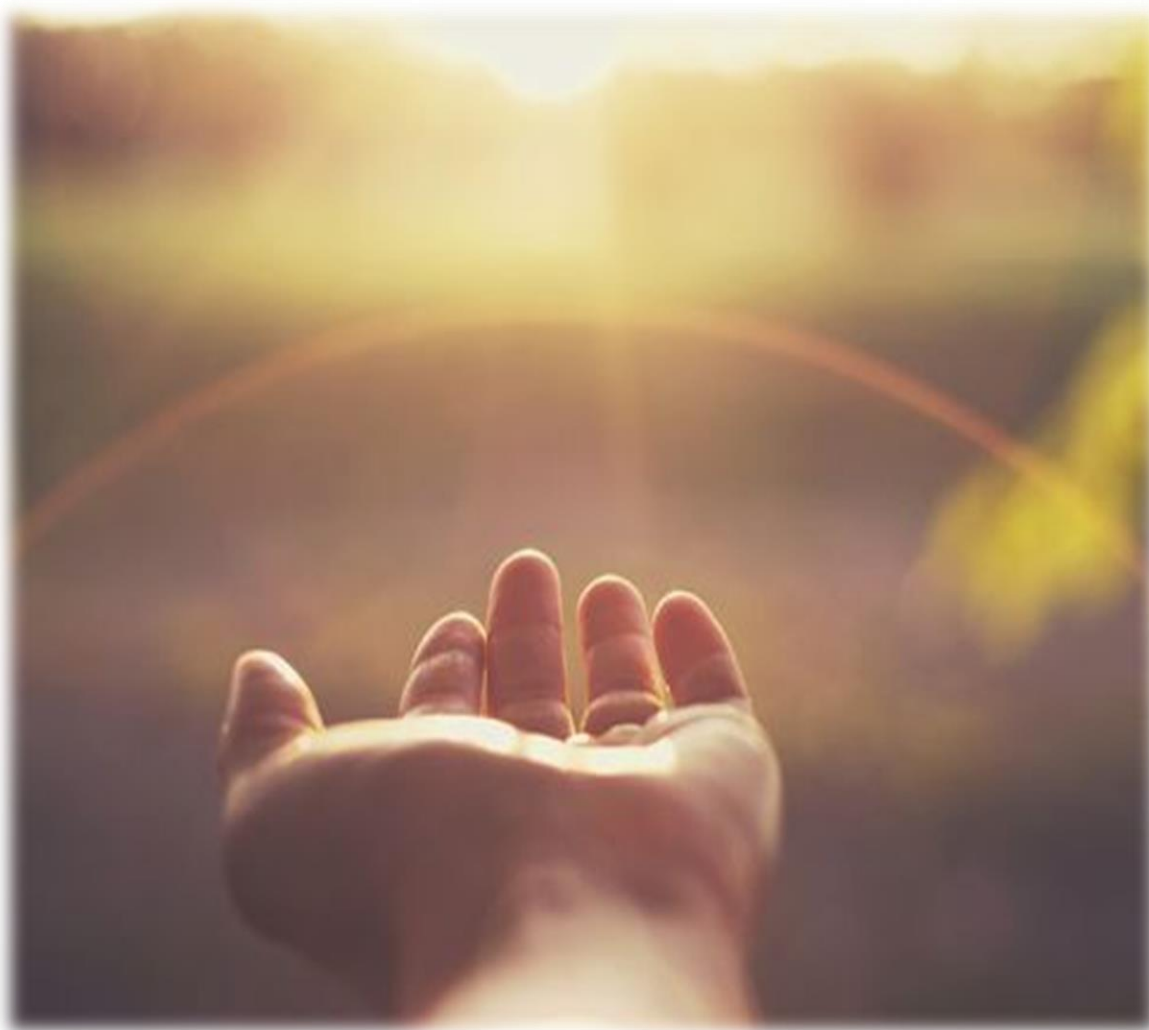




Annual Report 2021





“We must accept finite disappointment, but we must never lose infinite hope.”

- Martin Luther King, Jr.

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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.
- iii. Portfolio Management.

Financial Highlights

	2021	2020	2019	2018	2017
Operating Result					
Interest Income (Rs Mn)	1,443	1,501	1,449	1,266	1,016
Net Gain/(Loss) from FVTPL (Rs Mn)	(615)	472	472	(355)	314
Interest Expenses (Rs Mn)	(837)	(922)	(1,021)	(892)	(713)
Net Operating Income (Rs Mn)	37	1,098	954	66	682
Operating Expenses, Provisions, VAT & NBT	(18)	(196)	(186)	(63)	(143)
Profit/(Loss) before Taxation (Rs Mn)	(37)	901	768	3	539
Income Tax Expenses (Rs Mn)	43	(293)	(253)	(3)	(176)
Profit/(Loss) for the year (Rs Mn)	6	608	515	0.0355	363
Earnings per Share (Rs.)	0.04	3.58	3.03	0.0003	6.84
Assets					
Cash & Cash Equivalents (Rs Mn)	1.5	1	169	3	5
Other Financial Assets (Rs Mn)	27,449	16,667	15,614	15,815	8,588
Loans & Advances (Rs Mn)	10.5	12	21	25	279
Property, Plant & Equipment/Intangible Assets (Rs Mn)	12	12	6	3	4
Other Assets (Rs Mn)	278	189	177	326	283
Total Assets	27,751	16,882	15,986	16,172	9,159
Liabilities & Equity					
Borrowings (Rs Mn)	23,757	12,785	12,414	13,441	7,030
Other Liabilities (Rs Mn)	554	263	235	7	184
Equity (Rs Mn)	3,440	3,833	3,337	2,723	1,945
Total Liabilities & Equity	27,751	16,882	15,986	16,172	9,159
Ratios					
Return on Equity (%)	0.17	16.96	17.01	0.0015	19.96
Return on Investment (%)	2.74	3.58	2.72	3.03	3.09
Net Profit Ratio (%)	0.69	30.02	26.03	0.0037	25.94
Average Yield	8.39	7.80	10.50	10.35	10.17
Other Information					
No. of Employees	22	20	17	16	18



Rs. 37 Mn

Net Operating Income

Rs. 6 Mn

Profit After Tax

Rs. 27,751 Mn

Total Assets

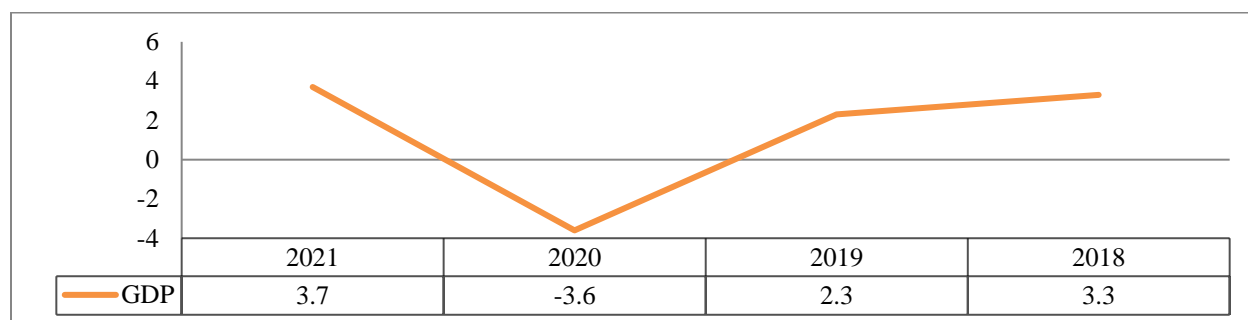
Rs. 3,440 Mn

Net Assets

Market Overview 2021

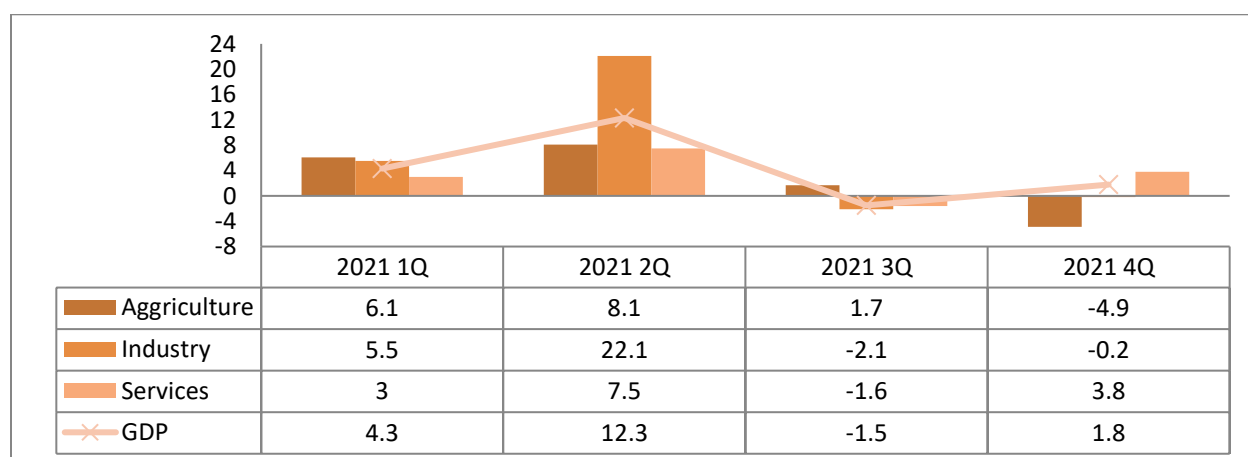
Gross Domestic Product (GDP)

The Sri Lankan economy as well as the global economy was affected severely in 2019 and 2020; whilst Sri Lanka experienced the worst crisis with the second wave emerged at the later part of 2020; as a result the Sri Lankan economy contracted by 3.6% in 2020, however with the easing of Covid-19 impact the conditions turned favorable resulting a growth of 3.7% in 2021. Despite suffering from periodic lockdowns due to Covid-19 in 2021, Sri Lanka was able to outperform the GDP growth of 3.3% in 2018.



