

Annual Report 2017

NSB Fund Management Co. Ltd

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Financial Highlights

	2017	2016	2015	2014	2013
Operating Result					
Gross Income (Rs Mn)	1,084	831	693	699	853
Net Gain/(loss) from FVTPL (Rs Mn)	314	(98)	4	66	281
Interest Expenses (Rs Mn)	(713)	(554)	(371)	(384)	(670)
Net Operating Income (Rs Mn)	682	176	325	379	463
Operating Expenses, provisions, VAT & NBT	(143)	(67)	(72)	(72)	(72)
Profit before Taxation (Rs Mn)	539	109	253	307	390
Income Tax Expenses (Rs Mn)	(176)	(30)	(78)	(105)	(46)
Profit for the year (Rs Mn)	363	79	175	202	344
Earnings per Share (Rs.)	6.84	5.29	11.62	13.46	22.93
Assets					
Cash & Cash Equivalents (Rs Mn)	5	9	8	4	11
Other Financial Assets (Rs Mn)	8,588	10,708	8,495	7,492	7,799
Loans & Receivables (Rs Mn)	279	11	237	3	302
Property, Plant & Equipment/Intangible Assets (Rs Mn)	4	2	2	1	1
Other Assets (Rs Mn)	283	132	28	28	15
Total Assets	9,159	10,862	8,770	7,528	8,128
Liabilities & Equity					
Borrowings (Rs Mn)	7,030	9,143	6,927	5,511	6,348
Other Liabilities (Rs Mn)	184	28	58	102	51
Equity (Rs Mn)	1,945	1,691	1,785	1,915	1,729
Total Liabilities & Equity	9,159	10,862	8,770	7,528	8,128
Ratios					
Return on Equity (%)	19.96	6.45	14.6	16.02	22.58
Return on Investment (%)	3.09	2.28	3.69	4.21	2.26
Net Profit Ratio (%)	25.94	10.83	36.49	43.87	45.79
Average Yield	10.17	9.64	7.76	8.44	8.99
Other Information					
No. of Employees	18	16	11	11	11

Key Achievements

- The Company has recorded the second highest net profit in its history.
- Introduced a new logo to expand the business scope.

Company Profile

The NSB Fund Management Co. Ltd had commenced business on 01st March 2000, as one of the dedicated Primary Dealer (PD) Companies appointed by the Central Bank under the new Primary Dealer system to deal exclusively in primary and secondary market transactions of Government Securities. The Company is now one of the main primary Dealers among eight standalone PD Companies and seven PD Units of Commercial Banks.

Operating Structure

As the fully owned subsidiary of National Savings Bank, the Company is always in line with the best business practices of the Bank and has the privilege of serving the customer with second largest portfolio in Government Securities.

Customers

The NSB FMC currently has high net worth individual and institutional customers. Those mainly include the large investment Funds of Sri Lanka. Customer base includes Central Bank Provident Fund, Private Provident Funds, Universities Grant Commission etc...

Business Lines

All functions related to Primary Dealer License,

Financial Services

- i. Participate in Primary Auctions of the Government securities
- ii. Custodian Services
- iii. Trustee Services including Collateral Manager Services
- iv. Lead Manager Services

Agency Services

- i. Designated agent appointed by the Central Bank for issues of Sri Lanka Development Bonds (SLDB) denominated in US Dollars.
- ii. License of Debt Dealer.

Performances Review

Market Overview 2017

The inflation rates have stood at the single digit level over the year under review. Year on Year inflation increased to 7.3 percent in December 2017 from 6.5 percent in January 2017. The GDP grew by 3.3 per cent in real terms during the 2017, which is mainly attributable to 3.9 per cent and 3.2 per cent growth in the Industry activities and the Services activities respectively. However, the Agriculture activities, reported 0.8 per cent of negative growth rate.

The Central Bank of Sri Lanka changed its monetary policy increasing the policy rates in the year 2017. In March 2017 the Monetary Board increased the policy interest rates by 25 basis points and accordingly, the standard deposit facility rate (SDFR) and standard lending facility rate (SLFR) of the Central Bank were increased to 7.25 per cent and 8.75 per cent, respectively.

Interest rates have been quite volatile throughout the year and have seen sizeable movements downward at certain times. With the lower liquidity level prevailed in the market during the last quarter of the year, the Treasury rates have started to increase in the first half of the year and started to decrease in the second half of the year. The Treasury Bill rates for 3, 6 & 12 months decreased from 9.08 per cent, 10.05 per cent & 10.42 per cent respectively on 01/01/2017 to 7.69 per cent, 8.30 per cent and 8.90 per cent for 3, 6 and 12 months respectively at the end of the year 2017. The Government bond rates fluctuated throughout the year 2016.

Foreign investments in Government Securities declined by 57 per cent in two years to Rs.197 billion by March 2017, reversing a recovery in the previous year because the Central Bank delayed increasing monetary policy rates. Sri Lanka's credit profile coming under increasing pressure and the US Fed increased interest rates, twice since November 2016, resulted in another bout of foreign selling. Outstanding stocks of Government Securities increased by 14 per cent to Rs. 4.7 trillion in the years to March 2017. However, the share of the foreign holding dwindled from 11 per cent (Rs. 455 billion) to 4 per cent (Rs. 197 billion).

Company Performance

NSB FMC has evolved from the Primary dealer arm of NSB to diversify various fee based activities.

In the year 2017, the Company recorded an operational profit of Rs. 362.8 Million. The profit for the year increased by Rs. 283 Million in comparison to operational profit of Rs. 79.4 Million in 2016, due to effective portfolio management which resulted in Rs. 287.9 Million of unrealized mark to market profit on Government Security Trading Portfolio for the year 2017 against loss recorded in 2016.

The revaluation gain was the result of selling low yield bonds and repositioning the portfolio with high yield bonds.

Net interest income of Government securities increased to Rs. 302.8 Million in this year when compared to Rs. 222 Million in 2016, showing an increase of 36 per cent. Gain from the sale of T-bills & bonds were Rs.26.4 Million in 2017 when compared to Rs.19.7 Million recorded in 2016. The fee income of the company was increased by 25% in the year 2017 compared to that of year 2016.

The Company paid Rs 85.7 Million by way of Value Added Tax (VAT) and also provided Rs. 176 Million as income tax expense for 2017. Due to increase of profit after tax during the year, Earnings Per Share (EPS) increased by 29 percent to Rs. 6.84 per share from Rs. 5.29 per share in the preceding year.

Net assets of the Company stood at Rs. 1,945 Million as at 31st December 2017 in comparison to Rs.1, 691 Million as at 31st December 2016. This is mainly due to the net profit recorded in 2017.

Total assets of the company stood at Rs.9, 159 Million by the end of 2017 compared to Rs.10,862 Million in 2016. Decline in assets was mainly caused by the 58 per cent decrease in trading portfolio to Rs.2,917.6 Million in 2017 from Rs.7,012.6 Million in 2016.

During the year, the Company issued Rs. 750 Million of Scrip Dividend which was resolved by Extra Ordinary General Meeting held on 28/06/2017 to strengthen the Company Balance Sheet. However, the asset base of the Company decreased by Rs. 1,703 Million compared to that of 31/12/2017 due to maintaining the Government Security Trading Portfolio at low level to minimize losses and payment of dividend.

Repo borrowings of the Company reduced to Rs. 7,030 Million in 2017 from Rs. 9,143 Million in 2016 in line with portfolio reduction.

Human Capital

The Company has thirteen directly recruited staff members and five staff members assigned from the NSB on secondment basis including the Chief Executive Officer. The Deputy General Manager - Asset Management Division of NSB serves as the CEO of the Company on secondment basis.

The Company continued its commitments to develop its employees during the year. Further, the employees were sent to various training programmes including programmes conducted by CBSL. The Company has paid 02 months' salary as annual bonus and 2.25 months' salary as performance bonus to the staff.

Future Initiatives

NSB FMC will continue to grow its investments and trading volumes while diversifying its business activities into fee income services. The company also has various initiatives planned to enhance its customer base for effective and efficient fund base. The marketing strategies are formed to take the company brand into high net worth customers.

The Company will employ a Market Expertise for portfolio management and a Manager for Risk & Compliance function of the Company. Company will invest in new IT system in line with its Business Continuity Plans and to become more efficient in its business activities.

Risk Management & Corporate Governance Report

In the course of conducting its business, financial institutions pose risks in order to realize returns on their investments. On the other hand, risks are assumed to have the potential to wipe out expected returns and may result in losses to the institutions. Therefore, one way or another, risk management has always been on the prime concerns of financial institutions and successful business strategy depends on taking informed, well-timed risks. Through effective risk management framework, institutions will be able to optimize their risk-return trade off.

As a Primary Dealer Company, NSB FMC is mainly exposed to the following type of risks.

- Market risks
- Liquidity risks
- Operational risks
- Regulatory & Compliance risks

Market Risk Management

Market risk is the risk of losses in positions arising from movements in market prices. These market prices include interest rate risk, equity risk, foreign exchange risk and commodity risk. Since NSB FMC is in the business of dealing in government securities and other debt securities, the Company is exposed only to interest rates risk arising from fluctuations in market interest rates.

