



Annual Report 2022



“A winner is a dreamer who never gives up.”- Nelson Mandela

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1. Company Profile

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.

Our Vision

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

Our 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

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.

We Offer

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.

	2022	2021	2020	2019	2018
Operating Result					
Interest Income (Rs Mn)	2,342	1,443	1,501	1,449	1,266
Net Gain/(Loss) from FVTPL (Rs Mn)	(2,518)	(615)	472	472	(355)
Interest Expenses (Rs Mn)	(2,290)	(837)	(922)	(1,021)	(892)
Net Operating Income (Rs Mn)	(2,449)	37	1,098	954	66
Operating Expenses, Provisions, VAT & NBT	(347)	(74)	(196)	(186)	(63)
Profit/(Loss) before Taxation (Rs Mn)	(2,796)	(37)	901	768	3
Income Tax Reversal/(Expenses) (Rs Mn)	770	43	(293)	(253)	(3)
Profit/(Loss) for the year (Rs Mn)	(2,026)	6	608	515	0.035
Earnings/(Loss) per Share (Rs.)	(7.23)	0.04	3.58	3.03	0.0003
Assets					
Cash & Cash Equivalents (Rs Mn)	2	1.5	1	169	3
Other Financial Assets (Rs Mn)	13,908	27,449	16,667	15,614	15,815
Loans & Advances (Rs Mn)	79	10.5	12	21	25
P.P.E./Intangible Assets (Rs Mn)	10	12	12	6	3
Other Assets (Rs Mn)	1,063	278	189	177	326
Total Assets	15,062	27,751	16,882	15,986	16,172
Liabilities & Equity					
Borrowings (Rs Mn)	10,446	23,757	12,785	12,414	13,441
Other Liabilities (Rs Mn)	901	554	263	235	7
Equity (Rs Mn)	3,715	3,440	3,833	3,337	2,723
Total Liabilities & Equity	15,062	27,751	16,882	15,986	16,172
Ratios					
Return on Equity (%)	-	0.17	16.96	17.01	0.0015
Return on Investment (%)	0.25	2.74	3.58	2.72	3.03

Net Profit Ratio (%)	-	0.69	30.02	26.03	0.0037
Average Yield	18.20	8.39	7.80	10.50	10.35
Other Information					
No. of Employees	22	22	20	17	16

2. Financial Highlights

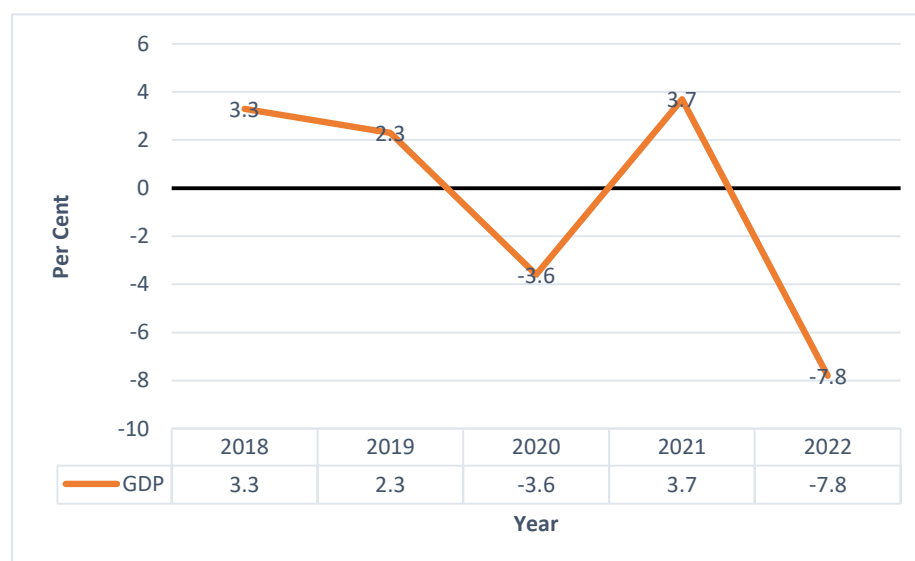
3. Market Overview 2022

Gross Domestic Product (GDP)

In 2022, the Sri Lankan economy experienced its highest contraction since independence, with a decline of 7.8%. The initial impact of the crisis led to severe supply disturbances, including shortages of consumer goods, fuel, electricity, and industry material. The weakening of foreign exchange liquidity in the market contributed to significant price increases. To mitigate the crisis, the Central Bank and the Government implemented several measures such as adjusting policy interest rates and prioritizing essential imports. These measures helped contain demand pressures, minimize supply disruptions, and improve the availability of essential imports, gradually stabilizing the economy.

All major economic sectors, including Industry, Services, and Agriculture, contracted in 2022. Manufacturing, construction, mining, real estate, insurance, and financial services experienced setbacks, while fishing, animal production, and agricultural activities were hindered by fuel and feed shortages as well as a lack of fertilizers. Import growth was slower due to factors such as limited forex liquidity, restrictions on non-essential imports, rupee depreciation, and tight monetary policy.

Overall, the Sri Lankan economy faced severe challenges in 2022, resulting in a significant contraction. Policy interventions aimed at stabilization helped mitigate the crisis, but various sectors experienced setbacks and contractions.



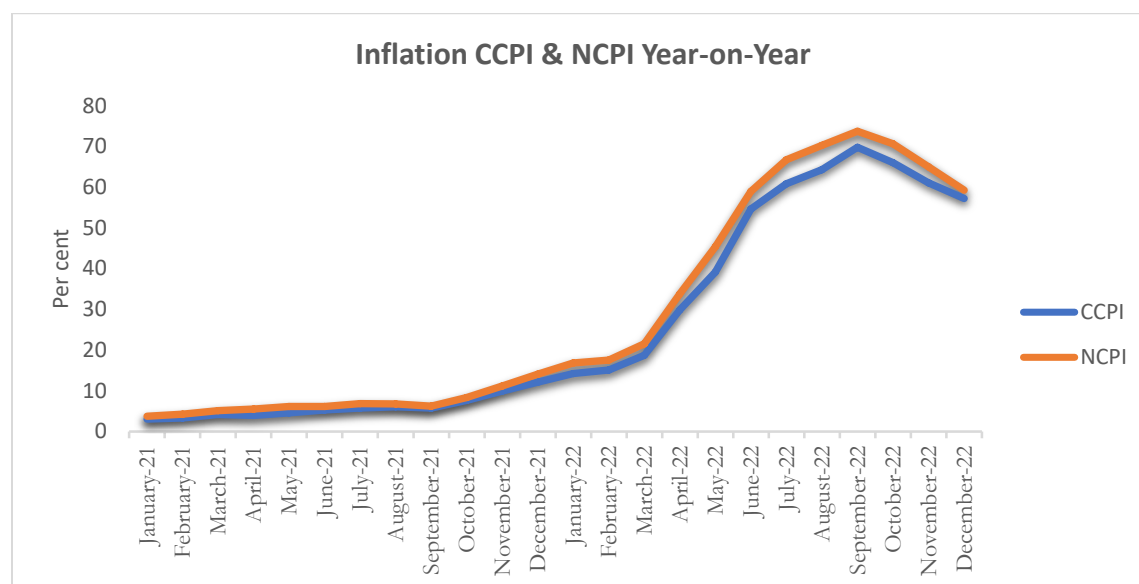
Graph 1; GDP Growth Rate

In 2022, the Gross Domestic Product contracted at a 7.8% rate, compared to a 3.5% growth in 2021. Policy measures by the Central Bank and Government helped address economic headwinds. GDP at current market prices was estimated at Rs. 24,147.7 billion, an increase of 37.2% in rupee terms compared

to Rs. 17,600.2 billion in 2021. This growth is mainly attributed to increased price levels and the surge in GDP implicit deflator to 48.8% in 2022. Gross National Income (GNI) also grew by 37.7% at current prices, compared to 12.8% in 2021.

Inflation

Sri Lanka has marked its highest Inflation Rate in year 2022. The Central Bank of Sri Lanka (CBSL) stated that in the first nine months of year 2022, headline inflation in Sri Lanka considerably increased, reaching a historically high level before falling lower. Increased food costs, supply interruptions, the devaluation of the Sri Lankan rupee versus the US dollar, and changes in administered pricing for things like electricity and transportation were the main factors for this acceleration. During the second half of 2022, inflation in the transportation industry topped 100%, reaching a peak of 150.4% in September. However, as monetary policy tightened and the inflation of food and energy slowed, demand pressures subsided, which slowed the rate of headline inflation starting in the later half of 2022.



Graph 2: Inflation CCPI & NCPI – Year-on-Year

According to the Colombo Consumer Price Index (CCPI) and the National Consumer Price Index (NCPI), Sri Lanka's overall price level continued to rise in 2022. Between March and September 2022, the price increase was particularly noticeable. The price level did, however, decrease at the year's close as a result of weak aggregate demand pressures. The restrictive monetary policy measures and improvements in supply circumstances were the main causes of these pressures.

Monetary Policy Decisions and Policy Rate

Since August 2021, the Central Bank has enforced a strict monetary policy stance to control inflation and avoid unanchored inflation expectations. The bank increased significant policy interest rates, especially the Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR), to address the acceleration of inflation and differences between policy interest rates and market interest rates. Up to the end of 2022, the rise was 10 percentage points, with a sizable chunk coming in April 2022. The decision to tighten monetary policy was influenced by elements including a protracted period of monetary accommodation and a significant decline in the value of the Sri Lanka rupee relative to the US dollar.

