Annual Report
2019

NSB Fund Management Co. Ltd

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NSB Fund Management

Financial Highlights

	2019	2018	2017	2016	2015
Operating Result					
Interest Income (Rs Mn)	1,449	1,266	1,016	831	693
Net Gain/(Loss) from FVTPL (Rs Mn)	472	(355)	314	(98)	4
Interest Expenses (Rs Mn)	(1,021)	(892)	(713)	(554)	(371)
Net Operating Income (Rs Mn)	954	66	682	176	325
Operating Expenses, Provisions, VAT & NBT	(186)	(63)	(143)	(67)	(72)
Profit before Taxation (Rs Mn)	768	3	539	109	253
Income Tax Expenses (Rs Mn)	(253)	(3)	(176)	(30)	(78)
Profit for the year (Rs Mn)	**515**	**0.0355**	**363**	**79**	**175**
Earnings per Share (Rs.)	3.03	0.0003	6.84	5.29	11.62
Assets					
Cash & Cash Equivalents (Rs Mn)	169	3	5	9	8
Other Financial Assets (Rs Mn)	15,614	15,815	8,588	10,708	8,495
Loans & Advances (Rs Mn)	21	25	279	11	237
Property, Plant & Equipment/Intangible Assets (Rs Mn)	6	3	4	2	2
Other Assets (Rs Mn)	177	326	283	132	28
Total Assets	**15,986**	**16,172**	**9,159**	**10,862**	**8,770**
Liabilities & Equity					
Borrowings (Rs Mn)	12,414	13,441	7,030	9,143	6,927
Other Liabilities (Rs Mn)	235	7	184	28	58
Equity (Rs Mn)	3,337	2,723	1,945	1,691	1,785
Total Liabilities & Equity	**15,986**	**16,172**	**9,159**	**10,862**	**8,770**
Ratios					
Return on Equity (%)	17.01	0.0015	19.96	6.45	14.6
Return on Investment (%)	2.72	3.03	3.09	2.28	3.69
Net Profit Ratio (%)	26.03	0.0037	25.94	10.83	36.49
Average Yield	10.50	10.35	10.17	9.64	7.76
Other Information					
No. of Employees	17	16	18	16	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.

Performances Review

Market Overview 2019

GDP and Sectorial Growth

Sri Lanka graduated to the upper middle income country status in terms of per capita Gross National Income (GNI), as per the World bank's country classification in 2019. The value of the country's Gross Domestic Product (GDP) at current market prices was US dollars 84.0 billion in 2019, compared to US dollars 88.4 billion in 2018. Per capita GDP and per capita GNI at current market prices were estimated at US dollars 3,852 and US dollars 3,741, respectively, in 2019, in comparison to US dollars 4,079 and US dollars 3,968, respectively, in the previous year. Subdued economic growth, coupled with the sharp depreciation of the Sri Lankan rupee towards end 2018, which resulted in a substantially depreciated average exchange rate in 2019, caused the decline in these indicators in 2019 from the levels observed in the previous year.

The Sri Lankan economy recorded a subdued growth of 2.3 per cent in 2019, compared to the growth of 3.3 per cent in 2018, as per the provisional estimates of GDP of the Department of census and Statistics (DCS). All major sectors of the economy recorded positive, but modest growth rates. The agriculture sector recorded a growth of 0.6 per cent in 2019 compared to the growth of 6.5 per cent in 2018. Meanwhile, the industry sector registered a growth of 2.7 per cent in 2019, compared to the growth of 1.2 per cent in the previous year. Meanwhile, with the impact of the Easter Sunday attacks on tourism related activities, the growth of the services sector decelerated significantly to 2.3 per cent in 2019, compared to the growth of 4.6 per cent in 2018.

The share of consumption expenditure in GDP at current prices increased to 78.7 per cent in 2019 from 77.0 per cent in the previous year. Net external demand for goods and services improved in real terms by 23.2 per cent, and its share in GDP at current prices also improved to -6.1 per cent in 2019, from -7.4 per cent in 2018. Meanwhile, the share of investment in GDP at current prices declined sharply to 27.4 per cent in 2019, compared to 30.4 per cent in the previous year, recording a negative real growth in investment of 9.5 per cent. Domestic savings as a percentage of GDP at current prices declined to 21.3 per cent in 2019 from 23.0 per cent recorded in 2018, while national savings as a percentage of GDP also declined to 25.3 per cent in 2019 from 27.3 per cent in the previous year. However, due to the higher contraction in investment expenditure, both the domestic savings-investment gap as well as the national savings-investment gap narrowed in 2019 to 6.1 per cent and 2.1 per cent of GDP, respectively, from 7.4 per cent and 3.1 per cent of GDP in 2018.

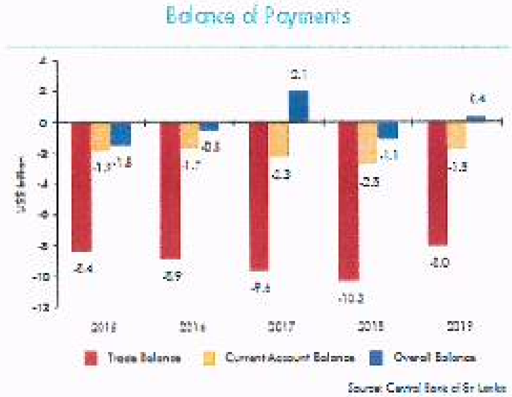
Annual GDP Growth Rate (a)

(a) Based on the GDP estimates (base year 2010)

Source : Department of Census and Statistics

NSB Fund Management

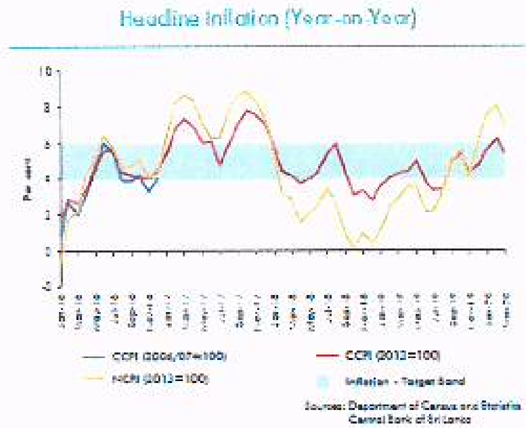
External Performances



Policies to curtail import expenditure resulted in a notable improvement in the trade and current account balances, which, along with significant inflows to the financial account, helped strengthen gross official reserves and stabilise the exchange rate. The current account deficit declined in 2019, as the improvement in the merchandise trade balance outweighed the moderation in trade in services and secondary income as well as the widening of the primary income deficit. Meanwhile, the financial account recorded significant inflows in 2019, including proceeds of the International Sovereign Bonds (ISBs) and the receipt of two tranches of the Extended Fund Facility of the International Monetary Fund (IMF-EFF). However, inward foreign direct investment (FDI) moderated, while foreign investment in the government securities market and the Colombo Stock Exchange (CSE) recorded net outflows in 2019. Meanwhile, notable debt repayments were recorded by the government in 2019, including the settlement of two ISBs and the scheduled repayments on syndicated loan facilities. This reflected the surplus in the overall balance of BOP in 2019. Meanwhile, the Sri Lankan rupee recorded a marginal appreciation of 0.6 per cent against the US dollar in 2019, compared to the significant depreciation recorded in 2018. Reflecting the nominal appreciation of the Sri Lankan rupee against the currencies of several major trading partners together with the movements in the cross currency exchange rates, both the Nominal Effective Exchange Rate (NEER) and the Real Effective Exchange Rate (REER) indices appreciated in 2019.

