

Annual Report 2020



*There is no Elevator
to Success,
You have to take the
stairs.*

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Company Profile

Vision

“To be the most trusted Primary Dealer in Sri Lanka.”

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.”

Our Values

- Integrity
- Accountability
- Performance driven environment
- Teamwork

Who We are

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 five active standalone PD Companies and five 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.

Our Services Offering

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.

Financial Highlights

	2020	2019	2018	2017	2016
Operating Result					
Interest Income (Rs Mn)	1,501	1,449	1,266	1,016	831
Net Gain/(Loss) from FVTPL (Rs Mn)	472	472	(355)	314	(98)
Interest Expenses (Rs Mn)	(922)	(1,021)	(892)	(713)	(554)
Net Operating Income (Rs Mn)	1,098	954	66	682	176
Operating Expenses, Provisions, VAT & NBT	(196)	(186)	(63)	(143)	(67)
Profit before Taxation (Rs Mn)	901	768	3	539	109
Income Tax Expenses (Rs Mn)	(293)	(253)	(3)	(176)	(30)
Profit for the year (Rs Mn)	608	515	0.0355	363	79
Earnings per Share (Rs.)	3.58	3.03	0.0003	6.84	5.29
Assets					
Cash & Cash Equivalents (Rs Mn)	1	169	3	5	9
Other Financial Assets (Rs Mn)	16,667	15,614	15,815	8,588	10,708
Loans & Advances (Rs Mn)	12	21	25	279	11
Property, Plant & Equipment/Intangible Assets (Rs Mn)	12	6	3	4	2
Other Assets (Rs Mn)	189	177	326	283	132
Total Assets	16,882	15,986	16,172	9,159	10,862
Liabilities & Equity					
Borrowings (Rs Mn)	12,785	12,414	13,441	7,030	9,143
Other Liabilities (Rs Mn)	263	235	7	184	28
Equity (Rs Mn)	3,833	3,337	2,723	1,945	1,691
Total Liabilities & Equity	16,882	15,986	16,172	9,159	10,862
Ratios					
Return on Equity (%)	16.96	17.01	0.0015	19.96	4.64
Return on Investment (%)	3.58	2.72	3.03	3.09	2.28
Net Profit Ratio (%)	30.02	26.03	0.0037	25.94	10.83
Average Yield	7.80	10.50	10.35	10.17	9.64
Other Information					
No. of Employees	20	17	16	18	16

Rs. 1,097 Mn

Net Operating Income

Rs. 901 Mn

Profit Before Tax

**Rs. 16,881.7
Mn**

Total Assets

Rs. 3,833 Mn

Net Assets

We recorded the second best performance in the history



Asset Base-
Rs.16,881.7 Mn

Fee Income-
Rs.52.7 Mn



Trading Gain-
Rs.471.6 Mn

Profit After Tax-
Rs.608 Mn



Customer Base
374

Auction Participation
Rs.190,876 Mn



Customer Transaction
Volume
Rs.6,538 Mn

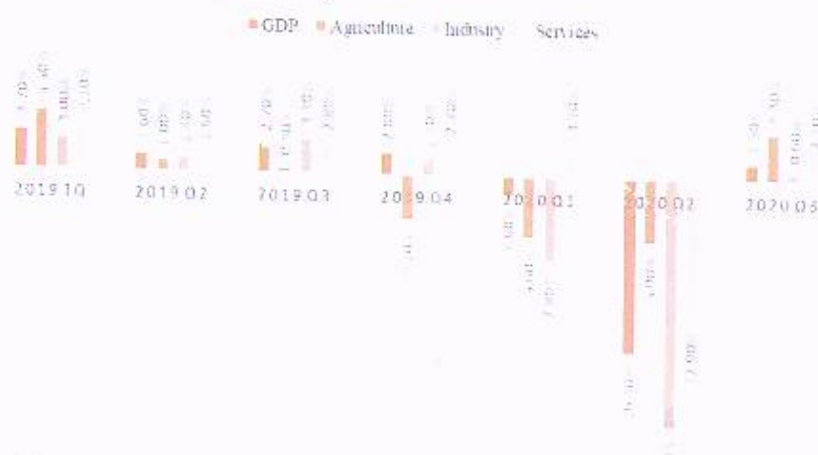
Secondary Market
Participation
Rs.214,361 Mn



Market Overview 2020

Gross Domestic Product (GDP)

The first wave of the Covid -19, pandemic continued to spread throughout the country since early March of the year 2020. However, the disease started to spread globally since last quarter of the year 2019. As a result, the first quarter Gross Domestic Product (GDP) recorded relatively a low negative growth rate of 1.8 percent.



The second quarter of the year 2020, the country was totally under a lock down for a period of nearly one month. Two main districts (Colombo and Gampaha), where the major industrial zones and business places are situated, were under the imposed curfew until

(Graph 1: GDP Growth)

26th May 2020. As a result, GDP of the country recorded negative growth rates in their economic activities in this second quarter. This has led to an unprecedented fall in the economy by 16.4 percent in the second quarter of 2020.

In the third quarter of the year 2020, after the first wave of the Covid -19 pandemic, the country experienced a recovery of the economy after the contraction reported in the first and the second quarters of this year. The normalization of business activities and returning to new-normal, in day to day lifestyle of the people resulted in recording a 1.3 percent positive growth rate in the economy for the first time for the year 2020.

However, the beginning of the fourth quarter marked the starting and spreading of the second wave of the Covid – 19 pandemic and it continued to spread throughout the country and throughout the fourth quarter and beyond that as an outbreak. Though, amidst the second wave, economy continued to carry out most of the business activities except very few: such as tourism, even under the Covid -19 imposed restrictions. This has been resulted in the expansion in the economy in the fourth quarter by 1.3 percent. Hence, as a whole, the GDP growth rate of the year 2020 recorded a shrinkage by 3.6 percent when compared to the 2.3 percent of expansion recorded in the year 2019.

Inflation

Inflation (CCPI & NCPI) - Year on Year



The Central Bank of Sri Lanka expected to maintain the inflation within 4-6 percent corridor in the foreseeable future as a policy guideline. During the year, the inflation measured on National Consumer Price Index (NCPI) was

(Graph 2: Inflation (CCPI & NCPI)- Year on Year

on a roller-coaster as it ranges from 4.60 percent to 8.10 percent. Headline inflation based on the Colombo Consumer Price Index (CCPI, 2013=100) remained within the targeted range of 4-6 per cent except in February (6.20 percent).

Monetary Policy Decisions and Policy Rates

During the year 2020 Sri Lanka faced an emergency health situation due to the COVID – 19 global pandemics, which in turn significantly impacted the country's economy. The Central Bank of Sri Lanka (CBSL) launched immediate policy and relief measures to assist the Government of Sri Lanka.

The several monetary easing measures were adopted by the CBSL to bring down the all the interest rates at the historical low levels and to expand the credit growth to support economic activities. Accordingly, the CBSL reduced the policy interest rate of Standing Deposit Facility Rate (SDFR) by 150 basis points and Standing Lending Facility Rate (SLFR) by 350 basis points during the year. Further, the CBSL lowered the Statutory Reserve Requirement (SRR) on all rupee liabilities of Licensed Commercial Banks by 300 basis point during the year.

Policy Rate	Beginning of the Year	End of the Year	Change (bps)
Standing Deposit Facility Rate	7.00%	5.50%	(150)
Standing Lending Facility Rate	8.00%	4.50%	(350)
Statutory Reserve Requirement	5.00%	2.00%	(300)

Monetary Policy Decisions



The Average Weighted Prime Lending Rate (AWPR) continued to drop throughout the year, which was in high single digits at the beginning of the year but gradually declined over the period. The AWPR which clocked in higher single-digit rates pitched down to mid-single-digit rates by the end of the year. The drop in AWPR was mainly fueled by the CBSL's decision to cut its' policy rates in a bid to safeguard the economy during the unprecedented times on the face of global pandemic. The Central Bank's decision to cut down the policy rates had positive impact on the AWPR as the figure which was 9.68% in January has reduced to 5.83% in December.



(Graph 3: AWPLR against SRR, SLF and SDF. Source: CBSL website)

The spread between Average Weighted Lending Rate (AWLR) and AWPR remain at 390-600 bps levels throughout the year as it is evident from the below graph both rates moves in the same pattern. Also, it is evident that policy decisions taken by the CBSL had a clear impact on both AWLR and AWPR.

The Average Weighted Deposit Rate (AWDR) and Average Weighted Fixed Deposit Rate declined from 8.94% and 11.07% respectively to 5.8% and 7.14% at the end of the year. Moreover, the Gap between AWLR and AWDR has declined from the beginning of the year to the end remaining at 550-475 bps.