Policy Rate	Beginning of the year	End of the year	Change (bps)
Standing Deposit Facility Rate	5.00%	14.50%	950
Standing Lending Facility Rate	6.00%	15.50%	950
Statutory Reserve Ratio	4.00%	4.00%	0

(Table 01: Policy Rate Changes Source : CBSL Annual Report 2022)

In 2022, the Central Bank of Sri Lanka (CBSL) implemented four policy rate changes with the aim of tightening the Monetary Policy. These changes resulted in a significant 950 basis points increase in the policy rate compared to the rate at the beginning of the year.

Government Security Yields

Government securities' yields reached historically high levels in November 2022 due to the debt standstill, changes to the policy rate, and substantial deficit financing obligations. Meeting the government's funding needs was difficult due to the debt tie and continuous sociopolitical upheaval. Investors took greater risk premia into account when making investment choices, and the market was heavily weighted in favor of Treasury Bills with 91-day maturities. Treasury bills yielded for 03 Months, 06 Months & 12 Months were 32.64%, 32.20%, and 29.27% respectively at the end of the year 2022 compared to 8.16%, 8.33%, and 8.24% at the end of the year 2021.

Movements of Interest Rates

Interest Rate	Per cent per annum		
	End 2021	End 2022	Change in % pts
Key Policy Interest Rates			
Standing Deposit Facility Rate (SDFR)	5.00	14.50	9.50
Standing Lending Facility Rate (SLFR)	6.00	15.50	9.50
Average Weighted Call Money Rate (AWCMR)	5.95	15.50	9.55
Yield Rates on Government Securities			
Primary Market (a)			
Treasury bills			
91-day	8.16	32.64	24.48
182-day	8.33	32.20	23.87
364-day	8.24	29.27	21.03
Treasury bonds			
2-year	9.16 (b)	33.01 (c)	23.85
3-year			
4-year			
5-year			
10-year			
Secondary Market			
Treasury bills			
91-day			
182-day			
364-day			
Treasury bonds			
2-year			
3-year			
4-year			
5-year			
10-year			
Interest Rates on Deposits			
Licensed Commercial Banks (d)			
Savings deposits			
1 Year Fixed Deposits (e)			
AWDR (f)			
AWFDR (f)			
AWNDR (f)			
AWNDR (f)			
Other Financial Institutions (g)			
National Savings Bank			
Savings Deposits			
1 Year Fixed Deposits			
Licensed Finance Companies (h)			
Savings Deposits			
1 Year Fixed Deposits			
Interest Rates on Lending			
Licensed Banks (i)			
AWSR	10.49	20.73	10.24
AWNSR	10.04	26.91	16.87
Licensed Commercial Banks (d)			
AWPR (Monthly)	8.33	28.19	19.86
AWLR	9.87	18.70	8.83
AWNLR	9.48	26.20	16.72
Licensed Specialised Banks			
National Savings Bank			
	7.50-11.50	28.00-32.00	-
State Mortgage and Investment Bank (k)			
	7.50-12.50	18.00-27.25	-
Licensed Finance Companies (h)			
Finance Leasing			
	12.77-28.33	21.53-35.37	-
Hire Purchase			
	11.08-27.00	16.94-38.28	-
Loans against Immovable Properties			
	15.29-16.77(l)	26.80-28.43	-
Interest Rates on Foreign Currency Deposits (l)			
Savings Deposits - USD			
	0.03-4.60	0.10-7.77	-
Savings Deposits - GBP			
	0.03-3.00	0.20-4.83	-
Time Deposits - USD			
	0.02-7.00	0.02-11.50	-
Time Deposits - GBP			
	0.02-5.75	0.02-7.00	-
Corporate Debt Market			
Debt Securities			
Commercial Papers	8.00-12.00	15.42-28.00	-
	6.00-12.00	11.00-36.00	-

(a) Weighted average yield rates at the latest available auction. Source: Respective Financial Institutions Colombo Stock Exchange

(b) Last primary auction during 2021: 2 yr-11 Nov; 3 yr-13 Dec; 4 yr-30 Aug; 5 yr-12 Oct; 10 yr-29 Jul

(c) Last primary auction during 2022: 2 yr-13 Dec; 3 yr-29 Dec; 5 yr-28 Oct; 10 yr-11 Nov

(d) Based on the rates quoted by LCBs

(e) Maximum rate is a special rate offered by certain LCBs.

(f) Since July 2018, AWDR and AWFDR were calculated by replacing senior citizens' special deposit rate of 15% with relevant market interest rates to exclude the impact of special rates. Same method was applied to calculate AWFDR and AWFDR since June 2018.

(g) Based on the rates quoted by other selected Financial Institutions

(h) Interest rate ranges are based on the average maximum and average minimum rates quoted by LFCs which are applicable for deposits mobilized and loans granted during the respective months. Data for 2022 are provisional.

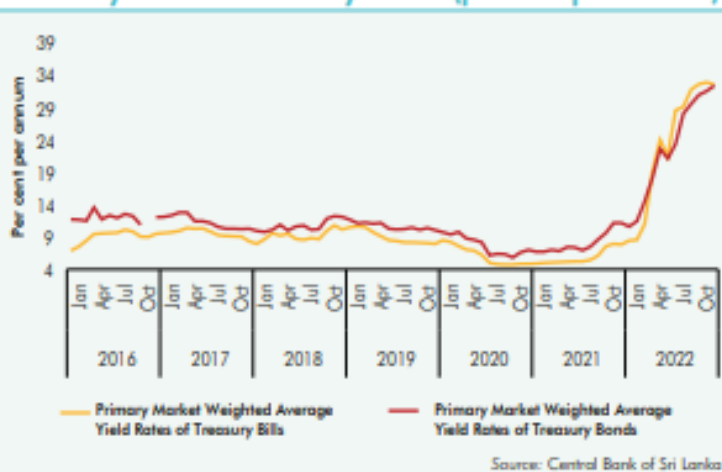
(i) Revised

(j) Based on the rates quoted by LCBs and LSBs

(k) Lending for housing purposes only

(l) Interest rate ranges are based on the maximum and minimum rates quoted by LCBs and National Savings Bank

Primary Market Weighted Average Yield Rates of Treasury Bills and Treasury Bonds (per cent per annum)



Average Yield Rates Source: CBSL Annual Report 2022

The market favored longer maturities for Treasury bonds, with a favorable primary issuance maturity of fewer than five years. Because of the increase, Treasury bond yield rates stayed above 30%. At the end of Year 2022.

Average Weighted Prime Lending Rate (AWPLR)

In 2022, market lending interest rates rushed due to monetary and liquidity challenges. The Central Bank's policy interest rates, domestic money

market liquidity, credit risk pricing, and government securities yields contributed to the increase. By the end of 2022, the Average Weighted Lending Rate (AWLR) reached 18.70%, and the Average Weighted New Lending Rate (AWNLR) reached 26.20%. The average weighted prime lending rate (AWPR) reached 28.25% in November 2022. SMEs generally followed the same trajectory as average lending interest rates. However, by the end of 2022, some market lending interest rates began to moderate, with monthly AWPR decreasing by 348 basis points from January to February 2023.

Exchange Rate

The Sri Lankan rupee experienced significant value decline in 2022, dropping to Rs. 363.11 compared to the US dollar. The ongoing Forex (FX) liquidity shortfall in the local FX market since the COVID-19 pandemic led to a rapid decline in the Central Bank's usable foreign reserves. However, the liquidity situation in the domestic FX market improved in the latter half of 2022, driven by government import restrictions, prudent FX liquidity management by banks, decreased demand from State Owned Business Enterprises, price adjustments for energy-related products and LP gas, and high costs due to depreciation.

Export proceeds conversions increased, remittances from workers moved to legitimate channels, and tourism revenue increased. The Central Bank's direct initiatives to ease imports failed, leading to the suspension of incentive programs for public and worker remittances. The average US dollar buying and selling exchange rates used by commercial banks for telegraphic transfers fell by 21.3% from 2021 to 2022, and the Sri Lankan rupee lost value relative to other major currencies.

Figure2: Movements of Interest Rates Source: CBSL Annual Report 2022

Foreign Reserves

Gross Official Reserves (GOR) decreased from \$3,139 million in 2021 to \$1,898 million at the end of 2022. The Central Bank's involvement in the domestic foreign exchange market and payments made to service foreign currency debt were the main causes of this decline. The GOR level was 1.2 months' worth of imports of goods, down from 1.8 months at the end of 2021. The lack of access to foreign finance sources and the lack of liquidity on the domestic foreign exchange market placed additional pressure on the external sector. The Central Bank kept mandatory sales requirements from authorized banks and compulsorily converted export revenues in order to progressively increase GOR.

