



# Gilt Edge Fund

**(A Series)**

**ANNUAL REPORT**  
2018

“The SEC in granting approval does not extend to either endorsing or ratifying the accuracy of the specific details set out therein, and that the management company remains at all times responsible for the specific details set out in the Annual Report.”

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**CEYBANK GILT EDGE FUND (A SERIES)**  
**Annual Report & Accounts 2018**  
**CORPORATE INFORMATION**

**TRUSTEE**

National Savings Bank  
Savings House, 255, Galle Road  
Colombo 03

**FUND MANAGERS & REGISTRAR**

Ceybank Asset Management Ltd  
Reg. No PV 3326  
No 85, York Street, Colombo -1  
Tel : 011- 760 2000-2, Fax : 011- 2327203  
E.mail : info@ceybank.com  
Web: www.ceybank.com

**DIRECTORS OF THE  
MANAGEMENT COMPANY**

Mr. P.S.C. Pelpola  
Chairman

Mr. C. Sathkumara  
CEO/Executive Director

Mr. K. B. S. Bandara  
(Nominee - Bank of Ceylon)

Mr. W.P.R.P.H. Fonseka  
(Nominee - Bank of Ceylon)

Shri B Babu Rao  
(Nominee - Unit Trust of India)

Mr.A.P. weeratunge  
(Nominee - Sri Lanka Insurance)

**MEMBERS OF  
THE INVESTMENT ADVISORY PANEL**

Mr. Hari Selvanathan  
Deputy Chairman  
Carson Cumberbatch PLC

Mr. S N P Palihena  
Former General Manager  
Bank of Ceylon

**AUDITORS**  
BDO Partners  
Chartered Accountants

**TAX CONSULTANTS**  
Ernst & Young  
Chartered Accountants

**BANKERS & CUSTODIAN**  
Bank of Ceylon

**LAWYERS**

F. J. & G. De Saram  
Attorneys –at-Law

Nithya Partners  
Attorneys –at-Law

# CEYBANK GILT EDGE FUND (A SERIES) - Annual Report 2018

## REPORT OF THE MANAGER

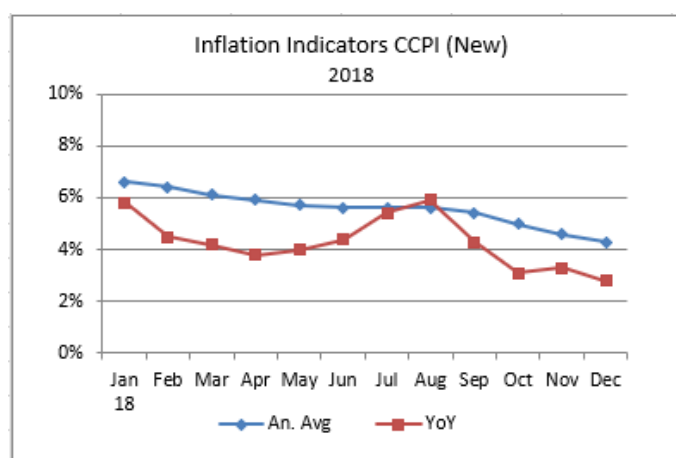
We have great pleasure in presenting the Manager's Report and Audited Accounts of the Ceybank Gilt Edge Fund (A series) for the period 1<sup>st</sup> January 2018 to 31st December 2018.

The Net Asset Value per unit of your Fund appreciated by 7.60% during the period.

### Economy

The Sri Lankan Economy recorded an Annual GDP growth of 3.2% in 2018, marginally lower than the growth of 3.4% achieved in 2017 (base year=2010). Sector wise Agriculture expanded by 4.8%, Services by 4.7% while Industry grew by a mere 0.9%.

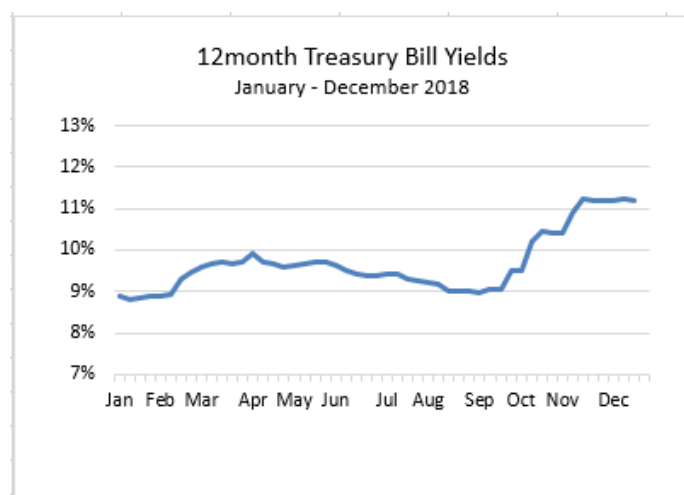
Average Annual Inflation measured by the CCPI, which was at 6.6% at the beginning of the year reduced continuously during the period and closed the year at 4.3% as at end December 2018.



