Annual Report
2018

NSB Fund Management Co. Ltd

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Financial Highlights

	2018	2017	2016	2015	2014
Operating Result					
Interest Income (Rs Mn)	1,266	1,016	831	693	699
Net Gain/(loss) from FVTPL (Rs Mn)	(355)	314	(98)	4	66
Interest Expenses (Rs Mn)	(892)	(713)	(554)	(371)	(384)
Net Operating Income (Rs Mn)	66	682	176	325	379
Operating Expenses, provisions, VAT & NBT	(63)	(143)	(67)	(72)	(72)
Profit before Taxation (Rs Mn)	3	539	109	253	307
Income Tax Expenses (Rs Mn)	(3)	(176)	(30)	(78)	(105)
Profit for the year (Rs Mn)	**0.0355**	**363**	**79**	**175**	**202**
Earnings per Share (Rs.)	0.0003	6.84	5.29	11.62	13.46
Assets					
Cash & Cash Equivalents (Rs Mn)	3	5	9	8	4
Other Financial Assets (Rs Mn)	15,815	8,588	10,708	8,495	7,492
Loans & Advances (Rs Mn)	25	279	11	237	3
Property, Plant & Equipment/Intangible Assets (Rs Mn)	3	4	2	2	1
Other Assets (Rs Mn)	326	283	132	28	28
Total Assets	**16,172**	**9,159**	**10,862**	**8,770**	**7,528**
Liabilities & Equity					
Borrowings (Rs Mn)	13,441	7,030	9,143	6,927	5,511
Other Liabilities (Rs Mn)	7	184	28	58	102
Equity (Rs Mn)	2,723	1,945	1,691	1,785	1,915
Total Liabilities & Equity	**16,172**	**9,159**	**10,862**	**8,770**	**7,528**
Ratios					
Return on Equity (%)	0.0015	19.96	6.45	14.6	16.02
Return on Investment (%)	3.03	3.09	2.28	3.69	4.21
Net Profit Ratio (%)	0.0037	25.94	10.83	36.49	43.87
Average Yield	10.35	10.17	9.64	7.76	8.44
Other Information					
No. of Employees	16	18	16	11	11

Company Profile

Vision

"To be the most trusted Primary Dealer."

Mission

"To exceed customer expectations by providing a comprehensive and competitive product range and services in the Government Securities and in corporate debt market thereby ensuring the long term growth & viability of the Company."

Introduction

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 seven standalone PD Companies and six 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 a large 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

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/Broker.

NSB Fund Management

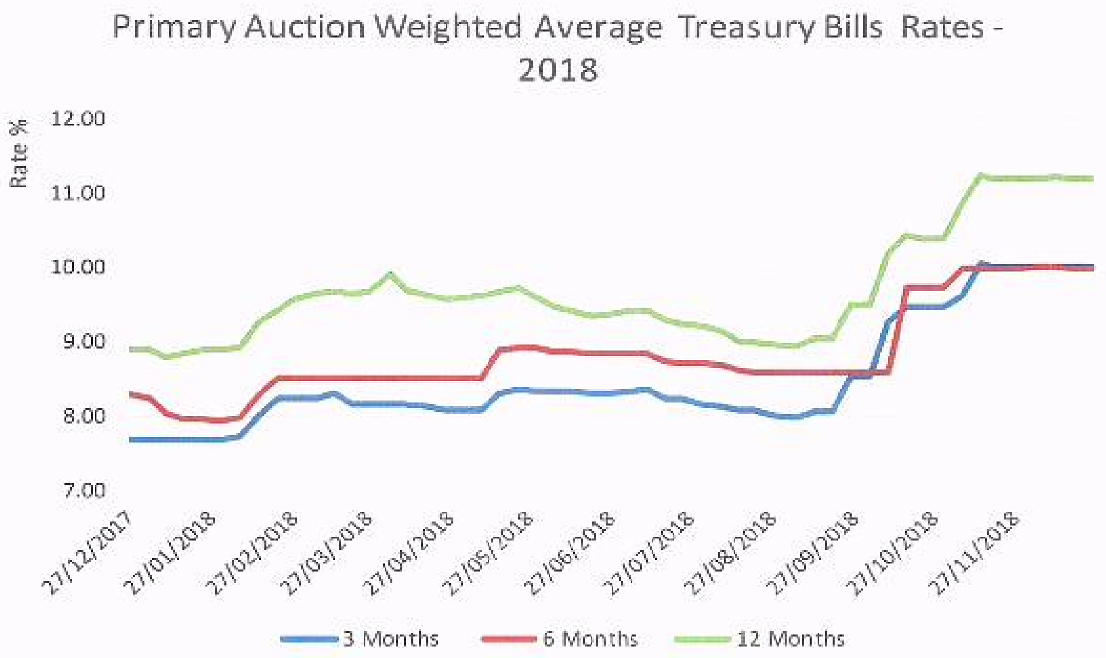
Performances Review

Market Overview 2018

Real GDP growth was recorded at 3.2 per cent in 2018, compared to 3.4 per cent in the previous year. This growth was largely supported by services activities that expanded by 4.7 per cent and the recovery in agriculture activities, which recorded a growth of 4.8 per cent. Industry activities slowed down significantly to 0.9 per cent during the year, mainly as a result of the contraction in construction. According to the expenditure approach, both consumption and investment expenditure supported growth. Year-on-year headline inflation based on the CCPI declined to 2.8 per cent by end 2018 from 7.1 per cent at end 2017.

Inflation and inflation expectations and lower than potential growth in real economic activity encouraged the Central Bank to signal an end to the monetary tightening cycle in April 2018 by reducing the Standing Lending Facility Rate (SLFR) by 25 basis points. Thereafter, the Central Bank maintained a neutral monetary policy stance throughout the year, in view of the continued pressure on the external sector amidst the subpar performance in the domestic economy. Nevertheless, the large and persistent liquidity deficit in the domestic money market, particularly since September 2018, compelled the Central Bank to inject liquidity on a permanent basis in November 2018, by way of reducing the Statutory Reserve Ratio (SRR) applicable on all rupee deposit liabilities of commercial banks by 1.50 percentage points. However, at the same time, to neutralise the impact of the SRR reduction and maintain its neutral policy stance, the Central Bank increased the Standing Deposit Facility Rate (SDFR) by 75 basis points and SLFR by 50 basis points, further narrowing the policy rate corridor to 100 basis points. Accordingly, by end 2018, SDFR and SLFR stood at 8.00 per cent and 9.00 per cent, respectively.

Globally, monetary policy normalization, particularly in the United States of America (USA), resulted in global financial conditions tightening, thus causing capital outflows from emerging market economies and increased pressure on exchange rates of twin deficit economies, in particular. Sri Lanka also experienced these headwinds, particularly from mid-April 2018, which were exacerbated following the political uncertainties and the downgrade of the country's Sovereign rating in the fourth quarter of the year.



The interest rates of Government Securities have shown in increasing trend during the year 2018. The one year weighted average Treasury Bill rate stood at 8.90% at the beginning of the year, and increased to 11.20% at the end of the year. According the stated, rate increased by 230 basis points during the year 2018.

Company Performance

In the year 2018, the Company recorded an operational profit of Rs. 35,500/-. The profit for the year has drastically decreased comparison to the operational profit recorded in 2017, due to unfavourable market conditions which resulted in Rs. 371.7 Million of unrealized mark to market loss on Government Security Trading Portfolio for the year 2018 against the profit recorded in 2017.