Graph 4: AWLR, AWDR & AWFDR



Graph 5: Spread between AWLR and AWPR

Private Sector Credit Growth

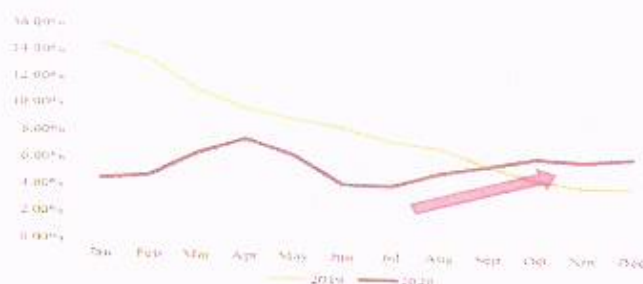
It is evident that the private sector credit growth has begun to move in the right direction, which is upward, as private sector credit growth is one of the key elements of economic growth. With the outbreak of Covid-19 in 2019 the private sector credit growth continued to dip since there were subdued economic activities owing to nationwide lockdowns, lack of consumer demand due to loss of employment and businesses remained sidelined from undertaking major projects. As at December 2019, the private sector credit growth was 4.20% compared to the January 2019 figure of 14.60%.



Graph 6: Credit Growth

As at January 2020 the private sector credit growth recorded 4.50%, 30bps above the previous month and continued to maintain the positive momentum till April as it reached 7.60%, however with lockdowns Colombo suburbs and certain areas in some districts due to the Covid-19 second wave and the risk of another countrywide lockdown looming around the private sector credit growth began to drop.

By the end of September, it reached 4.20%, but with positive news such as opening up airports, successful trials of vaccines cause the credit to grow once again and as at December 2020 its 6.50%.



The CBSL's decision to cut the policy rates there by exerting down pressure on the lending rates seems to have worked as we can clearly see the private sector has growth, even though it has grown in a snail-pace.

Graph 7: Private Sector Credit growth

Exchange Rate

The LKR hasn't depreciated much against USD as the spot hovered in 180-190 range throughout the year. With the highest been recorded in April, i.e. 190.71 and lowest been 181.34 in January, overall the LKR has depreciated merely by 2.3% in the year 2020. When compared to GBP and EUR the LKR has performed below-par than against USD as LKR has depreciated by 12.6% and 5.8% against EUR and GBP respectively.



The LKR has performed well against INR and PKR in 2020, but has been below par with MYR, BDT and THB. The INR and PKR has by depreciated by 2.40% and 3.36% respectively in 2020, above the LKR depreciation of 2.30%; as both countries been significantly impact by the outbreak of Covid-19 as the USD generated from exports and tourist arrival dried up. THB was able to outperform all of its peer countries as the currency appreciated

Graph 8: LKR performance against USD, GBP and EUR

3.88% against the USD as the country is running on a large trade surplus and decisions taken by hawkish central bank.

Foreign Holding of Government Securities

During the period foreign holding of the government securities dipped drastically from Rs 107.93 bn to Rs. 6.83 bn, a 94% YoY drop, even though the maximum threshold for foreign holding of government securities (G-sec) is 5% from the outstanding G-sec the actual holding as at December was 0.10% compared to 1.92% in the beginning of the year. With continuous rate



slashes by CBSL (Statutory Reserve Ratio 2 times and Standing Deposit Rate/Standing Lending Rate 4 times) the yields the Sri Lankan G-secs provides to the foreigners dropped significantly, hence it was evident that the foreigners repatriating the funds either to realize capital gain from the drop of yields or seeking high generating yields in other countries.

Graph 9: Foreign Holding of Government Securities

External Sector Performance

During the year Sri Lanka was able to reduce the gap of current account by 25% from US\$ 7,997 mn to US \$ 5,978 mn despite been battered by Covid-19. The main reason for the narrowing of the gap in the trade balance was the fall of expenditure in imports by 19% which significantly higher to compared to the dip income from exports by 15%, as government took precautionary measures to safeguard the LKR and domestic economy by restricting importation of certain goods such as vehicles, tiles. The drop of exports was solely due to the lack of production activities across Sri Lanka and subdued demand from foreign markets owing to the global pandemic. The prices in the global market of certain goods had also declined in the given period due to the lack of demand which helped to reduce the said gap.

Earning from tourism was severely affected as Sri Lanka remain closed for tourists from mid-March to December hence there were no earnings from the tourists, as we saw the figure plunged to US \$ 958 mn from US \$ 3,608 mn. The remittances from workers continued to grow from US \$ 6,716 mn in 2019 to US \$ 7,084 mn in 2020. The same trend was evident in the CSE as in 2020 it recorded US \$ 224 mn capital outflow which is US \$ 188 mn higher the outflow recorded in 2019. The main reason for repatriation of the capital were the risk of Sri Lankan economy on the face of the global pandemic and the foreigners was seen realizing capital gain as both indices (ASI and SLS&P20) continue to grow on the back of demand seeing from local retail investors. In the year 2020, Sri Lanka didn't conduct any International sovereign bond (ISBs) auctions as inflows to government was US \$ 1,940 mn compared to US \$ 6,736 mn in 2019, where CBSL conducted two ISBs in March and June amounting to US \$ 2,400 mn and US \$ 2,000 mn respectively.

Foreign Reserves

The gross official reserves of Sri Lanka stood US \$ 5.7 bn whilst it was US \$ 7.5 bn in the beginning of the 2020. In July reserves increased to US \$ 7.1 bn from US \$ 6.7 bn recorded in prior month due US \$ 400 mn swap with IRB and due to US \$ 1 bn repayment in October 2020 the reserves dropped to US \$ 5.9 bn from US \$ 6.7 bn in September.

The right-hand column shows the adequacy of the reserves to finance the import needs of the country provided that there will be no income from exports. During the year that figure remain at same levels without much deviation despite the drop-in reserves, since the expenditure on imports was declining.

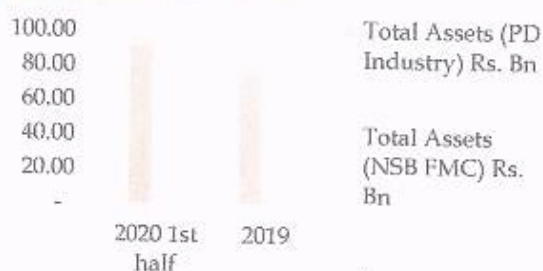
This extensive drop in reserves has resulted credit rating agencies downgrading Sri Lankan debt outlook; as S&P downgrading CCC+ stable in December 2020 following the Fitch downgrade in November to CCC and Moody's downgrade in September to Caa1. All three agencies downgraded Sri Lanka by 1 class citing default risk due to upcoming foreign debt repayments; however, Sri Lanka was able to successfully honor the repayment of US \$ 1 bn due in October 2020.

Primary Dealer Industry Performance

Central Bank of Sri Lanka has been analyzed the performance of the Primary Dealers up to the second quarter of 2020. Key Performance Indicators of Primary Dealer industry is given below as per the CBSL data.

Indicator	Q2-2019	Q3-2019	Q4-2019	Q1-2020	Q2-2020
Total Assets (Rs. Mn)	80,371.30	92,722.10	77,539.70	98,431.60	92,422.50
Total Gov. Securities Portfolio (Rs.Mn)	71,379.70	80,401.30	69,347.50	93,440.20	83,429.60
Reverse Repo (Rs. Mn)	6,640.60	10,138.60	6,048.20	3,323.00	7,706.50
Repo (Rs. Mn)	64,495.60	76,684.20	60,314.10	80,528.30	70,451.00
Profit Before Tax (Rs. Mn)	2,008.5	491.0	1,060.4	1,049.4	4,602.2
Capital Adequacy Ratio	18.5%	20.0%	27.6%	30.2%	23.2%
Leverage (Times)	4.50	5.3	4.0	5.1	3.7
Net Interest Margin	2.4%	2.5%	2.6%	2.2%	2.6%
Trading Gain Ratio	3.1%	0.3%	1.5%	1.1%	6.7%
Return on Assets (Annualized)	8.1%	6.1%	5.9%	4.7%	12.6%
Return on Equity (Annualized)	49.6%	36.9%	34.6%	27.0%	69.3%
Cost to Income Ratio	10.6%	30.0%	20.8%	18.7%	12.2%

Total Assets - Rs. Bn



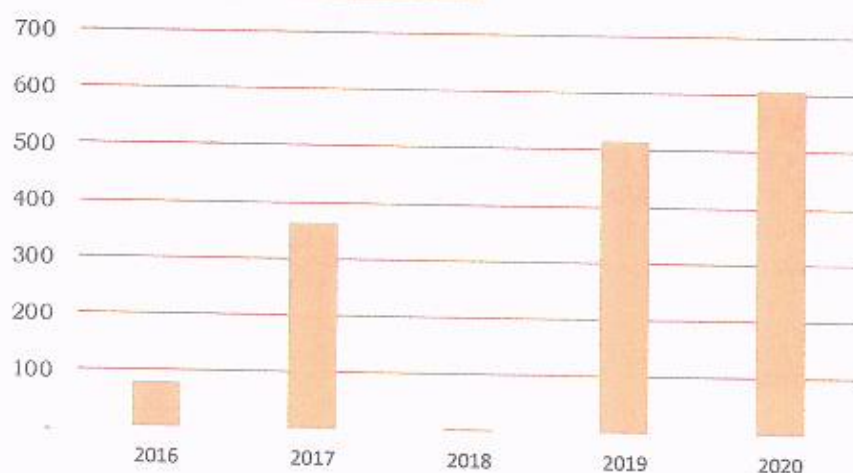
Whole Primary Dealer industry has recorded Rs. 92.4 Bn Assets base in the first half of 2020 according to above data and the market share of NSB FMC in Assets base wise was 22% in that period and it was 21% in 2019 which shows 1% increment. And NSB FMC contributed 12% profit before tax to the total PBT of PD industry upto the second half of 2020.