(Source: CBSL)

Market interest rates remained volatile during the year. The benchmark 12-month Treasury bill rate which was at 8.90% p.a. at the beginning of the year remained flat for the first nine months before rising sharply. The rates increased by 230 basis points, to close at 11.20% at the end of the year. Long term Treasury bond yields also moved in tandem with the Treasury Bills during this period.

Overnight call money rates generally traded within a range of 7.65% and 9.00% p.a. The exchange rate which was at 153.47 (Rs/US\$) at the beginning of 2018, depreciated by 19.08% during the year to 182.75 (Rs/US\$), as at end December 2018.



(Source: CBSL)

Central Bank key policy rates were changed twice during the year. In April 2018, the Standing Lending Facility Rate (SLFR) was reduced by 25 bps from 8.75% to 8.50%. Further, in November the Bank reduced the Statutory Reserve Requirement (SRR) for Commercial Banks by 150 bps (to 6%) and increased the Standing Deposit Facility Rate by 75 bps (to 8%) and Standing Lending Facility Rate 50 bps (to 9%).

## **Fund Performance**

The Net Asset Value per unit of your Fund appreciated by 7.60% during the period under review.

The Fund generated Rs 204.08 million as net operating profit before taxes during the period. The Fund was mainly invested in Treasury bills Repurchase Agreements.

## **Future Outlook**

The Sri Lankan Economy recorded an Annual GDP growth of 3.2% in 2018, marginally lower than the growth of 3.4% in 2017. The main causes for the poor performance are attributed to a weak Industry sector and the political unrest that occurred during the 4<sup>th</sup> Quarter of 2018, resulting in a growth of only 1.8% in the last quarter of 2018.

The Government economic policy, articulated in the Budget looks to focus on medium to long term growth. While indications of large Foreign direct investments have been talked of, they are yet to materialize. The future outlook on growth will depend largely on the implementation of the budget proposals and new investments into the country.

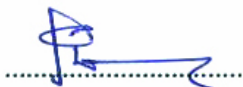
The GSP plus concessions needs to be further capitalized by exporters in order to reap the full benefit of GSP. Pressure on the trade deficit and volatile crude oil prices globally is a matter of concern. While the weather was mostly favourable during 2018, indications of the current drought do not augur well for the agriculture sector and hydro power generation. Pressure on the rupee too is likely to continue as large debt repayments that are due in 2019 weigh in heavily.

Market interest rates could remain flat and rise slowly towards the second half of the year. The Government is likely to increase its borrowing program to repay previously taken loans, and also spend on its proposed development programs of infrastructure and employment generation. Taking these factors into account the Fund is currently invested in short term Treasury Bill Repurchase Agreements. The Managers will continue to monitor the changing environment to address any change required in the asset allocation in order to meet the Fund objective.

## **Management**

We take this opportunity to thank our valued unit holders for the confidence placed in us, which has been a great source of encouragement. We believe we will be able to provide a consistent return to the unit holders. We also place on record our appreciation for the unstinted support and cooperation extended by the Securities and Exchange Commission of Sri Lanka, the Trustee, National Savings Bank and Custodian Bank of Ceylon.

Our sincere appreciation is also due to the stakeholders and the Board of Directors for their support. Our achievements would not have been possible without the skills and commitment of the Management Team. We take great pleasure in thanking them for their contribution and dedication throughout the year and look forward to their support in the coming year too.



Executive Director/ CEO

8<sup>th</sup> April 2019



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E-mail : bdopartners@bdo.lk  
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Chartered Accountants  
"Charter House"  
65/2, Sir Chittampalam A Gardiner Mawatha  
Colombo 02  
Sri Lanka

## **INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF CEYBANK GILT EDGED FUND (A SERIES)**

### **Report on the Audit of the Financial Statements**

#### **Opinion**

We have audited the financial statements of Ceybank Gilt Edged Fund (A Series), which comprise the statement of financial position as at 31st December, 2018 and the statement of comprehensive income, statement of changes in unitholders funds and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

#### **Basis for Opinion**

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements of the Code of Ethics issued by CA Sri Lanka (Code of Ethics) that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Ceybank Asset Management Limited ("Management") and the Trustee of the Unit Trust are 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 determines 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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

#### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud and 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 the financial statements.



As part of an audit in accordance with SLAuSs, we exercise professional judgement and maintain professional skepticism throughout the audit. We 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 our 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 management.
- Conclude on the appropriateness of 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 we conclude that material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures, are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our 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.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

#### **Report on Other Legal and Regulatory Requirements**

As required by the Unit Trust code of September, 2011 issued by the Securities and Exchange Commission of Sri Lanka under the Act No.36 of 1987 and the Trust Deed, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

*BDO Partners*

**CHARTERED ACCOUNTANTS**

**Colombo 02**

**08<sup>th</sup> April, 2019**

**SSR/cc**

CEYBANK GILT EDGED FUND (A - SERIES)  
STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31ST DECEMBER, 2018

Page 1

	Note	2018 Rs.	2017 Rs.
Income on Financial Assets	4	221,312,711	241,252,488
<b>Expenses</b>			
Management Fee		(12,382,833)	(10,417,405)
Trustee and Custodian Fee		(3,242,779)	(2,641,847)
Audit Fee		(70,995)	(64,515)
Bank Charges		(100,425)	(89,500)
Notional Tax		(766,788)	(860,595)
Other Miscellaneous Expenses		(595,761)	(176,802)
<b>Net Operating Profit</b>		204,153,130	227,001,824
Finance Expenses		(72,088)	-
<b>Profit After Deductions and Before Tax</b>		204,081,042	227,001,824
Income Tax Expense		(13,245,139)	(22,803,922)
<b>Increase in Net Assets Attributable to Unitholders</b>		190,835,903	204,197,902

Figures in brackets indicate deductions.