In 2022, the Central Bank created fuel and coal funds to support the imports of necessities, temporarily absorbing foreign exchange from the banking system. This was accomplished using

Gross Official Reserves, Total Foreign Assets and Overall Balance

Item	US\$ million				
	2018	2019	2020	2021	2022 (a)
1. Government Foreign Assets	817	386	155	177	39
2. Central Bank Foreign Assets	6,102	7,256	5,510	2,962	1,858
3. Gross Official Reserves (1+2)	6,919	7,642	5,664	3,139	1,898
4. Foreign Assets of Deposit-taking Corporations	2,664	2,760	2,856	2,983	3,976
5. Total Foreign Assets (3+4) (b)	9,583	10,402	8,521	6,122	5,874
6. Reserve Related Liabilities (c)	1,425	1,771	2,121	3,562	5,127
7. Net International Reserves (NIR) (3-6)	5,495	5,871	3,543	-423	-3,229
8. Overall Balance (d)	-1,103	377	-2,328	-3,967	-2,806
9. Gross Official Reserves in Months of:					
9.1 Import of Goods	3.7	4.6	4.2	1.8	1.2
9.2 Import of Goods and Services	3.1	3.7	3.7	1.8	1.2
10. Total Foreign Assets in Months of:					
10.1 Import of Goods	5.2	6.3	6.4	3.6	3.9
10.2 Import of Goods and Services	4.3	5.1	5.6	3.4	3.7

(a) Provisional
 (b) Excludes foreign assets in the form of 'Direct investment abroad' and 'Trade credit and advances granted'
 (c) The total outstanding debt of the Central Bank, excluding outstanding Special Drawing Rights (SDRs)
 (d) Change in NIR position during the period

Source: Central Bank of Sri Lanka

Figure3: Gross Official Reserves Source: CBSL Annual Report 2022

foreign exchange enhanced via export gains, worker remittances, and License Commercial Banks (LCBs) mandated sales. By addressing the nation's fundamental needs, these actions lessened the effects of the Balance of Payment (BOP) problem. The Central Bank kept up with the \$3,237 million in foreign currency debt service payments in 2022. By 2022, the banking industry's foreign asset position had grown from \$2983 million in 2021 to \$3,976 million. Due to a decrease in official reserves, the total amount of international reserves fell in 2022; however, the amount of foreign assets held by deposit-taking firms rose.

Primary Dealer (PD) Industry Performance

There are five Primary Dealer units in Licensed Commercial Banks and five standalone Primary Dealer Companies (PDCs), all together ten in the Primary Dealer industry at end of 2022. PDCs reported a Profit After Tax (PAT) of Rs. 1.7 billion during 2022 compared to the loss of Rs. 0.4

Indicator	2022	2021
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profitability.

billion reported during 2021, indicating a substantial growth in

Total Assets (Rs. Bn)	131.7	78.7
Trading Portfolio (Rs. Bn)	100.7	54.9
HTC Portfolio (Rs. Bn)	23.8	12.6
FVTOCI Portfolio (Rs. Bn)	1.7	3.6
Profit/(Loss) After Tax (Rs. Bn)	1.7	(0.4)
ROA (%)	3	(0.7)
ROE (%)	11.4	(3.2)
RWCAR (%)	23.2	42.8

(Table 02: Primary Dealer (PD) Industry Performance Source : CBSL Annual Report 2022)

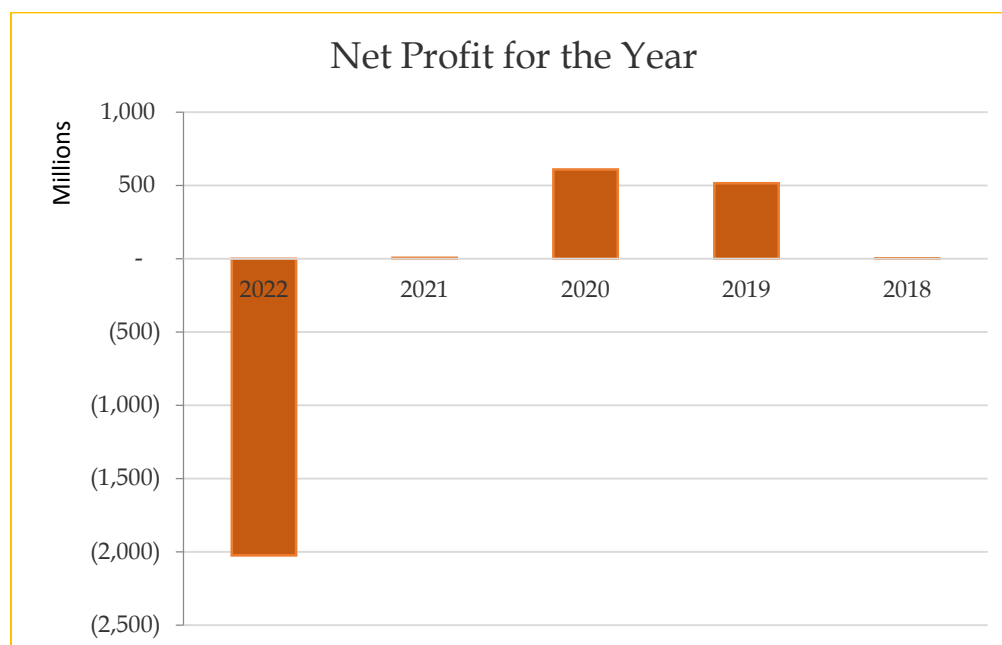
Total assets of PDCs increased by 67.4 per cent to Rs. 131.7 billion in 2022. The total investment portfolio of government securities, consisting of Trading, Available for Sale (AFS) and Held to Maturity (HTM) portfolios amounted to Rs. 126.1 billion as at end 2022, which recorded a year-on-year increase of 79 per cent. Both trading and HTM portfolios increased to Rs. 100.7 billion and 23.8 billion, respectively, as at end 2022 comparing to the end of 2021, while the AFS portfolio declined to Rs. 1.7 billion as at end 2022 from Rs. 3.6 billion prevailed as at end 2021.

Equity of PDCs increased by 68.3 per cent mainly due to profit earned during the year. The Risk Weighted Capital Adequacy Ratio (RWCAR) of the PDCs was well above the minimum required

amount of 10 per cent despite a significant reduction in the RWCAR to 23.2 per cent as at end 2022 from 42.8 per cent reported as at end 2021.

4. Company Performance

A more difficult year for the Sri Lankan economy was 2021–2022. The same economic disaster also affected NSB Fund Management Co. Ltd. All macroeconomic variables moved more negatively than expected. At the end of 2022, the NSB FMC reported its greatest net loss in its history, amounting to Rs. 2.7 billion.

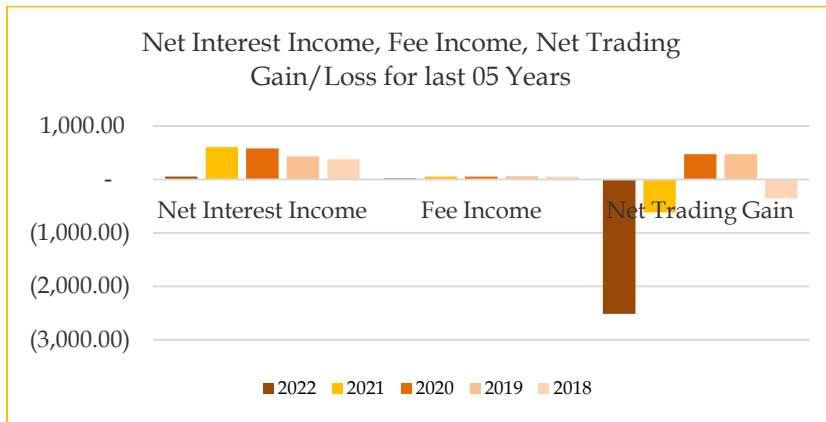


The net interest income of Government securities has decreased in 2022 to Rs. 51.7 Million from Rs. 606 Million in 2021 showing an decrease of 91.46%. The Company has managed the funding of the portfolio through lowest possible rates with the support of the NSB, through a Contingency funding arrangement, Credit Line Facility provided and infusing capital to the company.

Due to the high volatility in the market interest rates, net loss from the sale of T-bills & bonds was Rs. 2,518.3 Million in 2022 compared to the loss of Rs. 615.3 Million in 2021. The average market yield of the portfolio has increased from 9.27% at the beginning of the year to 28.33% at the end of the year, sale of low yield bonds at loss to minimize further losses.

The fee income of the company recorded Rs. 20.4 Million during the year 2022 and it was Rs. 49.6 Million in 2021 showing a 58.9% reduction due to completion of mature of trustee/custodian activities and suspension of NSB custodian Fee Rs. 3.5 Mn per month from April since NSB obtained RTGS and SSSS facility.

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

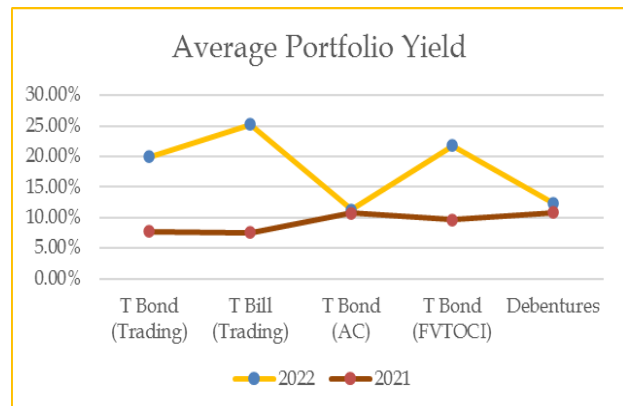
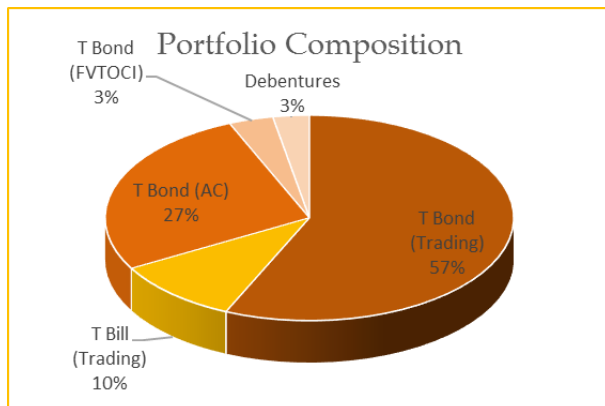


Net assets of the Company stood at Rs. 3,715 million as at 31st December 2022 in comparison to Rs. 3,440 million as of 31st December 2021.