However, net interest income of Government securities increased to Rs. 374 Million in this year when compared to Rs. 302.8 Million in 2017, showing an increase of 24 per cent. Realized Gain from the sale of T-bills & bonds were Rs. 16.7 Million in 2018. The fee income of the company also decreased by 27% in the year 2018 compared to that of year 2017.

The Company paid Rs 36.8 Million by way of Value Added Tax (VAT) while the VAT expense was Rs. 6.6 Million and also provided Rs. 2.9 Million as income tax expense for 2018. Due to the reduction of profit after tax during the year, Earnings Per Share (EPS) also decreased significantly compared to preceding year.

Net assets of the Company stood at Rs. 2,722.8 Million as at 31st December 2018 in comparison to Rs.1,944.5 Million as at 31st December 2017. This is mainly due to the share issue of Rs. 800 Million.

Total assets of the company stood at Rs. 16,172 Million by the end of 2018 compared to Rs. 9,159 Million in 2017. Increase in assets was mainly caused by the 249 per cent increase in the trading portfolio to Rs. 10,187 Million in 2018 from Rs. 2,917.6 Million in 2017.

Repo borrowings of the Company increased to Rs. 13,441 Million in 2018 from Rs. 7,030 Million in 2017 in line with portfolio increase.

The first time adoption of Sri Lanka Accounting Standard, 'SLFRS 9: Financial Instruments' is applicable for the financial reporting periods beginning on or after 01.01.2018. As per the standard, Company's Financial Assets should be categorized under the relevant Business Model and Classification and Measurement of the Financial Assets are supposed to be made in line with the approved Business Model. Financial Statement of the Company has prepared based on SLFRS 9.

The new Inland Revenue Act No. 24 of 2017 was effective from 01.04.2018 and significant changes have been imposed. Removal of withholding tax on Government Securities has highly affected to the income of the Company.

Human Capital

The Company has eleven directly recruited staff members and four staff members assigned from the NSB on secondment basis including the Chief Executive Officer.

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 02 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.

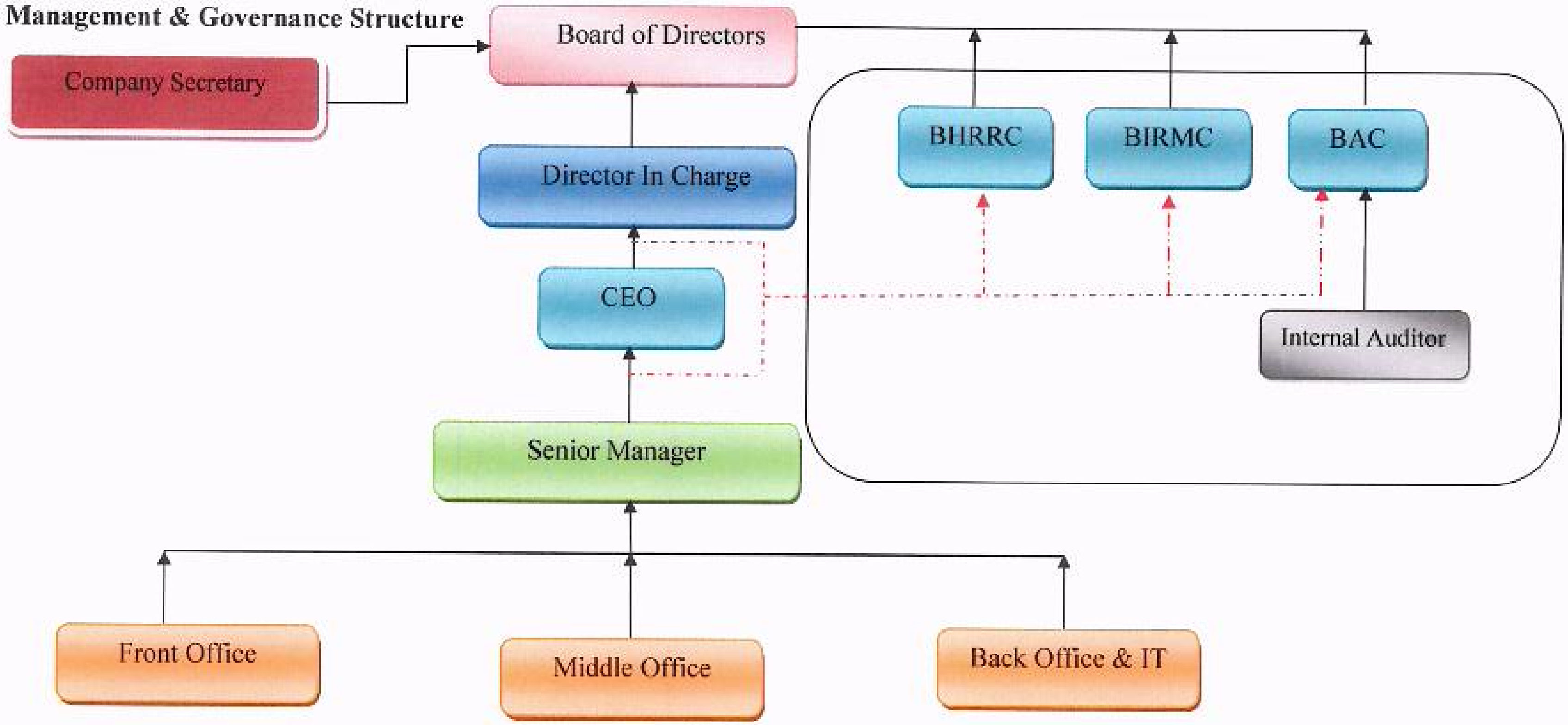
Compliance risk is defined as the risk of legal sanctions, material financial loss, or loss to reputation the Bank may suffer as a result of its failure to comply with laws, its own regulations, code of conduct, and standards of best/good practice.

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 2018. The financial statements were reviewed and approved on 28th February 2019.

Principal Activity

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

Stated Capital

The issued Share Capital of the Company is Rs. 1,700,000,000/- divided into 170,000,000 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 is Rs. 2,000 Million. 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 Performance Review on pages 3 and the Company performance on pages 4 and the Future initiatives on page 5. 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 2018, duly signed by the Chief Executive Officer, Chairman and one of Directors of the Company and pages 21 to 50 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 2018 and their report on pages 16 to 20 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. 355,028/-.

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 07 members. 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 eleven Board meetings were held in 2018.

Directors as at 31st December 2018

Mr. R M P Rathnayake (resigned on 19/02/2019)

Mr. S D N Perera

Mr. D S Kudahetty (appointed on 16/08/2018)

Mr. K Don Aritha Gishan Wickramasinghe (appointed on 16/08/2018)

Ms. Ruvinika Kinigama (appointed on 16/08/2018)

Mr. Kaniskha Senanayaka (appointed on 16/08/2018)

Ms. Reshani Enoka Dangalla (appointed on 16/08/2018)

Mr. K D Menuwan Panduka Weerasinghe (appointed on 16/08/2018)

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

12th June 2019

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 Directors serving on the Committee during the year 2018.