The accounting policies and notes on page 05 to 18 form an integral part of these financial statements.

Colombo  
08th April, 2019



**CEYBANK GILT EDGED FUND (A - SERIES)**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31ST DECEMBER, 2018**

Page 2

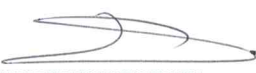
	Note	2018 Rs.	2017 Rs.
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	6	358,793	293,797
Income Tax Receivable	7	-	422,561
Financial Assets at FVTPL	8	-	894,490,585
Financial Assets at Amortized Cost	9	1,000,932	22,042,894
<b>Total Current Assets</b>		<u>1,359,725</u>	<u>917,249,837</u>
<b>Total Assets</b>		<u>1,359,725</u>	<u>917,249,837</u>
<b>UNITHOLDERS' FUNDS AND LIABILITIES</b>			
<b>Current Liabilities</b>			
Other Payables	10	445,201	3,794,286
<b>Total Current Liabilities</b>		<u>445,201</u>	<u>3,794,286</u>
<b>Unitholders' Fund</b>		914,524	913,455,551
<b>Total Unitholders' Fund</b>		<u>914,524</u>	<u>913,455,551</u>
<b>Total Unitholders' Funds and Liabilities</b>		<u>1,359,725</u>	<u>917,249,837</u>
<b>Commitments and Contingencies</b>	11 and 12		

Figures in brackets indicate deductions.

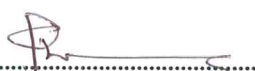
The accounting policies and notes on pages 05 to 18 form an integral part of these financial statements.

The Board of Directors of the management company and the trustee are responsible for the preparation and presentation of these financial statements.

The financial statements were approved by the management company and by the trustee on 04th April, 2019 and 08th April, 2019 respectively.

  
.....

**Director**  
Management Company

  
.....

**Director**  
Management Company

Colombo  
08th April, 2019  
SSR/cc



CEYBANK GILT EDGED FUND (A - SERIES)  
STATEMENT OF CHANGES IN UNITHOLDERS FUNDS  
FOR THE YEAR ENDED 31ST DECEMBER, 2018

Page 3

	Unit Capital Rs.	Retained Earnings Rs.	Total Rs.
Unitholders' Funds as at 01st January, 2017	1,262,182	39,459	1,301,641
Increase in Net Assets Attributable to Unitholders	-	204,197,902	204,197,902
Received on Unit Creations	10,079,136,251	1,099,277,273	11,178,413,524
Paid on Unit Redemptions	(9,311,674,699)	(1,158,782,817)	(10,470,457,516)
<b>Unitholders' Funds as at 31st December, 2017</b>	<b>768,723,734</b>	<b>144,731,817</b>	<b>913,455,551</b>
Increase in Net Assets Attributable to Unitholders	-	190,835,903	190,835,903
Received on Unit Creations	9,843,728,948	1,987,207,154	11,830,936,102
Paid on Unit Redemptions	(10,611,705,357)	(2,322,607,675)	(12,934,313,032)
<b>Unitholders' Funds as at 31st December, 2018</b>	<b>747,325</b>	<b>167,199</b>	<b>914,524</b>

Figures in brackets indicate deductions.

The accounting policies and notes on pages 05 to 18 form an integral part of these financial statements.

Colombo  
08th April, 2019



CEYBANK GILT EDGED FUND (A - SERIES)  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31ST DECEMBER, 2018

Page 4

	2018 Rs.	2017 Rs.
<b>Cash Flows from Operating Activities</b>		
Interest Received	221,312,711	241,252,488
Net Investment in Financial Assets	915,532,547	(914,032,813)
Management Fees and Trustees' Fees Paid	(17,519,695)	(12,271,052)
Tax Paid	(15,149,961)	(22,445,306)
Other Expenses Paid	(733,676)	(335,981)
<b>Net Cash Inflow from Operating Activities</b>	<b>1,103,441,926</b>	<b>(707,832,664)</b>
<b>Cash Flows from Financing Activities</b>		
Proceeds from Applications by Unitholders	11,830,936,102	11,178,413,524
Payments for Redemptions by Unitholders	(12,934,313,032)	(10,470,457,516)
<b>Net Cash (Outflow) from Financing Activities</b>	<b>(1,103,376,930)</b>	<b>707,956,008</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>64,996</b>	<b>123,344</b>
<b>Cash and Cash Equivalents at the Beginning of the Year (Note A)</b>	<b>293,797</b>	<b>170,453</b>
<b>Cash and Cash Equivalents at the End of the Year (Note B)</b>	<b>358,793</b>	<b>293,797</b>
<b>At the Beginning</b>		<b>Note A</b>
Balance at Bank	293,797	170,453
<b>At the End</b>		<b>Note B</b>
Balance at Bank	358,793	293,797

Figures in brackets indicate deductions.