Company Performance

In the year 2020, the Company recorded an operational profit of Rs. 608 Million, the second highest profit in the history. The year 2020 was very critical and difficult for every economy and performances were poor in the Sri Lankan economy as well due to the Covid 19 pandemic. However, NSB FMC created a remarkable milestone in its performance because of the strategies followed, good decision making and teamwork.

Net Profit of the Company increased by 18% in 2020 to Rs. 608 Million from Rs. 515 Million in 2019 showing a remarkable performance.

Profit After Tax (PAT) - Rsmn

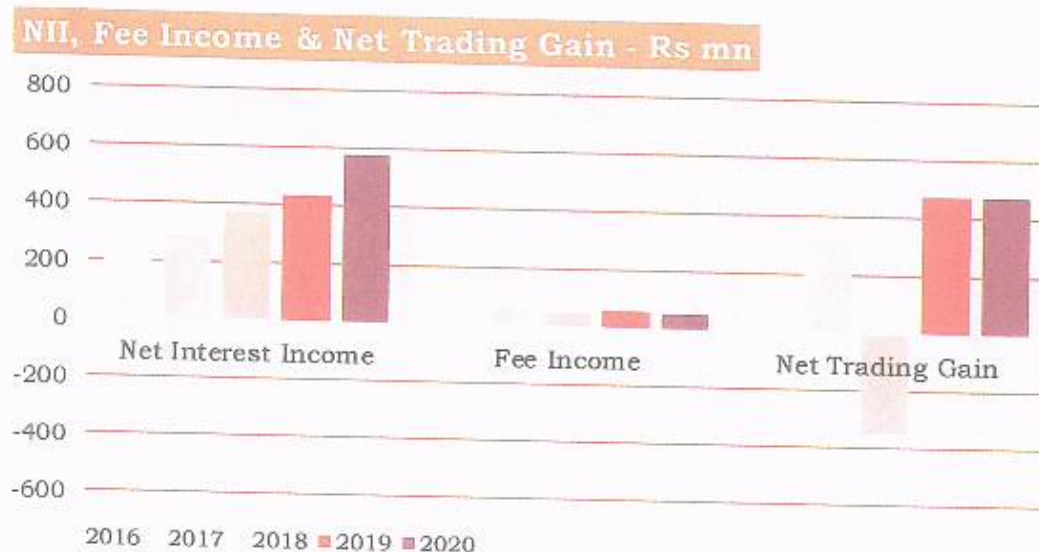


The net interest income of Government securities increased to Rs. 578.8 Million in this year when compared to Rs. 428.6 Million in 2019, showing an increase of 35 per cent. The Company has managed the funding of the portfolio through lowest possible rates with the reasonable duration level to achieve 3.5 per cent Net interest margin.

Realized Capital Gain from the sale of T-bills & bonds were Rs. 401.8 Million in 2020 compared to Rs. 91.4 Million in 2019. The fee income of the company recorded Rs. 52.7 Million.



Net Interest Income, fee Income and Net Trading Gain for last five years reflect as follows,

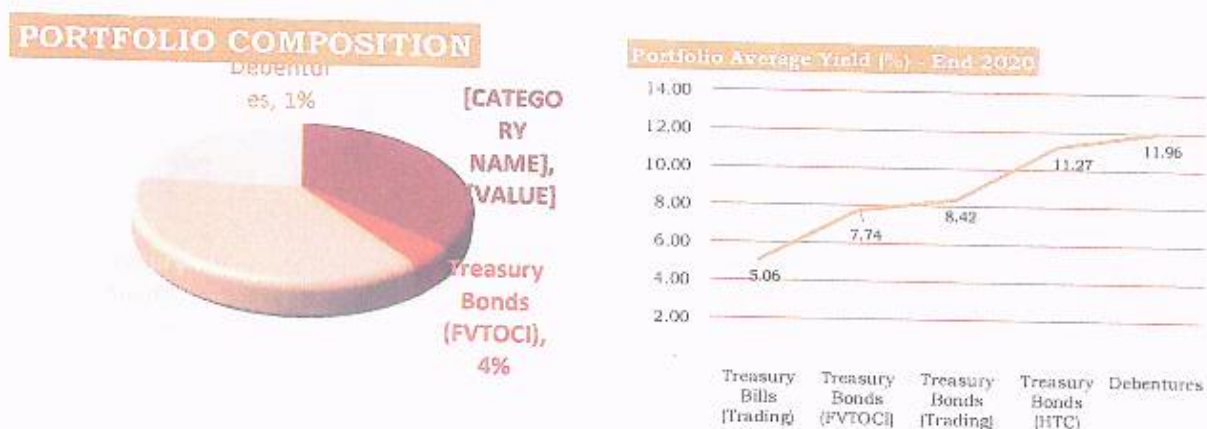


The Company paid Rs 140 Million by way of Value Added Tax (VAT) and also provided Rs. 293 Million as income tax expense for 2020. Earnings Per Share (EPS) also increased to 3.58 from 3.03.

Net assets of the Company stood at Rs. 3,833 Million as at 31st December 2020 in comparison to Rs.3,337 Million as at 31st December 2019. This is mainly due to the increase in the net profit. Total assets of the company stood at Rs. 16,881.7 Million by the end of 2020 compared to Rs. 15,986 Million in 2019 showing an asset growth of 5.6%. Among the total assets, Rs. 16,679.3 Million was Financial Assets and it was 6.68% increment comparison to 2019. Trading Portfolio of the Company records a 13% increase in 2020 and stood at Rs. 12,092.4 Million making the highest contribution to the total assets.

Portfolio composition and the average portfolio yield of the Company as at 31.12.2020 has been illustrated in the below charts.

Repo borrowings of the Company recorded Rs. 12,785 Million in 2020 compared to Rs. 12,413 Million in 2019.



Risk Weighted Capital Adequacy Ratio of the Company stood at 35% at the end of December 2020 while Return on Equity was 16.96%. Net Interest Margin was 3.58% while Return on Asset was 5.48% which all made a remarkable performance surpassing the targets.



Human Capital

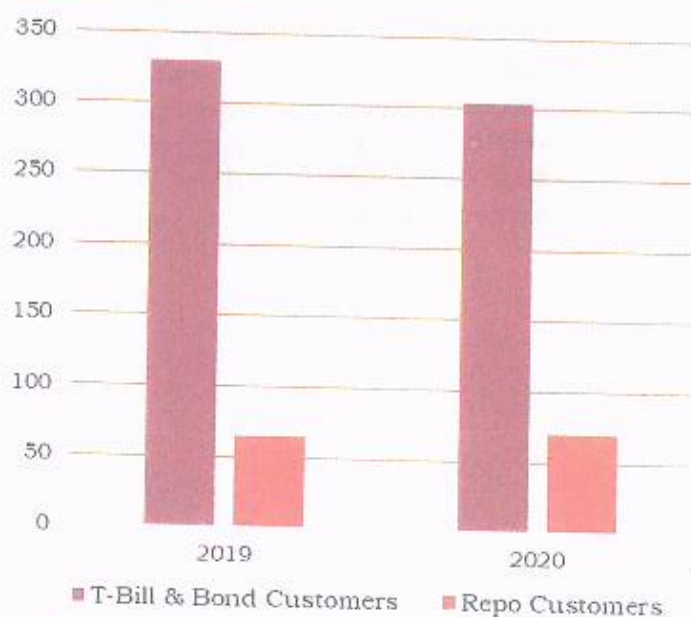
The Company has fifteen directly recruited staff members and five staff members assigned from the NSB on secondment basis including the Chief Executive Officer.

The Company continued its commitments to develop its employees during the year. Further, the employees are encouraged to follow job related courses conducted by the CBSL, IBSL and other professional bodies to improve the knowledge. The Company also paid incredible bonus to its staff as a trusted employer.

The Company has recruited a Compliance Officer and a Risk Officer to streamline the Middle Office functions of the Company.



Customer Base



Customer Base

Customer base of the Company consists of Treasury Bill and Bond Customers and Repo Customers. T-Bill and Bond customer base was declined at the end of 2020 by 7.8% compared to end of 2019. However, Repo customer base was increased by 7.7% comparatively.

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...

Government's Monetary Policy decisions taken in 2020 on interest rate were highly affected to the Treasury bill and Bond Customer base. Due to the lower return customers were switched to other financial instruments like Fixed Deposits. Income tax imposed on interest income for individuals also affected this drop.

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 establish a marketing unit and a research unit to strengthen the functions of the Company. And the Company will implement the new Treasury system in line with its Business Continuity Plans and to become more efficient in its business activities.

The Company has prepared the Strategic Business Plan for 2021-2023 and following initiatives have been planned,

- Implementation of New Treasury System
- Establishment of Research Unit
- Formation of Marketing Team

Corporate Social Responsibility (CSR) Activities

Sri Lanka has also affected by the COVID-19 exacerbating pressures to many sectors which requires a consolidated effort thorough implementation of structural reforms.

NSB FMC donated Rs. 1,000,000/- to the "Itukama Fund" in 2020 by undertaking its Corporate Social Responsibility.