Inflation

Despite transient supply side disturbances, both headline and core inflation moved broadly in the desired range of 4-6 per cent during 2019. CCPI based year-on-year headline inflation was recorded at 4.8 per cent in December 2019, in comparison to 2.8 per cent in December 2018. Meanwhile, headline inflation, based on the National Consumer Price Index (NCPI, 2013=100) that attributes a higher weight to food items, followed the trend of CCPI based inflation during the first half of 2019, although remaining notably low. Accordingly, in December 2019, year-on-year core inflation based on the CCPI and the NCPI remained at 4.8 per cent and 5.2 per cent, respectively, compared to 3.1 per cent recorded by both the indices in December 2018. In the first quarter of 2020, core inflation based on the CCPI and the NCPI decelerated, mostly on account of the base effect, and was recorded at 2.9 per cent and 3.2 per cent, respectively, in March 2020.



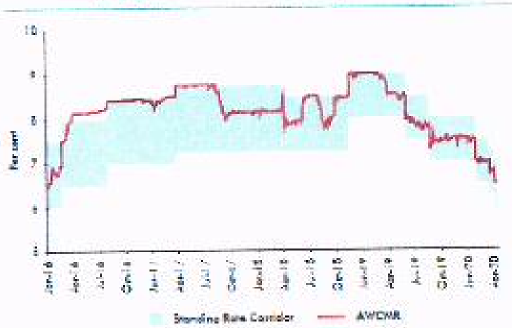
Monetary Policy stance of the central Bank of Sri Lanka

The central Bank adopted an accommodative monetary policy stance in 2019 amidst prolonged subpar economic activity exacerbated by Easter Sunday attacks, muted inflation, favourable inflation outlook, rapidly decelerating private sector credit growth, and increasingly easing monetary policy globally. The SDFR and the SLFR of the Central Bank were then reduced by 50 basis points each to 7.50 per cent and 8.50 per cent, respectively, in May 2019, thus ending the neutral monetary policy stance maintained since April 2018.

Meanwhile, the Central Bank reduced the SRR applicable on all rupee deposit liabilities of LCBs by a further 1.00 percentage point in March 2019. With a view to inducing a sizable reduction in market lending rates, the Central Bank reduced the SDFR and the SLFR further by 50 basis points to 7.00 per cent and 8.00 per cent, respectively, effective 23 August 2019. Considering the need to signal the expectation of a continued reduction in market lending rates to support the revival of economic activity in the context of the favourable inflation outlook and well contained inflation expectations, the Central Bank reduced the SDFR and the SLFR further by 50 basis points to 6.50 per cent and 7.50 per cent, respectively, effective 30 January 2020.

Meanwhile, considering the urgent need to support economic activity and the financial sector with the rapid spread of the COVID-19 pandemic and its possible further spread in Sri Lanka, the Central Bank reduced the SDFR and the SLFR of the Central Bank by 25 basis points to 6.25 per cent and 7.25 per cent, respectively, with effect from 17 March 2020. At the same time, in order to enable LCBs to execute their financial transactions smoothly and reduce their cost of funds further, the Central Bank reduced SRR on all rupee deposit liabilities of LCBs by 1.00 percentage point to 4.00 per cent, effective from the reserve maintenance period commencing 16 March 2020. The SDFR and the SLFR of the Central Bank were further reduced by 25 basis points to 6.00 per cent and 7.00 per cent, respectively, effective from the close of business on 03 April 2020, and this decision is expected to complement the measures that have been taken thus far to ease market conditions, and enable the domestic financial market to provide further relief to businesses and individuals affected by the outbreak of the COVID-19 pandemic and restrictions placed to contain its spread within the country.

Standing Rate Corridor and Average Weighted Call Money Rate (AWCMR)



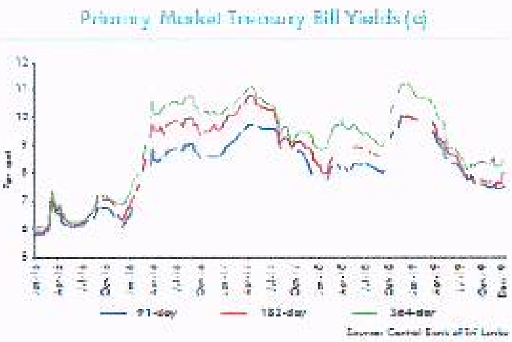
Source: Central Bank of Sri Lanka

Yields on Government Securities

Reflecting eased monetary conditions, yields on government securities showed a notable decline during 2019, although a marginal uptick in yields on treasury bills was observed towards the latter part of 2019 due to weakened sentiments amidst the rising funding requirement of the government. Surplus liquidity conditions along with the accommodative monetary policy stance of the Central Bank, availability of foreign financing with the proceeds of ISB issuances in March and June 2019, streamlined Treasury bond primary auction system and well anchored inflation expectations resulted in a notable decline in yields on government securities during 2019 compared to the levels observed at end 2018. The release of liquidity through the reduction of the SRR in November 2018 and March 2019 by the Central Bank prompted most commercial banks to increase investment in government securities, given the sluggish growth of credit to the private sector.

The imposition of caps on deposit interest rates offered by financial institutions in April 2019, which resulted in a notable decline in deposit interest rates, would also have contributed to reducing yields on government securities due to the possible shift of savings from financial institutions to government securities. However, some uptick in yields on Treasury bills was observed during late 2019, reflecting the impact of outflows of foreign investment from the government securities market, uncertainty in the direction of fiscal policy and increased funding requirement of the government.

In spite of this uptick, primary market yields on 91-day, 182-day and 364-day Treasury bills decreased by 250 basis points, 197 basis points and 275 basis points to 7.51 per cent, 8.02 per cent and 8.45 per cent, respectively, during 2019.



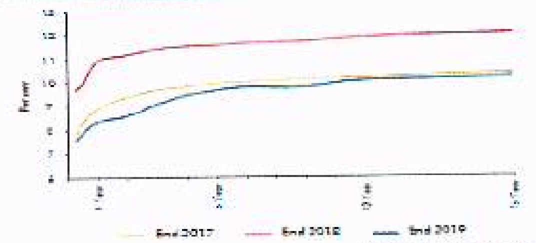
Consistent with the overall reduction in market interest rates, yields on treasury bonds in the primary market declined substantially during 2019, while the government also issued foreign currency denominated debt instruments at competitive yields. The government relied more on short to medium term Treasury bond issuances during the first half of 2019, while Treasury bonds with longer maturities of 10 to 20 years were issued mostly during the second half of 2019.

Accordingly, Treasury bond yields on short to medium maturities declined by around 182-223 basis points, while yields on longer maturities recorded a decline of around 131-200 basis points in the primary market during 2019. With these declines, yields on maturities of 10 years, 15 years and 20 years were recorded at 10.23 per cent, 10.59 per cent and 10.68 per cent, respectively, by end 2019. Further, in early 2020, yields on 10-year Treasury bonds fell below 10 per cent, recording the lowest yields on 10-year maturities after 2015. Noticeably, the upward pressure observed in the yields on Treasury bills towards end 2019 was not observed in the primary Treasury bond market.

Meanwhile, the government issued foreign currency denominated debt securities, namely, Sri Lanka Development Bonds (SLDBs) and ISBs during the year, which also helped ease the pressure on yields on rupee denominated debt instruments to some extent. The government issued short and medium term US dollar denominated SLDBs at various fixed and floating rates in auctions held in January and May 2019, thereby raising US dollars 179.7 million, and US dollars 165.5 million, respectively.