In order to manage the market risk of the Company, NSB FMC has a well defined limit structure across the delegated authority levels. Further, NSB FMC operates in compliance with the rules and regulations of the Central Bank of Sri Lanka.

Liquidity Risk Management

Liquidity risk is the inability of an institution to meet its obligations as and when they become due, without adversely affecting the Company's financial condition. Effective liquidity risk management ensures NSB FMC's ability to meet its obligations as they fall due and reduces the probability of an adverse situation developing.

NSB FMC strives to manage the liquidity risk of the Company by obtaining adequate collateral for its lending and timely monitoring of its cash flows.

Operational Risk Management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal risk but excludes strategic risk.

Operational risk can arise due to internal events such as the potential for failures or inadequacies in the NSB FMC's processes and systems (e.g. its IT, risk management or human resources management, processes and systems), or those of its outsourced service providers.

In managing its operational risk, NSB FMC strives to follow the set internal controls, policies and procedures in order to avoid losses originated from vulnerabilities in the operational processes and appearances of threats which together cause operational loss events.

Regulatory and Compliance Risk

Regulatory risk is the risk that a change in laws and regulations will materially impact on security, business, sector or market. A change in laws or regulations made by the government or a regulatory body can increase the costs of operating a business, reduce the attractiveness of investment and/or change the competitive landscape.

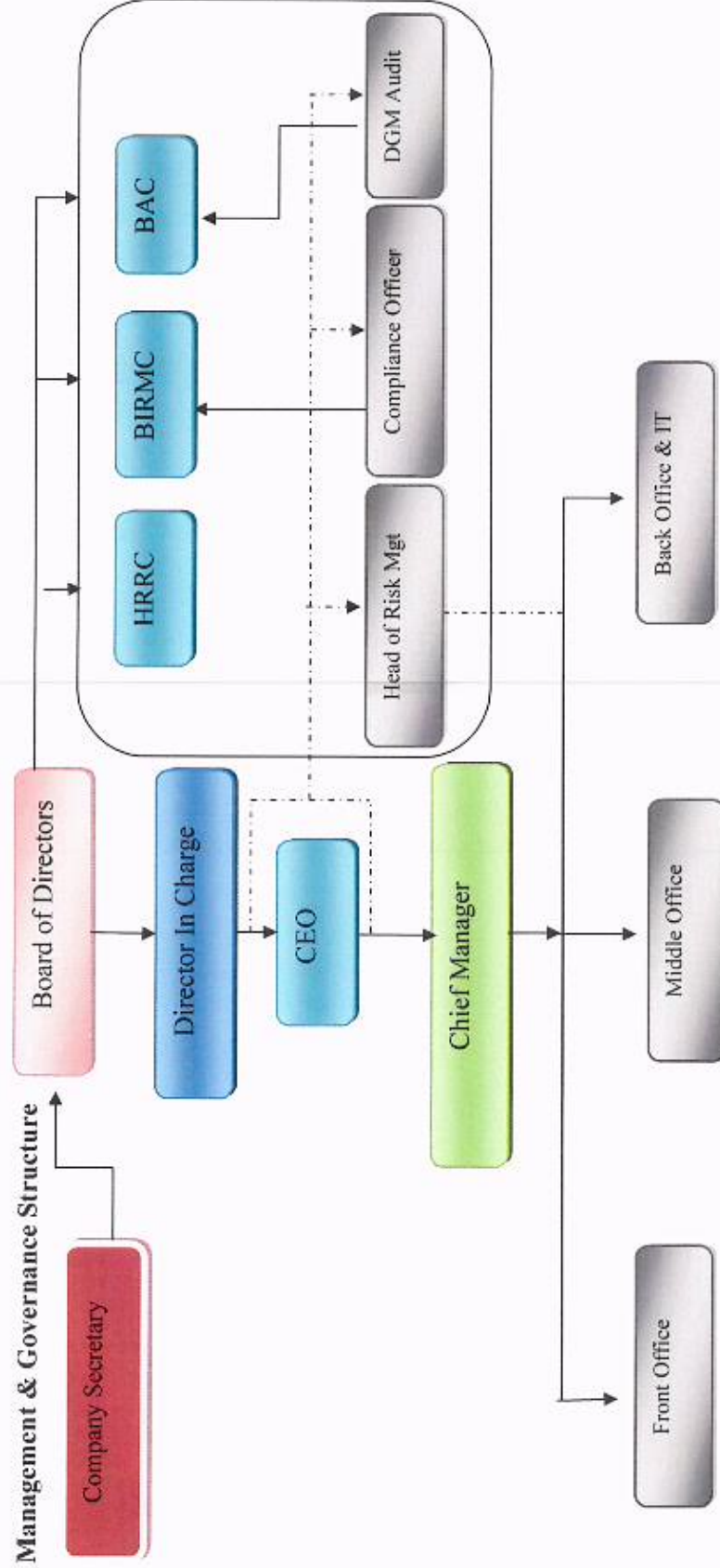
Compliance risk is defined as the risk of legal sanctions, material financial loss, or loss to reputation the Bank may suffer as a result of its failure to comply with laws, its own regulations, code of conduct, and standards of best/good practice.

In order to manage the regulatory and compliance risk, the NSB FMC has always taken measures to operate within the set guidelines of the regulatory authorities. The Compliance Officer is responsible for independently ensuring that operating and business units comply with regulatory and internal guidelines.

Risk Management and Governance Structure at NSB FMC

As the Company believes in an integrated approach to risk management, the governance structure is re-designed to have a holistic view on risk management. The Risk Management governance structure of the Company is under the preview of the Board of Directors. The Board delegates powers to CEO and the ALCO to have an integrated approach in achieving the strategic objectives to ensure capital efficiency to gain operational efficiencies. The Risk Management Division of the Bank is entrusted with the responsibility of risk management of the Company.

Risk Management & Governance Structure



Annual Report of the Board of Directors

The Board of Directors of the NSB FUND MANAGEMENT COMPANY LIMITED has pleasure in presenting their Report together with the Audited Financial Statements for the year ended 31st December 2017. The financial statements were reviewed and approved on 12th March 2018.

Principal Activity

The Company's principal activity is to carry on business as a Primary Dealer.

Stated Capital

The Authorized Share Capital of the Company is Rs.900,000,000/- divided into 90,000,000 Shares of Rs.10/- each. The entire Share Capital is issued and fully paid and the sole shareholder is NSB. Authorized Share Capital of the Company increased by Rs. 750,000,000/- divided into 75,000,000 shares of Rs.10/- each for the purposes of the Registered Stock and Securities Ordinance, the Local Treasury Bill Ordinance and the Central Bank Securities, to engage in secondary market transactions in Government and Central Bank Securities and to carry out any acts which are required to promote and develop a secondary market of those securities. There were no changes in the principal activities of the Company.

Review of Operation and Future Developments

A review of the activities during the year is contained Review Performance on pages 5 and the Business performance on pages 6 and the Future initiatives on page 7. These reports form an integral part of the Annual Report.

Financial Statements

The Financial Statements of the Company have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS) laid down by the Institute of Chartered Accountants of Sri Lanka and complying with the requirements of the Companies Act No. 07 of 2007.

The Financial Statements of the Company for the year ended 31st December 2017, duly signed by the Chief Executive Officer, Chairman and one of Directors of the Company and pages 17 to 45 are form an integral part of the annual report of the Board of Directors.

Auditor General's Report

Auditor General carried out the audit on the Financial Statements for the year ended 31st December 2017 and their report on pages 15 to 16 on those statements which forms an integral part of the annual report of the Board of Directors.

Going Concern

The financial statements of the Company have been prepared on a going-concern basis in compliance with the new Sri Lanka Accounting Standards (SLFRS/LKAS) and in conformity with the generally accepted Accounting Principles and applied consistently and in accordance with the Central Bank regulations. Reasonable and prudent judgments have been made where necessary when preparing the financial statements.

Capital Expenditure

The total capital expenditure incurred on fixed assets and intangible assets during the year amounted to Rs. 2,283,652/-.

Donations

There were no material payments of donations made by the Company during the period under review.

Post Balance Sheet Events

No circumstances have arisen since the date of the Balance Sheet, which would require adjustment to or disclosure in the accounts.

Directors' Responsibility

The Board of Directors is responsible for the preparation and presentation of the financial statements of the Company.

Statutory Payment

All statutory payments EPF, ETF, PAYE Tax, VAT, NBT, ESC and Income Tax etc... have been paid on due dates.

The Board of Directors

The Directorate, inclusive of the Chairman of the NSB as the Chairman of the Company, consists of 11 members. The 3 from the remaining 10 Directors are also appointed from the NSB. The Company complies with the corporate governance practices recommended by the Central Bank of Sri Lanka, the regulatory authority of the Company and follow the Sri Lanka Accounting Standards (SLFRS/LKAS) adopted by the Institute of Chartered Accountants of Sri Lanka.