(Graph 1: GDP growth rate)

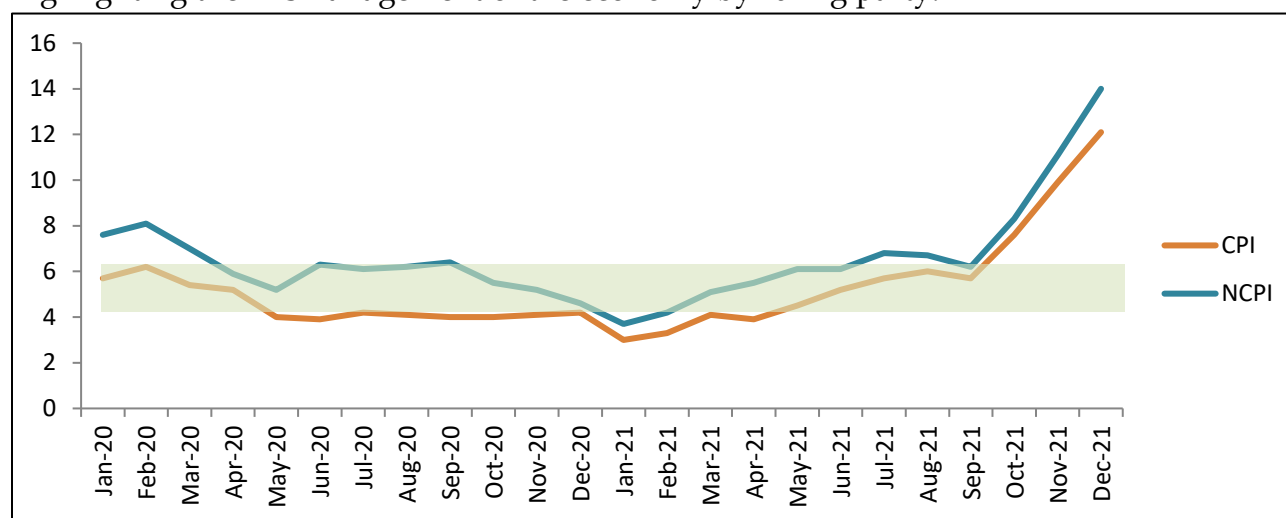
The 2021 started amidst the second wave of the pandemic but the spread decreased with the vaccination drive carried out by the government. With the ease of Covid-19 cases favorable conditions prevailed in the country which resulted a growth of 4.3% in the 1st quarter of 2021 supported by all three sectors. However, with the people celebrating Sinhala-Tamil new year the third wave of the pandemic started which resulted travel restriction being imposed along-with lockdown in certain areas. But the conditions were much favorable compared to 2020, hence in 2nd quarter and 3rd quarter the GDP recorded 12.3% growth and -1.5% contraction respectively. In the 2nd quarter industrial sector contributed largely to achieve an overall growth of 12.3%. The 4th quarter saw a growth of 1.8%, with both agricultural and industrial sectors performing poorly, services sector grew by 3.8%.



(Graph 2: Sector wise performance)

Inflation

According to CBSL, it targets to maintain inflation within the target band of 4%-6% and based on the above graph it is evident that the CBSL has successfully maintained it within the target corridor in most months of 2020 and in the first half of 2022. However, from May the NCPI clocked above 6% and the CPI was seen following the same trend since October. This uptick of the inflationary pressure was evident with the government's decision to ban chemical fertilizer imports which resulted from depleted food harvest along with the lower interest regime maintained by the Central bank fueled high levels of inflation. With the festival season the high levels of inflation in the months of November and December, but the more than 2 folds of the target ban is concern, highlighting the mismanagement of the economy by ruling party.



(Graph 3: Inflation (CCPI & NCPI)- Year on Year)

Monetary Policy Decisions and Policy Rates

With the economy reviving post Covid-19 the Central Bank of Sri Lanka (CBSL) adopted an accommodative stance by maintaining its policy rates at constant levels in most meeting apart from the 6th monetary policy review.

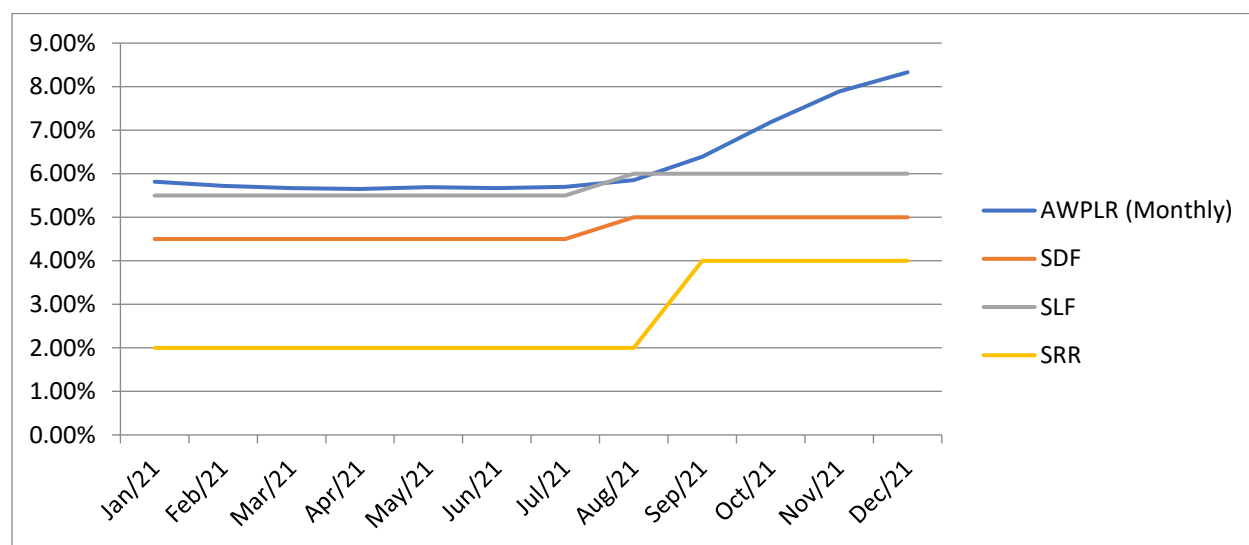
With the economy begins its revival and the stock market performing well the CBSL held on to the accommodative stance in most part of the year, however on 18th August at the 6th meeting CBSL affected a 50 bps rate hike on Standing Deposit Facility rate, Standing Lending Facility rate and the Statutory Reserve Requirement ratio was increased by 200 bps on 1st September at the 7th policy review; as the inflationary pressure on the economy mounts and the developments in the external markets.

CBSL maintained lower interest regime by printing bulks of money to ensure government spending are financed at minimal cost however the inflation was on the rise fueled by the demand side.

Policy rate	Beginning of the year	End of the year	Change (bps)
Standing Deposit Facility Rate	4.50%	5.00%	50
Standing Lending Facility Rate	5.50%	6.00%	50
Statutory Reserve Ratio	2.00%	4.00%	50

(Table 1: SDF, SLF and SRR)

Average Weighted Prime Lending Rate



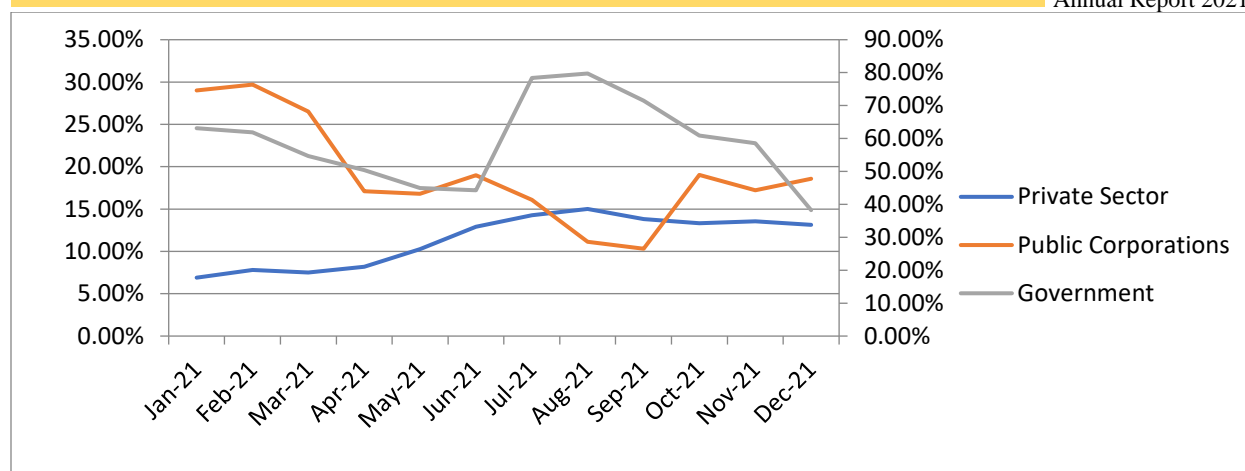
(Graph 4: AWPLR against SRR, SLF and SDF. Source: CBSL website)

The spread between AWPR and Average Weighted Lending Rate (AWLR) remain at 150-440 bps corridor, however throughout the year the spread thinned as the 435 bps spread in January reduced to 154 bps by December.