Interest rates of SLDB issuances across all tenures showed mixed movements during 2019. Further, the two ISB issuances in March and June 2019 raised US dollars 2.4 billion and US dollars 2.0 billion, respectively. In March 2019, ISBs of 5-year and 10-year tenures were issued at 6.85 per cent and 7.85 per cent, respectively, which were 441-521 basis points above the corresponding US Treasury yields at the time. ISBs of 5-year and 10-year tenures were issued in June 2019 at 6.35 per cent and 7.55 per cent, respectively, which were 460-553 basis points above the corresponding US Treasury yields at the time of issuance. Reflecting the overall downward adjustment in primary market yields, the secondary market yield curve for government securities shifted downwards during the year 2019 with a greater downward shift in short to medium term yields. Accordingly, yields on 91-day, 182-day and 364-day Treasury bills in the secondary market decreased by 215 basis points, 208 basis points and 255 basis points, respectively, to 7.52 per cent, 7.88 per cent and 8.36 per cent by end 2019, compared to the yields recorded at end 2018. Treasury bond yields also decreased by around 164 to 256 basis points during 2019. Secondary market yields on 2-year bonds decreased by 256 basis points to 8.60 per cent, while yields on 5-year and 10-year Treasury bonds decreased by 191 basis points and 182 basis points, respectively, to 9.67 per cent and 10.05 per cent by end 2019, in comparison to the yields at end 2018. The downward shift in the yield reflected improved market sentiments following the ISB issuances, eased monetary policy and monetary conditions, and also well anchored inflation expectations.

Secondary Market Yield Curve
for Government Securities



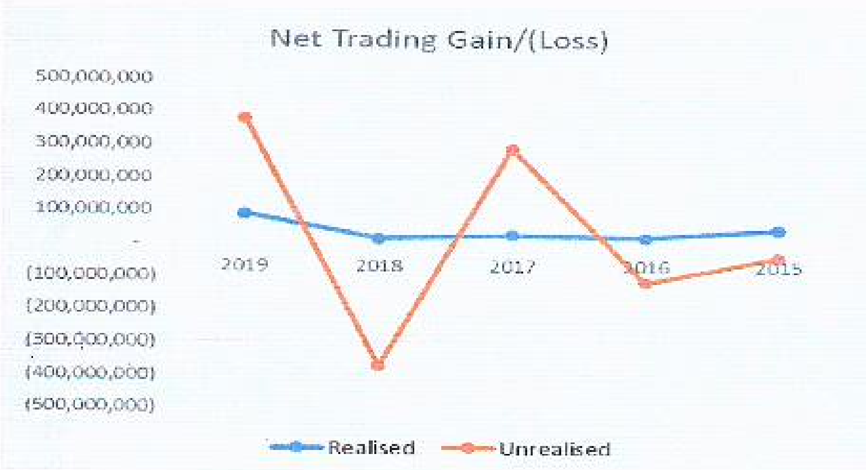
Source: Central Bank of Sri Lanka

NSB Fund Management

Company Performance

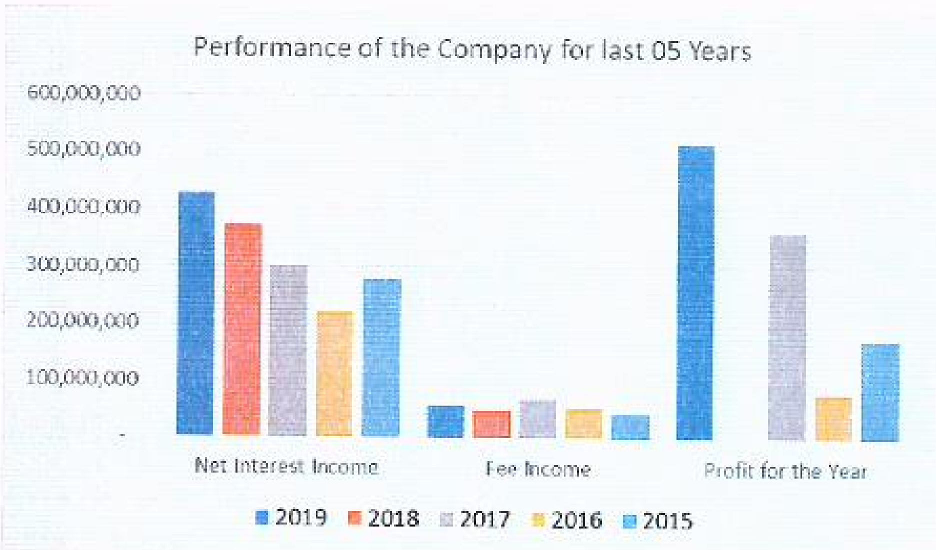
In the year 2019, the Company recorded an operational profit of Rs. 515 Million. The profit for the year has significantly increased comparison to the operational profit recorded in 2018, due to the favourable market conditions which resulted in Rs. 380 Million of unrealized mark to market gain on Government Security Trading Portfolio for the year 2019 against the loss recorded in 2018.

Movement of Net Trading Gain/(Loss) for last five years are as follows,



The net interest income of Government securities increased to Rs. 428.5 Million in this year when compared to Rs. 374 Million in 2018, showing an increase of 15 per cent. Realized Gain from the sale of T-bills & bonds were Rs. 91.4 Million in 2019. The fee income of the company also increased by 18% in the year 2019 compared to that of year 2018.

Net Interest Income, fee Income and Net Profit for the year for last five years reflect as follows,



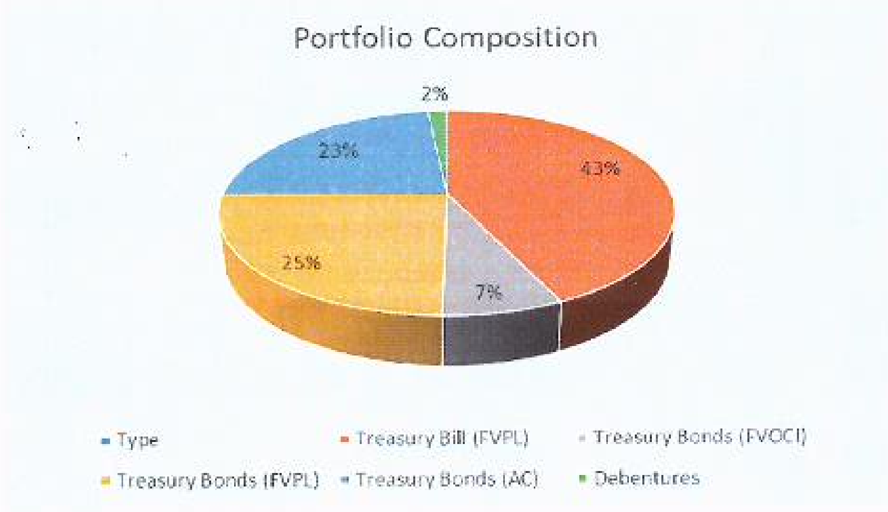
The Company paid Rs 119.9 Million by way of Value Added Tax (VAT) and also provided Rs. 252.5 Million as income tax expense for 2019. Earnings Per Share (EPS) also increased significantly to 3.03 compared to preceding year.