The Board of Directors are responsible for granting approval to annual accounts, the annual budget and reviewing the financial performance of the company on regular basis. The Board is also responsible for granting approval to staff appointments, promotions, salaries and major capital expenditure. The Board has delegated the execution of corporate policy, management

and administration to a management team headed by the CEO. The management ensures that the Board of Directors is provided with relevant background material to help make informed of the decisions, and altogether ten Board meetings were held in 2017.

Directors as at 31st December 2017

Mr. Aswin De Silva - Chairman

Mr. D L P R Abeyaratne

Mr. Suranga Naullage

Mr. S D N Perera

Mr. Ajith Pathirana

Mr. R D R Amarasekara

Mr. Dhammika Ambewela

Mr. R A Nimal Jayasundara

Mr. D S W Samarasekara

Mr. Yasas De Silva

Mr. Srilal Fernando

Directors' Interest

None of the Directors had a direct or indirect interest in the contracts with the Company other than those disclosed in Note 34 to the Financial Statements.

Acknowledgement of the contents of the Report

As required by Section 168(1) (k) of the Companies Act No. 07 of 2007, the Board of Directors hereby acknowledge the contents of this Annual Report.

For and on behalf of the Board of Directors.

Chairman

June 2018

Director

Report of the Board Audit Committee

The Board Audit Committee (BAC) of the Company was constituted to assist the Board of Directors in discharging its responsibilities and fulfilling its oversight responsibilities for,

- (a) Integrity of the Company's Financial Statements.
- (b) Performance of the internal audit function.
- (c) Performance of the external audit function.
- (d) Integrity of Business Continuity Plan.

Composition of the Committee

The BAC comprises of the following three Non-Executive Directors serving on the Committee during the year ended 31st December 2017.

Mr. S.D.N. Perera	- Chairman
Mr. Nimal Jayasundara	- Member
Mr. Yasas De Silva	- Member

Mr. E.M.S. Ekanayake represents the Auditor Generals' Department in the BAC.

Meetings

The Committee held five (05) meetings during the year 2017 and the attendance of the Committee Members is given below,

Name	Eligible to attend	Attended
Mr. S.D.N. Perera	5	5
Mr. Nimal Jayasundara	5	5
Mr. Yasas De Silva	5	5

Reporting

The Committee directly reports to the Board of Directors about its activities along with the minutes of the meetings. The Committee is of the view that the terms of reference of the Committee were complied in all material aspects.

S.D.N. Perera

Chairman – Board Audit Committee

June 2018

Report of the Board Human Resource & Remuneration Committee

The Board Human Resource & Remuneration Committee (BHRRC) constituted to responsible for determining the remuneration policy (salaries, allowances and other financial payments) relating to the company staff. The following activities were carried out by the Committee during the year,

- Review the recruitments of the Company.
- Review promotions & confirmations of the staff.
- Review the Medical Scheme of the Company.

Composition of the Committee

The BHRRC comprises of the following three Non-Executive Directors serving on the Committee during the year ended 31st December 2017,

Mr. Aswin De Silva	- Chairman
Mr. D.L.P.R. Abeyaratne	- Member
Mr. Srilal Fernando	- Member

Meetings

The Committee held three (03) meetings during the year 2017 and the attendance of the Committee members is given bellow,

Name	Eligible to attend	Attended
Mr. Aswin De Silva	3	3
Mr. D.L.P.R. Abeyaratne	3	3
Mr. Srilal Fernando	3	3

Aswin De Silva

Chairman - Board Human Resource & Remuneration Committee

June 2018

Report of the Board Integrated Risk Management Committee

The Board Integrated Risk Management Committee (BIRMC) has established to carry out the following responsibilities,

- (a) Assist the Board of Directors in fulfilling its responsibilities relating to establishing an effective risk management framework in the Company.
- (b) Implement the Integrated Risk Management policy and other risk related policies approved by the Board of Directors and the periodic updating of the Company's Risk Management Framework.

Composition of the Committee

The BIRMC comprises of the following three Non-Executive Directors serving on the Committee during the year ended 31st December 2017.

Mr. S.D.N. Perera	- Chairman
Mr. Nimal Jayasundara	- Member
Mr. R.D.R. Amarasekara	- Member

Meetings

The Committee held three (03) meetings during the year 2017 and the attendance of the Committee members is given bellow,

Name	Eligible to attend	Attended
Mr. S.D.N. Perera	3	2
Mr. Nimal Jayasundara	3	3
Mr. R.D.R. Amarasekara	3	2

S.D.N. Perera

Chairman - Board Integrated Risk Management Committee
June 2018

Financial Statements



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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT

15



මගේ අංකය
எனது இல.
My No. }

BAF/A/NSBFMC/FA/2017/03

ඔබේ අංකය
உமது இல.
Your No. }

දිනය
திகதி
Date }

14 March 2018

To the Shareholders of the
NSB Fund Management Company Limited

Report of the Auditor General on the Financial Statements of the NSB Fund Management Company Limited for the year ended 31 December 2017

The audit of financial statements of the NSB Fund Management Company Limited ("Company") for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

Board's Responsibility for the Financial Statements

The Board of Directors ("Board") 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 Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with 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 judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company'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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, I state the following:

- a) The basis of opinion and scope and limitations of the audit are as stated above.
- b) In my opinion,
 - I have obtained all information and explanations that were required for the audit and, as far as appears from my examination, proper accounting records had been kept the Company.
 - The financial statements of the Company comply with the requirements of section 151 of the Companies Act.

Report to Parliament

My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

H. M. Gamini Wijesinghe
 Auditor General

	Note	2017 Rs.	2016 Rs.
Interest Income	5	1,015,980,010	776,069,018
Interest Expense	6	(713,172,491)	(554,000,051)
Net Interest Income		302,807,519	222,068,966
Fees & Commission Income		68,242,735	54,558,887
Fee and Commission Expenses		(3,955,471)	(2,689,757)
Net Fee and Commission Income		64,287,264	51,869,130
Net Gain/(Loss) From Financial Instruments at Fair Value through Profit and Loss	7	314,332,505	(97,626,423)
Other Income	8	848,693	75,238
Net Operating Income		682,275,980	176,386,912
Personnel Costs	9.1	(32,308,061)	(31,144,983)
Operating Expenses		(14,020,480)	(15,816,235)
Operating profit before VAT & NBT		635,947,440	129,425,693
VAT on Financial Services	10	(85,680,157)	(17,472,211)
NBT Expense		(11,424,021)	(2,811,679)
Profit before Taxation	9	538,843,262	109,141,803
Income Tax Expense	11	(176,045,818)	(29,724,426)
Profit for the Year		362,797,444	79,417,377
Other Comprehensive Income			
Gain/(Loss) on Retirement Benefit Obligation		270,215	332,745
Net Gain/(Loss) on Available for Sale financial Assets		165,243,364	(102,958,782)
Total Comprehensive income for the year		528,311,023	(23,208,661)
Earnings Per Share	12	6.84	5.29
Dividend Per Share (Rs.)	13	3.61	1.10

Figures in brackets indicate deductions.

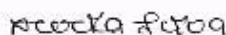
The accounting policies and notes on pages 7 through 28 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

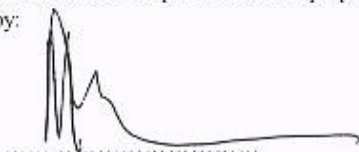
	Note	2017 Rs.	2016 Rs.
ASSETS			
Cash and Cash Equivalents	14	4,553,313	8,407,607
Financial Assets at Fair Value through Profit and Loss (Trading)	15	2,917,636,138	7,012,619,077
Loans and Receivables	16	278,821,835	11,561,630
Financial Assets Held to Maturity	17	3,651,313,030	1,800,555,991
Available for Sale	18	2,019,022,871	1,893,752,369
Other Long Term Investments	19	1,000,000	1,000,000
Property, Plant & Equipment	20	3,303,290	2,171,946
Intangible Assets	21	346,667	-
Deferred Tax Asset	22	-	588,353
Other Assets	23	283,011,043	131,399,672
Total Assets		9,159,008,186	10,862,056,646
LIABILITIES & EQUITY			
Liabilities			
Borrowings under Repurchase Agreements	24	7,030,111,942	9,143,181,376
Amount Due to Related Parties	25	3,488,649	3,335,515
Other Liabilities	26	42,068,815	5,918,287
Income Tax Payable		137,343,640	17,152,612
Deferred Tax Liability	23	74,969	-
Retirement Benefit Obligation	27	1,233,650	1,260,024
Total Liabilities		7,214,321,665	9,170,847,815
Equity			
Stated Capital	28	900,000,000	150,000,000
Retained Earnings		576,842,471	1,329,307,506
Special Risk Reserve	29	584,660,470	493,961,109
Other Reserves		(116,816,420)	(282,059,784)
		1,944,686,521	1,691,208,831
Total Equity and Liabilities		9,159,008,186	10,862,056,646

These Financial Statements are in compliance with the requirements of the Companies Act No : 07 of 2007.