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.

Board of Directors

Ms. Keasila Jayawardena – Chairperson



Ms. Jayawardane was appointed as the Chairperson of NSB Fund Management Co. Ltd on 17.01.2020.

Skills and Experience

Ms Jayawardena is an Academic/ University Lecturer, who has served as a Lecturer in Political Science at the University of Peradeniya for 15 years. She holds a Bachelor's (Honours) Degree and a Master's Degree in Political Science from the University of Peradeniya. She has served eight years as a Chairperson of two development banks.

Other Current Appointments

Chairperson, National Savings Bank,
Chairperson, Sri Lanka Savings Bank.

Previous Key Appointments

Chairperson, Kandurata Development Bank,
Chairperson, Regional Development Bank,
Provincial Council Member.

Mr. Ajith Peiris - Director



Mr. Ajith Peiris was appointed to the Board of Directors of NSB Fund Management Co. Ltd on 04.11.2020.

Skills and Experience

Mr Peiris is a First Class (Honours) BSc Degree holder in Physical Science from the University of Colombo and a Member of the Association of Professional Bankers, the Institute of Bankers of Sri Lanka, Sri Lanka Institute of Credit Management and the Sri Lanka Institute of Training and Development.

Other Current Appointments

General Manager/CEO, National Savings Bank, Director, Institute of Bankers of Sri Lanka (IBSL), Director, Sri Lanka Banks' Association (SLBA), Director, the Financial Ombudsman, Sri Lanka (FOSL).

Previous Key Appointments

Mr Peiris is a professionally qualified and sound banker with a proven track record. His banking career spans over 32 years at NSB since joining the Bank as a Management Trainee in 1988. He has served in many areas of the Bank, including Branch Operations, Branch Administration, Retail Credit, International Banking, Postal Banking in the capacity of Branch Manager, Zonal Manager, Assistant General Manager, and Deputy General.

Mr. U G R Ariyaratne (Postmaster General) – Director



Mr. Ranjith Ariyaratne was appointed to the Directorate of NSB Fund Management Co. Ltd on 17.01.2020.

Skills and Experience

Mr Ariyaratne is a Sri Lanka Administrative Service (SLAS) Special Grade Officer, who counts over 26 years of experience in the Sri Lanka Administrative Service. He holds Bachelor of Commerce, Master in Sociology and Postgraduate Diploma in Regional Planning from the University of Kelaniya. He has also completed a Postgraduate Diploma

in Education from the University of Peradeniya. Mr Ariyaratne has obtained a Certificate of public Administration, Certificate of General Management and Capacity Building Programme for SLAS Class I Officer from Sri Lanka Institute of Development Administration (SLIDA).

Other Current Appointments

Postmaster General, Department of Posts, Director National Savings Bank, Director CRIB.

Previous Key Appointments

District Secretary, District Secretariat, Polonnaruwa, Additional Secretary (Social Development), Additional Secretary (Rural Development) at the Ministry of Social Empowerment and Welfare, Additional Government Printer (Administration) at Department of Government Printing, Director General of Coconut Development Authority, Senior Assistant Secretary (Land) at the Ministry of Lands, Executive Director/Deputy Director General (Administration and Finance) of Mahaweli Authority of Sri Lanka, Deputy Postmaster General (North Western Province and Central Province) of Department of Posts, Divisional Secretary at the Divisional Secretariat, Mawathagama, Assistant/Deputy Commissioner (Kurunegala) of Department of Agrarian Services, Secretary to the Corporative Employees Commission, North Western Province, Provincial Commissioner (North Central Province) of Department of Probation and Child Care Services, Assistant Divisional Secretary, Divisional Secretariat, Rajanganaya, Thirappane, Assistant Commissioner of Land, Department of Land Commissioner.

Ms. Manohari Abeyesekera – Director

Ms. Manohari Abeyesekera was appointed to the Board of Directors of NSB Fund Management Co. Ltd on 17.01.2020.

Skills and Experience

Ms Abeyesekera holds a Bachelor of Science Degree in Biological Science (First Class Honours) and a Master of Business Administration (MBA) from the University of Colombo winning three gold medals. She is also a Fellow Member of Chartered Institute of Management Accountants (CIMA-UK) and The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). She is a prize winner at CIMA finals and was the Chairperson of CIMA Sri Lanka Country Network Panel in 2019. Ms. Abeyesekera was elected to the CIMA Global Council for a three year term commencing June 2021. Ms Abeyesekera is an Alumna of KPMG. She possesses 20 years post-qualifying experience. She has successfully completed the Postgraduate Diploma in International Relations conducted by the Bandaranaike International Diplomatic Training Institute winning the Vernon Mendis Memorial Award. She has had Executive Education at Indian School of Business (ISB) Hyderabad, Asian Development Bank, Manila and BHF Bank, Germany. She had served as the President

MBA Alumni Association of University of Colombo 2019-2020. Previously she had served as an Executive Committee Member in the International Chamber of Commerce Sri Lanka.

Other Current Appointments

Director – National Savings Bank, Committee members, CIMA UK Global Member Engagement Committee.

Previous Key Appointments

Held multiple leadership positions at HAYLEYS Group in an 18 year career from 2002-2020. Accountant Long Range Planning Unit, Head, Strategic Business Development, Hayleys PLC, Director HAYLEYS Group Services and Fentons Limited up to 31 October 2020.

Mr. M.T. Jayantha Perera – Director

Mr. M.T.J Perera was appointed to the Board of Directors of NSB Fund Management Co. Ltd on 02.06.2020.

Skills and Experience

Mr Perera had served in National Savings Bank for a period exceeding four decades and retired in 2016 as a Chief Manager. He has extensively involved in branch operations exposing him to wider spectrum of service delivery.

Other Current Appointments

Director of National Savings Bank, Director of Sri Lanka Savings Bank.

Previous Key Appointments

Member of the Board of Janatha Estates Development Board (JEDB) from 2010 to 2013.

Mr. Oshada Rodrigo - Director



Mr. Oshada Rodrigo was appointed to the Board of Directors of NSB Fund Management Co. Ltd on 13.01.2020.

Skills and Experience

Mr. Rodrigo possessed LLB (Hons) (Wolverhampton, UK), E-Diploma in Human Rights (Colombo), Master of Human Rights and Democratization (M.H.R.D.) (Colombo), Attorney-at-Law of the Supreme Court of Sri Lanka.

He has been practicing as an Attorney-at-Law in the Civil Courts, Commercial High Court and Appellate Courts for the last 4 years.

Mr. H.K.D. Lakshman Gamini- Director



Mr. H.K.D. Lakshman Gamini was appointed to the Board of Directors of NSB Fund Management Co. Ltd on 30.03.2021.

Skills and Experience

Mr Gamini is an experienced banker who had served People's Bank for a period exceeding three decades and retired in 2014. He had widely involved in international banking and branch banking.

Other Current Appointments

Director at Three Star Logistics (PVT) Limited, Director of National Savings Bank.

Previous Key Appointments

Vice Chairman of State Printing Corporation, Director of Skills Development Fund, Ministry of Skills Development and Vocational Training.

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 2020. The financial statements were reviewed and approved on 22nd February 2021.

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 Market Performance of the Sri Lankan Economy on pages 8-14 and the Company performance on pages 15-18 and the Future initiatives on page 18. 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 2020, duly signed by the Chief Executive Officer, Chairperson and one of Director of the Company and pages 36-64 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 2020 and their report on pages 32-35 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. 8,258,723/-.

Donations

The Company donated Rs. 1,000,000/- to the “Itukama Fund”.

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 and Income Tax etc... have been paid on due dates.

The Board of Directors

The Directorate, inclusive of the Chairperson of the NSB as the Chairperson of the Company, consists of 06 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 ten Board meetings were held in 2020.

Directors during the year 2020

Ms. Keasila Jayawardena - Chairperson (from 17.01.2020 to date)

Mr. S D N Perera (from 26.07.2014 to 07.02.2020)

Ms. Damitha Rathnayake (from 02.06.2020 to 09.10.2020)

Mr. Ajith Peiris (from 04.11.2020 to date)

Mr. U.G.R. Ariyaratne (from 17.01.2020 to date)

Ms. Manohari Abeysekera (from 17.01.2020 to date)

Mr. Thiran De Silva (from 17.01.2020 to 12.10.2020)

Mr. Oshada Rodrigo (from 13.01.2020 to date)

Mr. Jayantha Perera (from 02.06.2020 to date)

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.

(Sgd.)

Keasila Jayawardena
Chairperson

(Sgd.)

Ajith Peiris
Director

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 2020.

Ms. Manohari Abeysekera	- Chairperson
Mr. Thiran De Silva	- Member (resigned on 12.10.2020)
Mr. Oshada Rodrigo	- Member
Mr. Jayantha Perera	- Member (from 10.12.2020 to date)

Meetings

The Committee held three (03) meetings during the year 2020 and the attendance of the Committee Members is given below,

Name	Eligible to attend	Attended
Ms. Manohari Abeysekera	3	3
Mr. Thiran De Silva	3	-
Mr. Oshada Rodrigo	3	3

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.

(Sgd.)

Manohari Abeysekera

Chairperson – Board Audit Committee

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 2020.