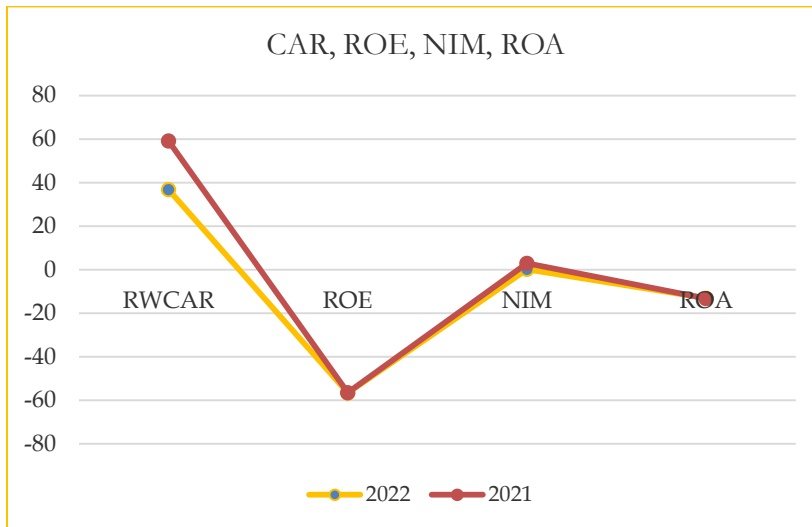
Total assets of the company stood at Rs. 15,062 million by the end of 2022 compared to Rs. 27,751 million in 2021 showing an asset decreased by 45.73%. Among the total assets, Rs. 15,062 million was Financial Assets and it was downfalls by 49.30% comparison to 2021. Trading Portfolio of the Company records a 56% decrease in 2022 and stood at Rs. 9,062 million compared to the year 2021.

Repo borrowings of the Company recorded Rs. 10,445.9 million in 2022 compared to Rs. 23,753.7 million in 2021.

Portfolio composition and the average portfolio yield of the Company as at 31.12.2022 has been illustrated in the below charts.



Risk Weighted Capital Adequacy Ratio of the Company stood at 36.84% at the end of December 2022 while Return on Equity was -56%. Net Interest Margin was 0.25% and recorded a reduction.

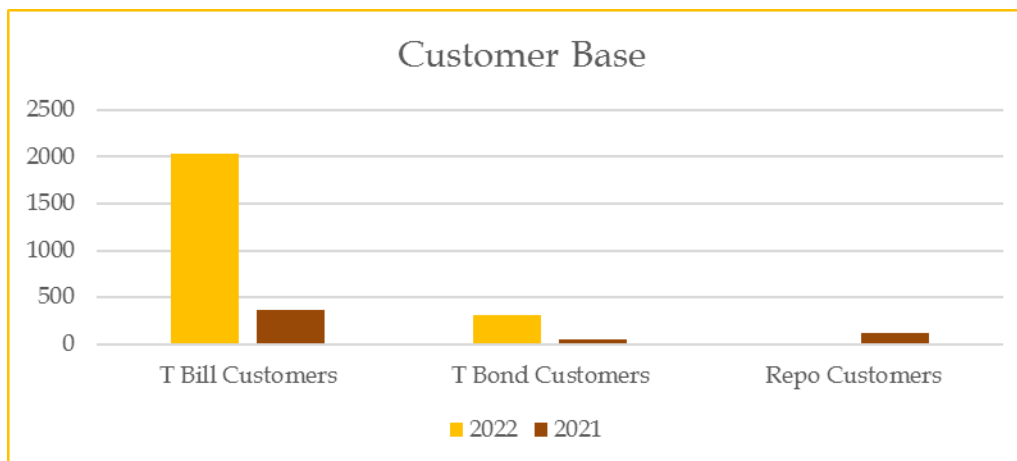


Human Capital

The Company has sixteen directly recruited staff members, four staff members assigned from Sri Lanka Savings Bank (SLSB) and four staff members assigned from the NSB on secondment basis including the Chief Executive Officer.

The Company continued its commitments to develop its employees during the year. Further, the employees 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 462% at the end of 2022 compared to end of 2021, and T Bond customers and repo customers also increased by 468% and -87% respectively in 2022 than that of 2021.

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 Government entities, Banks and Private Provident Fund, Pension Funds, Universities Grant Commission, High net worth Individuals etc...

Future Initiatives

NSB FMC will continue to grow its business by moving under arms of the National Savings Bank in the future to be stronger together.



5. 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.

6. Board of Directors

Mr. H.K.D.L. Gamini – Chairman



Mr. H.K.D.L. 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.

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 34 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 multiple positions.

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 5 years.

Mr. K. Raveendran -Director

Mr. K. Raveendran was appointed to the Board of Directors of NSB Fund Management Co. Ltd on 24.06.2022

Skills and Experience

Mr. K. Raveendran holds a Bachelor of Science Degree in Business Administration from the University of Sri Jayewardenepura and a Post Graduate Diploma in Banking and Finance (PGDBF) from the University of Colombo. He is also a Fellow Member of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

Other Current Appointments

Senior Deputy General Manager of National Savings Bank, Director of Institute of Bankers of Sri Lanka, Director of Predeshiya Sanwardhana Bank.

Previous Key Appointments

Mr. K. Raveendran is a professionally qualified and sound banker with an over past two decades. Held multiple banking positions in National Saving Bank and People's merchant Bank.

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 2022. The financial statements were reviewed and approved on 24th March 2023.

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. 4,200,000,000/- divided into 420,000,000 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 5-11 and the Company performance on pages 12-15. 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 2022, duly signed by the Chief Executive Officer, Chairperson and one of Director of the Company and pages 18-22 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 2022 and their report on pages 31-36 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. 10,589,801/-.

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 08 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 eighteen Board meetings were held in 2022.

Directors during the year 2022

Ms. Keasila Jayawardena (from 17.01.2020 to 26.12.2022)

Mr. Ajith Peiris (from 04.11.2020 to date)

Mr. U.G.R. Ariyaratne (from 17.01.2020 to 01.06.2022)

Ms. Manohari Abeyesekera (from 17.01.2020 to 02.01.2023)

Mr. Oshada Rodrigo (from 13.01.2020 to date)

Mr. Jayantha Perera (from 02.06.2020 to 21.02.2023)

Mr. H.K.D. Lakshman Gamini (from 30.03.2021 to date)

Mr. K. Raveendran (from 24.06.2022 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 36 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.)

H.K.D.L. Gamini

Chairman

(Sgd.)

Ajith Peiris

Director

Senior Management

Mr. D L P Abayasinghe - CEO



Mr. D.L.P. Abayasinghe was appointed as the Chief Executive Officer of NSB Fund Management Co. Ltd on 07.11.2018.

Skills and Experience

Mr. Abayasingha holds a Business Administration Degree (Hons.) from the University of Ruhuna and completed Level II Examination of CFA Institute – USA. He also passed Final I Examination of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). He has 15 years of Banking experience especially in the areas of Treasury and Primary Dealer Unit.

Other Current Appointments

Assistant General Manager of National Savings Bank and appointed to the NSB Fund Management co. Ltd on secondment basis.

Previous Key Appointments

He held multiple positions as Executive Officer, Senior Manager and Chief Manager in National Savings Bank since 2005. And, he was a Trainee Fund Manager at EPF of Central Bank of Sri Lanka.

Board of Directors - 2022

**Ms. Keasila Jayawardena –
Chairperson**



Tenure

17 January 2020 – 26 December 2022

Skills and experience

Bachelor's (Honours) and master's degree in political Science – University of Peradeniya.

University Lecturing in Political Science at the University of Peradeniya for 15 years.

Eight years as a chairperson of two development banks.

Previous key appointments

Chairperson – Kandurata Development Bank

Chairperson – Regional Development Bank

Provincial Council Member

Mr. Ajith Peiris - Director



Tenure

04 November 2020 to date

Skills and Experience

First Class (Honours) BSc Degree holder in Physical Science from the University of Colombo

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)

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



Tenure

17 July 2020 – 1 June 2022

Skills and experience

Bachelor of Commerce, Master in Sociology, Postgraduate Diploma in Regional Planning – University of Kelaniya

Postgraduate Diploma in Education – University of Peradeniya

Certificate of Public Administration, Certificate of General Management and Capacity Building Programme for SLAS Class I Officer – Sri Lanka Institute of Development Administration (SLIDA)

Over 28 years of experience in the Sri Lanka Administrative Service

Previous key appointments

District Secretary, District Secretariat – Polonnaruwa

Additional Secretary (Social Development), Additional Secretary (Rural Development)

– Ministry of Social Empowerment and Welfare

Additional Government Printer (Administration) – Department of Government Printing

Director General – Coconut Development Authority

Senior Assistant Secretary (Land) – Ministry of Lands

Executive Director/Deputy Director General (Administration and Finance)

Mahaweli Authority of Sri Lanka

Deputy Postmaster General (North Western Province and Central Province) – Department of Posts Divisional Secretary – Divisional Secretariat, Mawathagama

Assistant/Deputy Commissioner (Kurunegala) – Department of Agrarian Services

Secretary – Corporative Employees Commission, North Western Province

Provincial Commissioner (North Central Province) – Department of Probation and Child Care Services

Assistant Divisional Secretary – Divisional Secretariat, Rajanganaya, Thirappane

Assistant Commissioner – Land, Department of Land Commissioner

Ms. Manohari Abeyesekera – Director



Tenure

17 January 2020 – 2 January 2023

Skills and experience

Bachelor of Science Degree in Biological Science (First Class Honours), Master of Business Administration (MBA) – University of Colombo