The accounting policies and notes on pages 05 to 18 form an integral part of these financial statements.

Colombo  
08th April, 2019



**CEYBANK GILT EDGED FUND (A SERIES)**  
**SIGNIFICANT ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS**

**1. CORPORATE INFORMATION**

**1.1 General**

Under Section 31 of the Securities and Exchange Commission of Sri Lanka, Act No. 36 of 1987 as amended by the Act No. 26 of 1991 and the Act No. 18 of 2003, the Securities and Exchange Commission of Sri Lanka granted a license to operate the Fund to Ceybank Asset Management Limited on 24<sup>th</sup> October, 2014. The Fund commenced its commercial operations on 20<sup>th</sup> January, 2016. The registered office of the Management Company is located at No.85, York Street, Colombo 01.

**1.2 Principal Activities and Nature of Operations**

The Fund is an Open-Ended Unit Trust and invests in a portfolio consisting of treasury bills, treasury bonds with maturities equal to or less than one year and repurchase agreements in relation to such bills and bonds. The primary investment objective of the fund is to maximize short-term income whilst protecting capital and ensuring ease of liquidity by investing in a portfolio of government securities.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2.1 General Accounting Policies**

**2.1.1 Basis of Preparation**

The financial statements have been prepared in accordance with, and comply with Sri Lanka Accounting Standards (SLFRSs and LKASs) issued by the Institute of Chartered Accountants of Sri Lanka and adopted as directed by the Securities and Exchange Commission of Sri Lanka.

The financial statements have been prepared on the basis of fair value measurement of assets and liabilities except where otherwise it is stated.

The statement of financial position has been presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and do not distinguish between current and non-current. All balances are expected to be recovered or settled within twelve months, except for investments in financial assets and net assets attributable to unitholders. The amount expected to be recovered or settled within twelve months after the end of each reporting period cannot be reliably determined.

**2.1.2 Statement of Compliance**

These financial statements have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs).

**2.2 Statement of Financial Position**

**2.2.1 Financial Instruments**

The Fund's principal financial assets comprise investments in trading securities and cash at bank. The main purpose of these financial instruments is to generate a return on the investment made by Unitholders. The Fund's principal financial liabilities comprise the amounts attributable to Unitholders, which are the amounts owing to Unitholders of the Fund. The Fund also has various other financial instruments such as receivables and payables which arise directly from its operations.

The Fund adopted in accordance with Sri Lanka Financial Reporting Standard 9, (SLFRS 9 Financial Instruments) effective from 01<sup>st</sup> January 2018. This Standard replaces LKAS - 39 Financial Instruments: Recognition and Measurement. The comparative figures for the year ended 31<sup>st</sup> December 2017 remains as audited and published and previous year as per the LKAS 39 Financial Instruments recognition and measurement and the figures and phrases have been re arranged wherever necessary to conform to the current year's Presentation.

## SIGNIFICANT ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

**2.2.1.1 Classification**

SLFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the Fund's business model for managing the assets and the instruments' contractual cash flow characteristics. The LKAS 39 measurement categories of Financial Assets Held for Trading, Available for Sale (AFS), Held to Maturity and Amortized Cost) have been replaced by:

- Debt instruments at Amortized Cost
- Debt instruments at Fair Value through Other Comprehensive Income (FVOCI), with gains or losses recycled to profit or loss on de-recognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on de-recognition
- Financial Assets at Fair Value through Profit or Loss (FVTPL)

On initial recognition, a financial asset is classified as measured at Amortized Cost, FVOCI or FVTPL. Financial assets are not re classified subsequent to their initial recognition unless the Fund changes its business model for managing financial assets in which case, all affected financial assets are re classified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at Amortized Cost, if it meets both of the following conditions:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Fund's financial assets classified under Amortized Cost include Treasury Securities, Fixed Deposits, Corporate Debt Securities and Other Receivables.

All financial assets not classified as measured at Amortized Cost as described above are measured at FVTPL.

**2.2.1.1.1 Financial Assets at Amortized Cost**

In line with the requirements of the SLFRS-09, the Fund applies the Amortized Cost method to measure the Financial Assets for which an entity has a business model to hold the financial asset to collect the contractual cash flows. The characteristics of the contractual cash flows are that of solely payments of the principal amount and interest (referred to as "SPPI").

- Principal is the fair value of the instrument at initial recognition.
- Interest is the return within a basic lending arrangement and typically consists of consideration for the time value of money, and credit risk. It may also include consideration for other basic lending risks such as liquidity risk as well as a profit margin.