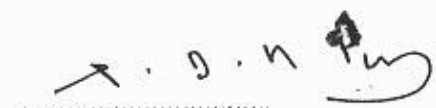


Chief Executive Officer

The board of directors is responsible for the preparation and presentation of these Financial Statements. Signed for and on behalf of the board by:



Chairman



Director

The accounting policies and notes on pages 7 through 28 form an integral part of the financial statements.

12 March 2018
Colombo

	Stated Capital Rs.	Special Risk Reserve Rs.	Available for Sale Reserve Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 01 January 2016	150,000,000	474,106,765	(179,101,002)	1,285,911,729	1,730,917,492
Profit for the year	-	-	-	79,417,377	79,417,377
Other Comprehensive Income/(Loss)	-	-	(102,958,782)	332,745	(102,626,037)
Total Comprehensive Income	-	-	(102,958,782)	79,750,121	(23,208,661)
Transfers	-	19,854,344	-	(19,854,344)	-
Dividend Paid	-	-	-	(16,500,000)	(16,500,000)
Balance as at 31 December 2016	<u>150,000,000</u>	<u>493,961,109</u>	<u>(282,059,784)</u>	<u>1,329,307,506</u>	<u>1,691,208,831</u>
Profit for the year	-	-	-	362,797,444	362,797,444
Other Comprehensive Income	-	-	165,243,364	270,215	165,513,579
Total Comprehensive Income	-	-	165,243,364	363,067,658	528,311,023
Share issue on Scrip Dividend	750,000,000	-	-	-	750,000,000
Transfers	-	90,699,361	-	(90,699,361)	-
Dividend Paid	-	-	-	(191,500,000)	(191,500,000)
Scrip Dividend	-	-	-	(750,000,000)	(750,000,000)
WHT on Scrip Dividend	-	-	-	(83,333,333)	(83,333,333)
Balance as at 31 December 2017	<u>900,000,000</u>	<u>584,660,470</u>	<u>(116,816,420)</u>	<u>576,842,471</u>	<u>1,944,686,521</u>

Figures in brackets indicate deductions.

The accounting policies and notes on pages 7 through 28 form an integral part of the financial statements.

NSB Fund Management Company Limited

STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Note	2017 Rs.	2016 Rs.
Cash Flows from Operating Activities			
Profit before Tax		538,843,262	109,141,803
Non-cash Items Included in Profits Before Tax			
Depreciation	20	750,044	631,089
Amortization	21	53,333	-
Provision for Gratuity	27	243,840	246,931
Loss on Fixed Asset Transfer		2,264	1,762
Cash Flows from Operating Activities before Working Capital Changes		<u>539,892,744</u>	<u>110,021,584</u>
(Increase)/Decrease in Financial Assets Held for Trading		4,094,982,940	(2,750,467,633)
(Increase)/Decrease in Available for Sale		39,972,863	23,558,673
(Increase)/Decrease in Loans and Receivables		(267,260,205)	225,372,458
(Increase)/Decrease in Other Assets		(151,611,372)	(103,925,057)
Increase/(Decrease) in Borrowings under Repurchase Agreements		(2,113,069,434)	2,216,135,234
Increase/(Decrease) in Amount due to Related Parties		153,134	2,859,738
Increase/(Decrease) in Other Liabilities		36,150,528	(4,597,271)
Cash Flow from Operating Activities		<u>2,179,211,197</u>	<u>(281,042,273)</u>
Income Tax Paid for tax assessments on prior periods		-	(53,931,487)
Tax Paid & setoff during the year		(55,191,468)	(58,409,595)
Gratuity Paid		-	-
Net Cash Flow from Operating Activities		<u>2,124,019,729</u>	<u>(393,383,355)</u>
Net Cash from Investing Activities			
Purchase of Property, Plant and Equipment		(1,883,652)	(582,537)
Purchase of Intangible Assets		(400,000)	-
Net Proceeds from Financial Investments - Held to Maturity		(1,850,757,038)	410,928,329
Net Cash from Investing Activities		<u>(1,853,040,690)</u>	<u>410,345,792</u>
Net Cash from Financing Activities			
Dividend Paid		(274,833,333)	(16,500,000)
Net Cash from Financing Activities		<u>(274,833,333)</u>	<u>(16,500,000)</u>
Net Increase/(Decrease) in Cash & Cash Equivalents		<u>(3,854,295)</u>	<u>462,438</u>
Cash and Cash Equivalents at the Beginning of the Year		8,407,607	7,945,170
Cash and Cash Equivalents at the End of the Year	14	<u>4,553,313</u>	<u>8,407,607</u>

Figures in brackets indicate deductions.

The accounting policies and notes on pages 7 through 28 form an integral part of the financial statements.

NSB Fund Management Company Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

1. REPORTING ENTITY

NSB Fund Management Company Limited is a limited liability Company domiciled in Sri Lanka. The registered office of the Company and the principal place of business is located at National Savings Bank, 1st Floor, "Savings House" No.255, Galle Road, Colombo 3.

1.1 Principal Activities and nature of operations

The Company is a primary dealer engaged in trading government securities in the open market.

1.2 Parent enterprise

The Company is a wholly owned subsidiary of National Savings Bank.

1.3 Approval of Financial Statements

The Financial statements for the year ended 31 December 2017 were authorized for issue by the directors on 12 March 2018.

Statement of compliance

The financial statements which comprise the statement of financial position, the statement of comprehensive income, statement of changes in equity and the statement of cash flows, together with the accounting policies and notes (the "financial statements") have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS) as issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the requirement of the Companies Act No. 7 of 2007.

2. BASIS OF PREPARATION

2.1 Presentation and Functional Currency

- The financial statements are presented in Sri Lankan Rupees, the Company's functional and presentation currency, which is the primary economic environment in which the Company operates.

The significant accounting policies are discussed in Note 3 below.

2.2 Basis of Measurement

The financial statements have been prepared on accrual basis under the historical cost basis except for the following material items in the statement of financial position:

- Financial assets designated at fair value through profit or losses and available for sales are measured at fair value.
- Loans and receivables, Financial assets held to maturity and Borrowings under repurchase agreements are measured at amortized cost.
- The liability for defined benefit obligation is recognized as the present value of the defined benefit obligation

2.3 Comparative Information

The accounting policies have been consistently applied by the company with those of the previous financial year in accordance with LKAS 01 presentation of financial statements.

2.4 Functional and presentation currency

The financial statements are presented in Sri Lanka rupees, which is the functional currency of Company.

2.5 Use of estimates and Judgment

The preparation of financial statements in conformity with SLFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Judgments and estimates are based on historical experience and other factors, including expectations that are believed to be reasonable under the circumstances. Hence actual results may differ from those estimates and judgmental decisions.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future any periods affected. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

Tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and the long term nature and complexity of existing contractual agreements, Differences arising between the actual results and the assumptions should necessitate future adjustments to tax income and expense already recorded. Accordingly, based on such reasonable estimates the Company establishes the provisions to be made during the financial year.

NSB Fund Management Company Limited
NOTES TO THE FINANCIAL STATEMENTS
 Year ended 31 December 2017

Financial assets at fair value through profit or loss

- The determination of fair values of financial assets and financial liabilities recorded on the Statement of Financial Position for which there is no observable market price are determined using a variety of valuation techniques. The inputs to these models are derived from observable market data where possible.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

In the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Retirement benefit obligation

The cost of retirement benefit obligation is determined using the Projected Unit Credit method. The Projected Unit Credit method involves making assumptions about expected salary increment rate, Discount/Interest rates and staff turnover factor. Due to the complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Details of the key assumptions used in the estimates are contained in Note 28.

Going Concern

The management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on a going concern basis.

3. ACCOUNTING POLICIES

- The accounting policies set out below have been applied consistently to all financial periods presented in these financial statements.

ASSETS AND BASES OF THEIR VALUATION

3.1 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, balances with banks, and bank overdrafts.

3.2 Financial Instruments

Non-Derivative financial assets

The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables.

a) Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

b) Held-to-maturity financial assets

If the Company has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Company from classifying investment securities as held-to-maturity for the current and the following two financial years.

c) Available-for-sale financial investments

Investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified to the income statement in finance costs and removed from the available-for-sale reserve.

d) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise Securities sold under agreements to repurchase.

3.3 Impairment of Assets

Impairment of Non-Derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security.

The Company considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount.

Impairment of Non-financial assets

The carrying amounts of the Company's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable - amount is estimated and recognized in the statement of financial position.

3.4 Property, plant and equipment

3.4.1 Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes expenditures that are directly attributable to the acquisition of the asset.

Purchased software that is integral to the functionality of the related equipment is capitalized as a part of equipment.

3.4.2 Depreciation

Depreciation is recognized in profit and loss on a straight line basis over the periods appropriate to the estimated useful life of the different types of assets on the rates given below.

Furniture and Fittings	10% p.a.
Computer and Equipment	20% p.a.
Office Equipment	10% p.a.
Swift Equipment	25% p.a.