Ms. Keasila Jayawardena	- Chairperson
Mr. U.G.R. Ariyaratne	- Member
Ms. Damitha Rathnayake	- Member (from 02.06.2020 to 09.10.2020)
Mr. Ajith Peiris	- Member (from 04.11.2020 to date)

Meetings

The Committee held four (04) meetings during the year 2020 and the attendance of the Committee members is given bellow,

Name	Eligible to attend	Attended
Ms. Keasila Jayawardena	4	3
Mr. U.G.R. Ariyaratna	4	2
Ms. Damitha Rathnayake	3	3
Mr. Ajith Peiris	1	1

(Sgd.)

Keasila Jayawardena

Chairperson - Board Human Resource & Remuneration Committee

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 2020.

Mr. Thiran De Silva	- Chairman (from 17.01.2020 to 12.10.2020)
Mr. Jayantha Perera	- Chairman (from 10.12.2020 to date)
Ms. Manohari Abeyesekera	- Member
Mr. Oshada Rodrigo	- Member

Meetings

The Committee held three (03) meetings during the year 2020 and the attendance of the Committee members is given below,

Name	Eligible to attend	Attended
Mr. Thiran De Silva	2	2
Ms. Manohari Abeyesekera	3	2
Mr. Oshada Rodrigo	3	3

(Sgd.)

Jayantha Perera

Chairman - Board Integrated Risk Management Committee

Financial Statements



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தேசிய கணக்காய்வு அலுவலகம்

NATIONAL AUDIT OFFICE



මගේ අංකය
எனது இல.
My No.

BAF/A/NSB/FMC/2020/01

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

22 March 2021

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 2020 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

1. Financial Statements

1.1 Opinion

The audit of the financial statements of NSB Fund Management Company Ltd (The "Company") for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the income statement, 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 and the Finance Act, No.38 of 1971. 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 2020 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

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



1.3 Other information included in the Company's 2020 Annual Report.

The other information comprises the information included in the Company's 2020 Annual Report but does not include the financial statements and my auditor's report thereon, which is expected to be made available to me after the date of this auditor's report. Management is responsible for the other information.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated.

When I read the Company's 2020 Annual Report, if I conclude that there are material misstatements therein, I am required to communicate that matter to those charged with governance for correction. If further material uncorrected misstatements are existed those will be included in my report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution that will be tabled in due course.

1.4 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 intends 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.

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

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


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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

2. Report on Other Legal and Regulatory Requirements

- 2.1 National Audit Act, No. 19 of 2018 and companies Act. No. 07 of 2007 include specific provisions for following requirements.
- 2.1.1 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 section 163 (1) (d) of the Companies Act, No. 7 of 2007 and section 12 (a) of the National Audit Act, No. 19 of 2018.
- 2.1.2 The financial statements of the Company comply with the requirement of the section 151 of the Companies Act, No. 07 of 2007.
- 2.1.3 The financial statements presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- 2.1.4 The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.
- 2.2 Based on the procedures performed and evidence obtained were limited to matters that are material, nothing has come to my attention;
- 2.2.1 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;
- 2.2.2 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;
- 2.2.3 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;
- 2.2.4 to state that the resources of the Company had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of section 12 (h) of the National Audit Act, No. 19 of 2018.


W.P.C. Wickramaratne
Auditor General

NSB Fund Management Company Limited
STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2020

	Note	2020 Rs.	2019 Rs.
Interest Income	4	1,501,182,386	1,449,314,894
Interest Expense	5	(922,406,445)	(1,020,726,437)
Net Interest Income		578,775,941	428,588,456
Fees & Commission Income		52,774,850	58,959,843
Fee and Commission Expenses		(5,800,029)	(4,766,151)
Net Fee and Commission Income		46,974,821	54,193,692
Net Gain/(Loss) From Financial Instruments at Fair Value through Profit and Loss	6	471,652,283	471,618,904
Other Income	7	(6,753)	18,678
Total Operating Income		1,097,396,292	954,419,731
Impairment Adjustment		111,647	(102,726)
Net Operating Income		1,097,507,939	954,317,005
Personnel Costs	8.1	(28,317,920)	(31,062,652)
Depreciation & Amortization		(5,151,655)	(1,722,805)
Other Expenses		(22,994,665)	(18,174,103)
Operating profit before VAT & NBT		1,041,043,699	903,357,445
VAT on Financial Services	9	(139,956,232)	(119,928,391)
NBT Expense		-	(15,423,168)
Profit before Taxation	8	901,087,467	768,005,887
Income Tax Expense	10	(292,941,448)	(252,596,495)
Profit for the Year		608,146,019	515,409,392
Other Comprehensive Income			
Other comprehensive income to be reclassified to Income Statement			
Revaluation of Securities Gain / Loss T Bonds (FVTOCI)		56,276,237	99,377,187
Other comprehensive income not to be reclassified to Income Statement			
Actuarial Gain/(Loss) on Retirement Benefit Obligation		1,525,627	(484,431)
Total Comprehensive income for the year		665,947,883	614,302,148
Earnings Per Share	11	3.58	3.03
Dividend Per Share (Rs.)	12	1.00	-

Figures in brackets indicate deductions.

The accounting policies and notes on pages 10 through 34 form an integral part of the financial statements.

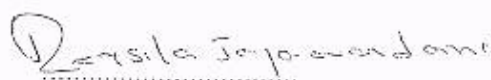
NSB Fund Management Company Limited
STATEMENT OF FINANCIAL POSITION
As at 31 December 2020


	Note	2020 Rs.	2019 Rs.
ASSETS			
Cash and Cash Equivalents	13	1,195,746	169,365,498
Financial Assets at Fair Value through Profit and Loss (Trading)	14	12,092,391,974	10,670,390,723
Loans and Advances at Amortized Cost	15	12,320,518	20,936,928
Financial Assets at Amortized Cost – Held-to-Collect	16	3,926,608,853	3,933,464,943
Financial Assets at fair value through other comprehensive income	17	648,008,165	1,009,705,774
Equity Investments at fair value through other comprehensive income	18	2,000,000	2,000,000
Property, Plant & Equipment	19	6,293,677	5,349,802
Intangible Assets	20	5,983,334	186,669
ROU Asset	21	39,362,623	42,996,096
Deferred Tax Asset	22	-	337,651
Other Assets	23	147,601,170	131,311,610
Total Assets		16,881,766,060	15,986,045,693
LIABILITIES & EQUITY			
Liabilities			
Borrowings under Repurchase Agreements	24	12,785,463,019	12,413,642,732
Amount Due to Related Parties	25	2,660,451	5,039,530
Other Liabilities	26	5,974,098	25,581,633
Lease Liability	27	39,430,080	40,443,392
Income Tax Payable		213,226,488	161,267,680
Deferred Tax Liability	22	125,711	-
Retirement Benefit Obligation	28	1,815,021	2,947,418
Total Liabilities		13,048,694,868	12,648,922,385
Equity			
Stated Capital	29	1,700,000,000	1,700,000,000
Retained Earnings		1,250,079,660	962,444,519
Special Risk Reserve	30	865,558,198	713,521,693
Other Reserves		17,433,334	(38,842,903)
		3,833,071,191	3,337,123,309
Total Equity and Liabilities		16,881,766,060	15,986,045,693

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


Chief Executive Officer

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


Chairperson


Director

The accounting policies and notes on pages 10 through 34 form an integral part of the financial statements.

22 February 2021
Colombo

NSB Fund Management Company Limited
STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2020

	Stated Capital Rs.	Statutory Reserve Fund Reserve Rs.	Other Reserves Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 01 January 2019	1,700,000,000	584,669,345	(138,220,089)	576,371,905	2,722,821,161
Profit for the year	-	-	-	515,409,392	515,409,392
Other Comprehensive Income/(Loss)	-	-	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)	-
Balance as at 31 December 2019	1,700,000,000	713,521,693	(38,842,903)	962,444,519	3,337,123,309
Profit for the year	-	-	-	608,146,019	608,146,019
Other Comprehensive Income	-	-	56,276,237	1,525,627	57,801,863
Total Comprehensive Income	-	-	56,276,237	609,671,646	665,947,883
Transfers	-	152,036,505	-	(152,036,505)	-
Dividend Paid	-	-	-	(170,000,000)	(170,000,000)
Balance as at 31 December 2020	1,700,000,000	865,558,198	17,433,334	1,250,079,660	3,833,071,191

Figures in brackets indicate deductions.