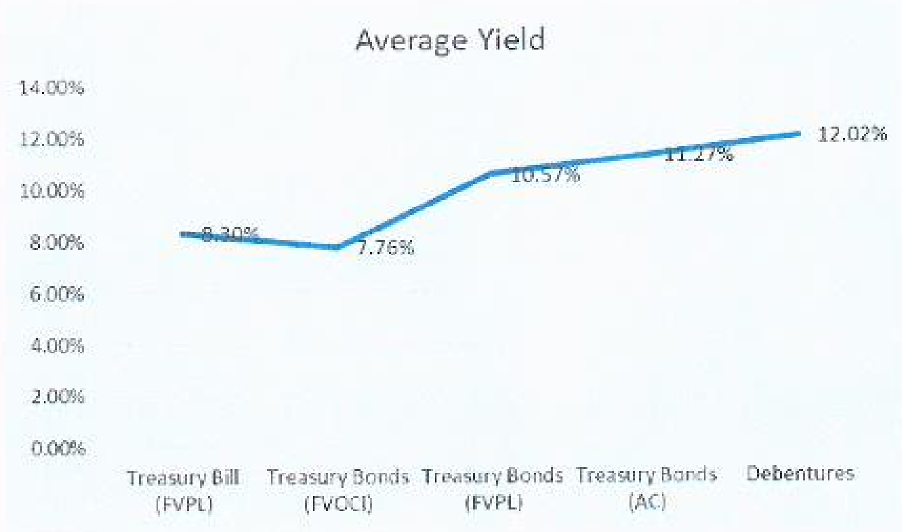
Net assets of the Company stood at Rs. 3,337 Million as at 31st December 2019 in comparison to Rs.2,722.8 Million as at 31st December 2018. This is mainly due to the increase in net profit.

Total assets of the company stood at Rs. 15,986 Million by the end of 2019 compared to Rs. 16,171 Million in 2018.

Repo borrowings of the Company decreased to Rs. 12,414 Million in 2019 from Rs. 13,441 Million in 2018.

Portfolio composition and the average portfolio yield of the Company as at 31.12.2019 has been illustrated in the below charts.





Human Capital

The Company has eleven directly recruited staff members and five 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 Senior Manager, a Manager for Risk & Compliance function, an Internal Auditor and a Marketing Officer. Company will implement the new IT system in line with it's Business Continuity Plans and to become more efficient in its business activities.

The Company has prepared the Strategic Business Plan for 2020-2022 and following initiatives have been taken,

- The Company has been taken initiatives to purchase a new Treasury System as recommended by the Central Bank of Sri Lanka for better functioning of the business operations. Accordingly, the Treasury System is being purchased from Credence Analytics India and initial stages are completed at the end of December 2019. The total cost of the system will be approximately Rs. 90 Mn.

- The Company has relocated its office premises in December 2019 to No. 400, Galle Road, Colombo 03 from the Head Office of National Savings Bank for independent business operation.

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.

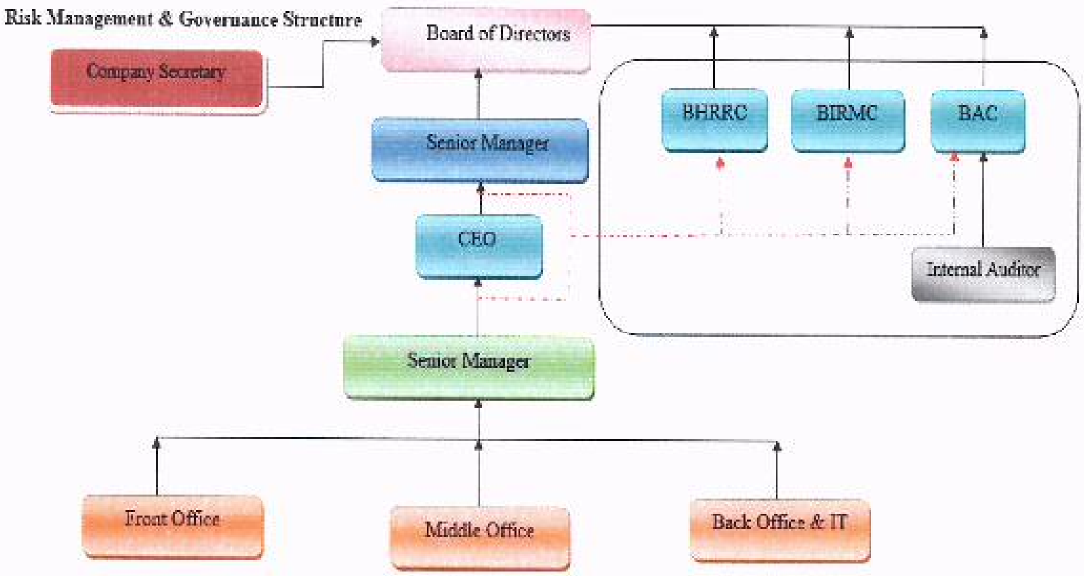
In managing its operational risk, NSB FMC strives to follow the set internal controls, policies and procedures in order to avoid losses originated from vulnerabilities in the operational processes and appearances of threats which together cause operational loss events.

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.



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 2019. The financial statements were reviewed and approved on 27th February 2020.

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 8 and the Future initiatives on page 10. 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 2019, duly signed by the Chief Executive Officer, Chairman and one of Director of the Company and pages 24 to 52 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 2019 and their report on pages 20 to 23 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. 3,930,120/-.

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 nine Board meetings were held in 2019.

Directors during the year 2019

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

Mr. Jayaraja Chandrasekera (resigned on 25/11/2019)

Mr. S D N Perera (resigned on 07/02/2020)

Mr. D S Kudahetty (resigned on 02/12/2019)

Ms. Ruvinika Kinigama (resigned on 30/01/2019)

Mr. Kanishka Senanayake (resigned on 30/01/2019)

Mr. Aritha Wickramasinghe (resigned on 02/12/2019)

Ms. Reshani Enoka Dangalla (resigned on 02/12/2019)

Mr. K D Menuwan Weerasinghe (resigned on 03/12/2019)

Mr. Ajith Nishantha Pathirana (resigned on 02/12/2019)

Directors' Interest

None of the Directors had a direct or indirect interest in the contracts with the Company other than those disclosed in Note 35 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.

Keasila Jayawardana

Chairperson

Director

31 May 2020

NSB Fund Management

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 2019.

Mr. Menuwan Weerasinghe	- Chairman (resigned on 03/12/2019)
Mr. S.D.N. Perera	- Member (resigned on 07/02/2020)
Ms. Reshani Dangalla	- Member (resigned on 03/12/2019)

Meetings

The Committee held five (05) meetings during the year 2019 and the attendance of the Committee Members is given bellow,

Name	Eligible to attend	Attended
Mr. Menuwan Weerasinghe	5	5
Mr. S.D.N. Perera	5	5
Ms. Reshani Dangalla	5	4

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.

MP Abeysekera

Manohari Abeysekera
Chairperson – Board Audit Committee
31 May 2020

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 2019.

Mr. Jayaraja Chandrasekara	- Chairman (resigned on 25/11/2019)
Mr. R M P Rathnayake	- Chairman (resigned on 19/02/2019)
Ms. Ruvinika Kinigama	- Member (resigned on 30/01/2019)
Mr. Dinesh Kudahetty	- Member (resigned on 02/12/2019)
Mr. Aritha Wickramasinghe	- Member (resigned on 02/12/2019)

Meetings

The Committee held four (04) meetings during the year 2019 and the attendance of the Committee members is given bellow,

Name	Eligible to attend	Attended
Mr. Jayaraja Chandrasekara	3	2
Mr. R M P Rathnayake	1	1
Ms. Ruvinika Kinigama	1	1
Mr. Dinesh Kudahetty	4	3
Mr. Aritha Wickramasinghe	3	2

Keasila Jayawardena

Keasila Jayawardena
Chairperson - Board Human Resource & Remuneration Committee
31 May 2020

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 2019.