Depreciation of an asset begins when it is available for use and ceases at the earlier of the dates on which the asset is classified as held for sale or is derecognised. Depreciation methods, useful lives and residual values are reassessed at the reporting date.

Depreciation rate of Computer Equipment has been revised from 25% to 20% with effect from 01/01/2017 to comply with the group policy.

3.5 Intangible assets

An intangible asset is recognized if it is probable that future economic benefits will flow to the entity and the cost of the asset can be measured reliably. Intangible assets with finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumptions of future economic benefits embodied in the assets is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. Amortization expense on intangible assets with finite lives is recognized in profit and loss on the straight-line basis over the estimated useful lives, from the date they are available for use. The estimated useful life of intangible assets with finite life is as follows:

SWIFT license fee 5 Years
 SWIFT entrance fee 5 Years
 Board Pac 5 Years

LIABILITIES AND PROVISIONS

3.6 Employee Benefits

3.6.1 Defined benefit plans

The liability recognized in the Statement of Financial position in respect of defined benefit plan is the present value of the defined benefit obligation at the reporting date. The defined benefit obligation is calculated annually using the projected Unit Credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using the interest rates that apply to the currency in which the benefit will be paid and that have terms to maturity approximating to the terms of the related liability.

3.6.2 Defined contribution plans - Employees' Provident Fund and Employees' Trust Fund

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in line with respective statutes and regulations. The Company contributes 12% and 3% of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively and is recognized as an expense in profit and loss in the periods during which services are rendered by employees.

3.6.3 Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

3.7 Non-derivative financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities: Borrowings under repurchase agreements and other payables.

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

3.8 Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

3.9 Income Statement

3.9.1 Revenue Recognition

3.9.1.1 Interest and similar income

For all financial instruments measured at amortized cost, interest bearing financial assets classified as financial instruments designated at fair value through profit or loss, interest income is recorded using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

3.9.1.2 Fee and Commission Income

Fee and commission income include accounts servicing fees, investment management fees, sales commission and placement fees which are recognized when the related services are performed.

3.9.1.3 Trading Income

Gains or losses arising from the sale of dealing securities are accounted for on the date of transaction in profit and loss.

3.9.2 Expenses

3.9.2.1 Interest and similar expenses

For all financial instruments measured at amortized cost, borrowings under repurchase agreements, interest expense is recorded using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

3.9.2.2 Income tax expense

Income tax expense comprises of current and deferred tax. Current and Deferred tax are recognized in profit and loss except to the extent that it relates to items recognized directly in equity, when it is recognized in equity.

Current Tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date and any adjustments to tax payable in respect of previous years.

Deferred Tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Value Added Tax on financial services

The basis for the computation of Value Added Tax on financial services is the accounting profit before income tax adjusted for the economic depreciation computed on prescribed rate and emoluments of employees.

4. STANDARDS ISSUED BUT NOT EFFECTIVE

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

SLFRS 9- Financial Instruments: Classification and Measurement

SLFRS 9, as issued reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets and liabilities.

The standard was originally effective for annual periods commencing on or after 01 January 2018.

5. INTEREST INCOME	2017	2016
	Rs.	Rs.
Interest on Treasury Bills/Bonds/R.Repo	996,333,034	757,300,968
• Interest on Debentures	19,646,976	18,768,049
	<u>1,015,980,010</u>	<u>776,069,018</u>
6. INTEREST EXPENSE	2017	2016
	Rs.	Rs.
Interest Expense on Repurchase Agreements	713,172,491	554,000,051
	<u>713,172,491</u>	<u>554,000,051</u>
7. NET GAIN/(LOSS) FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS	2017	2016
	Rs.	Rs.
Realised	26,415,277	19,730,383
Unrealised	287,917,227	(117,356,806)
	<u>314,332,505</u>	<u>(97,626,423)</u>
8. OTHER INCOME	2017	2016
	Rs.	Rs.
Non Refundable Fee Income & Other Income Received	814,957	50,000
Loss on Fixed Assets Transfer/Removal	(2,264)	(1,762)
Dividend Income	36,000	27,000
	<u>848,693</u>	<u>75,238</u>
9. PROFIT BEFORE TAXATION	2017	2016
	Rs.	Rs.
Profit before taxation is stated after charging all expenses including the following		
Auditor's Remuneration	509,867	265,353
Depreciation on PPE	750,044	631,090
Amotisation of Intangible Assets	53,333	-
Personnel Costs (9.1)	32,308,061	31,144,983
9.1 Personnel Costs	2017	2016
	Rs.	Rs.
Salaries	20,779,566	20,951,239
Defined Contribution Plan Cost - EPF and ETF	1,053,455	945,003
Defined Benefit Plan Cost - Retirement Gratuity	243,840	246,931
Other Staff Cost	10,231,200	9,001,811
	<u>32,308,061</u>	<u>31,144,983</u>
10. VAT ON FINANCIAL SERVICES		

The value base for value added tax for the company is the adjusted accounting profit before tax and emoluments of employees. The adjustment to the accounting profit before tax is for economic depreciation computed on prescribed rates, instead of the rates adopted in the financial statements.

NSB Fund Management Company Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

11. INCOME TAX EXPENSE	2017	2016
	Rs.	Rs.
Current Income Tax		
Current Income Tax charge on ordinary activities for the year	175,692,327	34,214,892
Under/(Over) Provision of current taxes in respect of prior years	(309,831)	(4,129,875)
	<u>175,382,496</u>	<u>30,085,017</u>
Deferred Income Tax		
Deferred Taxation Charge/(Reversal)	663,322	(360,591)
Income Tax Expense Reported in the Income Statement	<u>176,045,818</u>	<u>29,724,426</u>
 Reconciliation between Current Tax Expenses and the Accounting Profit	 2017	 2016
	Rs.	Rs.
Accounting Profit /(Loss) before Tax from Continuing Operations	538,843,262	109,141,803
Income not Liabie for Tax	(7,946,344)	(10,112,733)
Other Aggregate Disallowed Items	98,205,660	23,890,246
Other Aggregate Deductible Items	(1,629,981)	(723,272)
Taxable Profit	<u>627,472,596</u>	<u>122,196,043</u>
 Income Tax Rate	28%	28%
Current Income Tax Expense	<u>175,692,327</u>	<u>34,214,892</u>
	<u>175,692,327</u>	<u>34,214,892</u>

12. EARNINGS PER SHARE

The calculation of earnings per share is based on profit attributable to the ordinary shareholders for the year, divided by the average number of ordinary shares in issue during the year and calculated as follows;

	2017	2016
	Rs.	Rs.
Profit Attributable to Ordinary Shareholders	362,797,444	79,417,377
Weighted Average Numbers of Ordinary Shares	53,013,699	15,000,000
Earnings Per Share	<u>6.84</u>	<u>5.29</u>

13. DIVIDEND PER SHARE

Dividend per share is calculated by dividing the dividend by the number of ordinary shares in issues as at the year end

	2017	2016
	Rs.	Rs.
Weighted Average Numbers of Ordinary Shares	53,013,699	15,000,000
Dividends paid (Rs.)	191,500,000	16,500,000
Dividend per share	3.61	1.10

NSB Fund Management Company Limited
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

14. CASH & CASH EQUIVALENTS	2017	2016
	Rs.	Rs.
Cash at Bank and Cash in Hand	4,459,469	7,930,232
Balance with Central Bank	93,843	477,376
Cash & Cash Equivalents for the Purpose of Cash Flow Statement	4,553,313	8,407,607
15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS (TRADING)	2017	2016
	Rs.	Rs.
Treasury Bills	499,797,703	1,438,757,533
Treasury Bonds	2,417,838,435	5,573,861,544
	2,917,636,138	7,012,619,077
16. LOANS AND RECEIVABLES	2017	2016
	Rs.	Rs.
Loans & Receivables from Banks	256,669,272	-
Loans & Receivables from Other Customers	22,152,562	11,561,630
	278,821,835	11,561,630
17. FINANCIAL ASSETS HELD TO MATURITY	2017	2016
	Rs.	Rs.
Treasury Bonds	3,651,313,030	1,800,555,991
	3,651,313,030	1,800,555,991
18. FINANCIAL ASSETS AVAILABLE FOR SALE	2017	2016
	Rs.	Rs.
Treasury Bonds	1,819,102,172	1,693,913,047
Debentures	199,920,699	199,839,322
	2,019,022,871	1,893,752,369
19. OTHER LONG TERM INVESTMENTS	2017	2016
	Cost	Cost
	Rs.	Rs.
	Directors'	Directors'
	Valuation	Valuation
	Rs.	Rs.
Investment in		
Lanka Financial Services Bureau Limited	1,000,000	1,000,000
	1,000,000	1,000,000

