 amounted to Rs.6,494,880 approximately

##### 5:2 Observations on Unsettled Audit Paragraphs

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The following observations are made on the audit paragraphs remaining without being settled from the year 2006 to 2011.



- (a) Even though the contributions amounting to Rs.3,608,667 remitted to the Employees' Provident Fund by a certain employer institution credited to the accounts of the relations of the Labour Officer through fake C returns had been recovered from the officer through legal action, disciplinary action against him had not been finalized even up to 30 April 2014. (2006-2.5(a) )
- (b) The contributions and surcharges amounting to Rs.16,803,661 recovered by the Magistrate's Court, Kandy from the decided cases during the period 1995 to 2003 had not been received from the Magistrate's Court had not been received up to 30 April 2014. (2006 - 2.5(b) )

*Even though the Commissioner General of Labour informed that necessary action had been taken on money relating to 04 cases got down from the Courts and that action was being taken to get down the money relating to the other cases, the particulars of the money recovered had not been furnished to audit.*

- (c) A Finance Company registered as a company on 31 January 1994 and commenced business activities on 01 April 1997 had contributed to the Employees' Provident Fund on 03 December 1997. That company had been liquidated leaving an outstanding balance of contributions and surcharges amounting to Rs.48,461,705. The Employees' Provident Fund had failed recover that amount even up to 30 April 2014. (2008 - 2.2.6(e)(i) )
- (d) Contributions of members of the Employees' Provident Fund and surcharges amounting to Rs.62,571,668 recovered through Court cases from the year 2005 to the year 2008 had been credited to the State Revenue without being credited to the personal accounts of the members due to the unavailability of accurate information with the Employees' Provident Fund. Action had not been taken even by 30 April 2014 to settle these accounts. (2010 - 2.2.1(a)(i).
- (e) Even though it was stated that replies would be sent after holding investigations on the matters pointed out in audit queries and the audit paragraphs No. 3.2.5(d) of the year 2009, No. 3.2.1(c)(iii) of 2010 and No. 5.4(f) of 2011 containing those matters relevant to the area of authority of the District Labour Office, Colombo Central such as the failure to recover the contributions and surcharges by filing cases, cases filed but failure to take follow up action,





institutions defaulting the installment facilities given, non-recovery of money before liquidation of institutions, non-settlement of money deposited in the Suspense Account of the Employees' Provident Fund by producing C returns, non-crediting of contributions and surcharges received during the period 2003-2006 to the correct members' accounts and the non-recovery of surcharges amounting to Rs.313,452,501, such replies had not been furnished even up to 30 April 2014.

## **6. Systems and Controls**

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Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Commissioner General of Labour and the Governor of the Central Bank of Sri Lanka from time to time. Special attention is needed in respect of the following areas of control.

### **6:1 Employees' Provident Fund Department of the Central Bank of Sri Lanka**

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- (a) Investments
- (b) Outsourcing of Operations to External Parties

### **6:2 Employees' Provident Fund Unit of the Department of Labour**

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- (a) Accounting
- (b) Compliance with Accounting Standards
- (c) Recovery of Contributions and Surcharges
- (d) Fixed Assets
- (e) Inspection of Employer Institutions

**H.A.S. Samaraweera**

Auditor General