Private Sector Credit Growth

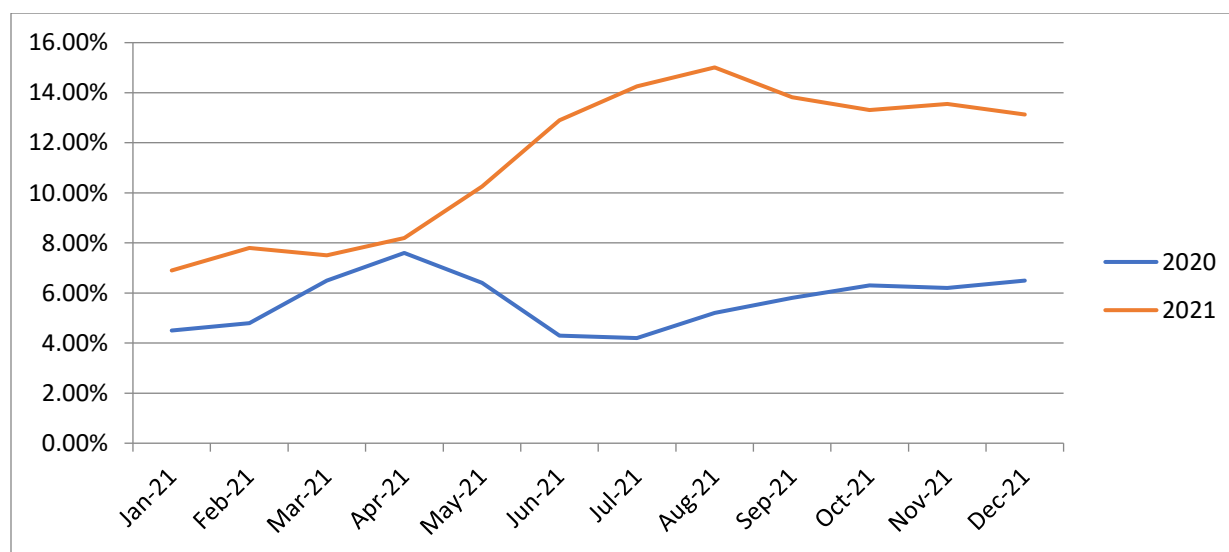
It is evident with the relaxation of Covid-19 precautionary measures such as travel restrictions, foreign arrivals and importantly recovery consumer demand fueled the growth of the private sector credit to two digits, which is the in the direction. With economy recovering the private sector credit growth reached as high as 15.01% in the month of August before settling at 13.13%; which was at mere 6.90% in the beginning of the year.

The credit to government sector remains the highest out of the three sectors dominating the borrowings as the growth been above 50% during the most part of the year; whilst the credit to State Business Enterprises (SBE) and public corporations remain the second highest borrower.



(Graph 5: Credit growth of Private sector, public corporations and government)

The growth to credit to private sector has been doubled in 2021 YoY basis, apart from the first five months of 2021; once again emphasizing the impact Covid-19 had on the economy. However, with the economic risk the private sector credit growth subdued in the last quarter of 2021.

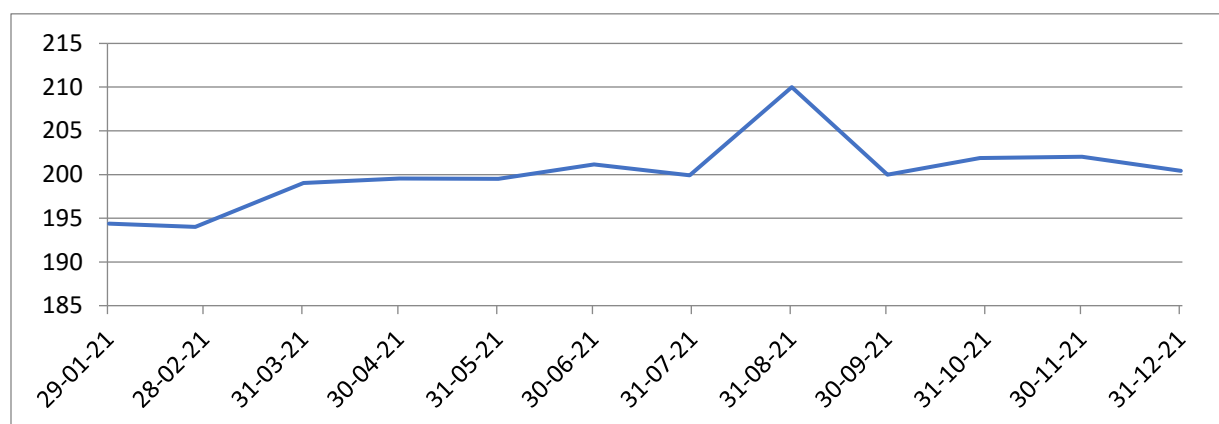


(Graph 6: Credit growth of Private sector 2020 and 2021)

Exchange Rate

The LKR didn't depreciate much against the USD as the spot hovered Rs 194-210 levels throughout the year as the CBSL held on to the USD without adopting soft-peg strategy. It is believed CBSL has printed around Rs 225.5 mn to defend LKR against the USD.

During the year the LKR has depreciated 7.0% against the USD, while it has depreciated 3.8%, 1.1%, 6.0% and 6.0% against the Japanese Yen, Euro, Sterling Pound and Indian Rupees respectively.



(Graph 7: USD/LKR exchange rate)

External Sector

The current account deficit has widened to US \$ 3,343 mn in 2021 from US \$ 1,187 mn, 182% drop; the main contributory factors are trade balance and net of services income. The income from exports has increased to US\$12,499 in 2021 from US\$ 10,047 compared to 2020 which has grown by 24% but it has failed to reduce the gap in trade balance as the expenditure on imports grew by 29% to US \$ 20,637 in 2021, resulting the trade balance to increase to US \$ 8,139 in 2021 from US \$ 6,008 recorded in 2020. The expenditure on imports risen as the economy recovered from Covid-19 with the relaxation of Covid-19 preventive measures and as well as higher energy prices. Although the CBSL has levied import restrictions on some imports, a revival was seen with relaxation of Covid-19 preventive measures.

The net inward from services has risen to US\$ 1,586 mn in 2021 from US\$ 819 mn in 2020 supported by healthy growth in income from computer services; however, the growth of income from the tourism was evident only in the latter half of the year as the travel restrictions on foreigners were relaxed.

Item	US\$ million		Rs. million	
	2020 (a)	2021 (b)	2020 (a)	2021 (b)
Current Account (net)	-1,187	-3,343	-238,248	-672,960
Trade Balance	-6,008	-8,139	-1,115,988	-1,617,274
Exports	10,047	12,499	1,858,927	2,486,943
Imports	16,055	20,637	2,974,915	4,104,218
Services (net)	819	1,586	150,014	316,225
Receipts	3,035	2,475	559,615	493,320
Payments	2,216	889	409,601	177,095
Primary Income (net)	-2,205	-2,018	-423,063	-406,605
Receipts	198	116	36,766	22,769
Payments	2,404	2,134	459,829	429,374
Secondary Income (net)	6,207	5,228	1,150,789	1,034,694
Secondary Income: Credit	7,117	5,498	1,319,377	1,088,388
Workers' Remittances	7,104	5,491	1,317,007	1,087,188
Government Transfers	13	6	2,371	1,200
Secondary Income: Debit	910	270	168,589	53,694
Capital Account (net)	28	25	5,193	5,009
Capital Account: Credit	51	50	9,472	9,850
Capital Account: Debit	23	24	4,279	4,841
Current and Capital Account (net)	-1,159	-3,318	-233,056	-667,951
Financial Account (net)	-394	-4,029	-77,578	-962,044
Direct Investment: Assets	15	17	2,699	3,468
Direct Investment: Liabilities	434	598	80,592	118,973
Portfolio Investment: Assets	-	-	-	-
Portfolio Investment: Liabilities	-2,383	-906	-441,922	-181,568
Equity	-217	-236	-40,223	-46,914
Debt Securities	-2,166	-670	-401,700	-134,654
Financial Derivatives	-	-	-	-
Other Investment: Assets	-136	387	-27,446	77,454
Currency and Deposits	64	306	11,666	62,761
Trade Credit and Advances	-224	257	-41,647	51,199
Other Accounts Receivable	24	-176	2,535	-36,506
Other Investment: Liabilities	231	2,216	38,567	605,734
Currency and Deposits	-15	4,016	-3,519	810,195
Loans	174	-1,552	29,568	-309,188
Central Bank	-14	-57	-2,689	-11,377
Deposit-taking Corporations	75	-2,152	10,390	-429,506
General Government	169	664	31,961	132,662
Other Sectors	-56	-7	-10,093	-968
Trade Credit and Advances	185	-428	32,565	-87,756
Other Accounts Payable	-114	180	-20,046	34,713
Special Drawing Rights (SDRs)	-	787	-	157,771
Reserve Assets	-1,992	-2,526	-375,594	-499,826
Monetary Gold	-667	-212	-123,485	-42,734
Special Drawing Rights	-5	123	-825	24,635
Reserve Position in the IMF	-	-	-	-
Other Reserve Assets	-1,319	-2,437	-251,284	-481,726
Currency and Deposits	-177	1,536	-37,326	300,122
Securities	-1,143	-3,976	-214,172	-782,339
Net Errors and Omissions	765	-711	155,478	-294,093
Overall Balance (c)	-2,328	-3,967	-405,854	-745,312
As a Percentage of GDP				
Trade Balance	-7.4	-9.6		
Goods and Services	-6.4	-7.8		
Current Account	-1.5	-4.0		
Current and Capital Account	-1.4	-3.9		

On the other hand, the primary income's net outflow has reduced to US\$ 2,018 mn from US\$ 2,205 mn; whilst the secondary income's net inflow has reduced to US\$ 5,228 mn from US\$ 6,207 mn in 2021 and 2020 respectively. The drop-in net outflow from the primary income resulted as the interest and the dividend payments have declined in 2021, whilst the inflow in the secondary income has reduced due to slowdown in workers remittance. Although the reason for the drop-in workers remittance isn't clear, it might be due to the better dollar buying rate was seen in the curb market compared to commercial banks rates.

The current account deficit in 2021 widened to 4.0% of the Gross Domestic Product (GDP) compared to 1.5% in 2020.

The Foreign Direct Investment (FDI) remains subdued as portfolio investments in stock exchange and government securities continued to outflow due to credit rating downgrades and economic risks. The capital account saw a net inflow of US\$ 25 mn during the year. The CBSL received foreign exchange inflows through Special Drawing Rights (SDR) from the International Monetary Fund (IMF) and swap agreements with Bangladesh and People's bank of China.

(Figure 1: External sector performance. Source: CBSL Annual Report)

Foreign Reserves

During the year of 2021 CBSL settled significant amount of foreign debt along with intervened in the market to stabilize the dollar around LKR 190-210 levels resulted, the gross official reserve of the nation to drop to US\$ 3.1 bn by the end of 2021 compared to US\$ 5.7bn in December 2020.