Mr. S.D.N. Perera	- Chairman
Mr. Nimal Jayasundara	- Member (resigned on 17/07/2018)
Mr. Yasas De Silva	- Member (resigned on 17/07/2018)
Ms. Reshani Dangalla	- Member (appointed on 16/08/2018)
Mr. Menuwan Weerasinghe	- Member (appointed on 16/08/2018)

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

Meetings

The Committee held four (04) meetings during the year 2018 and the attendance of the Committee Members is given bellow,

Name	Eligible to attend	Attended
Mr. S.D.N. Perera	4	4
Mr. Nimal Jayasundara	2	2
Mr. Yasas De Silva	2	2
Ms. Reshani Dangalla	2	2
Mr. Menuwan Weerasinghe	2	2

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.

Menuwan Weerasinghe
Chairman – Board Audit Committee
June 2019

NSB Fund Management

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,

(a) Review the recruitments of the Company.
(b) Review promotions & confirmations of the staff.
(c) Review the Medical Scheme of the Company.

Composition of the Committee

The BHRRC comprises of the following Directors serving on the Committee during the year 2018.

Mr. Aswin De Silva	- Chairman (resigned on 12/11/2018)
Mr. D.L.P.R. Abeyaratne	- Member (resigned on 11/07/2018)
Mr. Srilal Fernando	- Member (resigned on 17/07/2018)
Ms. Ruvinika Kinigama	- Member (appointed on 16/08/2018)
Mr. Dinesh Kudahetty	- Member (appointed on 16/08/2018)

Meetings

The Committee held four (04) meetings during the year 2018 and the attendance of the Committee members is given bellow,

Name	Eligible to attend	Attended
Mr. Aswin De Silva	4	4
Mr. D.L.P.R. Abeyaratne	2	-
Mr. Srilal Fernando	2	2
Ms. Ruvinika Kinigama	2	2
Mr. Dinesh Kudahetty	2	2

Jayaraja Chandrasekera
Chairman - Board Human Resource & Remuneration Committee
June 2019

NSB Fund Management

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 Directors serving on the Committee during the year 2018.

Mr. S.D.N. Perera - Chairman
Mr. Nimal Jayasundara - Member (resigned on 17/07/2018)
Mr. R.D.R. Amarasekara - Member (resigned on 17/07/2018)
Mr. Aritha Wickramasinghe - Member (appointed on 16/08/2018)
Mr. Kanishka Senanayaka - Member (appointed on 16/08/2018)

Meetings

The Committee held three (03) meetings during the year 2018 and the attendance of the Committee members is given bellow,

Name	Eligible to attend	Attended
Mr. S.D.N. Perera	3	3
Mr. Nimal Jayasundara	2	2
Mr. R.D.R. Amarasekara	2	-
Mr. Aritha Wickramasinghe	1	1
Mr. Kanishka Senanayaka	1	1

Aritha Wickramasinghe
Chairman - Board Integrated Risk Management Committee
12th June 2019

NSB Fund Management

Financial Statements

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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

මගේ අංකය / எனது இல. / My No. BAF/A/NSBFMC/FA/2018/07   ඔබේ අංකය / உமது இல. / Your No.   දිනය / திகதி / Date 29 March 2019

Chairman

NSB Fund Management Company Ltd

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the NSB Fund Management Company Ltd for the year ended 31 December 2018 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

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1. Financial Statements

1.1 Opinion

The audit of the financial statements of the NSB Fund Management Company Ltd "Company" for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income , statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

In my opinion, the accompanying financial statements of the Company give a true and fair view of the financial position of the Company as at 31 December 2018, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

1.3 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Report on Other Legal and Regulatory Requirements

National Audit Act, No. 19 of 2018 and Companies Act, No.07 of 2007 include specific provisions for following requirements.

- I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company as per the requirement of the section 163 (1) (d) of the Companies Act, No. 7 of 2007 and section 12 (a) of National Audit Act, No. 19 of 2018.

- The financial statements of the Company comply with the requirement of the section 151 of the Companies Act, No.07 of 2007.

- The financial statements presented is consistent with the preceding year as per the requirement of the section 6 (1) (d) (iii) of the National Audit Act, No.19 of 2018.

- The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of the section 6 (1) (d) (iv) of the National Audit Act, No.19 of 2018.

Based on the procedures performed and evidence obtained were limited to matters that are material, nothing has come to my attention;

- to state that any member of the governing body of the Company has any direct or indirect interest in any contract entered into by the Company which are out of the normal cause of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018;

- to state that the Company has not complied with any applicable written law, general and special directions issued by the governing body of the Company as per the requirement of section 12 (f) of the National Audit Act, No. 19 of 2018;

- to state that the Company has not performed according to its powers, functions and duties as per the requirement of section 12 (g) of the National Audit Act, No. 19 of 2018;

- to state that the resources of the Company had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of section 12 (h) of the National Audit Act, No. 19 of 2018.

H.M. Gamini Wijesinghe
Auditor General

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	Note	2018 Rs.	2017 Rs.
Interest Income	5	1,266,007,127	1,015,980,010
Interest Expense	6	(891,984,666)	(713,172,491)
Net Interest Income		374,022,461	302,807,519
Fees & Commission Income		50,132,826	68,242,735
Fee and Commission Expenses		(3,488,936)	(3,955,471)
Net Fee and Commission Income		46,643,890	64,287,264
Net Gain/(Loss) From Financial Instruments at Fair Value through Profit and Loss	7	(354,987,757)	314,332,505
Other Income	8	1,193	848,693
Total Operating Income		65,679,788	682,275,980
Collective Expected Credit Loss		54,717	(10,541)
Net Operating Income		65,734,505	682,265,440
Personnel Costs	9.1	(39,843,632)	(32,308,061)
Depreciation & Amortization		(984,156)	(803,377)
Other Operating Expenses		(14,589,832)	(13,217,102)
Operating profit before VAT & NBT		10,316,885	635,936,899
VAT on Financial Services	10	(6,563,210)	(85,680,157)
NBT Expense		(875,094)	(11,424,021)
Profit before Taxation	9	2,878,581	538,832,721
Income Tax Expense	11	(2,843,081)	(176,045,818)
Profit for the Year		35,500	362,786,903
Other Comprehensive Income			
Other comprehensive income to be reclassified to Income Statement			
Revaluation of Securities Gain / Loss T Bonds (FVTOCI)		(21,403,670)	165,243,364
Other comprehensive income not to be reclassified to Income Statement			
Actuarial Gain/(Loss) on Retirement Benefit Obligation		(397,609)	270,215
Total Comprehensive income for the year		(21,765,780)	528,300,482
Earnings Per Share	12	0.0003	6.84
Dividend Per Share (Rs.)	13	-	3.61

Figures in brackets indicate deductions.