20. PROPERTY, PLANT AND EQUIPMENT	Balance as at 01/01/2017	Additions during the year	Disposals/Transfers during the year	Balance as at 31/12/2017
Cost	Rs.	Rs.	Rs.	Rs.
Computer Equipment	2,933,805	1,754,867	(240,976)	4,447,696
Swift Equipment	913,903	-	-	913,903
Office Equipment	850,680	286,616	(30,800)	1,106,496
Furniture & Fittings	921,920	6,356	(17,628)	910,648
Work-In-Progress	164,187	-	(164,187)	-
	<u>5,784,495</u>	<u>2,047,839</u>	<u>(453,591)</u>	<u>7,378,743</u>
Accumulated Depreciation	Balance as at 01/01/2017	Charge for the year	Depreciation on Disposals/Transfers	Balance as at 31/12/2017
	Rs.	Rs.	Rs.	Rs.
Computer Equipment	1,657,782	594,915	(240,975)	2,011,721
Swift Equipment	913,901	-	-	913,901
Office Equipment	303,555	86,858	(28,857)	361,556
Furniture & Fittings	737,311	68,271	(17,308)	788,274
	<u>3,612,549</u>	<u>750,044</u>	<u>(287,140)</u>	<u>4,075,453</u>
Carrying Amount			2017	2016
			Rs.	Rs.
Nat Book Value as at 31 December			<u>3,303,290</u>	<u>2,171,946</u>

20.1 Fully Depreciated Property, Plant & Equipment

The initial cost of fully depreciated Property, Plant & Equipment, which are still in use as at Reporting date is as follows;

	2017	2016
	Rs.	Rs.
Computer Equipment	655,204	896,180
Swift Equipment	913,903	913,903
Office Equipment	64,215	87,735
Furniture & Fittings	233,954	241,548

21. INTANGIBLE ASSET	Balance as at 01/01/2017	Additions during the year	Disposals/Transfers during the year	Balance as at 31/12/2017
Cost	Rs.	Rs.	Rs.	Rs.
SWIFT License Fee	1,058,562	-	-	1,058,562
SWIFT Entrance Fee	911,031	-	-	911,031
Board Pac	-	400,000	-	400,000
	<u>1,969,593</u>	<u>400,000</u>	<u>-</u>	<u>2,369,593</u>
Accumulated Amortisation & Impairment Loss	Balance as at 01/01/2017	Charge for the year	Amortisation on Disposals/Transfers	Balance as at 31/12/2017
	Rs.	Rs.	Rs.	Rs.
SWIFT License Fee	1,058,562	-	-	1,058,562
SWIFT Entrance Fee	911,031	-	-	911,031
Board Pac	-	53,333	-	53,333
	<u>1,969,593</u>	<u>53,333</u>	<u>-</u>	<u>2,022,927</u>
Carrying Amount			2017	2016
			Rs.	Rs.
Carrying Amount			<u>346,667</u>	<u>-</u>

21.1 Fully amortised Intangible Assets

The initial cost of fully amortised intangible assets, which are still in use as at Reporting date is as follows;

	2017	2016
	Rs.	Rs.
SWIFT License Fee	1,058,562	1,058,562
SWIFT Entrance Fee	911,031	911,031

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22. DEFERRED TAX ASSET/(LIABILITY)	2017	2016
	Rs.	Rs.
Balance at the beginning of the year	588,353	227,762
Origination/(reversal) of temporary differences	(663,322)	360,591
Balance at the end of the year	<u>(74,969)</u>	<u>588,353</u>
<i>The closing Deferred Tax Asset balance relates to the following</i>		
Accumulated Depreciation	(420,391)	235,546
Increment Benefit Obligation	345,422	352,807
	<u>(74,969)</u>	<u>588,353</u>
23. OTHER ASSETS	2017	2016
	Rs.	Rs.
Other Receivables	7,816,773	1,719,950
Receivable From Treasury	246,939,587	109,398,734
WHT Receivable	28,254,683	20,280,988
	<u>283,011,043</u>	<u>131,399,672</u>
Notional Credit for WHT on Government Securities on Secondary Market Transaction		
In accordance with the section 137 of the Inland revenue Act No.10 of 2006 the company is entitled to a notional tax credit equivalent to 1/9th of the interest income derived from the Market transaction in Government securities.		
Accordingly, the net interest earned by the Company from the secondary Market transactions in government securities, has been grossed up in the Financial Statement and the resulting notional credit amounted to Rs.28,254,683/- (2016 - Rs. 20,280,988/-).		
24. BORROWINGS UNDER REPURCHASE AGREEMENTS	2017	2016
	Rs.	Rs.
Due within 1 year	7,030,111,942	9,143,181,376
	<u>7,030,111,942</u>	<u>9,143,181,376</u>
25. AMOUNT DUE TO RELATED PARTY	2017	2016
	Rs.	Rs.
National Savings Bank - Current Account	50,697	299,615
- Other Payables	3,437,952	3,035,901
	<u>3,488,649</u>	<u>3,335,515</u>
26. OTHER LIABILITIES	2017	2016
	Rs.	Rs.
Value added Tax (VAT) Payable	11,546,100	2,367,007
NBT Payable	1,539,479	50,758
Sundry Creditors	5,000,000	1,111,256
Accrued Expenses	6,483,236	2,389,266
WHT Payable	17,500,000	-
	<u>42,068,815</u>	<u>5,918,287</u>

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27. RETIREMENT BENEFIT OBLIGATION	2017 Rs.	2016 Rs.
Balance at the beginning of the year	1,260,024	1,345,838
Current service cost	118,868	114,778
* Interest for the year	124,973	132,152
Deficit/(Surplus) charge for the year	(270,215)	(332,745)
Payments made during the year	-	-
Balance at the end of the year	<u>1,233,650</u>	<u>1,260,024</u>

LKAS 19 requires the use of actuarial techniques to make a reliable estimate of the amount of the retirement benefit that the employees have earned in return for their service in the current and prior periods and discount that benefits using the projected unit Credit Method in order to determine the present value of the retirement benefit obligation and the current service cost. This requires an entity to determine how much benefit is attributable to the current and prior periods and to make estimates about demographic and financial variables that will influence the cost of the benefit.

- 27.1 The Employee Benefit Liability is based on the Projected Unit Credit method carried out as at 31 December 2017. The principal assumptions used in determining the cost of employee benefits were:

	2017	2016	
Discount rate	10.63%	10%	
Future Salary Increment	6.59%	6.5%	
Staff Turnover Rate & Average Future Working Life Time			
Age Group	30-34	35-39	40<
Staff Turnover Rate	0%	0%	0%
Average Future Working Life Time - Years	30.00	23.00	16.00

27.2 Sensitivity Analysis - Salary/Discount Rate

Values appearing in the Financial Statements are very sensitive to the changes in financial and non-financial assumptions used.

A sensitivity was carried out as follows.

Effect on the present value of Defined Benefit Obligation	+1%	-1%
One percentage point change in the discount rate	(225,676)	190,857
One percentage point change in the salary escalation rate	182,911	(218,894)

Assumptions

Financial Assumptions - Rate of discount, Salary increment rate

Demographic Assumptions - Mortality, Staff turn over, Disability, Retirement age

28. STATED CAPITAL	2017 Rs.	2016 Rs.
Opening Balance - 15,000,000 Ordinary Shares	150,000,000	150,000,000
Issued During the year - 75,000,000 Ordinary Shares	750,000,000	-
Closing Balance - 90,000,000 Ordinary Shares	<u>900,000,000</u>	<u>150,000,000</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at Annual General Meeting of the company.

29. SPECIAL RISK RESERVE	2017 Rs.	2016 Rs.
At the beginning of the year	493,961,109	474,106,765
Transferred during the year - 25% of profit after tax	90,699,361	19,854,344
At the end of the year	<u>584,660,470</u>	<u>493,961,109</u>

- 29.1 In order to promote the safety, soundness and the stability of the Primary Dealer (PD) system and to build up PD capital base, Primary Dealers (PDs) are required to transfer a sum not less than 10% of their profit after tax annually to a Special Risk Reserve. Accordingly, Company transferred 25% out of Net Profit to the Special Risk Reserve.

NSB Fund Management Company Limited
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30. MATURITY OF ASSETS AND LIABILITIES

As analysis of interest bearing assets and liabilities by their remaining periods of the reporting date is as follows.