During 2021, Sri Lanka settled substantial amount of foreign debt including a payment of ISB amounting to US\$ 1 bn along with interest payments. However, major inflows was

seen in the form of swap facilities with Peoples' Bank of China (US 1.5 bn) and Bangladesh Bank (US\$ 200mn) coupled up with Special Drawing Rights from IMF amounting to US\$ 787 mn and term financing facilities from the China Development Bank amounting to US\$ 810 mn helped to replenish official reserve.

The foreign assets of the country were equivalent to 3.6 months of imports in 2021; whilst the same figure was 6.4 months of imports in 2020. The drop reserves promoted the credit rating agency to revise the credit ratings and to downgrade the credit rating of Sri Lanka.

Item	US\$ million (End period position)				
	2017	2018	2019	2020	2021 (a)
1. Government Foreign Assets	488	817	386	155	177
2. Central Bank Foreign Assets	7,470	6,102	7,256	5,510	2,962
3. Gross Official Reserves (1+2)	7,959	6,919	7,642	5,664	3,139
4. Foreign Assets of Deposit-taking Corporations	2,478	2,664	2,760	2,856	2,983
5. Total Foreign Assets (3+4) (b)	10,436	9,583	10,402	8,521	6,122
6. Reserve Related Liabilities (c)	1,361	1,425	1,771	2,121	3,562
7. Net International Reserves (NIR) (3-6)	6,597	5,495	5,871	3,543	-423
8. Overall Balance (d)	2,068	-1,103	377	-2,328	-3,967
9. Gross Official Reserves in Months of:					
9.1 Import of Goods	4.6	3.7	4.6	4.2	1.8
9.2 Import of Goods and Services	3.8	3.1	3.7	3.7	1.8
10. Total Foreign Assets in Months of:					
10.1 Import of Goods	6.0	5.2	6.3	6.4	3.6
10.2 Import of Goods and Services	4.9	4.3	5.1	5.6	3.4

(Figure 2: Foreign reserves of Sri Lanka. Source: CBSL Annual Report)

Primary Dealer (PD) Industry Performance

There are five Primary Dealer units in Licensed Commercial Banks and five standalone Primary Dealer Companies, all together ten in the Primary Dealer industry at end of 2021. The entire PD industry recorded a decrease in their performance in 2021 compared to 2020 as per the details of Central Bank of Sri Lanka. Below table reflects it properly.

Indicator	2021	2020
Total Assets (Rs. Bn)	78.7	87.2
Trading Portfolio (Rs. Bn)	54.9	62.6
HTC Portfolio (Rs. Bn)	12.6	14.7
FVTOCI Portfolio (Rs. Bn)	3.6	2.8
Profit/(Loss) After Tax (Rs. Bn)	(0.4)	4.9
ROA (%)	(0.7)	7.6
ROE (%)	(3.2)	30.5
RWCAR (%)	42.8	27

(Table 02: Primary Dealer (PD) Industry Performance Source : CBSL Annual Report 2021)

Total assets of PD industry decreased by 9.8% to Rs. 78.7 Billion in 2021. The trading portfolio decreased to Rs. 54.9 Billion by end 2021 from Rs. 62.6 billion recorded at end 2020, while the HTC portfolio declined to Rs. 12 Billion as at end 2021 from Rs. 14.7 Billion as at end 2020. The fair value through OCI portfolio increased to Rs. 3.6 Billion by end of 2021 compared to Rs. 2.8 Billion at end 2020.

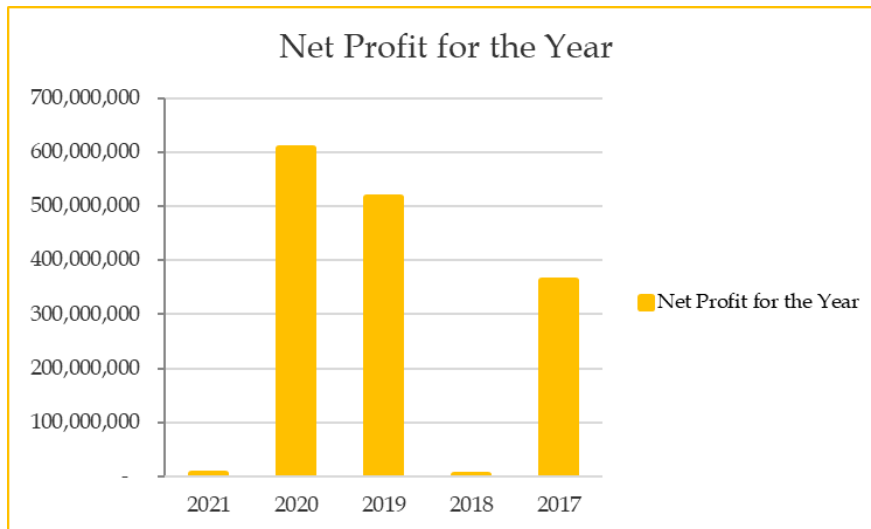
Total loss after tax of all PDs was Rs. 0.4 Billion during 2021 compared to the profit after tax of Rs. 4.9 Billion reported during 2020, indicating a significant decline in profitability due to the increase in market interest rates. The drop-in capital gains and increase in mark-to-market losses recorded by PDs in 2021 were the main reasons to the after-tax loss reported in 2021. Further, ROA and ROE of PDs have transformed to negative 0.7% and negative 3.2%, respectively, by end of 2021 from 7.6% and 30.5%, as recorded in 2020.

Total equity of PDs decreased by 6.7% mainly due to losses incurred during the year. However, the Risk Weighted Capital Adequacy Ratio (RWCAR) of the PDs was increased to 42.8% as at end 2021 from 27% reported as at end 2020.

Company Performance

The year 2021 was a more challenging year for Sri Lankan economy. NSB Fund Management Co. Ltd. also a victim of that economic disaster. All macro-economic factors changed adversely than predicted.

In 2021, the Company recorded a net profit of Rs. 6 Million with many difficulties even though it has been decreased the net profit of the Company by 99% compared to 2020.

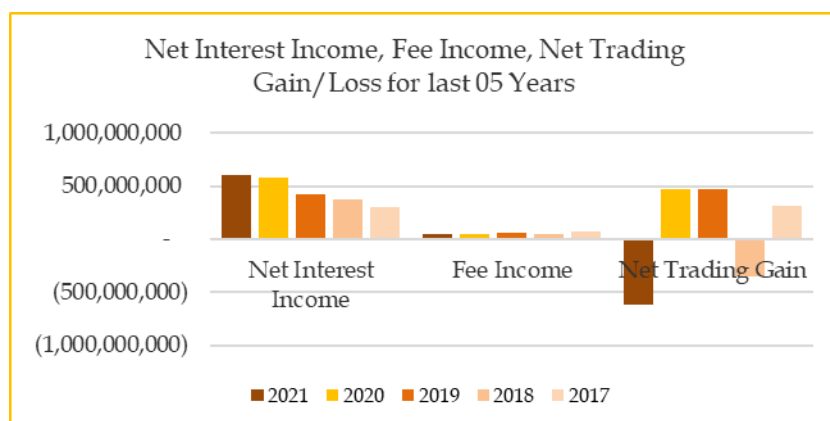


However, the net interest income of Government securities has increased in 2021 to Rs. 606 Million from 579 Million in 2020 showing an increase of 4.7%. The Company has managed the funding of the portfolio through lowest possible rates with the reasonable duration level to achieve 2.74% Net interest margin.

Due to the unfavorable movement in the market interest rates, net loss from the sale of T-bills & bonds was Rs. 615 Million in 2021 compared to the gain of Rs. 471.6 Million in 2020.

The fee income of the company recorded Rs. 49.6 Million during the year 2021 and it was Rs. 52.7 Million in 2020 showing a slight reduction due to completion of few trustee activities.

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



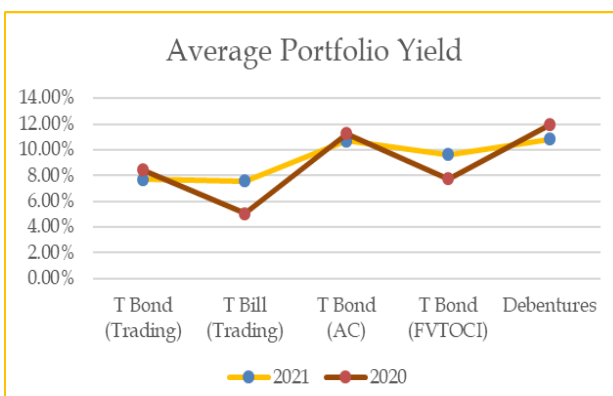
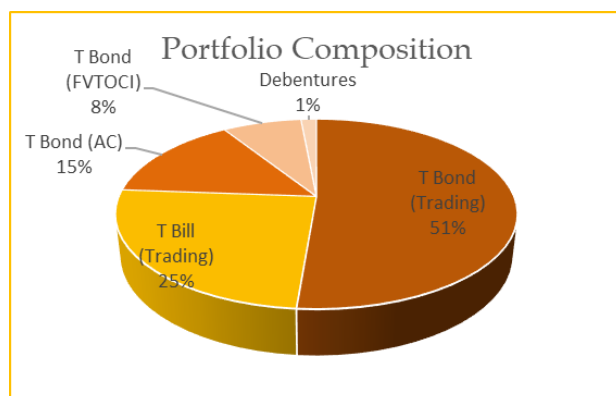
The Company paid Rs 25.7 Million by way of Value Added Tax (VAT) and also paid Rs. 35.5 Million as income tax for 2021.

Net assets of the Company stood at Rs. 3,440 Million as at 31st December 2021 in comparison to Rs.3,833 Million as at 31st December 2020.