Fellow Member – Chartered Institute of Management Accounts (CIMA – UK) and The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)

Board Leadership Programme (GSLID) – Sri Lanka Institute of Directors in partnership with International Finance Corporation (IFC)

Postgraduate Diploma in International Relations – Bandaranaike International Diplomatic Training Institute

Executive Education – Indian School of Business (ISB) Hyderabad, Asian Development Bank, Manila and BHF Bank, Germany

Over 18 years of professional and leadership experience in

multiple sectors and organisations

Mr. M.T. Jayantha Perera – Director



Tenure

02 June 2020 – 21 February 2023

Skills and experience

Served in National Savings Bank for a period exceeding four decades extensively involving in branch operations with wider spectrum of service delivery

Previous key appointments

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

Mr. Oshada Rodrigo - Director



Tenure

13 January 2020 to date

Skills and Experience

LLB (Hons) (Wolverhampton, UK), E-Diploma in Human Rights (Colombo), Master of Human Rights and

Democratization (M.H.R.D.) the Supreme Court of Sri Lanka
(Colombo), Attorney-at-Law of

Mr. H.K.D. Lakshman Gamini – Director



Tenure

30 March 2021 to date

Skills and experience

Served People's Bank for a period exceeding three decades and widely involved in international banking and branch banking

Previous key appointments

Vice Chairman – State Printing Corporation

Director – Skills Development Fund, Ministry of Skills Development and Vocational Training

Mr. K. Raveendran -Director



Tenure

24 June 2022 to date

Skills and Experience

Bachelor of Science Degree in Business Administration from the University of Sri Jayewardenepura

Post Graduate Diploma in Banking and Finance (PGDBF) from the University of Colombo

Fellow Member of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)

Other Current Appointments

Senior Deputy General Manager of National Savings Bank, Director of Institute of Bankers of Sri Lanka, Director of Predeshiya Sanwardhana Bank.

7. 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 2022.

Ms. Manohari Abeysekera	- Chairperson (resigned on 02.01.2023)
Mr. Oshada Rodrigo	- Member
Mr. Jayantha Perera	- Member (resigned on 21.02.2023)
Mr. K. Raveendran	- Member (from 24.06.2022)

Meetings

The Committee held two (02) meetings during the year 2022 and the attendance of the Committee Members is given bellow, and one meeting by circulation.

Name	Eligible to attend	Attended
Ms. Manohari Abeysekera	2	2
Mr. Oshada Rodrigo	2	2
Mr. Jayantha Perera	2	1
Mr. K. Raveendran	1	1
Ms. R.L.T. Priyangani	2	2

Reporting

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

(Sgd.)

Oshada Rodrigo

Chairman – Board Audit Committee

8. 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 2022.

Ms. Keasila Jayawardena	- Chairperson (resigned on 26.12.2022)
Mr. U.G.R. Ariyaratne	- Member (resigned on 01.06.2022)
Mr. Ajith Peiris	- Member
Mr. Jayantha Perera	- Member resigned on 21.02.2023)

Meetings

The Committee held six (06) meetings during the year 2022 and the attendance of the Committee members is given bellow, and one meeting by circulation.

Name	Eligible to attend	Attended
Ms. Keasila Jayawardena	6	5
Mr. U.G.R. Ariyarathna	1	1
Mr. Ajith Peiris	6	5
Mr. Jayantha Perera	4	4

(Sgd.)

H.K.D. Lakshman Gamini

Chairman - Board Human Resource & Remuneration Committee

9. 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 2022.

Mr. Jayantha Perera	- Chairman (resigned on 21.02.2023)
Ms. Manohari Abeysekera	- Member (resigned on 02.01.2023)
Mr. H.K.D. Lakshman Gamini	- Member

Meetings

The Committee held four (04) meetings during the year 2022 and the attendance of the Committee members is given below,

Name	Eligible to attend	Attended
Mr. Jayantha Perera	4	4
Ms. Manohari Abeysekera	4	4
Mr. Gamini Lakshman	4	4

(Sgd.)

K Raveendran

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/NSB-FMC/2022/FA-01

මගේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

30 March 2023

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 2022 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 (the “Company”) for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and 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 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the



Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Other information included in the Company's 2022 Annual Report.

The other information comprises the information included in the Company's 2022 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 2022 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) (d) of the Companies Act, No. 7 of 2007 and section 12 (a) of the National Audit Act, No. 19 of 2018.

- 2.1.2 The financial statements of the Company comply with the requirement of 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 evidences 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 except for,

Reference to law/ direction	Description
(a) Section 17(d) of the circular No. 01 of 2021 on consolidated operating instruction of market operation.	The company had to pay a penalty of Rs.16,127,826 in July 2022, due to failure to settle Standard Lending Facility of Central Company.
(b) Section 11.2 of volume 03 of Lanka Settlement Systems Rules version 2.2 in respect of Standard Loan facility and Intra-day Loan facility (ILF).	The company had to pay a penalty of Rs.243,830,059 in October 2022 due to using third party securities for obtaining Intra-day Loan facility (ILF).

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

FINANCIAL STATEMENTS

31 DECEMBER 2022

NSB Fund Management Company Limited

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2022

	Note	2022 Rs.	2021 Rs.
Interest Income	4	2,341,715,246	1,442,708,117
Interest Expense	5	(2,290,001,886)	(836,931,814)
Net Interest Income		51,713,360	605,776,303
Fees & Commission Income		20,418,972	49,678,195
Fee and Commission Expenses		(2,405,131)	(2,879,610)
Net Fee and Commission Income		18,013,841	46,798,586
Net Gain/(Loss) From Financial Instruments at Fair Value through Profit and Loss	6	(2,518,396,414)	(615,385,479)
Other Income	7	2,266	93,305
Total Operating Income		(2,448,666,947)	37,282,715
Impairment Adjustment		6,797	(78,927)
Net Operating Income		(2,448,660,150)	37,203,788
Personnel Costs	8.1	(45,945,708)	(39,121,042)
Depreciation & Amortization		(6,410,034)	(6,487,768)
Other Expenses		(294,829,375)	(27,207,972)
Operating Profit/(Loss) before VAT		(2,795,845,267)	(35,612,993)
VAT on Financial Services	9	-	(1,079,784)
Profit/(Loss) before Taxation	8	(2,795,845,267)	(36,692,777)
Income Tax Reversal/(Expense)	10	770,019,522	42,741,854
Profit/(Loss) for the Year		(2,025,825,745)	6,049,077
Other Comprehensive Income			
Other comprehensive income to be reclassified to Income Statement			
Revaluation of Securities Gain / Loss T Bonds (FVTOCI)		62,325,877	(146,091,218)
Other comprehensive income not to be reclassified to Income Statement			
Actuarial Gain/(Loss) on Retirement Benefit Obligation		(859,471)	(2,577,581)
Total Comprehensive income/(loss) for the year		(1,964,359,340)	(142,619,722)
Earnings/(Loss) Per Share	11	(7.23)	0.04
Dividend Per Share (Rs.)	12	-	1.47

Figures in brackets indicate deductions.

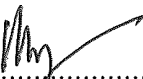
The accounting policies and notes on pages 05 through 29 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Note	2022 Rs.	2021 Rs.
ASSETS			
Cash and Cash Equivalents	13	2,088,266	1,546,673
Financial Assets at Fair Value through Profit and Loss (Trading)	14	9,062,899,975	20,819,219,658
Loans and Advances at Amortized Cost	15	78,696,150	10,583,063
Financial Assets at Amortized Cost – Held-to-Collect	16	4,361,015,850	4,620,851,591
Financial Assets at fair value through other comprehensive income	17	484,523,851	2,009,013,271
Derivative Financial Assets	18	7,219,500	-
Equity Investments at fair value through other comprehensive income	19	2,000,000	2,000,000
Property, Plant & Equipment	20	5,827,628	7,102,581
Intangible Assets	21	3,789,227	4,693,629
ROU Asset	22	32,095,677	35,729,150
Income Tax Receivable		67,401,151	67,401,151
Deferred Tax Asset	23	770,894,280	874,758
Other Assets	24	184,017,312	171,990,773
Total Assets		15,062,468,867	27,751,006,297
LIABILITIES & EQUITY			
Liabilities			
Borrowings under Repurchase Agreements	25	10,445,920,649	23,756,715,444
Amount Due to Related Parties	26	851,466,368	502,893,278
Other Liabilities	27	5,463,545	7,518,472
Lease Liability	28	36,931,864	38,296,481
Retirement Benefit Obligation	29	7,477,968	5,131,153
Total Liabilities		11,347,260,393	24,310,554,828
Equity			
Stated Capital	30	4,200,000,000	1,700,000,000.00
Retained Earnings		(1,285,529,986)	1,002,038,886
Other Reserves	31	800,738,459	738,412,583
		3,715,208,473	3,440,451,469
Total Equity and Liabilities		15,062,468,867	27,751,006,297

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




 Chief Executive Officer

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



 Director



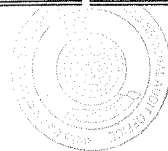
 Director

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

24 March 2023
 Colombo

NSB Fund Management Company Limited
STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2022