The accounting policies and notes on pages 7 through 32 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 Rs.	2017 Rs.
ASSETS			
Cash and Cash Equivalents	14	**2,582,539**	4,553,206
Financial Assets at Fair Value through Profit and Loss (Trading)	15	**10,187,151,445**	2,917,636,138
Loans and Advances at Amortized Cost	16	**24,972,687**	278,821,835
Financial Assets at Amortized Cost – Held-to-Collect	17	**4,025,189,742**	3,851,134,251
Financial Assets at fair value through other comprehensive income	18	**1,603,129,961**	1,819,102,172
Equity Investments at fair value through other comprehensive income	19	**1,000,000**	1,000,000
Property, Plant & Equipment	20	**2,754,160**	3,303,290
Intangible Assets	21	**266,668**	346,667
Deferred Tax Asset	22	**73,086**	-
Income Tax Receivable		**27,862,274**	-
Other Assets	23	**296,560,648**	283,011,043
Total Assets		**16,171,543,209**	9,158,908,602
LIABILITIES & EQUITY			
Liabilities			
Borrowings under Repurchase Agreements	24	**13,441,494,660**	7,030,111,942
Amount Due to Related Parties	25	**472,480**	3,488,649
Other Liabilities	26	**4,772,655**	42,068,815
Income Tax Payable		-	137,343,640
Deferred Tax Liability	22	-	74,969
Retirement Benefit Obligation	27	**1,982,256**	1,233,650
Total Liabilities		**13,448,722,051**	7,214,321,665
Equity			
Stated Capital	28	**1,700,000,000**	900,000,000
Retained Earnings		**576,371,902**	576,742,887
Special Risk Reserve	29	**584,669,345**	584,660,470
OCI Reserve		**(138,220,089)**	(116,816,420)
		2,722,821,158	1,944,586,938
Total Equity and Liabilities		**16,171,543,209**	9,158,908,602

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:

....

Director In Charge Director

The accounting policies and notes on pages 7 through 32 form an integral part of the financial statements.

28 February 2019

Colombo

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Stated Capital Rs.	Statutory Reserve Fund Rs.	OCI Reserve Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 01 January 2017	150,000,000	493,961,109	(282,059,784)	1,329,307,506	1,691,208,831
Impact of adopting SLFRS 09	-	-	-	(89,043)	(89,043)
Restated Opening Balance under SLFRS 09	150,000,000	493,961,109	(282,059,784)	1,329,218,463	1,691,119,789
Profit for the year	-	-	-	362,786,903	362,786,903
Other Comprehensive Income/(Loss)	-	-	165,243,364	270,215	165,513,579
Total Comprehensive Income	-	-	165,243,364	363,057,118	528,300,482
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	900,000,000	584,660,470	(116,816,420)	576,742,887	1,944,586,938
Profit for the year	-	-	-	35,500	35,500
Other Comprehensive Income	-	-	(21,403,670)	(397,609)	(21,801,279)
Total Comprehensive Income	-	-	(21,403,670)	(362,110)	(21,765,780)
Transfers	-	8,875	-	(8,875)	-
Share Issue	800,000,000	-	-	-	800,000,000
Dividend Paid	-	-	-	-	-
Balance as at 31 December 2018	**1,700,000,000**	**584,669,345**	**(138,220,089)**	**576,371,902**	**2,722,821,158**

Figures in brackets indicate deductions.

The accounting policies and notes on pages 7 through 32 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Note	2018 Rs.	2017 Rs.
Cash Flows from Operating Activities			
Profit before Tax		2,878,581	538,832,721
Non-cash Items Included in Profits Before Tax			
Depreciation & Amortization		984,156	803,377
Provision for Gratuity	27	350,997	243,840
Loss on Fixed Asset Transfer		-	2,264
Impariment		-	(89,043)
Cash Flows from Operating Activities before Working Capital Changes		4,213,734	539,793,160
(Increase)/Decrease in Financial Assets Held for Trading		(7,269,515,307)	4,094,982,940
(Increase)/Decrease in Fair Value Through Other Comprehensive Income		194,568,542	39,972,863
(Increase)/Decrease in Loans and Advances		253,849,148	(267,260,205)
(Increase)/Decrease in Other Assets		(13,549,605)	(151,611,372)
Increase/(Decrease) in Borrowings under Repurchase Agreements		6,411,382,718	(2,113,069,434)
Increase/(Decrease) in Amount due to Related Parties		(3,016,169)	153,134
Increase/(Decrease) in Other Liabilities		(37,296,160)	36,150,528
Cash Flow from Operating Activities		(459,363,099)	2,179,111,613
Tax Paid & setoff during the year		(168,197,050)	(55,191,468)
Gratuity Paid		-	-
Net Cash Flow from Operating Activities		(627,560,149)	2,123,920,145
Net Cash from Investing Activities			
Purchase of Property, Plant and Equipment		(355,028)	(1,883,652)
Purchase of Intangible Assets		-	(400,000)
Net Proceeds from Financial Investments - Held to Collect		(174,055,491)	(1,850,657,561)
Net Cash from Investing Activities		(174,410,518)	(1,852,941,213)
Net Cash from Financing Activates			
Dividend Paid		-	(274,833,333)
Proceeds from Share Issue		800,000,000	-
Net Cash from Financing Activates		800,000,000	(274,833,333)
Net Increase/(Decrease) in Cash & Cash Equivalents		(1,970,667)	(3,854,400)
Cash and Cash Equivalents at the Beginning of the Year		4,553,206	8,407,607
Cash and Cash Equivalents at the End of the Year	14	2,582,539	4,553,206

Figures in brackets indicate deductions.

The accounting policies and notes on pages 7 through 32 form an integral part of the financial statements.

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 2018 were authorized for the issue by the Directors on 28/02/2019.

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 Debt Instruments at fair value through other comprehensive income are measured at fair value.
- Loans and Advances, Debt Instruments at Amortized Cost 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.

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 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 27.

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.

ASSTS 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

i) Classification of Financial Instruments

The Company classifies its financial assets into the following measurement categories:
• Those to be measured at fair value (either through other comprehensive income, or through profit or loss); and
• Those to be measured at amortized cost.

The classification depends on the Company's business model for managing financial assets and the contractual terms of the financial assets' cash flows.

The Company classifies its financial liabilities at amortized cost unless it has designated liabilities at fair value through profit or loss or is required to measure liabilities at fair value through profit or loss such as derivative liabilities.

ii) Financial Assets measured at Amortized Cost

Debt Instruments
Investments in debt instruments are measured at amortized cost where they have:

- Contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
- Are held within a business model whose objective is achieved by holding to collect contractual cash flows.
  These debt instruments are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost. The measurement of credit impairment is based on the three-stage expected credit loss model described below in Note (vi) Impairment of financial assets.

iii) Financial Assets measured at Fair Value Through Other Comprehensive Income

Debt Instruments
Investments in debt instruments are measured at fair value through other comprehensive income where they have:
• contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
• are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

These debt instruments are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest revenue and foreign exchange gains and losses are recognized in profit and loss. Upon disposal, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to the income statement.

The measurement of credit impairment is based on the three-stage expected credit loss model as applied to financial assets at amortized cost. The expected credit loss model is described below in Note (vi) Impairment of financial assets.

Equity Instruments

Investment in equity instruments that are neither held for trading nor contingent consideration recognized by the Company in a business combination to which SLFRS 3 'Business Combination' applies, are measured at fair value through other comprehensive income, where an irrevocable election has been made by the management. For portfolios where management does not consider an irrevocable election of adopting fair value through other comprehensive income, by default such investments shall be measured at fair value through profit and loss.
Amounts presented in other comprehensive income are not subsequently transferred to profit or loss. Dividends on such investments are recognized in profit or loss.

iv) Items at Fair Value Through Profit or Loss

Items at fair value through profit or loss comprise:

(a) Items held for trading;
(b) Items specifically designated as fair value through profit or loss on initial recognition; and
(c) Debt instruments with contractual terms that do not represent solely payments of principal and interest.

Financial instruments held at fair value through profit or loss is initially recognized at fair value, with transaction costs recognized in the income statement as incurred. Subsequently, they are measured at fair value and any gains or losses are recognized in the income statement as they arise.