As at 31 December 2017	Less than 3 Months Rs.	3 to 12 Months Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	More than 5 Years Rs.	Total Rs.
Assets						
<u>Assets</u>						
Government Securities Held for Trading and Held to Maturity	62,243,714	1,497,693,179	970,611,685	2,471,428,918	1,566,971,672	6,568,949,167
Government Securities Available for Sale	-	204,122,761	609,611,150	826,189,500	179,178,762	1,819,102,172
Corporate Debentures	-	51,246,547	134,952,477	13,721,674	-	199,920,699
Loans & Receivables - Customers	9,033,682	13,118,880	-	-	-	22,152,562
Loans & Receivables - Banks & Others	256,669,272	-	-	-	-	256,669,272
Total Interest Earning Assets	327,946,669	1,766,181,367	1,715,175,312	3,311,340,092	1,746,150,434	8,866,793,873
Total non Interest Earning Assets						292,214,313
Total Assets						9,159,008,186
Liabilities						
Government Securities sold under Repurchase Agreement	5,896,362,748	1,133,749,194	-	-	-	7,030,111,942
Total Interest bearing Liabilities	5,896,362,748	1,133,749,194	-	-	-	7,030,111,942
Total non int. bearing Liabilities						184,209,723
Shareholder's Fund						1,944,686,521
Total Equity and Liabilities						9,159,008,186
As at 31 December 2016						
Assets						
<u>Assets</u>						
Government Securities Held for Trading and Held to Maturity	864,036,572	1,746,826,433	2,251,362,449	1,331,055,809	2,619,893,806	8,813,175,069
Government Securities Available for Sale	78,462,722	-	745,413,125	-	870,037,200	1,693,913,047
Corporate Debentures	3,719,322	-	144,500,000	51,620,000	-	199,839,322
Loans & Receivables - Customers	6,182,173	5,379,457	-	-	-	11,561,630
Total Interest Earning Assets	952,400,789	1,752,205,890	3,141,275,574	1,382,675,809	3,489,931,006	10,718,489,068
Total non Interest Earning Assets						143,567,578
Total Assets						10,862,056,646
Liabilities						
Government Securities sold under Repurchase Agreement	6,462,898,716	2,680,282,660	-	-	-	9,143,181,375
Total Interest bearing Liabilities	6,462,898,716	2,680,282,660	-	-	-	9,143,181,375
Total non int. bearing Liabilities						27,666,440
Shareholder's Fund						1,691,208,831
Total Equity and Liabilities						10,862,056,646

31. FINANCIAL ASSETS PLEDGED AS COLLATERALS

The Company has pledged assets that are in its Statement of Financial Position in day to day transaction which are conducted under the usual terms and conditions applying such agreements. The Company has pledged the investment in government securities against securities held under repurchase agreements.

	2017 Rs.	2016 Rs.
Government Securities	7,847,218,353	10,396,333,731

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial Instruments Recorded at Fair Value

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Company's estimate of assumptions that a market participant would make when valuing the instruments.

(a) Financial Assets Held for Trading

Quoted Equities and Sri Lanka Government Securities - Treasury Bills and Bonds included in Financial Assets Held for Trading are valued using market prices.

whereas debt securities are valued using discounted cash flow valuation models which incorporate observable and non observable market data.

(b) Financial Investments - Available for Sale

Available for Sale Financial Assets valued using valuation techniques or pricing models primarily consist of unquoted equities.

Determination of Fair Value and Fair Value Hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique.

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities

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

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

32.1 Determination of Fair Value and Fair Value Hierarchy

As at 31 December 2017	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Financial Assets - Held for Trading				
Government of Sri Lanka Treasury Bills and Bonds	2,917,636,138	-	-	2,917,636,138
Available for Sale Investments	-	1,819,102,172	-	1,819,102,172
Corporate Debts	-	199,920,699	-	199,920,699
Other Long Term Investments - AFS	-	-	1,000,000	1,000,000
	<u>2,917,636,138</u>	<u>2,019,022,871</u>	<u>1,000,000</u>	<u>4,937,659,009</u>

As at 31 December 2016

Financial Assets

Financial Assets - Held for Trading				
Government of Sri Lanka Treasury Bills and Bonds	7,012,619,077	-	-	7,012,619,077
Available for Sale Investments	-	1,693,913,047	-	1,693,913,047
Corporate Debts	-	199,839,322	-	199,839,322
Other Long Term Investments - AFS	-	-	1,000,000	1,000,000
	<u>7,012,619,077</u>	<u>1,893,752,369</u>	<u>1,000,000</u>	<u>8,907,371,447</u>

32. FAIR VALUE OF FINANCIAL INSTRUMENTS (Contd...)

32.2 Determination of Fair Value and Fair Value Hierarchy

Set out below is a comparison, by class, of the carrying amounts and fair values of the Company's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

	31 December 2017		31 December 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	Rs.	Rs.	Rs.	Rs.
Financial Assets				
Cash and Bank	4,553,313	4,553,313	8,407,607	8,407,607
Loans and Receivables	278,821,835	278,821,835	11,561,630	11,561,630
Financial Assets Held to Maturity	3,651,313,030	3,729,888,528	1,800,555,991	1,659,558,250
Total Financial Assets	<u>3,934,688,177</u>	<u>4,013,263,675</u>	<u>1,820,525,228</u>	<u>1,679,527,487</u>
Financial Liabilities				
Borrowings under Repurchase Agreements	7,030,111,942	7,030,111,942	9,143,181,376	9,143,181,376
Amount Due to Related Parties	3,488,649	3,488,649	3,335,515	3,335,515
Total Financial Liabilities	<u>7,033,600,591</u>	<u>7,033,600,591</u>	<u>9,146,516,892</u>	<u>9,146,516,892</u>

Fair Value of Financial Assets and Liabilities not Carried at Fair Value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the Financial Statements.

Assets for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short term maturity it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity, floating rate instruments, fixed rate instruments having maturities within 12 months.

Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities (other than assets and liabilities with maturities within 12 months) carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments.

NSB Fund Management Company Limited
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33. FINANCIAL RISK MANAGEMENT

Overview

The Company has exposure to the following risks from its use of financial instruments:

- Market risk
- Operational risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The risk management policies of the Company's are established to identify and analyze the risk faced by the company's, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the company's activities.

The Board of Directors oversees how management monitors compliance with the Companies risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the company.

Market risk

Liquidity risk and the interest rate risk are monitored monthly using gap analysis and the re-pricing impact of interest rate fluctuations on the portfolio. Stress testing based on PVB analysis to monitor the impact of interest rate variations on the value of the portfolio is also assessed and both results are reported to the Board.

Operational risk

A software system has been put in place to automate core functions of the Company with online MIS and other risk management facilities. A Disaster Recovery Site for SWIFT connectivity, IT system and other business functions of the Company has been set up at NSB premises in Maharagama & Internal audit conducted by Officers of the Audit & Vigilance Division of the NSB is responsible for monitoring the operation of the internal control system.

A Quarterly assessment of Company performance is conducted by the Public Debt Department of the Central Bank as the regulatory authority. Stress Testing to measure risk impact of interest rates on the portfolio, Cumulative Gap measuring the Liquidity Risk, Capital Adequacy Ratio and Capital Leverage are monitored under this assessment and the results informed by the Central Bank are forwarded to the Board of Directors of the Company.

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33. FINANCIAL RISK MANAGEMENT (Contd...)

33.2 Liquidity Risk

Liquidity risk Analysis - Maturity Profile Analysis of Financial Liabilities

As at 31 December 2017 - Face Value Analysis

Instrument	Overnight Rs.	2-7 Days Rs.	8-30 Days Rs.	31-91 Days Rs.	92-182 Days Rs.	183-365 Days Rs.
Customer Repo	-	981,645,366	2,142,415,800	782,874,113	391,198,104	430,192,247
Repo	-	1,658,744,000	230,298,990	42,884,600	275,153,000	-
Total	-	2,640,389,366	2,372,714,790	825,758,713	666,351,104	430,192,247

Liquidity risk Analysis - Maturity Profile Analysis of Financial Liabilities

As at 31 December 2016 - Face Value Analysis

Instrument	Overnight Rs.	2-7 Days Rs.	8-30 Days Rs.	31-91 Days Rs.	92-182 Days Rs.	183-365 Days Rs.
Customer Repo	-	1,535,876,961	837,040,077	678,563,689	888,288,055	1,499,890,736
Repo	-	3,532,000,000	-	-	-	-
Total	-	5,067,876,961	837,040,077	678,563,689	888,288,055	1,499,890,736

33.3 Market risk

Sensitivity Analysis of Re-Pricing of assets and liabilities

Maturity of assets and liabilities - Market Value

Instrument	1-7 Days	8-30 Days	31-91 Days	92-182 Days	183-365 Days	1-2 Years	2-5 Years	Above 5 Years
Assets								
Customer Rev.Repo	6,050,004	30,028	2,953,118	9,612,120	3,506,760	-	-	-
Rev.Repo	236,669,272	-	-	-	-	-	-	-
T.Bonds	-	-	-	49,985,950	1,181,798,709	1,015,353,550	3,813,683,456	1,762,451,604
T.Bills	4,594,397	375,103	54,222,500	81,847,819	358,757,960	-	-	-
Debentures	-	781,674	1,246,547	1,772,477	50,000,000	94,500,000	51,620,000	-
Total	267,313,674	1,186,805	58,422,165	143,218,367	1,594,063,428	1,109,853,550	3,865,303,456	1,762,451,604

Liabilities

Capital & Profit	-	-	-	-	-	-	-	1,944,686,521
Customer Repo	996,582,749	2,164,572,769	4,800,216,194	409,507,210	445,308,813	-	-	-
Repo	1,660,245,651	231,387,724	43,353,125	278,933,171	-	-	-	-
Total	2,656,828,400	2,395,960,493	4,843,569,319	688,440,381	445,308,813	-	-	1,944,686,521