The Fund determines its business model at the level that best reflect how it manages groups of Financial Assets to achieve its business objective.

Accordingly the Financial assets classified as Loans and Receivables and Held to Maturity as per the LKAS 39 Financial Instruments: classification and measurement were reclassified and re-measured based on the business models of the fund and has been classified as Financial Assets at Amortized Cost.



**SIGNIFICANT ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS****2.2.1.1.2 Financial Assets at Fair Value through Profit or Loss (FVTPL)**

Financial Assets at Fair Value through Profit or Loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the responsible entity to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

The Fund makes short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, or it may use short sales for various arbitrage transactions. Short sales are classified as financial liabilities at fair value through profit or loss.

**2.2.1.2 Recognition/De-recognition**

The Fund recognizes financial assets and financial liabilities on the date it becomes a party to the contractual agreement (trade date) and recognizes changes in fair value of the financial assets or financial liabilities from this date.

Investments are de-recognized when the right to receive cash flows from the investments has expired or the Fund has transferred substantially all of the risks and rewards of ownership.

Financial liabilities at fair value through profit or loss are de-recognized when the obligation specified in the contract is discharged or has expired.

Realized gains and realized losses on de-recognition are determined using the weighted average method and are included in the profit or loss in the period in which they arise. The realized gain is the difference between an instrument's weighted average cost and disposal amount.

**2.2.2 Impairment of Financial Assets**

At each reporting date, the Fund assesses to ascertain whether financial assets carried at Amortized Cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Loss allowances for financial assets measured at Amortized Cost are deducted from the gross carrying amount of the assets.

At 31<sup>st</sup> December 2018, all other receivables, cash and short-term deposits are held with counterparties and are due to be settled within two weeks. Management considers the probability of default to be close to zero as the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognized based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Fund.

**2.2.3 Transition**

The Fund has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Therefore, comparative periods have not been restated. Differences, if any, in the carrying amounts of financial assets and financial liabilities resulting from the adoption of SLFRS-09 are recognized in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of SLFRS 9, but rather those of LKAS 39.



## SIGNIFICANT ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

**2.2.4 Unitholders' Funds and Net Assets Attributable to Unitholders**

Unitholders' Funds have been calculated as the difference between the carrying amounts of the assets and the carrying amounts of the liabilities, other than those due to Unitholders, as at the reporting date.

Units can be issued and redeemed based on the Fund's net asset value per unit, calculated by dividing the net assets of the Fund calculated in accordance with the valuation guidelines issued by the Unit Trust Association of Sri Lanka and approved by the Securities and Exchange Commission of Sri Lanka, by the number of units in issue.

Dividends to unitholders are declared according to the explanatory memorandum. Distribution to unitholders is recognized in the statement of changes in unitholders' fund. Income not distributed is included in net assets attributable to unitholders.

**2.2.5 Increase/Decrease in Net Assets Attributable to Unitholders**

Income not distributed is included in net assets attributable to unitholders. Movements in net assets attributable to unitholders are recognized in Statement of Changes in Unit Holders' Funds.

**2.2.6 Cash and Cash Equivalents**

Cash and cash equivalents in the statement of financial position comprise cash at bank and interest accrued on cash held in bank.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Fund's main income generating activity.

**2.2.7 Receivables**

Receivable are recognized and carried at amortized cost, less a provision for any uncollectable debts. An estimate for doubtful debt is made when collection of an amount is no longer probable.

Collectability of receivable is reviewed on an ongoing basis at an individual portfolio level, Individual debts that are known to be uncollectable are written off when identified. An impairment provision is recognized when there is objective evidence that the Fund will not be able to collect the receivables. Financial difficulties of the debtor, default payments are considered as objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

**2.2.8 Payable**

Payables include liabilities and accrued expenses owed by the Fund which are unpaid as at the end of the reporting period.

The distribution amount payable to unitholders as at the end of each reporting period is recognised separately in the statement of financial position when unitholders are presently entitled to the distributable income under the Trust Deed.



**SIGNIFICANT ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS****2.2.9 Applications and Redemptions**

Applications received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund. Redemptions from the Fund are recorded as gross of any exit fees payable after the cancellation of units redeemed.

**2.2.10 Significant Judgement and Estimates**

Management considers credit, liquidity and market risk and assesses the impact on valuation of investments when determining the fair value. Following is the key source of estimation uncertainty at the statement of financial position date, that have significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

**2.2.11 Fair Value of Securities not Quoted in an Active Market and Over the Counter Derivative Instruments**

Management uses its judgement in determining the appropriate valuation technique for financial instruments that are not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Other financial instruments are valued using a discounted cash flow analysis based on the assumptions supported, where possible, by observable market prices or rates.

**2.3 Statement of Comprehensive Income****2.3.1 Revenue Recognition**

Interest income is recognized in profit or loss for all financial instruments that are not held at fair value through profit or loss using the effective interest rate method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instruments to the net carrying amount of the financial asset) interest reflects income earned on cash held at bank and on direct fixed interest investments. Interest income is recognized gross of withholding tax or notional tax, if any prior to 31<sup>st</sup> March 2018 and after that date interest income is recognized net of taxes. Interest income on financial assets held at fair value through profit or loss is included in the net gains/(losses) on financial instruments.