Where a financial asset is measured at fair value, a credit valuation adjustment is included to reflect the credit worthiness of the counterparty, representing the movement in fair value attributable to changes in credit risk.

(a) Financial Instruments held for trading

A financial instrument is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative not in a qualifying hedge relationship.
Trading derivatives and trading securities are classified as held for trading and recognized at fair value.

(b) Financial Instruments designated as measured at fair value through profit or loss

Upon initial recognition, financial instruments may be designated as measured at fair value through profit or loss. A financial asset may only be designated at fair value through profit or loss if doing so eliminates or significantly reduces measurement or recognition inconsistencies (i.e. eliminates an accounting mismatch) that would otherwise arise from measuring financial assets or liabilities on a different basis.

A financial liability may be designated at fair value through profit or loss if it eliminates or significantly reduces an accounting mismatch or:

- If a host contract contains one or more embedded derivatives; or
- If financial assets and liabilities are both managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at fair value through profit or loss, the movement in fair value attributable to changes in the Company's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

v) Derivative Financial Instruments and Hedge Accounting

Derivative financial instruments are contracts whose value is derived from one or more underlying price, index or other variable, and typically comprise of instruments such as swaps, forward rate agreements, futures and options.

All derivatives are recognized in the balance sheet at fair value and are classified as trading except where they are designated as a part of an effective hedge relationship and classified as hedging derivatives. The carrying value of a derivative is remeasured at fair value throughout the life of the contract. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Measurement of ECLs

ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective interest rate. The cash shortfall is the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive.
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective interest rate.
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Company if the commitment is drawn down and the cash flows that the Company expects to receive.
- Financial guarantee contracts: as the expected payments to reimburse the holder less any amounts that the Company expects to recover.

For further details on how the Company calculates ECLs including the use of forward looking information, refer to the Credit quality of financial assets section in. For details on the effect of modifications of loans on the measurement of ECL refer to note on Provision for expected credit loss.

ECLs are recognized using a provision for doubtful debts account in profit and loss. In the case of debt instruments measured at fair value through other comprehensive income, the measurement of ECLs is based on the three-stage approach as applied to financial assets at amortized cost. The Company recognizes the provision charge in profit and loss, with the corresponding amount recognized in other comprehensive income, with no reduction in the carrying amount of the asset in the balance sheet.

Impairment charges on loans and advances

Judgment is required by management in the estimation of the amount and timing of future cash flows when determining an impairment loss for loans and advances. In estimating these cash flows, the Company makes judgments mainly about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment allowance.

A collective assessment of impairment takes into account data from the loan portfolio (such as credit quality / levels of arrears, credit utilization, etc.), and concentrations of risk and economic data (including levels of GDP Growth Rate etc.).

vii) Recognition and Derecognition of Financial Instruments

A financial asset or financial liability is recognized in the balance sheet when the Company becomes a party to the contractual provisions of the instrument, which is generally on trade date. Loans and receivables are recognized when cash is advanced (or settled) to the borrowers.

Financial assets at fair value through profit or loss are recognized initially at fair value. All other financial assets are recognized initially at fair value plus directly attributable transaction costs.

The Company derecognizes a financial asset when the contractual cash flows from the asset expire or it transfers its rights to receive contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

A financial liability is derecognized from the balance sheet when the Company has discharged its obligation or the contract is cancelled or expires.

3.3 Property, Plant and Equipment

3.3.1 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.

3.3.2 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 derecognized. 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.

3.4 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 of method, as appropriate, and treated as changes in accounting estimates. Amortizations 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

3.5 Employee Benefits

3.5.1 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.

3.5.2 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.

3.5.3 Short-term benefits

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

3.6 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 arid 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.

3.7 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.

3.8 Income Statement

3.8.1 Revenue Recognition

3.8.1.1 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.

3.8.1.2 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.

3.8.1.3 Trading Income

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

3.8.2 Expenses

3.8.2.1 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.

3.8.2.2 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.

5. INTEREST INCOME

	2018 Rs.	2017 Rs.
Interest on Treasury Bills/Bonds/R.Repo	1,237,543,644	996,333,034
Interest on Debentures	28,463,483	19,646,976
	1,266,007,127	1,015,980,010

6. INTEREST EXPENSE

	2018 Rs.	2017 Rs.
Interest Expense on Repurchase Agreements	891,984,666	713,172,491
	891,984,666	713,172,491

7. NET GAIN/(LOSS) FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS

	2018 Rs.	2017 Rs.
Realised	16,725,852	26,415,277
Unrealised	(371,713,608)	287,917,227
	(354,987,757)	314,332,505

8. OTHER INCOME

	2018 Rs.	2017 Rs.
Non Refundable Fee Income & Other Income Received	-	814,957
Loss on Fixed Assets Transfer/Removal	-	(2,264)
Dividend Income	-	36,000
Other Income	1,193	-
	1,193	848,693

9. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging all expenses including the following

	2018 Rs.	2017 Rs.
Auditor's Remuneration	590,000	509,867
Depreciation on PPE	904,157	750,044
Amotisation of Intangible Assets	79,999	53,333
Personnel Costs (9.1)	39,843,632	32,308,061

9.1 Personnel Costs

	2018 Rs.	2017 Rs.
Salaries	26,442,341	20,779,566
Defined Contribution Plan Cost - EPF and ETF	1,452,706	1,053,455
Defined Benefit Plan Cost - Retirement Gratuity	350,997	243,840
Other Staff Cost	11,597,589	10,231,200
	39,843,632	32,308,061

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.

11. INCOME TAX EXPENSE

	2018 Rs.	2017 Rs.
Current Income Tax		
Current Income Tax charge on ordinary activities for the year	2,991,136	175,692,327
Under/(Over) Provision of current taxes in respect of prior years	-	(309,831)
	2,991,136	175,382,496
Deferred Income Tax		
Deferred Taxation Charge/(Reversal)	(148,055)	663,322
Income Tax Expense Reported in the Income Statement	2,843,081	176,045,818

Reconciliation between Current Tax Expenses and the Accounting Profit

	2018 Rs.	2017 Rs.
Accounting Profit /(Loss) before Tax from Continuing Operations	2,878,581	538,843,262
Income not Liable for Tax	(3,263,930)	(7,946,344)
Other Aggregate Disallowed Items	12,271,972	98,205,660
Other Aggregate Deductible Items	(1,203,994)	(1,629,981)
Taxable Profit	10,682,629	627,472,596
Income Tax Rate	28%	28%
Current Income Tax Expense	2,991,136	175,692,327
	2,991,136	175,692,327

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;

	2018 Rs.	2017 Rs.
Profit Attributable to Ordinary Shareholders	35,500	362,786,903
Weighted Average Numbers of Ordinary Shares	109,506,849	53,013,699
Earnings Per Share	0.0003	6.84

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

	2018 Rs.	2017 Rs.
Weighted Average Numbers of Ordinary Shares	109,506,849	53,013,699
Dividends paid (Rs.)	-	191,500,000
Dividend per share	-	3.61

14. CASH & CASH EQUIVALENTS

	2018 Rs.	2017 Rs.
Cash at Bank and Cash in Hand	2,405,105	4,459,469
Balance with Central Bank	177,478	93,843
Impairment	(43)	(106)
Cash & Cash Equivalents for the Purpose of Cash Flow Statement	2,582,539	4,553,206