Stress check Analysis

Reduction of the value of Trading Portfolio for an increase in yield by 100 basis points as per Stress Check Results

	2017 Rs.	2016 Rs.
Treasury bill trading portfolio	20,763,926	5,074,090
Treasury bond trading portfolio	59,119,920	167,172,483
	79,883,846	172,246,574

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33.1 Credit Risk

Credit Risk Analysis - Maturity Profile Analysis of Financial Assets
As at 31 December 2017 - Face Value Analysis

Instrument	Overnight	2-7 Days	8-30 Days	31-91 Days	92-182 Days	183-365 Days	Above 365 Days
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Reverse repo	6,013,777	256,500,000	30,000	2,838,752	9,143,690	3,415,267	-
Treasury bills	-	4,599,065	376,569	54,913,138	84,285,814	380,770,204	-
Treasury bonds	-	-	-	-	50,000,000	1,189,751,162	6,352,908,569
Total	6,013,777	261,099,065	406,569	57,771,890	143,429,504	1,573,936,633	6,352,908,569

Credit Risk Analysis - Maturity Profile Analysis of Financial Assets
As at 31 December 2016 - Face Value Analysis

Instrument	Overnight	2-7 Days	8-30 Days	31-91 Days	92-182 Days	183-365 Days	Above 365 Days
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Reverse repo	-	-	769,723	3,735,523	5,954,775	798,707	-
Treasury bills	-	140,362,912	92,857,887	338,784,793	497,069,731	420,837,236	-
Treasury bonds	18,000,000	-	116,488,204	-	580,541,683	302,072,300	8,112,625,216
Total	18,000,000	140,362,912	210,115,814	342,520,316	1,083,566,189	723,708,243	8,112,625,216

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34. RELATED PARTY DISCLOSURES

(a) Transactions with key management personnel

Key management personnel comprise of the Directors of the Company and the details of the transactions with them are as follows.

i) Loans to key management personnel

No loans were given to Directors of the company.

ii) Key management personnel compensation

Remuneration paid to Directors during the year was amounted to Rs. 1,160,000/- (2016 - Rs. 876,250/-).

(b) Transactions with related parties

The following transactions were carried out with related parties during the year ended 31 December 2017.

Items in Income Statement		2017 Rs.	2016 Rs.
National Savings Bank	Interest Received from investment in Reverse Repo	35	1,973,635
	Service Charge Income	58,746,665	52,645,926
	RTGS Charges	694,800	916,650
	Interest Paid on Repurchase agreements	170,401,342	21,350,122
State and State	Income tax	176,045,818	29,724,426
	Other Receivables	246,939,587	109,398,734
Controlled Entities	Value added Tax	85,680,157	17,472,211
Items in Statement of Financial Position			
National Savings Bank	Investments in Reverse Repo, Treasury Bills and Treasury Bonds	-	-
	Borrowing under Repurchase agreements	1,564,600,000	810,000,000
State and State controlled entities	Government securities held	8,388,051,340	10,507,088,116
	Borrowings under repurchase agreements	-	5,439,659,517

35. CAPITAL COMMITMENTS AND CONTINGENCIES

There were no capital commitments and contingencies as at 31 December 2017.

NSB Fund Management Company Limited
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36. COMPARATIVE FIGURES

The comparative information is reclassified wherever necessary, to comply with current year's classification in order to provide a better presentation.

Income Statement

	Reclassified	As disclosed in year 2016	Adjustment
	Rs.	Rs.	Rs.
Interest Income (Refer Note 36.1)	776,069,018	830,627,905	54,558,887
Fee & Commission Income (Refer Note 36.1)	54,558,887	-	54,558,887
Fee & Commission Expense (Refer Note 36.2)	2,689,757	-	2,689,757
Operating Expense (Refer Note 36.2)	15,816,235	21,317,671	5,501,436
NBT Expense (Refer Note 36.2)	2,811,679	-	2,811,679

36.1 Fee & Commission Income included in Interest Income has been separately disclosed for better presentation.

36.2 Fee & Commission Expense and the NBT Expense included in the Operating Expense has been disclosed separately for better presentation.

37. DIVIDENDS PAID

	Gross Dividend Rs.	2017 Dividend Tax Rs.	Net Dividend Rs.	Gross Dividend Rs.	2016 Dividend Tax Rs.	Net Dividend Rs.
Rs. 1.10 cash dividend per share	16,500,000	1,650,000	14,850,000	16,500,000	1,650,000	14,850,000
Rs. 55.55 scrip dividend per share	833,333,333	83,333,333	750,000,000	-	-	-
Rs. 1.94 cash dividend per share	175,000,000	17,500,000	157,500,000	-	-	-
Total Dividends paid	1,024,833,333	102,483,333	922,350,000	16,500,000	1,650,000	14,850,000

38. EVENTS OCCURRING AFTER THE REPORTING DATE

No circumstances have arisen since the reported date which would require adjustments to or disclosure in the financial statements.

Personnel Costs	2017 Rs.	2016 Rs.
Salaries and Wages	6,952,194	6,629,166
Employee Emoluments	13,827,373	14,320,773
Medical Expenses	433,829	657,764
O/T Out Pocket Allowance	53,606	5,338
EPF	842,764	756,002
ETF	210,691	189,001
Bonus	6,970,246	6,337,058
Encashment of Privilege Leave	477,156	326,844
Staff Training Expenses	127,798	78,400
Gratuity expense	243,840	246,931
PAYE Expense	2,168,565	1,597,708
	32,308,061	31,144,983

Operating Expenses	2017 Rs.	2016 Rs.
Directors Fees	1,160,000	876,250
Audit Fees	509,867	1,880,383
Bank Charges	75,450	78,000
Annual Membership Fees	140,000	125,000
Insurance Account	-	11,138
Swift Charges	1,076,029	884,238
Bloomberg Charges	3,397,086	3,184,824
Sundry Expenses	357,701	267,798
Sales Promotion	1,375,902	424,775
Stationery	386,481	327,933
Chargeable Equipment	19,370	19,885
Rent	1,873,800	1,873,800
Travelling	302,502	146,726
Postage	565	5,625
Electricity	624,000	624,000
Telephone Charges	663,270	453,684
Water Tax	24,000	24,000
Depreciation - Furniture & fitting	68,271	68,971
Depreciation - Computer Equipment	594,915	518,745
Depreciation - Office Equipment	86,858	43,373
Depreciation - Intangible Assets	53,333	-
Maintenance of Computers	94,496	18,015
Maintenance of Office Equipments	85,534	90,292
CSE Rental and Communication Charges	613,329	630,500
Expenses incurred on Statutory Req	372,721	115,859
Tax Penalty	-	2,696,574
Professional Fees	-	425,846
Secretarial Fee	65,000	-
	14,020,480	15,816,235

Corporate Information

Name of the Company	- NSB FUND MANAGEMENT COMPANY LIMITED												
Company Reg. Number	- PB 795												
Legal Form	- A fully owned subsidiary of National Savings Bank, incorporated under the Companies Act No. 17 of 1982 and re-registered under the provisions of the Companies Act No. 07 of 2007.												
Board of Directors	<table> <tr> <td>- Mr. Aswin De Silva</td><td>Mr. D L P R Abeyaratne</td></tr> <tr> <td>Mr. Suranga Naullage</td><td>Mr. S D N Percera</td></tr> <tr> <td>Mr. Ajith Pathirana</td><td>Mr. R D R Amarasekara</td></tr> <tr> <td>Mr. Dhammika Ambewela</td><td>Mr. R A N Jayasundara</td></tr> <tr> <td>Mr. D S W Samarasekara</td><td>Mr. Yasas De Silva</td></tr> <tr> <td>Mr. Srilal Fernando</td><td></td></tr> </table>	- Mr. Aswin De Silva	Mr. D L P R Abeyaratne	Mr. Suranga Naullage	Mr. S D N Percera	Mr. Ajith Pathirana	Mr. R D R Amarasekara	Mr. Dhammika Ambewela	Mr. R A N Jayasundara	Mr. D S W Samarasekara	Mr. Yasas De Silva	Mr. Srilal Fernando	
- Mr. Aswin De Silva	Mr. D L P R Abeyaratne												
Mr. Suranga Naullage	Mr. S D N Percera												
Mr. Ajith Pathirana	Mr. R D R Amarasekara												
Mr. Dhammika Ambewela	Mr. R A N Jayasundara												
Mr. D S W Samarasekara	Mr. Yasas De Silva												
Mr. Srilal Fernando													
Chief Executive Officer	- Ms. G V A D Devika Silva												
Company Secretary	- Ms. Farzana Aniff												
Registered Office	- 1 st Floor "Savings House" National Savings Bank No. 255, Galle Road, Colombo 03.												
Telephone	- 2565956, 2564601 & 2372038												
Fax	- 2564706/2574387												
E-mail	- nsbfmc@nsb.lk												
SWIFT	- NSBFLKLXXXX												
Auditor	- Auditor General												
Banker	- Bank of Ceylon - Corporate Branch No.4, Bank of Ceylon Mawatha Colombo 01.												