Mr. Aritha Wickramasinghe	- Chairman (resigned on 02/12/2019)
Mr. S.D.N. Perera	- Member (resigned on 07/02/2020)
Mr. Dinesh Kudahetty	- Member (resigned on 02/12/2019)

Meetings

The Committee held three (03) meetings during the year 2019 and the attendance of the Committee members is given bellow,

Name	Eligible to attend	Attended
Mr. Aritha Wickramasinghe	3	3
Mr. S.D.N. Perera	3	3
Mr. Dinesh Kudahetty	2	1

Thiran De Silva
Chairman - Board Integrated Risk Management Committee
31 May 2020

NSB Fund Management

Financial Statements

ජාතික විගණන කාර්යාලය
தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

මගේ අංකය / எனது இல. / My No. BAF/A/NSB/FMC/FA/2019/01 ඔබේ අංකය / உமது இல. / Your No

දිනය / திகதி / Date 30 March 2020

Chairperson

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 2019 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 ("Company") for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of comprehensive income statement of changes in equity and statement of cash flow 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 2019 and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව. இல. 306/72, பொல்தூவ வீதி, பத்தரமுல்லை, இலங்கை. No. 306/72, Polduwa Road, Battaramulla, Sri Lanka.

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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.

1.4 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 skepticism 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 internal control of the Company.

- 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. 7 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 which 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 course 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 the section 12 (h) of the National Audit Act, No. 19 of 2018.

W.P.C.Wickramaratne
Auditor General

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	Note	2019 Rs.	2018 Rs.
Interest Income	4	1,449,314,894	1,266,007,127
Interest Expense	5	(1,020,726,437)	(891,984,666)
Net Interest Income		428,588,456	374,022,461
Fees & Commission Income		58,959,843	50,132,826
Fee and Commission Expenses		(4,766,151)	(3,488,936)
Net Fee and Commission Income		54,193,692	46,643,890
Net Gain/(Loss) From Financial Instruments at Fair Value through Profit and Loss	6	471,618,904	(354,987,757)
Other Income	7	18,678	1,193
Total Operating Income		954,419,731	65,679,788
Collective Expected Credit Loss		(102,726)	54,717
Net Operating Income		954,317,005	65,734,505
Personnel Costs	8.1	(31,062,652)	(39,843,632)
Depreciation & Amortization		(1,722,805)	(984,156)
Other Expenses		(18,174,103)	(14,589,832)
Operating profit before VAT & NBT		903,357,445	10,316,885
VAT on Financial Services	9	(119,928,391)	(6,563,210)
NBT Expense		(15,423,168)	(875,094)
Profit before Taxation	8	768,005,887	2,878,581
Income Tax Expense	10	(252,596,495)	(2,843,081)
Profit for the Year		515,409,392	35,500
Other Comprehensive Income			
Other comprehensive income to be reclassified to Income Statement			
Revaluation of Securities Gain / Loss T Bonds (FVTOCI)		99,377,187	(21,403,670)
Other comprehensive income not to be reclassified to Income Statement			
Actuarial Gain/(Loss) on Retirement Benefit Obligation		(484,431)	(397,609)
Total Comprehensive income for the year		614,302,148	(21,765,780)
Earnings Per Share	11	3.03	0.0003
Dividend Per Share (Rs.)	12	-	-

Figures in brackets indicate deductions.

The accounting policies and notes on pages 28 through 51 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	2019 Rs.	2018 Rs.
ASSETS			
Cash and Cash Equivalents	13	169,365,498	2,582,539
Financial Assets at Fair Value through Profit and Loss (Trading)	14	10,670,390,723	10,187,151,445
Loans and Advances at Amortized Cost	15	20,936,928	24,972,687
Financial Assets at Amortized Cost – Held-to-Collect	16	3,933,464,943	4,025,189,742
Financial Assets at fair value through other comprehensive income	17	1,009,705,774	1,603,129,961
Equity Investments at fair value through other comprehensive income	18	2,000,000	1,000,000
Property, Plant & Equipment	19	5,349,802	2,754,160
Intangible Assets	20	186,669	266,668
ROU Asset	21	42,996,096	-
Deferred Tax Asset	22	337,651	73,086
Income Tax Receivable		-	27,862,274
Other Assets	23	131,311,610	296,560,648
Total Assets		15,986,045,693	16,171,543,209
LIABILITIES & EQUITY			
Liabilities			
Borrowings under Repurchase Agreements	24	12,413,642,732	13,441,494,660
Amount Due to Related Parties	25	5,039,530	472,480
Other Liabilities	26	25,581,637	4,772,655
Lease Liability	27	40,443,392	-
Income Tax Payable		161,267,680	-
Retirement Benefit Obligation	28	2,947,418	1,982,256
Total Liabilities		12,648,922,388	13,448,722,051
Equity			
Stated Capital	29	1,700,000,000	1,700,000,000
Retained Earnings		962,444,515	576,371,902
Special Risk Reserve	30	713,521,693	584,669,345
OCI Reserve		(38,842,903)	(138,220,089)
		3,337,123,305	2,722,821,157
Total Equity and Liabilities		15,986,045,693	16,171,543,209

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

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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:

Jagsila Jayawardana

....

Chairperson

....

Director

The accounting policies and notes on pages 28 through 51 form an integral part of the financial statements.

27 February 2020

Colombo

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Stated Capital Rs.	Statutory Reserve Fund Reserve Rs.	OCI Reserve Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 01 January 2018	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/(Loss)	-	-	(21,403,670)	(397,609)	(21,801,279)
Total Comprehensive Income	-	-	(21,403,670)	(362,110)	(21,765,779)
Share Issue	800,000,000	-	-	-	800,000,000
Transfers	-	8,875	-	(8,875)	-
Balance as at 31 December 2018	1,700,000,000	584,669,345	(138,220,089)	576,371,902	2,722,821,157
Profit for the year	-	-	-	515,409,392	515,409,392
Other Comprehensive Income	-	-	99,377,187	(484,431)	98,892,756
Total Comprehensive Income	-	-	99,377,187	514,924,961	614,302,148
Transfers	-	128,852,348	-	(128,852,348)	-
Share Issue	-	-	-	-	-
Dividend Paid	-	-	-	-	-
Balance as at 31 December 2019	**1,700,000,000**	**713,521,693**	**(38,842,903)**	**962,444,515**	**3,337,123,305**

Figures in brackets indicate deductions.

The accounting policies and notes on pages 28 through 51 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	2019	2018
	Rs.	Rs.
Cash flows from operating activities		
Interest receipts	1,532,921,068	1,028,702,005
Interest payment	(779,906,064)	(989,573,515)
Net fee income receipts	58,959,843	50,132,826
Trading income	91,438,058	16,725,852
Payment to employees	(27,833,731)	(42,702,009)
VAT & NBT on financial services	(101,691,132)	(41,691,132)
Receipts from other operating activities	-	-
Payment on other operating activities	(14,784,799)	(17,380,248)
Operating profit before change in operating assets & liabilities	759,103,244	4,213,778
(Increase) / decrease in operating assets		
Financial assets at FVTPL	(483,239,279)	(7,269,515,307)
Financial assets at amortised cost – Loans & Advances	4,035,759	253,849,148
Financial assets at amortised cost – Debt & Other Instrument	91,724,799	(174,055,491)
Proceeds from the sale and maturity of financial investments	-	-
Other assets	165,249,038	(13,549,605)
Increase / (decrease) in operating liabilities		
Financial liabilities at amortised cost – Borrowings under Repurchase Agreements	(1,027,851,928)	6,411,382,718
Other liabilities (please specify)	25,376,031	(40,312,329)
Net cash generated from operating activities before income tax	(465,602,336)	(827,987,088)
Income tax paid	(51,861,415)	(168,197,050)
Net cash (used in) / from operating activities	(517,463,752)	(996,184,138)
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,930,120)	(355,028)
Proceeds from the sale of property, plant and equipment	301,299	-
Net (increase)/decrease in Finance instruments at FVOCI	692,801,373	194,568,542
Investment in LFSB	(1,000,000)	-
Dividends paid	-	-
Net cash (used in)/from investing activities	688,172,552	194,213,514
Cash flows from financing activities		
Principal Payments on ROU Asset	(1,041,661)	-
Advance Payment on ROU Asset	(2,880,000)	-
Proceeds from Share Issue	-	800,000,000
Net cash from financial activities	(3,921,661)	800,000,000
Net increase/(decrease) in cash & equivalents	166,787,140	(1,970,624)
Cash and cash equivalents at the beginning of the year	2,582,582	4,553,206
Cash and cash equivalents at the end of the Period	169,369,722	2,582,582