The accounting policies and notes on pages 10 through 34 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	2020 Rs.	2019 Rs.
Cash flows from Operating Activities		
Interest Receipts	1,609,990,023	1,532,921,068
Interest Payment	(940,168,370)	(779,906,064)
Net Fee Income Receipts	46,974,821	58,959,843
Trading Income	401,862,832	91,438,058
Payment to Employees	(28,982,554)	(27,833,731)
VAT & NBT on Financial Services	(155,219,903)	(101,691,132)
Receipts from Other Operating Activities	-	-
Payment on Other Operating Activities	(23,610,396)	(14,784,799)
Operating profit before change in Operating Assets & Liabilities	910,846,452	759,103,244
(Increase) / decrease in Operating Assets		
Financial Assets at FVTPL	(1,422,001,250)	(483,239,279)
Financial Assets at Amortized Cost – Loans & Advances	8,616,410	4,035,759
Financial Assets at Amortized Cost – Debt & Other Instrument	6,856,091	91,724,799
Other Assets	(8,946,845)	201,746,976
Increase / (decrease) in Operating Liabilities		
Financial Liabilities at Amortized Cost – Borrowings under Repurchase Agreement	371,820,287	(1,027,851,928)
Other Liabilities	(21,986,614)	25,376,031
Net cash generated from operating activities before Income Tax	(154,795,469)	(429,104,398)
Income Tax paid	(240,230,885)	(51,861,415)
Net cash (used in) / from Operating Activities	(395,026,354)	(480,965,814)
Cash flows from Investing Activities		
Purchase of Property, Plant and Equipment	(2,210,189)	(3,930,120)
Purchase of Intangible Assets	(6,048,534)	-
Proceeds from the sale of Property, Plant and Equipment	-	301,299
Advances paid to Fixed Assets	(7,342,716)	(36,497,937)
Financial Assets at FVTOCI	417,973,846	692,801,373
Investment in LFSB	-	(1,000,000)
Net cash (used in)/from Investing Activities	402,372,408	651,674,615
Cash flows from Financing Activities		
Principal Payments on ROU Asset	(5,520,000)	(1,041,661)
Advance Payment on ROU Asset	-	(2,880,000)
Dividends paid	(170,000,000)	-
Net cash from Financial Activities	(175,520,000)	(3,921,661)
Net increase/(decrease) in Cash & Equivalents	(168,173,947)	166,787,140
Cash and Cash Equivalents at the beginning of the year	169,369,722	2,582,582
Cash and Cash Equivalents at the end of the year	1,195,775	169,369,722
Reconciliation of Cash and Cash Equivalents		
Cash at Bank and Cash in Hand	1,190,201	169,311,919
Balance with Central Bank	5,574	57,804
	1,195,775	169,369,722

Figures in brackets indicate deductions.

The accounting policies and notes on pages 10 through 34 form an integral part of the financial statements.

1. REPORTING ENTITY

NSB Fund Management Company Limited is a limited liability Company domiciled in Sri Lanka. The registered office of the Company and the principal place of business is located at 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 2020 were authorized for the issue by the Directors on 22/02/2021.

Statement of Compliance

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

2. BASIS OF PREPARATION

2.1 Presentation and Functional Currency

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

The significant accounting policies are discussed in Note 3 below.

2.2 Basis of Measurement

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

- Financial Assets designated at fair value through profit or losses and Debt Instruments at fair value through other comprehensive income are measured at fair value.
- Loans and Advances, Debt Instruments at Amortized Cost and Borrowings under repurchase agreements are measured at amortized cost.
- The liability for defined benefit obligation is recognized as the present value of the defined benefit obligation

2.3 Comparative Information

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

2.4 Functional and Presentation Currency

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

2.5 Use of Estimates and Judgment

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

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

Tax

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

Financial Assets at Fair Value Through Profit or Loss

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

Fair Value Measurement

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

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

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

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

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

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

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

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

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

Retirement Benefit Obligation

The cost of retirement benefit obligation is determined using the Projected Unit Credit method. The Projected Unit Credit method involves making assumptions about expected salary increment rate, Discount/Interest rates and staff turnover factor. Due to the complexity of the valuation, the underlying assumptions and long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Details of the key assumptions used in the estimates are contained in Note 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 at amortized cost. The measurement of credit impairment is based on the three-stage expected credit loss model described below in Note (vi) Impairment of financial assets.

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

Debt Instruments

Investments in debt instruments are measured at fair value through other comprehensive income where they have:

- contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
- are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

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

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

Equity Instruments

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

Amounts presented in other comprehensive income are not subsequently transferred to profit or loss. Dividends on such investments are recognized in profit or loss.

iv) Items at Fair Value Through Profit or Loss

Items at fair value through profit or loss comprise:

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

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

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

(a) Financial Instruments Held for Trading

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

Trading derivatives and trading securities are classified as held for trading and recognized at fair value.

(b) Financial Instruments designated as measured at Fair Value Through Profit or Loss

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

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

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

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

v) Derivative Financial Instruments and Hedge Accounting

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

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

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 impaired upon 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 the Company in accordance with the contract and the cash flows that the Company expects to receive.
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective interest rate.
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Company if the commitment is drawn down and the cash flows that the Company expects to receive.
- Financial guarantee contracts: as the expected payments to reimburse the holder less any amounts that the Company expects to recover.

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

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

Impairment Charges on Loans and Advances

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

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

vii) Recognition and Derecognition of Financial Instruments

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

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

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

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

3.3 Property, Plant and Equipment

3.3.1 Recognition and Measurement

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

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

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

3.3.2 Depreciation

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

Furniture and Fittings	10% p.a.
Computer and Equipment	20% p.a.
Office Equipment	10% p.a.
Swift Equipment	25% p.a.
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 is charged from the date of use until the date of disposal or transfer.

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 or method, as appropriate, and treated as changes in accounting estimates. Amortization expense on intangible assets with finite lives is recognized in profit and loss on the straight-line basis over the estimated useful lives, from the date they are available for use. The estimated useful life of intangible assets with finite life is as follows:

Intangible Assets 5 Years

LIABILITIES AND PROVISIONS

3.5 Employee Benefits

3.5.1 Defined Benefit Plans

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

3.5.2 Defined Contribution Plans - Employees' Provident Fund and Employees' Trust Fund

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

3.5.3 Short-term Benefits

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

3.6 Non-derivative Financial Liabilities

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

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

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

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

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

3.7 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 service charges, Trustee Fees, Custodian Fees, Collateral Manager Fees, RTGS 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.

4. INTEREST INCOME	2020	2019
	Rs.	Rs.
Interest on Treasury Bills/Bonds/R.Repo	1,471,688,669	1,406,594,474
Interest on Debentures	29,493,717	42,720,420
	<u>1,501,182,386</u>	<u>1,449,314,894</u>
5. INTEREST EXPENSE	2020	2019
	Rs.	Rs.
Interest Expense on Repurchase Agreements	922,406,445	1,020,726,437
	<u>922,406,445</u>	<u>1,020,726,437</u>
6. NET GAIN/(LOSS) FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS	2020	2019
	Rs.	Rs.
Realised	401,862,832	91,438,058
Unrealised	69,789,451	380,180,846
	<u>471,652,283</u>	<u>471,618,904</u>
7. OTHER INCOME	2020	2019
	Rs.	Rs.
Profit on Fixed Assets Transfer/Removal	-	4,048
Other Income	(6,753)	14,630
	<u>(6,753)</u>	<u>18,678</u>
8. PROFIT BEFORE TAXATION	2020	2019
	Rs.	Rs.
Profit before taxation is stated after charging all expenses including the following		
Auditor's Remuneration	1,730,750	1,212,800
Depreciation on PPE	1,266,313	1,037,227
Amotisation of Intangible Assets	251,869	79,999
Personnel Costs (8.1)	28,317,920	31,062,652
8.1 Personnel Costs	2020	2019
	Rs.	Rs.
Salaries	19,711,714	18,345,882
Defined Contribution Plan Cost - EPF and ETF	1,557,769	1,478,438
Defined Benefit Plan Cost - Retirement Gratuity	393,229	480,731
Other Staff Cost	6,655,208	10,757,601
	<u>28,317,920</u>	<u>31,062,652</u>
8.2 Personel Cost of Seconded Employees	2020	2019
	Rs.	Rs.
Defined Contribution Plan Cost - EPF and ETF	1,020,553	892,313
Contribution to Pension Fund	816,442	707,910
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

	2020 Rs.	2019 Rs.
Current Income Tax		
Current Income Tax charge on ordinary activities for the year	292,189,694	252,861,060
Under/(Over) Provision of current taxes in respect of prior years	288,392	-
	<u>292,478,086</u>	<u>252,861,060</u>
Deferred Income Tax		
Deferred Taxation Charge/(Reversal)	463,362	(264,565)
Income Tax Expense Reported in the Income Statement	<u>292,941,448</u>	<u>252,596,495</u>

Reconciliation between Current Tax Expenses and the Accounting Profit

	2020 Rs.	2019 Rs.
Accounting Profit /(Loss) before Tax from Continuing Operations	901,087,467	768,005,887
Income not Liable for Tax	-	-
Other Aggregate Disallowed Items	151,007,805	138,314,425
Other Aggregate Deductible Items	(7,560,651)	(3,245,099)
Qualifying Payments	(1,000,000)	-
Taxable Profit	<u>1,043,534,621</u>	<u>903,075,213</u>
Income Tax Rate	28%	28%
Current Income Tax Expense	<u>292,189,694</u>	<u>252,861,060</u>
	<u>292,189,694</u>	<u>252,861,060</u>

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;

	2020 Rs.	2019 Rs.
Profit Attributable to Ordinary Shareholders	608,146,019	515,409,392
Weighted Average Numbers of Ordinary Shares	170,000,000	170,000,000
Earnings Per Share	<u>3.58</u>	<u>3.03</u>

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

	2020 Rs.	2019 Rs.
Weighted Average Numbers of Ordinary Shares	170,000,000	170,000,000
Dividends paid (Rs.)	170,000,000	-
Dividend per share	<u>1.00</u>	<u>-</u>