	Stated Capital Rs.	Special Risk Reserve Rs.	FVTOCI Reserve Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 01 January 2021	1,700,000,000	865,558,198	17,433,334	1,250,079,660	3,833,071,191
Profit for the year	-	-	-	6,049,077	6,049,077
Other Comprehensive Income/(Loss)	-	-	(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>
Profit for the year	-	-	-	(2,025,825,745)	(2,025,825,745)
Other Comprehensive Income	-	-	62,325,877	(859,471)	61,466,405
Total Comprehensive Income	-	-	62,325,877	(2,026,685,217)	(1,964,359,340)
Transfers	-	-	-	-	-
Surcharge Tax	-	-	-	(260,883,655)	(260,883,655)
Shares Issued	2,500,000,000	-	-	-	2,500,000,000
Balance as at 31 December 2022	<u>4,200,000,000</u>	<u>867,070,467</u>	<u>(66,332,007)</u>	<u>(1,285,529,986)</u>	<u>3,715,208,473</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 2022

	2022 Rs.	2021 Rs.
Cash flows from Operating Activities		
Interest Receipts	2,150,043,875	1,336,311,200
Interest Payment	(2,323,153,874)	(698,960,213)
Net Fee Income Receipts	18,013,841	46,798,586
Trading Income	190,211,802	47,822,259
Payment to Employees	(46,044,959)	(44,897,827)
VAT on Financial Services	-	(25,729,439)
Payment on Other Operating Activities	(295,042,885)	(23,216,837)
Operating profit before change in Operating Assets & Liabilities	(305,972,200)	638,127,729
(Increase) / decrease in Operating Assets		
Financial Assets at FVTPL	8,571,184,805	(9,390,035,423)
Financial Assets at FVTOCI	(68,113,087)	(1,507,096,324)
Financial Assets at Amortized Cost – Loans & Advances	259,835,741	1,737,454
Financial Assets at Amortized Cost – Debt & Other Instrument	1,586,815,296	(694,242,738)
Other Assets	(2,033,944)	(24,389,603)
Increase / (decrease) in Operating Liabilities		
Financial Liabilities at Amortized Cost	(12,610,319,233)	10,971,252,426
Other Liabilities	(2,054,927)	1,544,374
Net cash generated from operating activities before Income Tax	(2,570,657,548)	(3,102,104)
Income Tax paid/ Surcharge Tax Paid	(260,883,655)	(238,886,254)
Gratuity Paid	(284,475)	-
Net cash (used in) / from Operating Activities	(2,831,825,678)	(241,988,358)
Cash flows from Investing Activities		
Purchase of Property, Plant and Equipment	(247,206)	(2,373,494)
Purchase of Intangible Assets	(350,000)	-
Advances paid to Fixed Assets	(9,992,595)	-
Net cash (used in)/from Investing Activities	(10,589,801)	(2,373,494)
Cash flows from Financing Activities		
Principal Payments on ROU Asset	(5,616,000)	(5,520,000)
Dividends paid to Related Parties	-	(250,000,000)
Shares Issued	2,500,000,000	-
Borrowings from Related Parties	348,573,090	500,232,827
Net cash from Financial Activities	2,842,957,090	244,712,827
Net increase/(decrease) in Cash & Equivalents	541,611	350,974
Cash and Cash Equivalents at the beginning of the year	1,546,749	1,195,775
Cash and Cash Equivalents at the end of the year	2,088,360	1,546,749
Reconciliation of Cash and Cash Equivalents		
Cash at Bank and Cash in Hand	1,872,008	1,539,966
Balance with Central Bank	216,352	6,784
	2,088,360	1,546,749

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

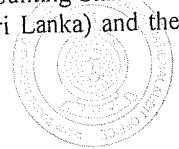
The Company is a wholly owned subsidiary of National Savings Bank.

1.3 Approval of Financial Statements

The Financial statements for the year ended 31 December 2022 were authorized for the issue by the Directors on 24/03/2023.

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 29.

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.).

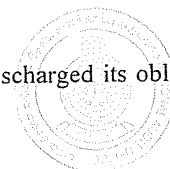
vii) Recognition and Derecognition of Financial Instruments

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 value 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. Amortizations expense on intangible assets with finite lives is recognized in profit and loss on the straight-line basis over the estimated useful lives, from the date they are available for use. The estimated useful life of intangible assets with finite life is as follows:

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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

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.



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

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.



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

4. INTEREST INCOME	2022	2021
	Rs.	Rs.
Interest on Treasury Bills/Bonds/R.Repo	2,295,414,392	1,405,849,732
Interest on Debentures	46,250,991	36,858,385
Other Interest Income	49,864	-
	<u>2,341,715,246</u>	<u>1,442,708,117</u>
5. INTEREST EXPENSE	2022	2021
	Rs.	Rs.
Interest Expense on Repurchase Agreements	2,005,798,106	835,746,882
Interest Expense on Other Borrowings	284,203,781	1,184,932
	<u>2,290,001,886</u>	<u>836,931,814</u>
6. NET GAIN/(LOSS) FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS	2022	2021
	Rs.	Rs.
Realised Gain/(Loss)	(2,056,308,752)	47,822,259
Unrealised Gain/(Loss)	(469,307,162)	(663,207,739)
Unrealized Forward Gain/(Loss)	7,219,500	-
	<u>(2,518,396,414)</u>	<u>(615,385,479)</u>
Gain/ (Loss) on fair valuation of financial investments has been accounted for in accordance with the SLFRS 9.		
7. OTHER INCOME	2022	2021
	Rs.	Rs.
Other Income	2,266	93,305
	<u>2,266</u>	<u>93,305</u>
8. PROFIT BEFORE TAXATION	2022	2021
	Rs.	Rs.
Profit before taxation is stated after charging all expenses including the following		
Auditor's Remuneration	772,380	735,600
Depreciation on PPE	5,155,632	5,198,063
Amotisation of Intangible Assets	1,254,402	1,289,705
Personnel Costs (8.1)	45,945,708	39,121,042
Other Charges (8.2)	259,957,886	-
8.1 Personnel Costs	2022	2021
	Rs.	Rs.
Salaries	32,466,029	28,623,414
Defined Contribution Plan Cost - EPF and ETF	2,594,103	2,439,987
Defined Benefit Plan Cost - Retirement Gratuity	1,771,818	738,551
Other Staff Cost	9,113,758	7,319,090
	<u>45,945,708</u>	<u>39,121,042</u>
8.1.1 Personnel Cost of Seconded Employees included in Note 8.1	2022	2021
	Rs.	Rs.
Salaries & Allowances	11,980,678	8,988,474
Defined Contribution Plan Cost - EPF and ETF	1,607,144	1,348,271
Contribution to Pension Fund/Gratuity	1,197,987	1,078,617
8.2 Other Charges		
CBSL has charged an amount of Rs. 259,957,886 due to failure of comply with the section 17(d) of the circular No. 01 of 2021 on of consolidated operating instruction of market operation and section 11.2 of volume 03 of Lanka Settlement Systems Rules version 2.2 in respect of Standard Lending Facility (SLF) and Intra-day Liquidity facility (ILF).		

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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

10. INCOME TAX EXPENSE	2022 Rs.	2021 Rs.
Current Income Tax		
Current Income Tax charge on ordinary activities for the year	-	-
Under/(Over) Provision of current taxes in respect of prior years	-	(41,741,385)
	-	(41,741,385)
Deferred Income Tax		
Deferred Taxation Charge/(Reversal) for current year	(760,564,128)	(982,511)
Under/(Over) Provision of deferred tax in respect of prior years	(9,455,394)	(17,958)
Income Tax Expense Reported in the Income Statement	(770,019,522)	(42,741,854)

Reconciliation between Current Tax Expenses and the Accounting Profit	2022 Rs.	2021 Rs.
Accounting Profit/(Loss) before Tax from Continuing Operations	(2,795,845,267)	(36,692,777)
Income not Liabile for Tax	-	-
Other Aggregate Disallowed Items	272,099,849	12,771,430
Other Aggregate Deductible Items	(7,757,374)	(7,596,633)
Qualifying Payments	-	-
Taxable Profit/(Loss)	(2,531,502,792)	(31,517,979)
Income Tax Rate	30%	24%
Current Income Tax Expense	-	-

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;

	2022 Rs.	2021 Rs.
Profit/(Loss) Attributable to Ordinary Shareholders	(2,025,825,745)	6,049,077
Weighted Average Numbers of Ordinary Shares	280,136,986	170,000,000
Earnings/(Loss) Per Share	(7.23)	0.04

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

	2022 Rs.	2021 Rs.
Weighted Average Numbers of Ordinary Shares	280,136,986	170,000,000
Dividends paid (Rs.)	-	250,000,000
Dividend per share	-	1.47

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2022

13. CASH & CASH EQUIVALENTS	2022	2021		
	Rs.	Rs.		
Cash at Bank and Cash in Hand	1,872,008	1,539,966		
Balance with Central Bank	216,352	6,784		
Impairment Provision	(94)	(77)		
Cash & Cash Equivalents for the Purpose of Cash Flow Statement	2,088,266	1,546,673		
14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS (TRADING)	2022	2021		
	Rs.	Rs.		
Treasury Bills	1,539,074,291	6,921,455,196		
Treasury Bonds	7,523,825,684	13,897,764,461		
	9,062,899,975	20,819,219,658		
15. LOANS AND ADVANCES AT AMORTIZED COST	2022	2021		
	Rs.	Rs.		
Loans & Advances from Banks	71,406,862	1,620,235		
Loans & Advances from Other Customers	7,289,288	8,962,828		
	78,696,150	10,583,063		
16. FINANCIAL ASSETS AT AMORTIZED COST - HELD TO COLLECT	2022	2021		
	Rs.	Rs.		
Treasury Bonds	3,928,591,127	4,189,736,259		
Debentures	432,532,647	431,230,126		
Impairment Provision	(107,923)	(114,795)		
	4,361,015,850	4,620,851,591		
17. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	2022	2021		
	Rs.	Rs.		
Treasury Bonds	484,523,851	2,009,013,271		
	484,523,851	2,009,013,271		
18. DERIVATIVE FINANCIAL ASSETS	2022	2021		
	Rs.	Rs.		
Forward Purchase Contracts - Government Securities (Note 6)	7,219,500	-		
	7,219,500	-		
19. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	2022		2021	
	Cost	Directors'	Cost	Directors'
	Rs.	Valuation	Rs.	Valuation
	Rs.	Rs.	Rs.	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