Reconciliation of cash and cash equivalents		
Cash at Bank and Cash in Hand	169,311,919	2,405,105
Balance with Central Bank	57,804	177,478
	169,369,722	2,582,582

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 No. 400, 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 2019 were authorized for the issue by the Directors on 27/02/2020.

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 incomeare 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 ofCompany.

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 ofFinancial Position for which there is no observable market price are determined using a variety ofvaluation 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 28.

Going Concern

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

3. ACCOUNTING POLICIES

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

ASSETS AND BASES OF THEIR VALUATION

3.1 Cash and Cash Equivalents

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

3.2 Financial Instruments

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 atamortized 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 throughother 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 asmeasured 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 observablemarket 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.

vi) **Impairment of Financial Assets**

The Company applies a three-stage approach to measuring expected credit losses (ECLs) for the following categories of financial assets that are not measured at fair value through profit or loss:
• Debt instruments measured at amortized cost and fair value through other comprehensive income;
• Loan commitments; and
• Financial guarantee contracts.

No ECL is recognized on equity investments.

Financial assets migrate through the following three stages based on the change in credit risk since initial recognition:

Stage 1: 12-months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that is not credit impairedupon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognized.Company determines 12 month ECL from customers whom are not significantly credit deteriorated.

Stage 2: Lifetime ECL – not credit impaired

For exposures where there has been a significant increase in credit risk since initial recognition but is not credit impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognized.
In consistent with the policies of the Company, significant deterioration is measured through the rebuttable presumption of 30 days past due for loans and receivables in line with the requirements of the standard.

Stage 3: Lifetime ECL – credit impaired

Exposures are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit impaired, a lifetime ECL is recognized and interest revenue is calculated by applying the effective interest rate to the amortized cost (net of provision) rather than the gross carrying amount.

Determining the Stage for Impairment

At each reporting date, the Company assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Company considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-months ECL. Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Company's investment grade criteria, or which are less than 30 days past due, are considered to have a low credit risk. The provision for doubtful debts for these financial assets is based on a 12-months ECL. When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the income statement.

The Company assesses whether the credit risk on an exposure has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial instruments are grouped on the basis of shared credit risk characteristics, taking into account instrument type, credit risk ratings, date of initial recognition, remaining term to maturity, industry, of the borrower and other relevant factors.

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 theCompany 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 onProvision 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 tradedate. 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.
ROU Asset	Over the Lease Period

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 was charged to the entire month of acquisition and no depreciation was charged for the entire month of disposal/transfer up to 31.12.2018. Depreciation Policy has been amended to charge the depreciation from the date of use with effect from 01.01.2019 to comply with the group policy.

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 tomaturity approximating to the terms ofthe 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.

3.9 Statement of Cash Flows

The Statement of Cash Flows has been prepared by using the "Direct Method" of preparing cash flows in accordance with the LKAS 7. Cash and cash equivalents comprise short-term, highly liquid investment that is readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalents include cash in hand, balances with banks.

3.10 Sri Lanka Accounting Standard (SLFRS 16) – Leases

This Standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance, and cash flows of an entity. This Standard supersedes the following Standard and interpretations:

(a) LKAS 17 – Leases;
(b) IFRIC 4 Determining Whether an Arrangement Contains a Lease;
(c) SIC-15 Operating Leases — Incentives; and
(d) SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Company shall apply this Standard for annual reporting periods beginning on or after 1 January 2019.

4. INTEREST INCOME

	2019	2018
	Rs.	Rs.
Interest on Treasury Bills/Bonds/R.Repo	1,406,594,474	1,237,543,644
Interest on Debentures	42,720,420	28,463,483
	1,449,314,894	1,266,007,127

5. INTEREST EXPENSE

	2019	2018
	Rs.	Rs.
Interest Expense on Repurchase Agreements	1,020,726,437	891,984,666
	1,020,726,437	891,984,666

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

	2019	2018
	Rs.	Rs.
Realised	91,438,058	16,725,852
Unrealised	380,180,846	(371,713,608)
	471,618,904	(354,987,757)

7. OTHER INCOME

	2019	2018
	Rs.	Rs.
Profit on Fixed Assets Transfer/Removal	4,048	-
Other Income	14,630	1,193
	18,678	1,193

8. PROFIT BEFORE TAXATION

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

	2019	2018
	Rs.	Rs.
Auditor's Remuneration	1,212,800	590,000
Depreciation on PPE	1,037,227	904,157
Amotisation of Intangible Assets	79,999	79,999
Personnel Costs (8.1)	31,062,652	39,843,632

8.1 Personnel Costs

	2019	2018
	Rs.	Rs.
Salaries	18,345,882	26,442,341
Defined Contribution Plan Cost - EPF and ETF	1,478,438	1,452,706
Defined Benefit Plan Cost - Retirement Gratuity	480,731	350,997
Other Staff Cost	10,757,601	11,597,589
	31,062,652	39,843,632

8.2 Other Personel Cost of Seconded Employees

	2019	2018
	Rs.	Rs.
Defined Contribution Plan Cost - EPF and ETF	892,313	751,777
Contributon to Pension Fund	707,910	577,661

9. 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.

10. INCOME TAX EXPENSE

	2019	2018
	Rs.	Rs.
Current Income Tax		
Current Income Tax charge on ordinary activities for the year	252,861,060	2,991,136
Under/(Over) Provision of current taxes in respect of prior years	-	-
	252,861,060	2,991,136
Deferred Income Tax		
Deferred Taxation Charge/(Reversal)	(264,565)	(148,055)
Income Tax Expense Reported in the Income Statement	252,596,495	2,843,081

Reconciliation between Current Tax Expenses and the Accounting Profit	2019	2018
	Rs.	Rs.
Accounting Profit /(Loss) before Tax from Continuing Operations	768,005,887	2,878,581
Income not Liable for Tax	-	(3,263,930)
Other Aggregate Disallowed Items	138,314,425	12,271,972
Other Aggregate Deductible Items	(3,245,099)	(1,203,994)
Taxable Profit	903,075,213	10,682,629
Income Tax Rate	28%	28%
Current Income Tax Expense	252,861,060	2,991,136
	252,861,060	2,991,136

11. 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:

	2019	2018
	Rs.	Rs.
Profit Attributable to Ordinary Shareholders	515,409,392	35,500
Weighted Average Numbers of Ordinary Shares	170,000,000	109,506,849
Earnings Per Share	3.03	0.0003

12. 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

	2019	2018
	Rs.	Rs.
Weighted Average Numbers of Ordinary Shares	170,000,000	109,506,849
Dividends paid (Rs.)	-	-
Dividend per share	-	-