13. CASH & CASH EQUIVALENTS	2020 Rs.	2019 Rs.
Cash at Bank and Cash in Hand	1,190,201	169,311,919
Balance with Central Bank	5,574	57,804
Impairment Provision	(29)	(4,225)
Cash & Cash Equivalents for the Purpose of Cash Flow Statement	<u>1,195,746</u>	<u>169,365,498</u>

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS (TRADING)	2020 Rs.	2019 Rs.
Treasury Bills	5,939,103,056	6,655,355,496
Treasury Bonds	6,153,288,917	4,015,035,227
	<u>12,092,391,974</u>	<u>10,670,390,723</u>

15. LOANS AND ADVANCES AT AMORTIZED COST	2020 Rs.	2019 Rs.
Loans & Advances from Banks	-	-
Loans & Advances from Other Customers	12,320,518	20,936,928
	<u>12,320,518</u>	<u>20,936,928</u>

The fair value of the securities pledged for Reverse Repo is Rs. 13,302,071 (2019 - Rs. 23,994,957)

16. FINANCIAL ASSETS AT AMORTIZED COST - HELD TO COLLECT	2020 Rs.	2019 Rs.
Treasury Bonds	3,684,747,179	3,678,011,816
Debentures	241,897,589	255,596,494
Impairment Provision	(35,916)	(143,367)
	<u>3,926,608,853</u>	<u>3,933,464,943</u>

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	2020 Rs.	2019 Rs.
Treasury Bonds	648,008,165	1,009,705,774
	<u>648,008,165</u>	<u>1,009,705,774</u>

18. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	2020		2019	
	Cost Rs.	Directors' Valuation Rs.	Cost Rs.	Directors' Valuation Rs.
Investment in Lanka Financial Services Bureau Limited	2,000,000	2,000,000	2,000,000	2,000,000
	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,000,000</u>

19. PROPERTY, PLANT AND EQUIPMENT	Balance as at 01/01/2020	Additions during the year	Disposals/Transfers during the year	Balance as at 31/12/2020
Cost	Rs.	Rs.	Rs.	Rs.
Computer Equipment	5,537,314	1,125,103	-	6,662,417
Swift Equipment	913,903	-	-	913,903
Office Equipment	2,119,767	1,085,086	-	3,204,852
Furniture & Fittings	1,846,485	-	-	1,846,485
	<u>10,417,469</u>	<u>2,210,189</u>	<u>-</u>	<u>12,627,658</u>
Accumulated Depreciation	Balance as at 01/01/2020	Charge for the year	Depreciation on Disposals/Transfers	Balance as at 31/12/2020
	Rs.	Rs.	Rs.	Rs.
Computer Equipment	3,441,979	843,327	-	4,285,306
Swift Equipment	913,901	-	-	913,901
Office Equipment	555,878	248,128	-	804,006
Furniture & Fittings	155,909	174,858	-	330,767
	<u>5,067,667</u>	<u>1,266,313</u>	<u>-</u>	<u>6,333,980</u>
Carrying Amount			2020	2019
			Rs.	Rs.
Net Book Value as at 31 December			<u>6,293,677</u>	<u>5,349,802</u>

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;

	2020	2019
	Rs.	Rs.
Computer Equipment	2,581,079	951,704
Swift Equipment	913,903	913,903
Office Equipment	260,170	216,490
Furniture & Fittings	96,838	96,838

20. INTANGIBLE ASSET	Balance as at 01/01/2020	Additions during the year	Disposals/Transfers during the year	Balance as at 31/12/2020
Cost	Rs.	Rs.	Rs.	Rs.
SWIFT License Fee	1,058,562	-	-	1,058,562
SWIFT Entrance Fee	911,031	-	-	911,031
Board Pac	400,000	-	-	400,000
JBOSS Enterprise Application Software	-	6,048,534	-	6,048,534
	<u>2,369,593</u>	<u>6,048,534</u>	<u>-</u>	<u>8,418,127</u>
Accumulated Amortisation & Impairment Loss	Balance as at 01/01/2020	Charge for the year	Depreciation on Disposals/Transfers	Balance as at 31/12/2020
	Rs.	Rs.	Rs.	Rs.
SWIFT License Fee	1,058,562	-	-	1,058,562
SWIFT Entrance Fee	911,031	-	-	911,031
Board Pac	213,331	79,999	-	293,330
JBOSS Enterprise Application Software	-	171,870	-	171,870
	<u>2,182,925</u>	<u>251,869</u>	<u>-</u>	<u>2,434,794</u>
Carrying Amount			2020	2019
			Rs.	Rs.
Carrying Amount			<u>5,983,334</u>	<u>186,669</u>

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;

	2020	2019
	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)	2020	2019
	Rs.	Rs.
Opening balance	43,601,674	-
Additions/Disposals	-	43,601,674
Closing Balance	43,601,674	43,601,674
Depreciation	(4,239,052)	(605,579)
Net Asset Value	39,362,623	42,996,096
22. DEFERRED TAX ASSET(LIABILITY)	2020	2019
	Rs.	Rs.
Balance at the beginning of the year	337,651	73,086
Provision/(reversal) for the year	(463,362)	264,565
Balance at the end of the year	(125,711)	337,651
<i>The closing Deferred Tax Asset balance relates to the following:</i>		
Accumulated Depreciation	(633,917)	(487,626)
Increment Benefit Obligation	508,206	825,277
	(125,711)	337,651
23. OTHER ASSETS	2020	2019
	Rs.	Rs.
Other Receivables	3,808,050	5,874,085
Receivable From Treasury	88,939,587	88,939,587
VAT & NBT Receivable	11,012,880	-
Advance paid to Fixed Assets	43,840,653	36,497,937
	147,601,170	131,311,610
24. BORROWINGS UNDER REPURCHASE AGREEMENTS	2020	2019
	Rs.	Rs.
Due within 1 year	12,785,463,019	12,413,642,732
	12,785,463,019	12,413,642,732
25. AMOUNT DUE TO RELATED PARTY	2020	2019
	Rs.	Rs.
National Savings Bank - Other Payables	2,660,451	5,039,530
	2,660,451	5,039,530
26. OTHER LIABILITIES	2020	2019
	Rs.	Rs.
VAT & NBT Payable	-	4,250,790
Sundry Creditors	-	10,046,923
Accrued Expenses	5,199,098	10,783,920
Advances Received	775,000	500,000
	5,974,098	25,581,633
27. LEASE LIABILITY	2020	2019
	Rs.	Rs.
Opening Balance	40,443,392	-
Additions	-	43,601,674
Rent Advance Paid	-	(2,880,000)
Interest Expense	4,506,688	763,378
Principal Payment	(5,520,000)	(1,041,661)
Closing Balance	39,430,080	40,443,392

28. RETIREMENT BENEFIT OBLIGATION

	2020 Rs.	2019 Rs.
Balance at the beginning of the year	2,947,418	1,982,256
Current Service Cost	158,025	274,934
Interest for the year	235,204	205,797
Deficit/(Surplus) charge for the year	(1,525,627)	484,431
Payments made during the year	-	-
Balance at the end of the year	<u>1,815,021</u>	<u>2,947,418</u>

LKAS 19 requires the 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 2020. The principal assumptions used in determining the cost of employee benefits were:

	2020	2019
Discount rate	7.98%	10.44%
Future Salary Increment	1.87%	8.33%
Staff Turnover Rate & Average Future Working Life Time		
Age Group	25-34	35-44
Staff Turnover Rate	0%	0%
Average Future Working Life Time - Years	29	20
		13

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	(242,496)	287,159
One percentage point change in the salary escalation rate	302,752	(258,118)

Assumptions

Financial Assumptions - Rate of discount, Salary increment rate

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

29. STATED CAPITAL

	2020 Rs.	2019 Rs.
Opening Balance	1,700,000,000	1,700,000,000
Issued During the year	-	-
Closing Balance	<u>1,700,000,000</u>	<u>1,700,000,000</u>

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

30. SPECIAL RISK RESERVE

	2020 Rs.	2019 Rs.
At the beginning of the year	713,521,694	584,669,345
Transferred during the year - 25% of profit after tax	152,036,505	128,852,348
At the end of the year	<u>865,558,198</u>	<u>713,521,694</u>