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2022

20. PROPERTY, PLANT AND EQUIPMENT	Balance as at	Additions	Disposals/Transfers	Balance as at
	01/01/2022	during the year	during the year	31/12/2022
Cost	Rs.	Rs.	Rs.	Rs.
Computer Equipment	8,450,162	247,206	-	8,697,368
Swift Equipment	913,903	-	-	913,903
Office Equipment	3,204,852	-	-	3,204,852
Furniture & Fittings	2,432,234	-	-	2,432,234
	15,001,152	247,206	-	15,248,358
Accumulated Depreciation	Balance as at	Charge for the	Depreciation on	Balance as at
	01/01/2022	year	Disposals/Transfers	31/12/2022
	Rs.	Rs.	Rs.	Rs.
Computer Equipment	5,365,711	1,006,819	-	6,372,531
Swift Equipment	913,901	-	-	913,901
Office Equipment	1,098,457	287,269	-	1,385,726
Furniture & Fittings	520,500	228,072	-	748,572
	7,898,570	1,522,159	-	9,420,730
Carrying Amount			2022	2021
			Rs.	Rs.
Net Book Value as at 31 December			5,827,628	7,102,581

20.1 Fully Depreciated Property, Plant & Equipment

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

	2022	2021
	Rs.	Rs.
Computer Equipment	4,335,946	2,581,079
Swift Equipment	913,903	913,903
Office Equipment	383,370	260,170
Furniture & Fittings	153,176	136,936

21. INTANGIBLE ASSET	Balance as at	Additions	Disposals/Transfers	Balance as at
	01/01/2022	during the year	during the year	31/12/2022
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
Customer Management System	-	350,000	-	350,000
	8,418,127	350,000	-	8,768,127
Accumulated Amortisation & Impairment Loss	Balance as at	Charge for the	Depreciation on	Balance as at
	01/01/2022	year	Disposals/Transfers	31/12/2022
	Rs.	Rs.	Rs.	Rs.
SWIFT License Fee	1,058,562	-	-	1,058,562
SWIFT Entrance Fee	911,031	-	-	911,031
Board Pac	373,329	26,670	-	399,999
JBOSS Enterprise Application Software	1,381,576	1,209,706	-	2,591,282
Customer Management System	-	18,026	-	18,026
	3,724,498	1,254,402	-	4,978,900
Carrying Amount			2022	2021
			Rs.	Rs.
Carrying Amount			3,789,227	4,693,629

21.1 Fully Amortised Intangible Assets

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

	2022	2021
	Rs.	Rs.
SWIFT License Fee	1,058,562	1,058,562
SWIFT Entrance Fee	911,031	911,031
Board Pac	400,000	-

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2022

22. ROU ASSET (RIGHT-OF-USE ASSET)	2022 Rs.	2021 Rs.
Opening balance	43,601,674	43,601,674.37
Additions/Disposals	-	-
Closing Balance	<u>43,601,674</u>	<u>43,601,674</u>
Depreciation	<u>(11,505,998)</u>	<u>(7,872,525)</u>
Net Asset Value	<u>32,095,677</u>	<u>35,729,150</u>
23. DEFERRED TAX ASSET/(LIABILITY)	2022 Rs.	2021 Rs.
Balance at the beginning of the year	874,758	(125,711)
Under/(Over) Provision of deferred tax in respect of prior years	9,455,394	17,958
Provision/(reversal) for the year	<u>760,564,128</u>	<u>982,511</u>
Balance at the end of the year	<u>770,894,280</u>	<u>874,758</u>
<i>The closing Deferred Tax Asset balance relates to the following</i>		
Accumulated Depreciation	(255,342)	(356,719)
Increment Benefit Obligation	2,243,390	1,231,477
Unused Tax Losses	<u>768,906,232</u>	<u>-</u>
	<u>770,894,280</u>	<u>874,758</u>
24. OTHER ASSETS	2022 Rs.	2021 Rs.
Other Receivables	5,582,000	3,548,000
Receivable From Treasury	88,939,587	88,939,587
(-)Impairment on Receivable From Treasury	(56)	-
VAT Receivable	35,662,533	35,662,533
Advance paid to Fixed Assets	<u>53,833,248</u>	<u>43,840,653</u>
	<u>184,017,312</u>	<u>171,990,773</u>
25. BORROWINGS UNDER REPURCHASE AGREEMENTS	2022 Rs.	2021 Rs.
Due within 1 year	<u>10,445,920,649</u>	<u>23,756,715,444</u>
	<u>10,445,920,649</u>	<u>23,756,715,444</u>
26. AMOUNT DUE TO RELATED PARTY	2022 Rs.	2021 Rs.
Credit Line Facility and Borrowings from National Savings Bank	850,175,342	501,184,931.51
Other Payables to National Savings Bank	<u>1,291,025</u>	<u>1,708,346</u>
	<u>851,466,368</u>	<u>502,893,278</u>
27. OTHER LIABILITIES	2022 Rs.	2021 Rs.
Accrued Expenses	4,463,545	6,518,472
Advances Received	<u>1,000,000</u>	<u>1,000,000</u>
	<u>5,463,545</u>	<u>7,518,472</u>
28. LEASE LIABILITY	2022 Rs.	2021 Rs.
Opening Balance	38,296,481	39,430,080
Additions	-	-
Interest Expense	4,251,383	4,386,401
Principal Payment	<u>(5,616,000)</u>	<u>(5,520,000)</u>
Closing Balance	<u>36,931,864</u>	<u>38,296,481</u>

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2022

29. RETIREMENT BENEFIT OBLIGATION

	2022	2021
	Rs.	Rs.
Balance at the beginning of the year	5,131,153	1,815,021
Current Service Cost	634,128	549,645
Interest for the year	853,215	188,906
Deficit/(Surplus) charge for the year	1,143,946	2,577,581
Payments made during the year	(284,475)	-
Balance at the end of the year	<u>7,477,968</u>	<u>5,131,153</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.

- 29.1 The Employee Benefit Liability is based on the Projected Unit Credit method carried out as at 31 December 2022. The principal assumptions used in determining the cost of employee benefits were:

	2022	2021
Discount Rate	18.00%	10.50%
Future Salary Increment	15.00%	5.20%
Staff Turnover Rate	7%	15%
Average Future Working Life Time		
Age Group	25-34	35-44
Average Future Working Life Time - Years	24.00	14.20
		45<
		6.50

29.2 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	(414,801)	446,545
One percentage point change in the salary escalation rate	454,539	(428,812)

Assumptions

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

30. STATED CAPITAL

	2022	2021
	Rs.	Rs.
Opening Balance	1,700,000,000	1,700,000,000
Issued During the year	2,500,000,000	-
Closing Balance	<u>4,200,000,000</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.

31. OTHER RESERVES

	2022	2021
	Rs.	Rs.
Special Risk Reserve (Note 31.1)	867,070,467	867,070,467
FVTOCI Reserve (Note 31.2)	(66,332,007)	(128,657,884)
	<u>800,738,459</u>	<u>738,412,583</u>

- 31.1 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.

The Company transfers 25% out of Net Profit to the Special Risk Reserve when making profits.

- 31.2 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.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2022

32. 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 2022	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 FVPL	1,181,853,762	1,150,667,557	6,454,840,160	273,128,161	2,410,335	9,062,899,975
Government Securities at AC	215,100,621	748,119,056	546,625,700	2,187,064,100	231,681,650	3,928,591,127
Corporate Debentures	22,162,647	217,312,077	-	192,950,000	-	432,424,723
Government Securities at FVOCI	45,592,927	-	-	42,361,043	396,569,881	484,523,851
Derivative Financial Assets	7,219,500	-	-	-	-	7,219,500
Loans & Advances	75,841,527	2,854,623	-	-	-	78,696,150
ROU Assets	908,368	2,725,105	7,266,946	7,266,946	13,928,313	32,095,677
Total Interest Earning Assets	1,548,679,351	2,121,678,417	7,008,732,806	2,702,770,250	644,590,179	14,026,451,003
Total non Interest Earning Assets						1,036,017,863
Total Assets						15,062,468,867
Liabilities						
Government Securities sold under Repurchase Agreement	10,432,016,883	13,903,766	-	-	-	10,445,920,649
Credit Line Facility	200,175,342	650,000,000	-	-	-	850,175,342
Lease Liability	487,999	1,548,861	4,933,892	7,482,675	22,478,436	36,931,864
Total Interest bearing Liabilities	10,632,680,225	665,452,627	4,933,892	7,482,675	22,478,436	11,333,027,855
Total non int. bearing Liabilities						14,232,538
Shareholder's Fund						3,715,208,473
Total Equity and Liabilities						15,062,468,867
As at 31 December 2021						
Assets						
Government Securities at FVPL	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 AC	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 FVOCI	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						14,357,970
Shareholder's Fund						3,440,451,469
Total Equity and Liabilities						27,751,006,297

33. FINANCIAL ASSETS PLEDGED AS COLLATERALS FOR REPO & REVERSE REPO

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 and pledged securities sold to customers for reverse repurchase transactions.