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS (TRADING)

	2018 Rs.	2017 Rs.
Treasury Bills	661,361,119	499,797,703
Treasury Bonds	9,525,790,326	2,417,838,435
	10,187,151,445	2,917,636,138

16. LOANS AND ADVANCES AT AMORTIZED COST

	2018 Rs.	2017 Rs.
Loans & Advances from Banks	-	256,669,272
Loans & Advances from Other Customers	24,972,687	22,152,562
	24,972,687	278,821,835

17. FINANCIAL ASSETS AT AMORTIZED COST - HELD TO COLLECT

	2018 Rs.	2017 Rs.
Treasury Bonds	3,673,995,983	3,651,313,030
Debentures	351,238,581	199,920,699
Impairment	(44,823)	(99,477)
	4,025,189,742	3,851,134,251

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 Rs.	2017 Rs.
Treasury Bonds	1,603,129,961	1,819,102,172
	1,603,129,961	1,819,102,172

19. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018		2017	
	Cost Rs.	Directors' Valuation Rs.	Cost Rs.	Directors' Valuation Rs.
Investment in Lanka Financial Services Bureau Limited	1,000,000	1,000,000	1,000,000	1,000,000
	1,000,000	1,000,000	1,000,000	1,000,000

20. PROPERTY, PLANT AND EQUIPMENT

Cost	Balance as at 01/01/2018	Additions during the year	Disposals/Transfers during the year	Balance as at 31/12/2018
	Rs.	Rs.	Rs.	Rs.
Computer Equipment	4,447,696	259,470	-	4,707,166
Swift Equipment	913,903	-	-	913,903
Office Equipment	1,106,496	95,558	-	1,202,053
Furniture & Fittings	910,648	-	-	910,648
	7,378,743	**355,028**	-	**7,733,771**

Accumulated Depreciation	**Balance as at 01/01/2018**	**Charge for the year**	**Depreciation on Disposals/Transfers**	**Balance as at 31/12/2018**
	Rs.	Rs.	Rs.	Rs.
Computer Equipment	2,011,721	759,365	-	2,771,087
Swift Equipment	913,901	-	-	913,901
Office Equipment	361,556	104,326	-	465,882
Furniture & Fittings	788,274	40,466	-	828,740
	4,075,453	**904,157**	-	**4,979,610**

Carrying Amount	**2018**	**2017**
	Rs.	Rs.
Net Book Value as at 31 December	**2,754,160**	3,303,290

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;

	2018	**2017**
	Rs.	Rs.
Computer Equipment	**942,054**	655,204
Swift Equipment	**913,903**	913,903
Office Equipment	**71,690**	64,215
Furniture & Fittings	**577,039**	233,954

21. INTANGIBLE ASSET

Cost	Balance as at 01/01/2018	Additions during the year	Disposals/Transfers during the year	Balance as at 31/12/2018
	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
	2,369,593	-	-	**2,369,593**

Accumulated Amortisation & Impairment Loss	**Balance as at 01/01/2018**	**Charge for the year**	**Depreciation on Disposals/Transfers**	**Balance as at 31/12/2018**
	Rs.	Rs.	Rs.	Rs.
SWIFT License Fee	1,058,562	-	-	1,058,562
SWIFT Entrance Fee	911,031	-	-	911,031
Board Pac	53,333	79,999	-	133,332
	2,022,927	**79,999**	-	**2,102,926**

Carrying Amount	**2018**	**2017**
	Rs.	Rs.
Carrying Amount	**266,668**	346,667

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;

	2018	**2017**
	Rs.	Rs.
SWIFT License Fee	**1,058,562**	1,058,562
SWIFT Entrance Fee	**911,031**	911,031

22. DEFERRED TAX ASSET/(LIABILITY)

	2018 Rs.	2017 Rs.
Balance at the beginning of the year	(74,969)	588,353
Origination/(reversal)of temporary differences	148,055	(663,322)
Balance at the end of the year	73,086	(74,969)
The closing Deferred Tax Asset balance relates to yhe following		
Accumulated Depreciation	(481,946)	(420,391)
Increment Benefit Obligation	555,032	345,422
	73,086	(74,969)

23. OTHER ASSETS

	2018 Rs.	2017 Rs.
Other Receivables	5,991,830	7,816,773
Receivable From Treasury	246,939,587	246,939,587
WHT Receivable (Notional Tax)	8,512,207	28,254,683
WHT Receivable (Debenture Interest)	818,105	-
VAT & NBT Receivable	34,298,919	-
	296,560,648	283,011,043

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 upto 01.03.2018. Inland Revenue Act No. 24 of 2017 came to effect from 01.04.2018 and Notional Tax on Government Securites is abolished.

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.8,512,207/- upto 31.03.2018 (2017 - Rs. 28,254,683/-).

24. BORROWINGS UNDER REPURCHASE AGREEMENTS

	2018 Rs.	2017 Rs.
Due within 1 year	13,441,494,660	7,030,111,942
	13,441,494,660	7,030,111,942

25. AMOUNT DUE TO RELATED PARTY

		2018 Rs.	2017 Rs.
National Savings Bank	- Current Account	40,657	50,697
	- Other Payables	431,824	3,437,952
		472,480	3,488,649

26. OTHER LIABILITIES

	2018 Rs.	2017 Rs.
Value added Tax (VAT) Payable	-	11,546,100
NBT Payable	-	1,539,479
Sundry Creditors	230,000	5,000,000
Accrued Expenses	4,542,655	6,483,236
Dividend & WHT Payable	-	17,500,000
	4,772,655	42,068,815

27. RETIREMENT BENEFIT OBLIGATION

	2018 Rs.	2017 Rs.
Balance at the beginning of the year	**1,233,650**	1,260,024
Current Service Cost	**201,602**	118,868
Interest for the year	**149,395**	124,973
Deficit/(Surplus) charge for the year	**397,609**	(270,215)
Payments made during the year	**-**	-
Balance at the end of the year	**1,982,256**	1,233,650

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 2018. The principal assumptions used in determining the cost of employee benefits were:

		2018	2017
Discount rate		12.11%	10.63%
Future Salary Increment		8.33%	6.59%
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	29	25	17

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	(284,444)	341,428
One percentage point change in the salary escalation rate	348,878	(295,996)

Assumptions

Financial Assumptions - Rate of discount, Salary increment rate

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

28. STATED CAPITAL

	2018 Rs.	2017 Rs.
Opening Balance	**900,000,000**	150,000,000
Issued During the year	**800,000,000**	750,000,000
Closing Balance	**1,700,000,000**	900,000,000

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

	2018 Rs.	2017 Rs.
At the beginning of the year	**584,660,470**	493,961,109
Transferred during the year - 25% of profit after tax	**8,875**	90,699,361
At the end of the year	**584,669,345**	584,660,470