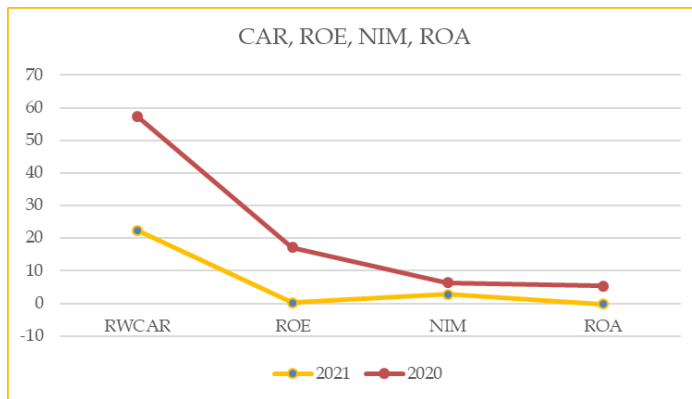
Total assets of the company stood at Rs. 27,751 Million by the end of 2021 compared to Rs. 16,881.7 Million in 2020 showing an asset growth of 64.3%. Among the total assets, Rs. 27,460 Million was Financial Assets and it was 64.6% increment comparison to 2020. Trading Portfolio of the Company records a 72% increase in 2021 and stood at Rs. 20,819 Million making the highest contribution to the total assets.

Repo borrowings of the Company recorded Rs. 23,756.7 Million in 2021 compared to Rs. 12,785 Million in 2020.

Portfolio composition and the average portfolio yield of the Company as at 31.12.2021 has been illustrated in the below charts.



Risk Weighted Capital Adequacy Ratio of the Company stood at 22% at the end of December 2021 while Return on Equity was 0.17%. Net Interest Margin was 2.74% and recorded slight reduction.

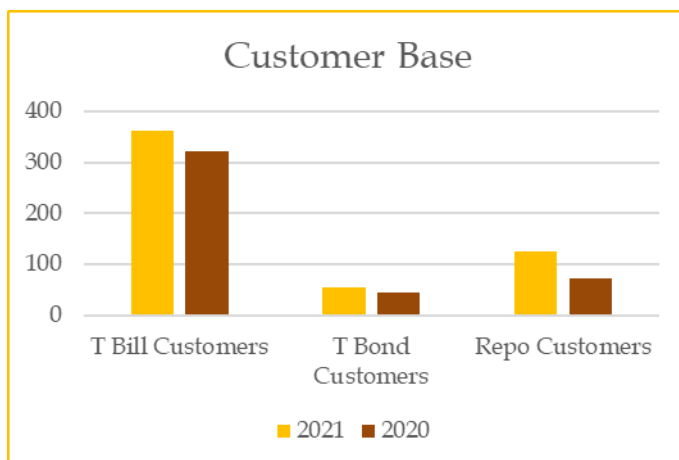


Human Capital

The Company has seventeen 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 subject knowledge and skills.

Customer Base



Customer base of the Company consists of Treasury Bill Customers, Treasury Bond Customers and Repo Customers. T-Bill customer base was increased by 12% at the end of 2021 compared to end of 2020. And T Bond customers and repo customers also increased by 23% and 71% respectively in 2021 than that of 2020.

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...

Future Initiatives

NSB FMC will continue to grow its investments and trading volumes while diversifying its business activities into Portfolio Management 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, Accounting System and Customer Management 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 2022-2024 and following initiatives have been planned,

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



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, 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. Jayawardena 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 28 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, Member of 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 Board Leadership Programme (GSLID) conducted by Sri Lanka Institute of Directors in partnership with International Finance Corporation (IFC). She read for 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.

Ms. Abeyesekera represented Sri Lanka in the Fortune Mentoring Programme for Women Leaders by the Department of State USA. She is also an Alumna of the International Visitor Leadership Programme (IVLP) of the Department of State USA. She received the AVOTS Scholarship Japan in 2015.

Ms. Abeyesekera has received many awards for Women Leadership – Women in Management SL (2012), World Women Leadership Congress – Mumbai (2015) and South Asian Partnership Summit – Dhaka (2017).

Other Current Appointments

Director – National Savings Bank, Council member CIMA UK, Director – Kapruka Holdings PLC, Council Member – Women Corporate Directors – Sri Lanka Chapter, Council Member – Sri Lanka Institute of Directors.

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 2021. The financial statements were reviewed and approved on 22nd February 2022.

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. 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 7-14 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 2021, duly signed by the Chief Executive Officer, Chairperson and one of Director of the Company and pages 38-66 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 2021 and their report on pages 33-37 on those statements which forms an integral part of the annual report of the Board of Directors.

Going Concern

The financial statements of the Company have been prepared on a going-concern basis in compliance with the new Sri Lanka Accounting Standards (SLFRS/LKAS) and in conformity with the generally accepted Accounting Principles and applied consistently and in accordance with

the Central Bank regulations. Reasonable and prudent judgments have been made where necessary when preparing the financial statements.

Capital Expenditure

The total capital expenditure incurred on fixed assets and intangible assets during the year amounted to Rs. 2,373,494/-.

Donations

No Donations were made during the year.

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 07 members. The Company complies with the corporate governance practices recommended by the Central Bank of Sri Lanka, the regulatory authority of the Company and follow the Sri Lanka Accounting Standards (SLFRS/LKAS) adopted by the Institute of Chartered Accountants of Sri Lanka.

The Board of Directors are responsible for granting approval to annual accounts, the annual budget and reviewing the financial performance of the company on regular basis. The Board is also responsible for granting approval to staff appointments, promotions, salaries and major capital expenditure. The Board has delegated the execution of corporate policy, management and administration to a management team headed by the CEO. The management ensures that the Board of Directors is provided with relevant background material to help make informed of the decisions, and altogether nine Board meetings were held in 2021.

Directors during the year 2021

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

Mr. Ajith Peiris (from 04.11.2020 to date)

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

Ms. Manohari Abeyesekera (from 17.01.2020 to date)

Mr. Oshada Rodrigo (from 13.01.2020 to date)

Mr. Jayantha Perera (from 02.06.2020 to date)

Mr. H.K.D. Lakshman Gamini (from 30.03.2021 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

Report of the Board Audit Committee

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

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

Composition of the Committee

The BAC comprises of the following Directors serving on the Committee during the year 2021.

Ms. Manohari Abeyesekera	- Chairperson
Mr. Oshada Rodrigo	- Member
Mr. Jayantha Perera	- Member

Meetings

The Committee held four (04) meetings during the year 2021 and the attendance of the Committee Members is given bellow,

Name	Eligible to attend	Attended
Ms. Manohari Abeyesekera	4	4
Mr. Oshada Rodrigo	4	3
Mr. Jayantha Perera	4	4

Reporting

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

(Sgd.)

Manohari Abeyesekera

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 2021.

Ms. Keasila Jayawardena - Chairperson
 Mr. U.G.R. Ariyaratne - Member
 Mr. Ajith Peiris - Member

Meetings

The Committee held six (06) meetings during the year 2021 and the attendance of the Committee members is given bellow,

Name	Eligible to attend	Attended
Ms. Keasila Jayawardena	6	5
Mr. U.G.R. Ariyarathna	6	6
Mr. Ajith Peiris	6	6

(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 2021.

Mr. Jayantha Perera	- Chairman
Ms. Manohari Abeyesekera	- Member
Mr. Oshada Rodrigo	- Member

Meetings

The Committee held four (04) meetings during the year 2021 and the attendance of the Committee members is given bellow,

Name	Eligible to attend	Attended
Mr. Jayantha Perera	4	4
Ms. Manohari Abeyesekera	4	4
Mr. Oshada Rodrigo	4	4

(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.

BAN/A/NSBFMC/2021/FA/01

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

31 March 2022

Chairperson

NSB Fund Management Company Limited

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the NSB Fund Management Company Limited for the year ended 31 December 2021 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 the NSB Fund Management Company Limited (“Company”) for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and 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 give a true and fair view of the financial position of the Company as at 31 December 2021, 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.

Page 1 | 5



1.3 Other information included in the Company's 2021 Annual Report.

The other information comprises the information included in the Company's 2021 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 2021 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.

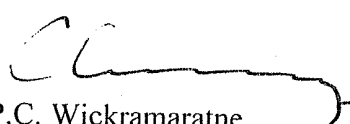
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If 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. 7 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 (2) 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 cause 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 2021

	Note	2021 Rs.	2020 Rs.
Interest Income	4	1,442,708,117	1,501,182,386
Interest Expense	5	(836,931,814)	(922,406,445)
Net Interest Income		605,776,303	578,775,941
Fees & Commission Income		49,678,195	52,774,850
Fee and Commission Expenses		(2,879,610)	(5,800,029)
Net Fee and Commission Income		46,798,586	46,974,821
Net Gain/(Loss) From Financial Instruments at Fair Value through Profit and Loss	6	(615,385,479)	471,652,283
Other Income	7	93,305	(6,753)
Total Operating Income		37,282,715	1,097,396,292
Impairment Adjustment		(78,927)	111,647
Net Operating Income		37,203,788	1,097,507,939
Personnel Costs	8.1	(39,121,042)	(28,317,920)
Depreciation & Amortization		(6,487,768)	(5,151,655)
Other Expenses		(27,207,972)	(22,994,665)
Operating Profit/(Loss) before VAT & NBT		(35,612,993)	1,041,043,699
VAT on Financial Services	9	(1,079,784)	(139,956,232)
Profit/(Loss) before Taxation	8	(36,692,777)	901,087,467
Income Tax Expense	10	42,741,854	(292,941,448)
Profit for the Year		6,049,077	608,146,019
Other Comprehensive Income			
Other comprehensive income to be reclassified to Income Statement			
Revaluation of Securities Gain / Loss T Bonds (FVTOCI)		(146,091,218)	56,276,237
Other comprehensive income not to be reclassified to Income Statement			
Actuarial Gain/(Loss) on Retirement Benefit Obligation		(2,577,581)	1,525,627
Total Comprehensive income for the year		(142,619,722)	665,947,883
Earnings Per Share	11	0.04	3.58
Dividend Per Share (Rs.)	12	1.47	1.00

Figures in brackets indicate deductions.

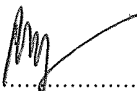
The accounting policies and notes on pages 05 through 29 form an integral part of the financial statements.