13. CASH & CASH EQUIVALENTS

	2019 Rs.	2018 Rs.
Cash at Bank and Cash in Hand	169,311,919	2,405,105
Balance with Central Bank	57,804	177,478
Impairment	(4,225)	(43)
Cash & Cash Equivalents for the Purpose of Cash Flow Statement	169,365,498	2,582,539

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

	2019 Rs.	2018 Rs.
Treasury Bills	6,655,355,496	661,361,119
Treasury Bonds	4,015,035,227	9,525,790,326
	10,670,390,723	10,187,151,445

15. LOANS AND ADVANCES AT AMORTIZED COST

	2019 Rs.	2018 Rs.
Loans & Advances from Banks	-	-
Loans & Advances from Other Customers	20,936,928	24,972,687
	20,936,928	24,972,687

The fair value of the securities pledged for Reverse Repo is Rs. 23,994,957 (2018 - Rs. 53,901,637)

16. FINANCIAL ASSETS AT AMORTIZED COST - HELD TO COLLECT

	2019 Rs.	2018 Rs.
Treasury Bonds	3,678,011,816	3,673,995,983
Debentures	255,596,494	351,238,581
Impairment	(143,367)	(44,823)
	3,933,464,943	4,025,189,742

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 Rs.	2018 Rs.
Treasury Bonds	1,009,705,774	1,603,129,961
	1,009,705,774	1,603,129,961

18. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019		2018	
	Cost Rs.	Directors' Valuation Rs.	Cost Rs.	Directors' Valuation Rs.
Investment in				
Lanka Financial Services Bureau Limited	2,000,000	2,000,000	1,000,000	1,000,000
	2,000,000	2,000,000	1,000,000	1,000,000

19. PROPERTY, PLANT AND EQUIPMENT

Cost	Balance as at 01/01/2019	Additions during the year	Disposals/Transfers during the year	Balance as at 31/12/2019
	Rs.	Rs.	Rs.	Rs.
Computer Equipment	4,707,166	941,898	(111,750)	5,537,314
Swift Equipment	913,903	-	-	913,903
Office Equipment	1,202,053	1,294,913	(377,200)	2,119,767
Furniture & Fittings	910,648	1,693,309	(757,472)	1,846,485
	7,733,771	**3,930,120**	**(1,246,422)**	**10,417,469**

Accumulated Depreciation	Balance as at 01/01/2019	Charge for the year	Depreciation on Disposals/Transfers	Balance as at 31/12/2019
	Rs.	Rs.	Rs.	Rs.
Computer Equipment	2,771,087	782,642	(111,750)	3,441,979
Swift Equipment	913,901	-	-	913,901
Office Equipment	465,882	212,385	(122,389)	555,878
Furniture & Fittings	828,740	42,200	(715,032)	155,909
	4,979,610	**1,037,227**	**(949,171)**	**5,067,667**

Carrying Amount	2019	2018
	Rs.	Rs.
Net Book Value as at 31 December	5,349,802	2,754,160

19.1 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;

	2019	2018
	Rs.	Rs.
Computer Equipment	951,704	942,054
Swift Equipment	913,903	913,903
Office Equipment	216,490	71,690
Furniture & Fittings	96,838	577,039

20. INTANGIBLE ASSET

Cost	Balance as at 01/01/2019	Additions during the year	Disposals/Transfers during the year	Balance as at 31/12/2019
	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 01/01/2019	Charge for the year	Depreciation on Disposals/Transfers	Balance as at 31/12/2019
	Rs.	Rs.	Rs.	Rs.
SWIFT License Fee	1,058,562	-	-	1,058,562
SWIFT Entrance Fee	911,031	-	-	911,031
Board Pac	133,332	79,999	-	213,331
	2,102,926	79,999	-	2,182,925

Carrying Amount	2019	2018
	Rs.	Rs.
Carrying Amount	186,669	266,668

20.1 Fully Amortised Intangible Assets

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

	2019	2018
	Rs.	Rs.
SWIFT License Fee	1,058,562	1,058,562
SWIFT Entrance Fee	911,031	911,031

21. ROU ASSET (RIGHT-OF-USE ASSET)

	2019 Rs.	2018 Rs.
Opening balance	-	-
Additions/Disposals	43,601,674	-
Closing Balance	43,601,674	-
Depreciation	(605,579)	-
Net Asset Value	42,996,096	-

22. DEFERRED TAX ASSET/(LIABILITY)

	2019 Rs.	2018 Rs.
Balance at the beginning of the year	73,086	(74,969)
Origination/(reversal)of temporary differences	264,565	148,055
Balance at the end of the year	337,651	73,086

The closing Deferred Tax Asset balance relates to the following

	2019 Rs.	2018 Rs.
Accumulated Depreciation	(481,107)	(481,946)
Increment Benefit Obligation	825,277	555,032
	344,170	73,086

23. OTHER ASSETS

	2019 Rs.	2018 Rs.
Other Receivables	5,874,085	5,991,830
Receivable From Treasury	88,939,587	246,939,587
WHT Receivable (Notional Tax)	-	8,512,207
WHT Receivable (Debenture Interest)	-	818,105
VAT & NBT Receivable	-	34,298,919
Advance paid to Fixed Assets	36,497,937	-
	131,311,610	296,560,648

24. BORROWINGS UNDER REPURCHASE AGREEMENTS

	2019 Rs.	2018 Rs.
Due within 1 year	12,413,642,732	13,441,494,660
	12,413,642,732	13,441,494,660

25. AMOUNT DUE TO RELATED PARTY

		2019 Rs.	2018 Rs.
National Savings Bank	- Current Account	-	40,657
	- Other Payables	5,039,530	431,824
		5,039,530	472,480

26. OTHER LIABILITIES

	2019 Rs.	2018 Rs.
Value added Tax (VAT) & NBT Payable	4,250,790	-
Sundry Creditors	10,046,923	230,000
Accrued Expenses	10,783,924	4,542,655
Advances Received	500,000	-
	25,581,637	4,772,655

27. LEASE LIABILITY

	2019 Rs.	2018 Rs.
Opening Balance	-	-
Additions	43,601,674	-
Rent Advance Paid	(2,880,000)	
Interest Expense	763,378	-
Principal Payment	(1,041,661)	-
Closing Balance	40,443,392	-

28. RETIREMENT BENEFIT OBLIGATION

	2019 Rs.	2018 Rs.
Balance at the beginning of the year	1,982,256	1,233,650
Current Service Cost	274,934	201,602
Interest for the year	205,797	149,395
Deficit/(Surplus) charge for the year	484,431	397,609
Payments made during the year	-	-
Balance at the end of the year	2,947,418	1,982,256

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.

28.1 The Employee Benefit Liability is based on the Projected Unit Credit method carried out as at 31 December 2019. The principal assumptions used in determining the cost of employee benefits were:

	2019	2018
Discount rate	10.44%	12.11%
Future Salary Increment	8.33%	8.33%

Staff Turnover Rate & Average Future Working Life Time

Age Group	30-34	35-39	40<
Staff Turnover Rate	0%	0%	0%
Average Future Working Life Time - Years	30	23	16

28.2 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	(422,143)	505,411
One percentage point change in the salary escalation rate	511,032	(433,295)

Assumptions

Financial Assumptions - Rate of discount, Salary increment rate

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

29. STATED CAPITAL

	2019 Rs.	2018 Rs.
Opening Balance	1,700,000,000	900,000,000
Issued During the year	-	800,000,000
Closing Balance	1,700,000,000	1,700,000,000

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.

30. SPECIAL RISK RESERVE

	2019 Rs.	2018 Rs.
At the beginning of the year	584,669,345	584,660,470
Transferred during the year - 25% of profit after tax	128,852,348	8,875
At the end of the year	713,521,694	584,669,345

30.1 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.