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

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 2018 Assets	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						
Government Securities at Fair Value Through P & L	512,399,969	592,515,366	4,316,897,324	3,659,059,550	1,106,279,235	10,187,151,445
Government Securities at Amortized Cost	92,734,594	-	1,479,694,250	1,359,424,054	742,143,085	3,673,995,983
Corporate Debentures	12,698,581	94,496,713	51,585,757	192,412,707	-	351,193,758
Government Securities at FVTOCI	75,596,961	574,749,800	-	952,783,200	-	1,603,129,961
Loans & Advances	10,604,324	14,368,362	-	-	-	24,972,687
Total Interest Earning Assets	704,034,430	1,276,130,242	5,848,177,331	6,163,679,511	1,848,422,320	15,840,443,834
Total non Interest Earning Assets						331,099,375
Total Assets						16,171,543,209
Liabilities						
Government Securities sold under Repurchase Agreement	10,736,207,082	2,705,287,578	-	-	-	13,441,494,660
Total Interest bearing Liabilities	10,736,207,082	2,705,287,578	-	-	-	13,441,494,660
Total non int. bearing Liabilities						7,227,391
Shareholder's Fund						2,722,821,158
Total Equity and Liabilities						16,171,543,209

As at 31 December 2017 Assets	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.
Government Securities at Fair Value Through P & L	62,243,714	631,666,873	970,611,685	920,040,757	333,073,001	2,917,636,030
Government Securities at Amortized Cost	-	866,026,305	-	1,551,388,160	1,233,898,671	3,651,313,137
Corporate Debentures	-	51,196,678	134,910,215	13,714,328	-	199,821,221
Government Securities at FVTOCI	-	204,122,761	609,611,150	826,189,500	179,178,762	1,819,102,172
Loans & Advances - Customers	265,702,955	13,118,880	-	-	-	278,821,835
Total Interest Earning Assets	327,946,669	1,766,131,498	1,715,133,050	3,311,332,746	1,746,150,434	8,866,694,396
Total non Interest Earning Assets						292,214,206
Total Assets						9,158,908,602
Liabilities						
Government Securities sold under Repurchase Agreement	5,896,362,748	1,133,749,194	-	-	-	7,030,111,941
Total Interest bearing Liabilities	5,896,362,748	1,133,749,194	-	-	-	7,030,111,941
Total non int. bearing Liabilities						184,209,723
Shareholder's Fund						1,944,586,938
Total Equity and Liabilities						9,158,908,602

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 hold under repurchase agreements.

	2018 Rs.	2017 Rs.
Government Securities	14,506,511,012	7,847,218,353

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 - Fair Value Through Other Comprehensive Income

Fair Value Through Other Comprehensive Income 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 2018	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Financial Assets - Held for Trading	10,187,151,445	-	-	10,187,151,445
Fair Value Through Other Comprehensive Income	-	1,603,129,961	-	1,603,129,961
Equity Investments	-	-	1,000,000	1,000,000
	10,187,151,445	1,603,129,961	1,000,000	11,791,281,406

As at 31 December 2017	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Financial Assets - Held for Trading	2,917,636,138	-	-	2,917,636,138
Fair Value Through Other Comprehensive Income	-	1,819,102,172	-	1,819,102,172
Equity Investments	-	-	1,000,000	1,000,000
	2,917,636,138	1,819,102,172	1,000,000	4,737,738,310

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 2018		31 December 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	Rs.	Rs.	Rs.	Rs.
Financial Assets				
Cash and Bank	2,582,539	2,582,539	4,553,313	4,553,313
Loans and Advances	24,972,687	24,972,687	278,821,835	278,821,835
Financial Assets as Held to Collect	3,673,995,983	3,546,233,792	3,651,313,030	3,729,888,528
Total Financial Assets	3,701,551,209	3,573,789,018	3,934,688,177	4,013,263,675
Financial Liabilities				
Borrowings under Repurchase Agreements	13,441,494,660	13,441,494,660	7,030,111,942	7,030,111,942
Amounts Due to Related Parties	472,480	472,480	3,488,649	3,488,649
Total Financial Liabilities	13,441,967,140	13,441,967,140	7,033,600,591	7,033,600,591

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.

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 PVBP 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.

33.1 **Credit Risk**

Credit Risk Analysis - Maturity Profile Analysis of Financial Assets
As at 31 December 2018 - 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	4,479,409	-	-	5,342,116	7,071,444	7,296,919	-
Treasury bills	-	83,234,649	69,503,706	84,399,341	113,405,305	340,152,742	-
Treasury bonds	-	-	59,530,817	-	589,658,229	84,297,889	13,936,146,283
Total	4,479,409	83,234,649	129,034,523	89,741,457	710,134,978	431,747,550	13,936,146,283

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	2,858,752	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

33. FINANCIAL RISK MANAGEMENT (Contd...)

33.2 Liquidity Risk

Liquidity risk Analysis - Maturity Profile Analysis of Financial Liabilities
As at 31 December 2018 - 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	22,452,768	683,565,896	1,320,086,847	1,550,893,786	274,177,050	2,110,309,528
Repo	6,389,000,000	409,765,306	-	208,593,881	320,801,000	-
Total	**6,411,452,768**	**1,093,331,202**	**1,320,086,847**	**1,759,487,667**	**594,978,050**	**2,110,309,528**

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**

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	4,577,186		5,482,105	8,934,877	5,972,711	-	-	-
Rev.Repo	-	-	-	-	-	-	-	-
T.Bonds		59,522,451		591,082,170	82,844,829	663,914,109	12,019,934,894	897,403,992
T.Bills	83,152,996	69,237,580	83,368,158	109,902,919	315,699,548	-	-	-
Debentures	-	12,698,581	-	-	94,496,844	38,652,457	205,347,660	
Total	**87,730,182**	**141,458,613**	**88,850,263**	**709,919,966**	**499,013,933**	**702,566,566**	**12,225,282,554**	**897,403,992**
Liabilities								
Capital & Profit						-	-	2,722,821,158
Customer Repo	836,756,937	1,320,086,847	1,550,893,786	274,177,050	2,110,309,528	-	-	-
Repo	6,819,875,631	-	208,593,881	320,801,000	-	-	-	-
Total	**7,656,632,568**	**1,320,086,847**	**1,759,487,667**	**594,978,050**	**2,110,309,528**	-	-	**2,722,821,158**

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

	2018 Rs.	2017 Rs.
Treasury bill trading portfolio	2,626,684	20,763,926
Treasury bond trading portfolio	265,033,312	59,119,920
	267,659,996	79,883,846

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. 1,005,000/- (2017 - Rs.1,160,000/-).

(b) Transactions with related parties

The following transactions were carried out with related parties during the year ended 31 December 2018.

Items in Income Statement		2018 Rs.	2017 Rs.
National Savings Bank	Interest Received from investment in Reverse Repo	7,884,945	35
	Service Charge Income	39,421,256	58,746,665
	RTGS Charges	992,250	694,800
	Interest Paid on Repurchase agreements	46,104,991	170,401,342
	Custodian Fee	6,000,000	6,000,000
	Trustee Fee	500,000	500,000

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

35. CAPITAL COMMITMENTS AND CONTINGENCIES

There were no capital commitments and contingencies as at 31 December 2018

36. RECONCILIATION FOR ADOPTION OF SLFRS 09

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.

SLFRS 9 requires, among other things, recognition and re-measurement for expected credit loss ("ECL") on a financial asset that passes the "solely payments of principle and interest" ("SPPI") test, and is measured at amortized cost or fair value through other comprehensive income. ECL also needs to be recognized for lease receivables, contract assets, loan commitments and financial guarantee contracts. An explanation of how the transition of the standard has affected the Company Financial Position and Financial Performance is set out in the following tables and notes that accompany the tables.