33.1 Haircut Policy for Repo & Reverse Repo Transactions

The Company's Haircut Policy on Repo & Reverse Repo transactions is based on the Guidelines issued by the Central Bank of Sri Lanka under the Direction No. 01 of 2019 on "Repurchase and Reverse Repurchase transactions of Dealer Direct Participants in Scripless Treasury Bonds and Scripless Treasury Bills".

At the time of entering into a repurchase or reverse repurchase transaction, the market value of the eligible securities adequately covers the repurchase value/ resale value of the securities (maturity value of the transaction), amount borrowed/ lent by the Company plus the interest that will accrue over its tenor within a minimum haircut as below,

Remaining term to maturity of the Eligible Security	Minimum Haircut (%)
up to 1 year	4.0
more than 1 year and up to 3 years	6.0
more than 3 year and up to 5 years	8.0
more than 5 year and up to 8 years	10.0
more than 8 years	12.0

Notwithstanding above, haircuts less than those required may be used for repurchase and reverse repurchase transaction entered into between the Company and the other party with the written agreement.

33.2 Fair Value of Government Securities Pledged as Collaterals

	2022 Rs.	2021 Rs.
Repo	10,907,168,982	25,980,375,134
Reverse Repo	92,737,170	11,680,689

34. 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.

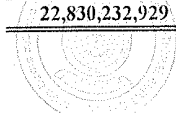
Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities

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

34.1 Determination of Fair Value and Fair Value Hierarchy

As at 31 December 2022	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Financial Assets - Held for Trading & FVTOCI	9,547,423,826	-	-	9,547,423,826
Equity Investments	-	-	2,000,000	2,000,000
	<u>9,547,423,826</u>	<u>-</u>	<u>2,000,000</u>	<u>9,549,423,826</u>
As at 31 December 2021				
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>



NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2022

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

34.2 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 2022		31 December 2021	
	Carrying Amount Rs.	Fair Value Rs.	Carrying Amount Rs.	Fair Value Rs.
Financial Assets				
Cash and Bank	2,088,266	2,088,266	1,546,673	1,546,673
Loans and Advances	78,696,150	92,737,170	10,583,063	11,680,689
Financial Assets as Held to Collect	3,928,591,127	2,821,698,089	4,189,736,259	4,210,631,524
Total Financial Assets	4,009,375,543	2,916,523,525	4,201,865,995	4,223,858,886
Financial Liabilities				
Borrowings under Repurchase Agreements	10,445,920,649	10,907,168,982	23,756,715,444	25,980,375,134
Amounts Due to Related Parties	851,466,368	851,466,368	502,893,278	502,893,278
Total Financial Liabilities	11,297,387,017	11,758,635,349	24,259,608,722	26,483,268,412

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.



35. 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.

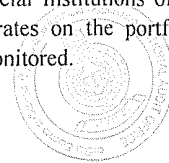
Market risk

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.



NSB Fund Management Company Limited
NOTES TO THE FINANCIAL STATEMENTS
As at 31 December 2022

35.1 Credit Risk

Credit Risk Analysis - Maturity Profile Analysis of Financial Assets
As at 31 December 2022 - Face Value Analysis

Instrument	Overnight	2-7 Days	8-30 Days	31-91 Days	92-182 Days	183-365 Days	Above 365 Days
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Reverse Repo	-	-	-	1,060,000	280,000	4,466,068	94,800,000
Treasury bills	-	3,028,261	4,853,682	331,285,143	1,238,513,663	136,368,582	-
Treasury bonds	-	-	550,000,000	116,445,452	748,100,000	52,745,704	12,421,335,261
Total	-	3,028,261	554,853,682	448,790,595	1,986,893,663	193,580,354	12,516,135,261

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

Instrument	Overnight	2-7 Days	8-30 Days	31-91 Days	92-182 Days	183-365 Days	Above 365 Days
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Reverse Repo	-	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



NSB Fund Management Company Limited
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2022

35. FINANCIAL RISK MANAGEMENT (Contd...)

35.2 Liquidity Risk

Liquidity risk Analysis - Maturity Profile Analysis of Financial Liabilities
As at 31 December 2022 - 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	-	2,598,300	3,572,147	239,313,701	360,360,884	165,302,172	1,629,255,860
Repo	-	-	473,060,632	-	1,218,220,545	-	9,809,109,690
Total	-	2,598,300	476,632,779	239,313,701	1,578,581,429	165,302,172	11,438,365,550

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

35.3 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.
Reverse Repo	-	-	996,056	-	3,998,501	87,742,614	-	-
T.Bonds	-	546,644,450	113,153,306	712,321,369	46,166,179	2,827,661,664	5,655,977,651	584,414,966
T.Bills	3,017,408	4,796,594	316,355,831	1,102,983,459	111,921,141	-	-	-
Debentures	-	-	-	-	217,390,752	-	192,871,324	-
Total	3,017,408	551,441,044	430,505,193	1,815,304,829	379,476,572	2,915,404,278	5,848,848,975	584,414,966

Liabilities

Capital & Profit	2022 Rs.	2021 Rs.
Repo	3,531,207	3,715,208,473
Total	3,531,207	3,715,208,473

Stress check Analysis

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

Instrument	2022 Rs.	2021 Rs.
Treasury bill trading portfolio	(8,276,992)	(38,735,693)
Treasury bond trading portfolio	(113,387,126)	(286,374,321)
Total	(121,664,118)	(325,110,015)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2022

36. 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. 1,650,000/- (2021 -Rs. 1,072,000/-).

iii) Key management personnel Investments in Government Securities of the Company

Directors of the Company and the Parent have made sum of Rs. 46,337,874.00 investments in Government Securities of the Company.

(b) Transactions with related parties

The following transactions were carried out with related parties during the year ended 31 December 2022.

Items in Income Statement		2022	2021
		Rs.	Rs.
National Savings Bank	Interest Received from investment in Reverse Repo	-	1,504,517
	RTGS Charges Income	20,800	166,600
	Custodian Fee Income	10,500,000	42,000,000
	Trustee Fee Income	1,050,000	1,550,000
	Interest Paid on Repurchase agreements	49,766,444	23,759,416
	Interest Expense on Credit Line Facility	284,203,781	1,184,932
	Legal Fees	300,000	300,000
	Rent Paid	5,616,000	5,520,000
	Dividend Paid	-	250,000,000

Items in Statement of Financial Position

National Savings Bank	Borrowing under Repurchase agreements	-	1,206,998,013
	Credit Line Facility and Borrowings obtained	850,175,342	501,184,932
	Other Payables	1,291,025	1,708,346
	Custodian Fee Receivable	-	3,500,000

37. 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.

37.1 Forward Purchase Contracts - Government Securities

	Trade Date	Value Date	Face Value Rs.	Market Yield	Invested Cost Rs.	Market Value Rs.
Treasury Bonds	12/30/2022	1/2/2023	500,000,000	31.90%	425,746,000	432,965,500

37.2 Commitments for Credit Facility

	2022	2021
	Rs.	Rs.
Credit Line Facility of National Savings Bank (Agreed Rs. 1,000,000,000/-, utilized as at 31.12.2022 Rs. 650,000,000/-)	350,000,000	-

37.3 Capital Commitments

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

	2022		2021	
	Rs.	USD	Rs.	USD
Approved and contracted for Treasury System	46,522,688	128,619	31,343,400	158,300

38. EVENTS OCCURRING AFTER THE REPORTING DATE

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

	2022	2021
	Rs.	Rs.
Personnel Costs		
Salaries and Wages	17,605,019	16,282,639
Employee Emoluments	14,861,010	12,340,774
Medical Expenses	678,828	1,380,332
O/T Out Pocket Allowance	674	234,430
EPF	2,075,282	1,951,989
ETF	518,821	487,997
Bonus	6,730,229	4,093,809
Encashment of Privilege Leave	1,264,928	1,072,018
Staff Training Expenses	379,100	478,500
Gratuity expense	1,771,818	738,551
Membership Subscription	60,000	60,000
	<u>45,945,708</u>	<u>39,121,042</u>

	2022	2021
	Rs.	Rs.
Other Expenses		
Directors Fees	1,650,000	1,072,000
Audit Fees	2,630,220	2,135,880
Bank Charges	140,590	67,900
Annual Membership Fees	402,835	325,500
Swift Charges	3,327,884	1,429,565
Bloomberg Charges	16,057,565	9,603,962
Sundry Expenses	539,018	586,461
Sales Promotion	202,708	1,069,982
Stationery	304,983	180,489
Chargeable Equipment	-	52,856
Travelling	85,220	292,738
Postage	2,445	2,963
Electricity	1,492,075	1,345,018
Telephone Charges	1,344,541	1,312,024
Water Tax	114,753	62,029
Maintenance of Computers	731,025	463,500
Maintenance of Office Equipments	77,430	302,422
Office Renovation Expenses	240,588	861,876
CSE Rental and Communication Charges	514,448	574,290
Publication Expenses	341,779	385,116
Professional Fees	300,000	635,000
Secretarial Fee	120,000	60,000
Lease Interest on ROU Asset	4,251,383	4,386,401
Other Charges	259,957,886	-
	<u>294,829,375</u>	<u>27,207,972</u>

Corporate Information

Name of the Company- NSB Fund Management Company Limited

Company Reg. Number - PB 795

Legal Form - A fully owned subsidiary of National Savings Bank, incorporated under the Companies Act No. 17 of 1982 and re- registered under the provisions of the Companies Act No. 07 of 2007.

Board of Directors - Mr. H K D L Gamini (Chairman)

Mr. Ajith Peiris

Mr. Oshada Rodrigo

Mr. K. Raveendran

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.