31. 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 2019	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	200,150,439	6,788,661,860	2,014,087,383	1,576,712,283	90,778,758	10,670,390,723
Government Securities at Amortized Cost	90,987,276	-	1,981,579,800	1,401,517,334	203,927,406	3,678,011,816
Corporate Debentures	11,606,415	38,501,788	12,940,000	192,404,924	-	255,453,127
Government Securities at FVTOCI	45,267,874	-	788,289,000	-	176,148,900	1,009,705,774
Loans & Advances	12,859,525	8,077,404	-	-	-	20,936,928
ROU Assets	1,389,391	4,413,431	13,446,863	7,344,761	16,401,649	42,996,096
Total Interest Earning Assets	362,260,919	6,839,654,483	4,810,343,045	3,177,979,303	487,256,714	15,677,494,464
Total non Interest Earning Assets						308,551,229
Total Assets						15,986,045,693
Liabilities						
Government Securities sold under Repurchase Agreement	11,114,892,103	1,298,750,629	-	-	-	12,413,642,732
Lease Liability	1,329,391	4,520,728	12,726,863	6,864,761	15,001,649	40,443,392
Total Interest bearing Liabilities	11,116,221,495	1,303,271,357	12,726,863	6,864,761	15,001,649	12,454,086,124
Total non int. bearing Liabilities						194,836,264
Shareholder's Fund						3,337,123,305
Total Equity and Liabilities						15,986,045,694

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.
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 - Customers	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	-	-	-	13,441,494,659
Total Interest bearing Liabilities	10,736,207,082	2,705,287,578	-	-	-	13,441,494,659
Total non int. bearing Liabilities						7,227,391
Shareholder's Fund						2,722,821,158
Total Equity and Liabilities						16,171,543,209

32. 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.

	2019 Rs.	2018 Rs.
Government Securities	13,872,324,137	14,506,511,012

33. 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

33.1 Determination of Fair Value and Fair Value Hierarchy

As at 31 December 2019	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Financial Assets - Held for Trading	10,670,390,723	-	-	10,670,390,723
Fair Value Through Other Comprehensive Income	-	1,009,705,774	-	1,009,705,774
Equity Investments	-	-	2,000,000	2,000,000
	10,670,390,723	1,009,705,774	2,000,000	11,682,096,497

As at 31 December 2018	Level 1	Level 2	Level 3	Total
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

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

33.2 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 2019		31 December 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	Rs.	Rs.	Rs.	Rs.
Financial Assets				
Cash and Bank	169,365,498	169,365,498	2,582,539	2,582,539
Loans and Advances	20,936,928	20,936,928	24,972,687	24,972,687
Financial Assets as Held to Collect	3,678,011,816	3,850,827,592	3,673,995,983	3,546,233,792
Total Financial Assets	3,868,314,242	4,041,130,018	3,701,551,209	3,573,789,018
Financial Liabilities				
Borrowings under Repurchase Agreements	12,413,642,732	12,413,642,732	13,441,494,660	13,441,494,660
Amounts Due to Related Parties	5,039,530	5,039,530	472,480	472,480
Total Financial Liabilities	12,418,682,262	12,418,682,262	13,441,967,140	13,441,967,140

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.

34. 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.

34.1 **Credit Risk**

Credit Risk Analysis - Maturity Profile Analysis of Financial Assets
As at 31 December 2019 - 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	2,102,477	-	739,000	9,535,721	3,387,276	4,590,128	-
Treasury bills	-	-	2,297,142	30,355,568	968,427,801	6,102,434,374	-
Treasury bonds	-	-	-	-	205,709,536	23,441,937	8,093,860,139
Total	2,102,477	-	3,036,142	39,891,289	1,177,524,613	6,130,466,439	8,093,860,139

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

34. **FINANCIAL RISK MANAGEMENT (Contd...)**

34.2 Liquidity Risk

Liquidity risk Analysis - Maturity Profile Analysis of Financial Liabilities
As at 31 December 2019 - 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	-	2,923,776,809	3,701,635,694	2,818,222,183	528,778,473	516,183,425
Repo	406,900,000	1,000,000,000	21,638,128	328,958,176	6,788,731	-
Total	406,900,000	3,923,776,809	3,723,273,822	3,147,180,359	535,567,204	516,183,425

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

34.3 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	2,102,477	739,000	9,535,721	3,487,276	4,590,128	-	-	-
Rev.Repo	-	-	-	-	-	-	-	-
T.Bonds		-	-	206,610,749	23,618,489	3,572,490,675	4,350,458,707	482,907,476
T.Bills	-	2,288,741	30,063,376	935,478,827	5,687,524,631	-	-	-
Debentures	-	-	-	-	38,680,000	12,940,000	192,420,000	
Total	2,102,477	3,027,741	39,599,097	1,145,576,852	5,754,413,248	3,585,430,675	4,542,878,707	482,907,476
Liabilities								
Capital & Profit	-	-	-	-	-	-	-	3,337,123,305
Customer Repo	2,923,776,809	3,701,635,694	2,818,222,183	528,778,473	516,183,425	-	-	-
Repo	1,406,900,000	21,638,128	328,958,176	6,788,731	-	-	-	-
Total	4,330,676,809	3,723,273,822	3,147,180,359	535,567,204	516,183,425		-	3,337,123,305

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

	2019 Rs.	2018 Rs.
Treasury bill trading portfolio	(50,260,966)	2,626,684
Treasury bond trading portfolio	(80,863,381)	265,033,312
	(131,124,347)	267,659,996

35. 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. 842,500/- (2018 - Rs.1,005,000/-).

(b) Transactions with related parties

The following transactions were carried out with related parties during the year ended 31 December 2019.

Items in Income Statement		2019 Rs.	2018 Rs.
National Savings Bank	Interest Received from investment in Reverse Repo	23,520,853	7,884,945
	Service Charge Income	42,599,598	39,421,256
	RTGS Charges	1,241,550	992,250
	Interest Paid on Repurchase agreements	10,858,996	46,104,991
	Custodian Fee	6,000,000	6,000,000
	Trustee Fee	1,250,000	500,000
Items in Statement of Financial Position			
National Savings Bank	Investments in Reverse Repo, Treasury Bills and Treasury Bonds	-	-
	Borrowing under Repurchase agreements	1,300,000	-
	Other Payables	5,039,530	472,480
	Trustee Fee Receivable	250,000	250,000
	Custodian Fee Receivable - Entrust	20,000	-
	Other Receivables	5,490,940	-

36. CAPITAL COMMITMENTS AND CONTINGENCIES

There were no capital commitments and contingencies as at 31 December 2019

37. 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 and no material impact to the financials of the company due to Covid-19 pandemic.

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	- Ms. Keasila Jayawardena (Chairperson)
	Ms. Damitha Rathnayake
	Ms. Manohari Abeyesekera
	Dr. Thiran De Silva
	Mr. U G R Ariyaratne
	Mr. Oshada Rodrigo
Chief Executive Officer	- Mr. D L P Abayasinghe
Company Secretary	- Ms. Farzana Aniff
Registered Office	- No. 400 Galle Road, Colombo 03.
Telephone	- 2425010, 2425011, 2425012 & 2565957
Fax	- 2564706/2574387
E-mail	- nsbfmc@nsb.lk
Web	- https://www.nsb.lk/fund-management
SWIFT	- NSBFLKLXXXX
Auditor	- Auditor General
Banker	- Bank of Ceylon - Corporate Branch No.4, Bank of Ceylon Mawatha Colombo 01.

NSB
Fund Management