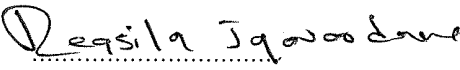
NSB Fund Management Company Limited
STATEMENT OF FINANCIAL POSITION
As at 31 December 2021

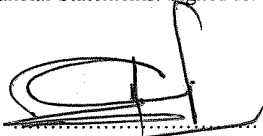
	Note	2021 Rs.	2020 Rs.
ASSETS			
Cash and Cash Equivalents	13	1,546,673	1,195,746
Financial Assets at Fair Value through Profit and Loss (Trading)	14	20,819,219,658	12,092,391,974
Loans and Advances at Amortized Cost	15	10,583,063	12,320,518
Financial Assets at Amortized Cost – Held-to-Collect	16	4,620,851,591	3,926,608,853
Financial Assets at fair value through other comprehensive income	17	2,009,013,271	648,008,165
Equity Investments at fair value through other comprehensive income	18	2,000,000	2,000,000
Property, Plant & Equipment	19	7,102,581	6,293,677
Intangible Assets	20	4,693,629	5,983,334
ROU Asset	21	35,729,150	39,362,623
Income Tax Receivable		67,401,151	-
Deferred Tax Asset	22	874,758	-
Other Assets	23	171,990,773	147,601,170
Total Assets		27,751,006,297	16,881,766,060
LIABILITIES & EQUITY			
Liabilities			
Borrowings under Repurchase Agreements	24	23,756,715,444	12,785,463,019
Amount Due to Related Parties	25	502,893,278	2,660,451
Other Liabilities	26	7,518,472	5,974,098
Lease Liability	27	38,296,481	39,430,080
Income Tax Payable		-	213,226,488
Deferred Tax Liability	22	-	125,711
Retirement Benefit Obligation	28	5,131,153	1,815,021
Total Liabilities		24,310,554,828	13,048,694,868
Equity			
Stated Capital	29	1,700,000,000	1,700,000,000
Retained Earnings		1,002,038,886	1,250,079,660
Other Reserves	30	738,412,583	882,991,532
		3,440,451,469	3,833,071,191.15
Total Equity and Liabilities		27,751,006,297	16,881,766,060

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 05 through 29 form an integral part of the financial statements.



22 February 2022
Colombo

NSB Fund Management Company Limited
STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2021

	Stated Capital Rs.	Special Risk Reserve Rs.	FVTOCI Reserve Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 01 January 2020	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/(Loss)	-	-	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	<u>1,700,000,000</u>	<u>865,558,198</u>	<u>17,433,334</u>	<u>1,250,079,660</u>	<u>3,833,071,191</u>
Profit for the year	-	-	-	6,049,077	6,049,077
Other Comprehensive Income	-	-	(146,091,218)	(2,577,581)	(148,668,799)
Total Comprehensive Income	-	-	(146,091,218)	3,471,496	(142,619,722)
Transfers	-	1,512,269	-	(1,512,269)	-
Dividend Paid	-	-	-	(250,000,000)	(250,000,000)
Balance as at 31 December 2021	<u>1,700,000,000</u>	<u>867,070,467</u>	<u>(128,657,884)</u>	<u>1,002,038,886</u>	<u>3,440,451,469</u>

Figures in brackets indicate deductions.

The accounting policies and notes on pages 05 through 29 form an integral part of the financial statements.



STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	2021 Rs.	2020 Rs.
Cash flows from Operating Activities		
Interest Receipts	1,336,311,200	1,609,990,023
Interest Payment	(698,960,213)	(940,168,370)
Net Fee Income Receipts	46,798,586	46,974,821
Trading Income	47,822,259	401,862,832
Payment to Employees	(44,897,827)	(28,982,554)
VAT on Financial Services	(25,729,439)	(155,219,903)
Payment on Other Operating Activities	(23,216,837)	(23,610,396)
Operating profit before change in Operating Assets & Liabilities	638,127,729	910,846,452
(Increase) / decrease in Operating Assets		
Financial Assets at FVTPL	(9,390,035,423)	(1,422,001,250)
Financial Assets at FVTOCI	(1,507,096,324)	417,973,846
Financial Assets at Amortized Cost – Loans & Advances	1,737,454	8,616,410
Financial Assets at Amortized Cost – Debt & Other Instrument	(694,242,738)	6,856,091
Other Assets	(24,389,603)	(8,946,845)
Increase / (decrease) in Operating Liabilities		
Financial Liabilities at Amortized Cost	10,971,252,426	371,820,287
Other Liabilities	1,544,374	(21,986,614)
Net cash generated from operating activities before Income Tax	(3,102,104)	263,178,377
Income Tax paid	(238,886,254)	(240,230,885)
Net cash (used in) / from Operating Activities	(241,988,358)	22,947,492
Cash flows from Investing Activities		
Purchase of Property, Plant and Equipment	(2,373,494)	(2,210,189)
Purchase of Intangible Assets	-	(6,048,534)
Advances paid to Fixed Assets	-	(7,342,716)
Net cash (used in)/from Investing Activities	(2,373,494)	(15,601,439)
Cash flows from Financing Activities		
Principal Payments on ROU Asset	(5,520,000)	(5,520,000)
Dividends paid to Related Parties	(250,000,000)	(170,000,000)
Borrowings from Related Parties	500,232,827	-
Net cash from Financial Activities	244,712,827	(175,520,000)
Net increase/(decrease) in Cash & Equivalents	350,974	(168,173,947)
Cash and Cash Equivalents at the beginning of the year	1,195,775	169,369,722
Cash and Cash Equivalents at the end of the year	1,546,750	1,195,775
Reconciliation of Cash and Cash Equivalents		
Cash at Bank and Cash in Hand	1,539,966	1,190,201
Balance with Central Bank	6,784	5,574
	1,546,750	1,195,775

Figures in brackets indicate deductions.

The accounting policies and notes on pages 05 through 29 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 03.

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

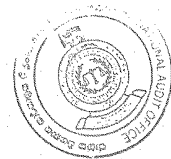
The Company is a wholly owned subsidiary of National Savings Bank.

1.3 Approval of Financial Statements

The Financial statements for the year ended 31 December 2021 were authorized for the issue by the Directors on 22/02/2022.

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.

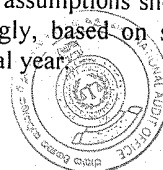
2.5 Use of Estimates and Judgment

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

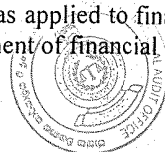
Debt Instruments

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:

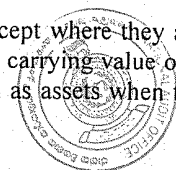
- If a host contract contains one or more embedded derivatives; or
- If financial assets and liabilities are both managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

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.

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

3.5 Right of Used (ROU) Assets

3.5.1 Recognition and Measurement

The right of used asset recognizes at the commencement date of the lease, which is the present value of lease payments to be made over the lease term.

ROU Assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognize and lease payments made at or before the commencement date less any lease incentives received.

The recognized ROU assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term.

LIABILITIES AND PROVISIONS

3.6 Employee Benefits

3.6.1 Defined Benefit Plans

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

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

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

3.6.3 Short-term Benefits

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

3.7 Non-derivative Financial Liabilities

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

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

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

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

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

3.8 Provisions

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



3.9 Income Statement

3.9.1 Revenue Recognition

3.9.1.1 Interest and Similar Income

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

3.9.1.2 Fee and Commission Income

Fee and commission income include service charges, Trustee Fees, Custodian Fees, Collateral Manager Fees, RTGS Fees which are recognized when the related services are performed.

3.9.1.3 Trading Income

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

3.9.2 Expenses

3.9.2.1 Interest and Similar Expenses

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

3.9.2.2 Income Tax Expense

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

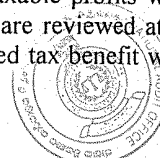
Current Tax

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

Deferred Tax

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

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



Value Added Tax on Financial Services

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

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.



NSB Fund Management Company Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2021

4. INTEREST INCOME	2021	2020
	Rs.	Rs.
Interest on Treasury Bills/Bonds/R.Repo	1,405,849,732	1,471,688,669
Interest on Debentures	36,858,385	29,493,717
	<u>1,442,708,117</u>	<u>1,501,182,386</u>
5. INTEREST EXPENSE	2021	2020
	Rs.	Rs.
Interest Expense on Repurchase Agreements	835,746,882	922,406,445
Interest Expense on Other Borrowings	1,184,932	-
	<u>836,931,814</u>	<u>922,406,445</u>
6. NET GAIN/(LOSS) FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS	2021	2020
	Rs.	Rs.
Realised	47,822,259	401,862,832
Unrealised	(663,207,739)	69,789,451
	<u>(615,385,479)</u>	<u>471,652,283</u>
7. OTHER INCOME	2021	2020
	Rs.	Rs.
Other Income	93,305	(6,753)
	<u>93,305</u>	<u>(6,753)</u>
8. PROFIT BEFORE TAXATION	2021	2020
	Rs.	Rs.
Profit before taxation is stated after charging all expenses including the following		
Auditor's Remuneration	2,135,880	1,730,750
Depreciation on PPE	5,198,063	4,899,786
Amotisation of Intangible Assets	1,289,705	251,869
Personnel Costs (8.1)	39,121,042	28,317,920
8.1 Personnel Costs	2021	2020
	Rs.	Rs.
Salaries	28,623,414	19,711,714
Defined Contribution Plan Cost - EPF and ETF	2,439,987	1,557,769
Defined Benefit Plan Cost - Retirement Gratuity	738,551	393,229
Other Staff Cost	7,319,090	6,655,208
	<u>39,121,042</u>	<u>28,317,920</u>
8.2 Personel Cost of Seconded Employees included in Note 8.1	2021	2020
	Rs.	Rs.
Salaries & Allowances	8,988,474	6,803,685
Defined Contribution Plan Cost - EPF and ETF	1,348,271	1,020,553
Contributon to Pension Fund	1,078,617	816,442

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

	2021 Rs.	2020 Rs.
Current Income Tax		
Current Income Tax charge on ordinary activities for the year	-	292,189,694
Under/(Over) Provision of current taxes in respect of prior years	(41,741,385)	288,392
	(41,741,385)	292,478,086
Deferred Income Tax		
Deferred Taxation Charge/(Reversal) for current year	(982,511)	463,362
Under/(Over) Provision of deferred tax in respect of prior years	(17,958)	-
Income Tax Expense Reported in the Income Statement	(42,741,854)	292,941,448