- 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 2020	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	4,639,522,005	3,467,835,009	3,305,953,223	667,837,146	11,244,591	12,092,391,974
Government Securities at Amortized Cost	690,346,607	894,841,500	1,354,404,222	541,664,850	203,490,000	3,684,747,179
Corporate Debentures	11,537,589	12,904,084	217,420,000	-	-	241,861,673
Government Securities at FVTOCI	26,815,708	-	216,078,204	-	405,114,253	648,008,165
Loans & Advances	7,413,259	4,907,239	-	-	-	12,320,518
ROU Assets	1,211,158	2,422,315	7,266,946	7,266,946	21,193,258	39,362,623
Total Interest Earning Assets	5,376,846,326	4,382,910,167	5,101,122,595	1,216,768,941	641,044,102	16,718,692,132
Total non Interest Earning Assets						163,073,928
Total Assets						16,881,766,060
Liabilities						
Government Securities sold under Repurchase Agreement	10,510,065,864	2,275,397,155	-	-	-	12,785,463,019
Lease Liability	363,829	769,771	3,401,478	4,933,892	29,961,111	39,430,080
Total Interest bearing Liabilities	10,510,429,693	2,276,166,925	3,401,478	4,933,892	29,961,111	12,824,893,099
Total non int. bearing Liabilities						223,801,769
Shareholder's Fund						3,833,071,191
Total Equity and Liabilities						16,881,766,060
As at 31 December 2019						
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	1,401,317,334	203,927,406	3,678,811,816
Corporate Debentures	11,506,415	38,501,788	12,940,000	192,404,824	-	255,453,127
Government Securities at FVTOCI	45,267,874	-	788,289,000	-	176,148,500	1,009,705,374
Loans & Advances	12,859,525	8,077,404	-	-	-	20,936,928
ROU Assets	1,389,351	4,413,411	13,446,863	7,344,761	16,401,649	42,996,036
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	-	-	-	12,413,642,731
Lease Liability	1,329,391	4,520,728	12,726,863	6,864,761	15,001,649	40,443,391
Total Interest bearing Liabilities	11,116,221,495	1,303,271,357	12,726,863	6,864,761	15,001,649	12,454,086,122
Total non int. bearing Liabilities						194,836,264
Shareholder's Fund						3,337,123,305
Total Equity and Liabilities						15,986,045,693

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 held under repurchase agreements.

	2020 Rs.	2019 Rs.
Government Securities	13,751,062,715	13,872,324,137

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 2020

	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Financial Assets - Held for Trading	12,092,391,974	-	-	12,092,391,974
Fair Value Through Other Comprehensive Income	-	648,008,165	-	648,008,165
Equity Investments	-	-	2,000,000	2,000,000
	<u>12,092,391,974</u>	<u>648,008,165</u>	<u>2,000,000</u>	<u>12,742,400,139</u>

As at 31 December 2019

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
	<u>10,670,390,723</u>	<u>1,009,705,774</u>	<u>2,000,000</u>	<u>11,682,096,497</u>

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 2020		31 December 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	Rs.	Rs.	Rs.	Rs.
Financial Assets				
Cash and Bank	1,195,746	1,195,746	169,365,498	169,365,498
Loans and Advances	12,320,518	12,320,518	20,936,928	20,936,928
Financial Assets as Held to Collect	3,684,747,179	4,005,730,899	3,678,011,816	3,850,827,592
Total Financial Assets	3,698,263,444	4,019,247,164	3,868,314,242	4,041,130,018
Financial Liabilities				
Borrowings under Repurchase Agreements	12,785,463,019	12,785,463,019	12,413,642,732	12,413,642,732
Amounts Due to Related Parties	2,660,451	2,660,451	5,039,530	5,039,530
Total Financial Liabilities	12,788,123,470	12,788,123,470	12,418,682,262	12,418,682,262

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 Ernst & Young and 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.

NSB Fund Management Company Limited
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34.1 Credit Risk

Credit Risk Analysis - Maturity Profile Analysis of Financial Assets
As at 31 December 2020 - 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	150,000	-	2,757,500	4,359,476	224,803	4,682,456	-
Treasury bills	2,857,000	-	75,339,264	3,754,213,415	2,036,126,739	171,818,843	-
Treasury bonds	-	-	-	1,251,626,224	50,438,439	2,177,549,000	6,413,227,080
Total	3,007,000	-	78,106,764	5,010,139,115	2,106,789,981	2,304,050,299	6,413,227,080

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	9,555,721	3,487,276	4,590,128	-
Treasury bills	-	-	2,297,142	30,355,568	968,427,801	6,102,434,374	-
Treasury bonds	-	-	-	-	205,759,536	23,441,937	8,093,860,139
Total	2,102,477	-	3,036,142	39,891,289	1,177,624,613	6,130,466,439	8,093,860,139

NSB Fund Management Company Limited
NOTES TO THE FINANCIAL STATEMENTS
As at 31 December 2020

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

34.2 **Liquidity Risk**

Liquidity risk Analysis - Maturity Profile Analysis of Financial Liabilities
As at 31 December 2020 - Face Value Analysis

Instrument	Overnight	2-7 Days	8-30 Days	31-91 Days	92-182 Days	183-365 Days	Above 365 Days
Customer Repo	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Repo	-	-	18,060,028	2,003,026,623	400,930,655	1,121,219,965	4,403,220,465
Total	-	-	18,060,028	3,186,733,160	873,548,797	9,736,521	718,071,502
	-	-	18,060,028	5,189,759,783	1,224,479,453	1,130,456,486	5,121,291,967

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

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	132,593	2,827,836	4,373,826	225,955	4,740,308	-	-	-
T Bonds	-	-	1,263,754,482	51,125,158	2,274,167,729	1,181,366,975	5,120,607,436	659,425,444
T Bills	2,856,651	75,184,898	3,719,578,571	2,023,817,769	119,665,409	-	-	-
Debentures	-	-	-	-	13,726,246	-	228,171,343	-
Total	3,009,244	78,012,734	4,987,706,879	2,075,168,883	2,410,599,692	1,181,366,975	5,348,778,779	659,425,444

Liabilities

Capital & Profit

Customer Repo

Repo

Total

Stress check Analysis

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

Treasury bill trading portfolio

Treasury bond trading portfolio

	2020	2019
	Rs.	Rs.
	(15,015,454)	(50,260,966)
	(105,257,908)	(80,863,381)
	(120,273,362)	(131,124,347)

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. 865,833/- (2019 - Rs.842,500/-).

(b) Transactions with related parties

The following transactions were carried out with related parties during the year ended 31 December 2020.

Items in Income Statement		2020 Rs.	2019 Rs.
National Savings Bank	Interest Received from investment in Reverse Repo	2,756,805	23,520,853
	Service Charge Income	-	42,599,598
	RTGS Charges Income	762,050	1,241,550
	Interest Paid on Repurchase agreements	43,175,446	10,858,996
	Custodian Fee Income	42,000,000	6,000,000
	Trustee Fee Income	1,250,000	1,250,000
	Legal Fee Expense	300,000	-
	Dividend Paid	170,000,000	-

Items in Statement of Financial Position

National Savings Bank	Investments in Reverse Repo, Treasury Bills and Treasury Bonds	-	-
	Borrowing under Repurchase agreements	1,043,000,000	1,300,000
	Other Payables	2,660,451	5,039,530
	Trustee Fee Receivable	250,000	250,000
	Custodian Fee Receivable	3,500,000	-
	Other Receivables	-	5,490,940

36. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future event or present obligation where the transfer of economic benefit is not probable or cannot be reliably measured.

Contingent liabilities are not recognized in the Statement of Financial Position but are disclosed unless its occurrence is remote.

36.1 Commitments for Credit Facility

	2020 Rs.	2019 Rs.
Credit Line Facility agreed by National Savings Bank	500,000,000	-

36.2 Capital Commitments

Capital expenditure approved by the Board of Directors, for which provisions have not been made in the Financial Statements are detailed below

	2020		2019	
	Rs.	USD	Rs.	USD
Approved and contracted for Treasury System	29,206,350	158,300	35,577,925	197,875

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.

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Personnel Costs	2020 Rs.	2019 Rs.
Salaries and Wages	10,385,125	9,856,250
Employee Emoluments	9,326,589	8,489,632
Medical Expenses	478,433	898,099
O/T Out Pocket Allowance	592,179	507,630
EPF	1,246,215	1,182,750
ETF	311,554	295,688
Bonus	4,547,289	8,290,055
Encashment of Privilege Leave	856,057	772,367
Staff Training Expenses	181,250	289,450
Gratuity expense	393,229	480,731
	28,317,920	31,062,652
Other Expenses	2020 Rs.	2019 Rs.
Directors Fees	865,833	842,500
Audit Fees	1,730,750	1,212,800
Bank Charges	45,450	88,500
Annual Membership Fees	135,500	162,000
Swift Charges	1,298,152	1,383,168
Bloomberg Charges	5,647,720	4,077,586
Sundry Expenses	405,659	571,745
Sales Promotion	285,100	785,886
Stationery	378,432	939,282
Chargeable Equipment	45,095	11,000
Rent	-	1,757,947
Travelling	247,501	32,307
Postage	1,700	1,190
Electricity	1,342,831	654,154
Telephone Charges	1,283,228	1,421,765
Water Tax	56,413	22,516
Maintenance of Computers	311,548	88,100
Maintenance of Office Equipments	419,513	111,871
Office Renovation Expenses	269,844	1,935,508
CSE Rental and Communication Charges	583,267	594,966
Publication Expenses	399,298	128,800
Professional Fees	300,000	216,736
Secretarial Fee	60,000	62,500
Office Related Expenses	-	307,897
Lease Interest on ROU Asset	4,506,688	763,378
Insurance Expense	144	-
Commitment & Processing Fee	1,375,000	-
Donations to Itukama Fund	1,000,000	-
	22,994,665	18,174,103

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) Mr. Ajith Peiris Ms. Manohari Abeysekera Mr. U G R Ariyaratne Mr. Oshada Rodrigo Mr. Jayantha Perera Mr. H K D L Gamini
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.