Realized gains and realized losses on de-recognition of financial assets and liabilities at fair value through profit or loss are determined using the weighted average method and are included in the profit or loss in the period in which they arise. The realized gain is the difference between an instrument's weighted average cost and disposal amount.

The fair value of financial assets and liabilities traded in active markets is subsequently based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. The quoted market price used for financial assets held by the Fund is the current bid price and the quoted market price for financial liabilities is the current asking price. The difference between the market value and weighted average cost of financial assets and liabilities is defined as unrealized gains or losses and are included in the profit or loss in the period in which they arise.

Financial instruments with fixed rates expose the Fund to fair value interest rate risk. However, due to the short-term nature of the instruments, it is reasonably expected that fluctuations in interest rates will not materially impact the Net Asset Value of the Fund.

**2.3.2 Expenditure Recognition**

All expenses including the management fees and Trustees' fees, are recognized in profit or loss on accrual basis.



## CEYBANK GILT EDGED FUND (A SERIES)

### SIGNIFICANT ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

#### 2.3.3 Taxation

The charge for taxation is based on the results for the year as adjusted for disallowable items. The current tax liabilities are provided for in accordance with the provisions of the Inland Revenue Act, No.10 of 2006 and subsequent amendments thereto.

Profits are taxable at the rate of 10% for first three months ended 31.03.2018 and for subsequent period Unit Trusts that conduct eligible investment business are treated as pass through vehicles and tax will be payable by unit holders.

#### 2.3.4 Distribution

In accordance with the Trust Deed, the Fund distributes income adjusted for amounts determined by Ceybank Asset Management Limited, to unitholders by cash or re-investment. The distributions are recognized in Statement of Changes in Unitholder's Fund.

#### 2.3.5 Increase/(Decrease) in Net Assets Attributable to Unitholders

Income not distributed is included in net assets attributable to unitholders.

### 3 FINANCIAL RISK MANAGEMENT

The Fund's activities are exposed to a variety of financial risks: market risk (including price risk and interest rate risk), credit risk and liquidity risk.

The Fund's overall risk management programme focuses on ensuring compliance with the Fund's Product Disclosure Statement and seeks to maximize the returns derived for the level of risk to which the Fund is exposed. Financial risk management is carried out by the management company.

The Fund uses different methods to measure different types of risks to which it is exposed. These methods include sensitivity analysis in the case of interest rate and other price risks and ratings analysis for credit risk.

#### 3.1 Market Risk

##### 3.1.1 Cash Flow and Fair Value Interest Rate Risk

The Fund is exposed to cash flow interest rate risk on financial instruments with variable interest rates. Financial instruments with fixed rates expose the Fund to fair value interest rate risk. The Fund's interest bearing financial assets are exposed to risks associated with the effect of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The risk is measured using sensitivity analysis.

The Fund's policy is to hold all its net assets attributable to unitholders invested in debt securities. The table below summarizes the Fund's exposure to interest rate risks. It includes the Fund's assets and liabilities at fair values, categorized by the earlier contractual re-pricing on maturity dates.

As at 31 <sup>st</sup> December, 2018	Floating Interest Rs.	Fixed Interest Rs.	Non-Interest Rs.	Total Rs.
<b>Financial Assets</b>				
Cash and Cash Equivalents	Nil	Nil	358,793	358,793
Financial Assets at Amortized Cost	Nil	1,000,932	Nil	1,000,932
<b>Total Exposure</b>	Nil	1,000,932	358,793	1,359,725

## SIGNIFICANT ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

**3.2 Summarized Sensitivity Analysis**

The following table summarizes the sensitivity of the Fund's operating profit and net assets attributable to unitholders interest rate risk and other price risk. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical level of changes in interest rates, historical correlation of the Fund's investment with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than it is anticipated due to a number of factors, including unusually large market shocks resulting from changes in performances and correlation between the performances of the economies, markets and securities in which the Fund invests. As a result, historic variations in risk variables should not be used to predict future variations in the risk variables.

	Impact on operating profit/Net assets attributable to unitholders Interest rate risk 31 <sup>st</sup> December, 2018
Change in interest rate of the Trust's investment in trading securities:	
+1.5%	3,319,691
-1.5%	(3,319,691)

**3.3 Credit Risk**

The Fund is exposed to credit risk, which is the risk that the counterparty will be unable to pay amounts in full when they fall due.

The main concentration of credit risk, to which the Fund is exposed, arises from the Fund's investment in debt securities. Cash and cash equivalents, amounts due from brokers and other receivables.

**3.3.1 Debt Securities**

The Fund invests in debt securities which are risk free investments. An analysis of debt by rating is set out in the table below.

	31 <sup>st</sup> December, 2018 Rs.
Re-purchase Agreements	
Rating	
Risk Free	1,000,932
Total	1,000,932

**3.3.2 Cash and Cash Equivalents**

The exposure to credit risk for cash and cash equivalents is low as all counterparties have a rating of AA+ as determined by the Fitch Rating agency.