36.1 Financial Position

		Audited 31.12.2017	Reclassification	Remeasurement	Restate 31.12.2017	Audited 01.01.2017	Reclassification	Remeasurement	Restate 01.01.2017
	Note	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Assets									
Cash and Cash Equivalents	14	4,553,313		(106)	4,553,207	8,407,607		(169)	8,407,438
Financial Assets at Fair Value through P & L (Trading)	15	2,917,636,138			2,917,636,138	7,012,619,077			7,012,619,077
Loans and Advances	16	278,821,835			278,821,835	11,561,630			11,561,630
Financial Investments – Held-to-Maturity		3,651,313,030	(3,651,313,030)		-	1,800,555,991	(1,800,555,991)		-
Financial Investments at Amortized Cost – Held-to-Collect	17	-	3,851,233,728	(99,477)	3,851,134,251	-	2,000,395,313	(88,874)	2,000,306,439
Financial Investments – Available-for-Sale		2,020,022,871	(2,020,022,871)		-	1,894,752,369	(1,894,752,369)		-
Financial Assets at FVTOCI	18	-	1,819,102,172		1,819,102,172	-	1,693,913,047		1,693,913,047
Equity instruments at FVTOCI	19	-	1,000,000		1,000,000	-	1,000,000		1,000,000
Property, Plant and Equipment	20	3,303,290			3,303,290	2,171,946			2,171,946
Intangible Assets	21	346,667			346,667	-			-
Deferred Tax Assets	22	-			-	588,353			588,353
Other Assets	23	283,011,043			283,011,043	131,399,672			131,399,672
Total Assets		**9,159,008,186**	**-**	**(99,583)**	**9,158,908,603**	**10,862,056,646**	**-**	**(89,043)**	**10,861,967,603**
Liabilities									
Borrowings under Repurchase Agreements	24	7,030,111,942			7,030,111,942	9,143,181,376			9,143,181,376
Amount Due to Related Parties	25	3,488,649			3,488,649	3,335,515			3,335,515
Other Liabilities	26	42,068,815			42,068,815	5,918,287			5,918,287
Current Tax Liabilities		137,343,640			137,343,640	17,152,612			17,152,612
Deferred Tax Liabilities	22	74,969			74,969	-			-
Retirement Benefit Obligation	27	1,233,650			1,233,650	1,260,024			1,260,024
Total Liabilities		**7,214,321,665**	**-**	**-**	**7,214,321,665**	**9,170,847,815**	**-**	**-**	**9,170,847,815**
Equity									
Stated Capital	28	900,000,000			900,000,000	150,000,000			150,000,000
Retained Earnings		576,842,470		(96,948)	576,745,522	1,329,307,506		(89,043)	1,329,218,463
Special Risk Reserve	29	584,660,470		(2,635)	584,657,835	493,961,109			493,961,109
Other Reserves		(116,816,420)		-	(116,816,420)	(282,059,784)		-	(282,059,784)
Total Equity		**1,944,686,520**	**-**	**(99,583)**	**1,944,586,937**	**1,691,208,831**	**-**	**(89,043)**	**1,691,119,788**
Total Equity and Liabilities		**9,159,008,186**	**-**	**(99,583)**	**9,158,908,602**	**10,862,056,646**	**-**	**(89,043)**	**10,861,967,603**

36.2 **Financial Performance**

	Note	Audited 2017 Rs.	Reclassification Rs.	Remeasurement Rs.	Restate 2017 Rs.
Interest Income		1,015,980,010			1,015,980,010
Interest Expenses		713,172,491			713,172,491
Net Interest Income	4	302,807,519	-	-	302,807,519
Fee and Commission Income		68,242,735			68,242,735
Fee and Commission Expenses		3,955,471			3,955,471
Net Fee and Commission Income	5	64,287,264	-	-	64,287,264
Net Gain/(Loss) from Trading	6	314,332,505			314,332,505
Other Operating Income (net)	7	848,693			848,693
Total Operating Income		682,275,980	-	-	682,275,980
Collective Impairment		-		(10,541)	(10,541)
Net Operating Income		682,275,980	-	(10,541)	682,265,440
Personnel Expenses	8	32,308,061			32,308,061
Depreciation & Amortization			803,377		803,377
Other Expenses	9	14,020,480	(803,377)		13,217,102
Operating profit/(loss) before VAT		635,947,440	-	-	635,936,899
Value Added Tax (VAT) on Financial Services		85,680,157			85,680,157
Nation Building Tax		11,424,021			11,424,021
Profit/(Loss) Before Tax		538,843,262	-	-	538,832,721
Tax Expenses	10	176,045,818			176,045,818
Profit/(Loss) for the Year		362,797,444	-	(10,541)	362,786,903
Other Comprehensive Income					
Other comprehensive income to be reclassified to Income Statement					
Revaluation of Securities Gain / Loss T Bonds (FVTOC		165,243,364			165,243,364
Other comprehensive income not to be reclassified to Income Statement					
Actuarial Gain/(Loss) on Retirement Benefit		270,215			270,215
Total Comprehensive Income		528,311,023	-	(10,541)	528,300,482
Earnings Per Share on profit					
Basic Earnings per Ordinary Share	11	6.84			6.84
Diluted Earnings Per Ordinary Share					

36.3 Notes to the Adoption of SLFRS 09

Note 01 - Financial Assets at Amortized Cost – Held-to-Collect

Financial Assets which consist the characteristics of hold to collect contractual cash flows, meet SPPI test, infrequent and insignificant sales are disclosed under the business model of Held-to-Collect.

Treasury Bonds classified as Held to Maturity and Quoted Debentures classified under Available for sale have reclassified into Held-to-Collect due to meet above characteristics.

Note 02 - Fair Value through Other Comprehensive Income

Financial Assets which consist characteristics of both collecting contractual cash flows and sales, more frequent and significant sales are disclosed under Fair Value through Other Comprehensive Income.

Since, those characteristics are met, Treasury Bonds classified under Available for Sale have reclassified into Fair Value through Other Comprehensive Income.

Note 03 - Equity Instruments

Instruments which are not for trading and elected the irrevocable Other Comprehensive Income option disclosed under Fair Value through Other Comprehensive Income.

Equity Instruments disclosed under Other long term Investments are reclassified into Equity Instruments at Fair Value through Other Comprehensive Income.

37. DIVIDENDS PAID

	2018			2017		
	Gross Dividend Rs.	Dividend Tax Rs.	Net Dividend Rs.	Gross Dividend Rs.	Dividend Tax Rs.	Net Dividend Rs.
Cash Dividend	-	-	-	191,500,000	19,150,000	172,350,000
Scrip Dividend	-	-	-	833,333,333	83,333,333	750,000,000
Total Dividends paid	-	-	-	1,024,833,333	102,483,333	922,350,000

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.

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	- Mr. H N J Chandrasekera (Chairman) Mr. S D N Perera Mr. Dinesh Sanjay Kudahetty Mr. K Don Aritha Gishan Wickramasinghe Ms. Reshani Enoka Dangalla Mr. K D Menuwan Panduka Weerasinghe Mr. Ajith Nishantha Pathirana
Chief Executive Officer	- Mr. D L P Abayasinghe
Company Secretary	- Ms. Farzana Aniff
Registered Office	- 1st Floor "Savings House" National Savings Bank No. 255, Galle Road, Colombo 03.
Telephone	- 2425010, 2425011, 2425012 & 2565957
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.