Reconciliation between Current Tax Expenses and the Accounting Profit

	2021 Rs.	2020 Rs.
Accounting Profit /(Loss) before Tax from Continuing Operations	(36,692,777)	901,087,467
Income not Liable for Tax	-	-
Other Aggregate Disallowed Items	12,771,430	151,007,805
Other Aggregate Deductible Items	(7,596,633)	(7,560,651)
Qualifying Payments	-	(1,000,000)
Taxable Profit	(31,517,979)	1,043,534,621
Income Tax Rate	24%	28%
Current Income Tax Expense	-	292,189,694
	-	292,189,694

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;

	2021 Rs.	2020 Rs.
Profit Attributable to Ordinary Shareholders	6,049,077	608,609,381
Weighted Average Numbers of Ordinary Shares	170,000,000	170,000,000
Earnings Per Share	0.04	3.58

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

	2021 Rs.	2020 Rs.
Weighted Average Numbers of Ordinary Shares	170,000,000	170,000,000
Dividends paid (Rs.)	250,000,000	170,000,000
Dividend per share	1.47	1.00



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13. CASH & CASH EQUIVALENTS

	2021 Rs.	2020 Rs.
Cash at Bank and Cash in Hand	1,539,966	1,190,201
Balance with Central Bank	6,784	5,574
Impairment Provision	(77)	(29)
Cash & Cash Equivalents for the Purpose of Cash Flow Statement	1,546,673	1,195,746

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

	2021 Rs.	2020 Rs.
Treasury Bills	6,921,455,196	5,939,103,056
Treasury Bonds	13,897,764,461	6,153,288,917
	20,819,219,658	12,092,391,974

15. LOANS AND ADVANCES AT AMORTIZED COST

	2021 Rs.	2020 Rs.
Loans & Advances from Banks	1,620,235	-
Loans & Advances from Other Customers	8,962,828	12,320,518
	10,583,063	12,320,518

The fair value of the securities pledged for Reverse Repo is Rs. 11,680,689 (2020 - Rs. 13,302,071)

16. FINANCIAL ASSETS AT AMORTIZED COST - HELD TO COLLECT

	2021 Rs.	2020 Rs.
Treasury Bonds	4,189,736,259	3,684,747,179
Debentures	431,230,126	241,897,589
Impairment Provision	(114,795)	(35,916)
	4,620,851,591	3,926,608,853

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2021 Rs.	2020 Rs.
Treasury Bonds	2,009,013,271	648,008,165
	2,009,013,271	648,008,165

18. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2021		2020	
	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
	2,000,000	2,000,000	2,000,000	2,000,000



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19. PROPERTY, PLANT AND EQUIPMENT	Balance as at 01/01/2021	Additions during the year	Disposals/Transfers during the year	Balance as at 31/12/2021
Cost	Rs.	Rs.	Rs.	Rs.
Computer Equipment	6,662,417	1,787,745	-	8,450,162
Swift Equipment	913,903	-	-	913,903
Office Equipment	3,204,852	-	-	3,204,852
Furniture & Fittings	1,846,485	585,749	-	2,432,234
	<u>12,627,658</u>	<u>2,373,494</u>	<u>-</u>	<u>15,001,152</u>
Accumulated Depreciation	Balance as at 01/01/2021	Charge for the year	Depreciation on Disposals/Transfers	Balance as at 31/12/2021
	Rs.	Rs.	Rs.	Rs.
Computer Equipment	4,285,306	1,080,405	-	5,365,711
Swift Equipment	913,901	-	-	913,901
Office Equipment	804,006	294,451	-	1,098,457
Furniture & Fittings	330,767	189,734	-	520,500
	<u>6,333,980</u>	<u>1,564,590</u>	<u>-</u>	<u>7,898,570</u>
Carrying Amount			2021	2020
			Rs.	Rs.
Net Book Value as at 31 December			<u>7,102,581</u>	<u>6,293,677</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;

	2021	2020
	Rs.	Rs.
Computer Equipment	2,581,079	2,581,079
Swift Equipment	913,903	913,903
Office Equipment	260,170	260,170
Furniture & Fittings	136,936	96,838

20. INTANGIBLE ASSET	Balance as at 01/01/2021	Additions during the year	Disposals/Transfers during the year	Balance as at 31/12/2021
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>8,418,127</u>	<u>-</u>	<u>-</u>	<u>8,418,127</u>
Accumulated Amortisation & Impairment Loss	Balance as at 01/01/2021	Charge for the year	Depreciation on Disposals/Transfers	Balance as at 31/12/2021
	Rs.	Rs.	Rs.	Rs.
SWIFT License Fee	1,058,562	-	-	1,058,562
SWIFT Entrance Fee	911,031	-	-	911,031
Board Pac	293,330	79,999	-	373,329
JBOSS Enterprise Application Software	171,870	1,209,706	-	1,381,576
	<u>2,434,794</u>	<u>1,289,705</u>	<u>-</u>	<u>3,724,498</u>
Carrying Amount			2021	2020
			Rs.	Rs.
Carrying Amount			<u>4,693,629</u>	<u>5,983,334</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;

	2021	2020
	Rs.	Rs.
SWIFT License Fee	1,058,562	1,058,562
SWIFT Entrance Fee	911,031	911,031

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21. ROU ASSET (RIGHT-OF-USE ASSET)	2021	2020
	Rs.	Rs.
Opening balance	43,601,674	43,601,674.37
Additions/Disposals	-	-
Closing Balance	43,601,674	43,601,674
Depreciation	(7,872,525)	(4,239,052)
Net Asset Value	35,729,150	39,362,623
22. DEFERRED TAX ASSET/(LIABILITY)	2021	2020
	Rs.	Rs.
Balance at the beginning of the year	(125,711)	337,651
Under/(Over) Provision of deferred taxes in respect of prior years	17,958	-
Provision/(reversal) for the year	982,511	(463,362)
Balance at the end of the year	874,758	(125,711)
<i>The closing Deferred Tax Asset balance relates to the following</i>		
Accumulated Depreciation	(356,719)	(633,917)
Increment Benefit Obligation	1,231,477	508,206
	874,758	(125,711)
23. OTHER ASSETS	2021	2020
	Rs.	Rs.
Other Receivables	3,548,000	3,808,050
Receivable From Treasury	88,939,587	88,939,587
VAT Receivable	35,662,533	11,012,880
Advance paid to Fixed Assets	43,840,653	43,840,653
	171,990,773	147,601,170
24. BORROWINGS UNDER REPURCHASE AGREEMENTS	2021	2020
	Rs.	Rs.
Due within 1 year	23,756,715,444	12,785,463,019
	23,756,715,444	12,785,463,019
25. AMOUNT DUE TO RELATED PARTY	2021	2020
	Rs.	Rs.
Credit Line Facility with National Savings Bank	501,184,932	-
Other Payables to National Savings Bank	1,708,346	2,660,451
	502,893,278	2,660,451
26. OTHER LIABILITIES	2021	2020
	Rs.	Rs.
Accrued Expenses	6,518,472	5,199,098
Advances Received	1,000,000	775,000
	7,518,472	5,974,098
27. LEASE LIABILITY	2021	2020
	Rs.	Rs.
Opening Balance	39,430,080	40,443,392
Additions	-	-
Interest Expense	4,386,401	4,506,688
Principal Payment	(5,520,000)	(5,520,000)
Closing Balance	38,296,481	39,430,080



28. RETIREMENT BENEFIT OBLIGATION

	2021 Rs.	2020 Rs.
Balance at the beginning of the year	1,815,021	2,947,418
Current Service Cost	549,645	158,025
Interest for the year	188,906	235,204
Deficit/(Surplus) charge for the year	2,577,581	(1,525,627)
Payments made during the year	-	-
Balance at the end of the year	<u>5,131,153</u>	<u>1,815,021</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 2021. The principal assumptions used in determining the cost of employee benefits were:

	2021	2020
Discount rate	10.50%	7.98%
Future Salary Increment	5.20%	1.87%
Staff Turnover Rate & Average Future Working Life Time		
Age Group	25-34	35-44
Staff Turnover Rate	15.00%	0%
Average Future Working Life Time - Years	6.50	6.00

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	(235,423)	249,443
One percentage point change in the salary escalation rate	259,853	(249,228)

Assumptions

Financial Assumptions - Rate of discount, Salary increment rate
Demographic Assumptions - Mortality, Staff turn over, Disability, Retirement age

29. STATED CAPITAL

	2021 Rs.	2020 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. OTHER RESERVES

	2021 Rs.	2020 Rs.
Special Risk Reserve (Note 30.1)	867,070,467	865,558,198
FVTOCI Reserve (Note 30.2)	(128,657,884)	17,433,334
	<u>738,412,583</u>	<u>882,991,532</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.

- 30.2** FVTOCI reserve represents the Revaluation Gain/(Loss) of Government Securities at Fair Value Through Other Comprehensive Income Portfolio. It is recorded a negative figure at the end of the year due to increase in the market interest rates.