In accordance with the Fund's policy, the investment manager monitors the Fund's credit position on a daily basis.



## SIGNIFICANT ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

**3.4 Liquidity Risk**

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund is exposed to daily cash redemptions of units. It, therefore, primarily holds investments that are traded in an active market and can be readily disposed. Only a limited proportion of its assets is held in investments not actively traded on a stock exchange.

Units are redeemed on demand at the unitholders' option. However, the Board of Directors does not envisage that the contractual maturity disclosed in the table below will be representative of the actual cash outflows, as holders of these instruments typically retain them for the medium to long-term.

The table below analyses the Fund's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period. The amounts in the table are the contractual undiscounted cash flows.

<b>As at 31<sup>st</sup> December, 2018</b>	<b>Less Than One Month Rs.</b>	<b>01 to 06 Months Rs.</b>	<b>06 to 12 Months Rs.</b>	<b>Total Rs.</b>
<b>Accrued Expenses</b>				
- Management Fee Payable	199,106	Nil	Nil	199,106
- Other Payables to Mgt Co.	Nil	Nil	228,095	228,095
- Other Payables	Nil	Nil	18,000	18,000
<b>Contractual Cash Flows (Excluding Gross settled Derivatives)</b>	199,106	Nil	246,095	445,201

**3.5 Fair Value Estimation**

The carrying amounts of the Fund's assets and liabilities at the end of each reporting period approximate their fair values.

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognized in profit or loss.

**3.5.1 Fair Value in an Inactive or Unquoted Market**

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instruments, discounted cash flow techniques, option pricing models or any other valuation techniques that provide a reliable estimate of prices obtained in actual market transactions.

Investments in other unlisted unit trusts are recorded at the redemption value per unit as reported by the investment managers of such Funds.

Some of the inputs to these models may not be market observable and are therefore, estimated based on assumptions.



## SIGNIFICANT ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Fund holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including liquidity risk and counterparty risk.

The carrying value less impairment provision of other receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Fund for similar financial instruments.

### 3.6 Fair Value Hierarchy

Classification of financial assets and financial liabilities

The Fund classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

#### 3.6.1 Classification of Financial Assets and Financial Liabilities

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the responsible entity. The responsible entity considers observable data to be that of market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The tables below set out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy as at 31<sup>st</sup> December, 2018.

As At 31 <sup>st</sup> December, 2018	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Totals Rs.
Financial Assets at Amortized Cost	Nil	1,000,932	Nil	1,000,932
Cash and Cash Equivalents	Nil	Nil	358,793	358,793
<b>Total</b>	<b>Nil</b>	<b>1,000,932</b>	<b>358,793</b>	<b>1,359,725</b>

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities, certain unlisted unit trusts, and exchange traded derivatives.



## SIGNIFICANT ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include; investment-grade corporate bonds and certain non-US sovereign obligations, certain listed equities, certain unlisted unit trusts and over-the-counter derivatives. As level 2, investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within level 3 have significant unobservable inputs, as they are infrequently traded. Level 3 instruments include corporate debt securities and certain unlisted unit trusts. As observable prices are not available for these securities, the responsible entity has used valuation techniques to derive fair value.



		2018 Rs.	2017 Rs.
<b>4. INCOME</b>			
Interest Income on Financial Investments	<b>Note 4.1</b>	230,659,650	224,453,602
Net Realized Gain/(Loss) on Financial Assets		(9,346,939)	16,798,886
		<u>221,312,711</u>	<u>241,252,488</u>

#### 4.1 Interest Income on Financial investments

Interest From			
- Treasury Bills		211,710,639	218,973,551
- Repurchase Agreements		18,949,011	5,480,051
		<u>230,659,650</u>	<u>224,453,602</u>

#### 5. NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

Movements in a number of units and net assets attributable to unitholders during the period were as follows:

	From 1st January, 2018 to 31st December, 2018		From 1st January, 2017 to 31st December, 2017	
	Number	Rs.	Number	Rs.
Opening Balance	78,832,141	913,455,551	126,285	1,301,641
Applications	1,004,625,685	11,830,936,102	1,018,774,641	11,178,413,524
Redemptions	(1,083,384,477)	(12,934,313,032)	(940,068,785)	(10,470,457,516)
Increase in Net Assets Attributable to Unitholders	-	190,835,903	-	204,197,902
Closing Balance	<u>73,349</u>	<u>914,524</u>	<u>78,832,141</u>	<u>913,455,551</u>

As stipulated within the Trust deed, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund. There are no separate classes of units and each unit has the same rights attached to it as all other units of the Fund.

#### 5.1 Capital Risk Management

The Fund considers its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of unitholders.

Daily applications and redemptions are reviewed relative to the liquidity of the Fund's underlying assets on a daily basis by the responsible entity. In terms of the Fund constitution, the responsible entity has the discretion to reject an application for units and to defer or adjust a redemption of units if the exercise of such discretion is in the best interests of the unitholders.