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 2021	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	768,464,183	9,439,107,231	6,296,545,393	4,306,964,336	8,138,515	20,819,219,658
Government Securities at Amortized Cost	108,843,797	498,516,950	1,397,038,762	203,002,750	1,982,334,000	4,189,736,259
Corporate Debentures	20,745,332	-	217,420,000	192,950,000	-	431,115,332
Government Securities at FVTOCI	80,054,563	203,210,000	-	63,126,835	1,662,621,872	2,009,013,271
Loans & Advances	5,673,030	4,910,034	-	-	-	10,583,063
ROU Assets	908,368	2,725,105	7,266,946	7,266,946	17,561,786	35,729,150
Total Interest Earning Assets	984,689,273	10,148,469,320	7,918,271,101	4,773,310,867	3,670,656,172	27,495,396,733
Total non Interest Earning Assets						255,609,565
Total Assets						27,751,006,297
Liabilities						
Government Securities sold under Repurchase Agreement	22,189,919,399	1,566,796,046	-	-	-	23,756,715,444
Credit Line Facility	501,184,932	-	-	-	-	501,184,932
Lease Liability	303,832	1,060,785	4,315,512	6,186,957	26,429,394	38,296,481
Total Interest bearing Liabilities	22,691,408,163	1,567,856,830	4,315,512	6,186,957	26,429,394	24,296,196,857
Total non int. bearing Liabilities						515,542,903
Shareholder's Fund						3,440,451,469
Total Equity and Liabilities						28,252,191,229

As at 31 December 2020

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	4,907,259	-	-	-	12,320,518
ROU Assets	1,211,158	2,422,315	7,266,946	7,266,946	21,195,258	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	39,430,079
Total Interest bearing Liabilities	10,510,429,693	2,276,166,925	3,401,478	4,933,892	29,961,111	12,824,893,098
Total non int. bearing Liabilities						223,801,769
Shareholder's Fund						3,833,071,191
Total Equity and Liabilities						16,881,766,060

32. FINANCIAL ASSETS PLEDGED AS COLLATERALS

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

	2021 Rs.	2020 Rs.
Fair Value of Government Securities Pledged as Collaterals	25,980,375,134	13,751,062,715



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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 and Sri Lanka Government Securities - Treasury Bonds.

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 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 2021

	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Financial Assets - Held for Trading	20,819,219,658	-	-	20,819,219,658
Fair Value Through Other Comprehensive Income	-	2,009,013,271	-	2,009,013,271
Equity Investments	-	-	2,000,000	2,000,000
	<u>20,819,219,658</u>	<u>2,009,013,271</u>	<u>2,000,000</u>	<u>22,830,232,929</u>

As at 31 December 2020

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>



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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 2021		31 December 2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	Rs.	Rs.	Rs.	Rs.
Financial Assets				
Cash and Bank	1,546,673	1,546,673	1,195,746	1,195,746
Loans and Advances	10,583,063	11,680,689	12,320,518	13,302,071
Financial Assets as Held to Collect	4,189,736,259	4,210,631,524	3,684,747,179	4,005,730,899
Total Financial Assets	4,201,865,995	4,223,858,886	3,698,263,444	4,020,228,717
Financial Liabilities				
Borrowings under Repurchase Agreements	23,756,715,444	25,980,375,134	12,785,463,019	13,751,062,715
Amounts Due to Related Parties	502,893,278	502,893,278	2,660,451	2,660,451
Total Financial Liabilities	24,259,608,722	26,483,268,412	12,788,123,470	13,753,723,166

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

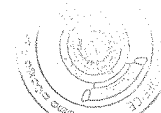
The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the Financial Statements.

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 risks

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

Interest rate risk include in the market price movement 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.

Performance of the Comany is monitored by the Department of Supervision of Non-Bank Financial Institutions 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.



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34.1 Credit Risk

Credit Risk Analysis - Maturity Profile Analysis of Financial Assets
As at 31 December 2021 - Face Value Analysis

Instrument	Overnight Rs.	2-7 Days Rs.	8-30 Days Rs.	31-91 Days Rs.	92-182 Days Rs.	183-365 Days Rs.	Above 365 Days Rs.
Reverse Repo	-	833,000	-	375,000	1,500,000	5,718,000	3,445,000
Treasury bills	-	48,301,666	97,504,361	429,929,652	3,215,915,663	3,464,982,384	-
Treasury bonds	-	-	-	-	250,484,175	3,570,024,189	16,618,408,133
Total	-	49,134,666	97,504,361	430,304,652	3,467,899,838	7,040,724,573	16,621,853,133

Credit Risk Analysis - Maturity Profile Analysis of Financial Assets
As at 31 December 2020 - Face Value Analysis

Instrument	Overnight Rs.	2-7 Days Rs.	8-30 Days Rs.	31-91 Days Rs.	92-182 Days Rs.	183-365 Days Rs.	Above 365 Days Rs.
Reverse Repo	150,000	-	2,767,500	4,299,476	224,803	4,682,456	-
Treasury bills	2,857,000	-	75,339,264	3,754,213,415	2,056,126,739	121,818,843	-
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



NSB Fund Management Company Limited
NOTES TO THE FINANCIAL STATEMENTS
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34. FINANCIAL RISK MANAGEMENT (Contd...)

34.2 Liquidity Risk

Liquidity risk Analysis - Maturity Profile Analysis of Financial Liabilities
As at 31 December 2021 - Face Value Analysis

Instrument	Overnight Rs.	2-7 Days Rs.	8-30 Days Rs.	31-91 Days Rs.	92-182 Days Rs.	183-365 Days Rs.	Above 365 Days Rs.
Customer Repo	-	47,320,000	91,386,000	390,317,000	310,153,000	5,055,249,000	16,549,313,609
Repo	-	-	-	-	2,952,300,000	1,273,500,000	-
Total	-	47,320,000	91,386,000	390,317,000	3,262,453,000	6,328,749,000	16,549,313,609

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

Instrument	Overnight Rs.	2-7 Days Rs.	8-30 Days Rs.	31-91 Days Rs.	92-182 Days Rs.	183-365 Days Rs.	Above 365 Days Rs.
Customer Repo	-	-	18,060,028	2,003,026,623	400,930,655	1,121,219,965	4,403,220,465
Repo	-	-	-	3,186,733,160	823,548,797	9,236,321	718,071,502
Total	-	-	18,060,028	5,189,759,783	1,224,479,453	1,130,456,486	5,121,291,967

34.3 Market risk

Sensitivity Analysis of Re-Pricing of assets and liabilities
Maturity of assets and liabilities - Market Value

Instrument	1-7 Days Rs.	8-30 Days Rs.	31-91 Days Rs.	92-182 Days Rs.	183-365 Days Rs.	1-2 Years Rs.	2-5 Years Rs.	Above 5 Years Rs.
Assets	831,951	-	367,805	1,607,619	5,419,382	-	3,453,932	-
Reverse Repo	-	-	-	254,504,446	3,545,235,397	2,718,063,925	9,604,476,594	3,609,589,215
T.Bonds	48,240,806	97,241,006	426,341,781	3,105,329,310	3,244,302,428	-	-	-
T.Bills	-	-	-	-	-	217,420,000	192,950,000	-
Debentures	-	-	-	-	-	-	-	-
Total	49,072,757	97,241,006	426,709,585	3,361,441,375	6,794,957,208	2,935,483,925	9,800,880,526	3,609,589,215

Liabilities

Capital & Profit

Repo	47,260,424	90,865,008	385,330,141	3,160,046,807	6,131,134,715	2,754,948,650	9,713,655,983	3,440,451,469
Total	47,260,424	90,865,008	385,330,141	3,160,046,807	6,131,134,715	2,754,948,650	9,713,655,983	3,697,133,407

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	2021 Rs.	2020 Rs.
Treasury bond trading portfolio	(38,735,693)	(15,015,454)
	(286,374,321)	(105,257,908)
	(325,110,015)	(120,273,362)



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. 1,072,000/- (2020 - Rs. 865,833/-).

(b) Transactions with related parties

The following transactions were carried out with related parties during the year ended 31 December 2021.

Items in Income Statement		2021 Rs.	2020 Rs.
National Savings Bank	Interest Received from investment in Reverse Repo	1,504,517	2,756,805
	RTGS Charges Income	166,600	762,050
	Custodian Fee Income	42,000,000	42,000,000
	Trustee Fee Income	1,550,000	1,250,000
	Interest Paid on Repurchase agreements	23,759,416	43,175,446
	Interest Expense on Credit Line Facility	1,184,932	-
	Legal Fees	300,000	300,000
	Dividend Paid	250,000,000	170,000,000

Items in Statement of Financial Position

National Savings Bank	Borrowing under Repurchase agreements	1,206,998,013	1,043,133,521
	Credit Line Facility obtained	501,184,932	-
	Other Payables	1,708,346	2,660,451
	Trustee Fee Receivable	-	250,000
	Custodian Fee Receivable	3,500,000	3,500,000

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

	2021 Rs.	2020 Rs.
Credit Line Facility agreed by National Savings Bank	-	500,000,000

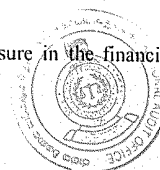
36.2 Capital Commitments

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

	2021		2020	
	Rs.	USD	Rs.	USD
Approved and contracted for Treasury System	31,343,400	158,300	29,206,350	158,300

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.



NSB Fund Management Company Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2021

Personnel Costs	2021 Rs.	2020 Rs.
Salaries and Wages	16,282,639	10,385,125
Employee Emoluments	12,340,774	9,326,589
Medical Expenses	1,380,332	478,433
O/T Out Pocket Allowance	234,430	592,179
EPF	1,951,989	1,246,215
ETF	487,997	311,554
Bonus	4,093,809	4,547,289
Encashment of Privilege Leave	1,072,018	856,057
Staff Training Expenses	478,500	181,250
Gratuity expense	738,551	393,229
Membership Subscription	60,000	-
	39,121,042	28,317,920

Other Expenses	2021 Rs.	2020 Rs.
Directors Fees	1,072,000	865,833
Audit Fees	2,135,880	1,730,750
Bank Charges	67,900	45,450
Annual Membership Fees	325,500	135,500
Swift Charges	1,429,565	1,298,152
Bloomberg Charges	9,603,962	5,647,720
Sundry Expenses	586,461	405,659
Sales Promotion	1,069,982	285,100
Stationery	180,489	378,432
Chargeable Equipment	52,856	45,095
Travelling	292,738	247,501
Postage	2,963	1,700
Electricity	1,345,018	1,342,831
Telephone Charges	1,312,024	1,283,228
Water Tax	62,029	56,413
Maintenance of Computers	463,500	311,548
Maintenance of Office Equipments	302,422	419,513
Office Renovation Expenses	861,876	269,844
CSE Rental and Communication Charges	574,290	583,267
Publication Expenses	385,116	399,298
Professional Fees	635,000	300,000
Secretarial Fee	60,000	60,000
Lease Interest on ROU Asset	4,386,401	4,506,688
Insurance Expense	-	144
Commitment & Processing Fee	-	1,375,000
Donations to Itukama Fund	-	1,000,000
	27,207,972	22,994,665



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 Abeyesekera 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.