				2018 Rs.	2017 Rs.
<b>6. CASH AND CASH EQUIVALENT</b>					
Cash at Bank					
- BANK A/C 78527164 - Operation				318,905	273,797
- Bank A/C 78527136- Redemption				28,888	20,000
- Bank A/ C 78527078 - Inc.Dis.				11,000	-
				<u>358,793</u>	<u>293,797</u>
<b>7. INCOME TAX RECEIVABLE</b>					
Balance as at the Beginning of the Period				422,561	81,177
Less : Notional Tax				15,149,961	23,145,306
				<u>15,572,522</u>	<u>23,226,483</u>
Add : Income Tax Expense on Current Period Profit				(13,245,139)	(22,803,922)
				2,327,383	422,561
Less : Provision for Notional Tax				(2,327,383)	-
Balance as at the End of the Period				<u>-</u>	<u>422,561</u>
<b>8. FINANCIAL ASSETS AT FVTPL</b>					
Investment in Treasury Bills				-	894,490,585
				<u>-</u>	<u>894,490,585</u>
<b>9. FINANCIAL ASSETS AT AMORTIZED COST</b>					
Investment in Repurchase Agreements	Note 9.1			1,000,932	22,042,894
				<u>1,000,932</u>	<u>22,042,894</u>
<b>9.1 Investment in Repurchase Agreements</b>					
<b>As at 31st December, 2018</b>					
<b>Dealer</b>	<b>Yield (in%)</b>	<b>Investment Date</b>	<b>Maturity Date</b>	<b>Cost Rs.</b>	<b>Market Value Rs.</b>
First Capital Treasuries	8.5%	28-Dec-18	4-Jan-19	<u>1,000,000</u>	<u>1,000,932</u>
<b>As at 31st December, 2017</b>					
<b>Dealer</b>	<b>Yield (in%)</b>	<b>Investment Date</b>	<b>Maturity Date</b>	<b>Cost Rs.</b>	<b>Market Value Rs.</b>
Union Bank of Colombo	8%	27-Dec-17	3-Jan-18	<u>22,018,764</u>	<u>22,042,894</u>
				<u>2018 Rs.</u>	<u>2017 Rs.</u>
<b>10. OTHER PAYABLES</b>					
Provision for Notional Tax				-	1,560,595
Management Fee Payable				199,106	2,111,189
Other Creditors				-	122,502
Custodian Fees Payable				18,000	-
Other Payables to UTMCL				228,095	-
				<u>445,201</u>	<u>3,794,286</u>



**11. UNRECOGNISED CONTRACTUAL COMMITMENTS**

There were no unrecognized contractual commitments as at the reporting date to be disclosed.

**12. CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

**12.1 Contingent Liabilities**

There were no contingent liabilities as at the reporting date.

**12.2 Contingent Assets**

There were no contingent assets as at the reporting date.

**13. EVENTS OCCURRING AFTER THE REPORTING DATE**

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

**14. RELATED PARTY TRANSACTIONS**

**14.1 Responsible Entity**

The responsible entity of Ceybank Gilt Edged Fund (A Series) is Ceybank Asset Management Limited.

**14.2 Key Management Personnel**

**a) Directors**

Key management personnel include persons who were directors of Ceybank Asset Management Limited at any time during the financial year.

- |                                  |                          |
|----------------------------------|--------------------------|
| - Mr. Palitha Palpola (Chairman) | - Mr. A.P. Weeratunge    |
| - Mr. C. Sathkumara              | - Mr. K.B.S. Bandara     |
| - Mr.B.Babu Rao                  | - Mr. W.P.R.P.H. Fonseka |

**b) Other key management personnel**

There were no other persons with responsibility for planning, directing and controlling the activities of the Fund, directly or indirectly during the financial period.

**14.3 Key Management Personnel Unitholding**

The key management personnel of Ceybank Asset Management Limited have not held any units in the Fund.



**14. RELATED PARTY TRANSACTIONS (CONTD..)**

**14.4 Other Transactions within the Fund**

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Fund during the financial period and there were no material contracts involving key management personnel's interest existing at year end.

**14.5 Related Party Unitholding**

The Management Company of Ceybank Gilt Edged Fund (A Series) did not hold any units in the Fund.

**14.6 Key Management Personnel Compensation**

Key management personnel are paid by Ceybank Asset Management Limited. Payments made from the Fund to Ceybank Asset Management Limited do not include any amounts directly attributable to the compensation of key management personnel.

Name of Related Company	Relationship		Amount (Rs.)	
			2018	2017
Ceybank Asset Management Limited	Managing Company	Management Fee	12,382,833	10,417,405
Bank of Ceylon	Custodian	Custodian Fee	477,180	144,000
National Savings Bank	Trustee	Trustee Fee	2,765,599	2,497,847

**15. TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL (KMP) OF THE COMPANY**

Key management personnel are paid by Ceybank Asset Management Limited. Payments from the Fund to Ceybank Asset Management Limited do not include any amounts directly attributable to the compensation of key management personnel.



# CEYBANK GILT EDGE FUND (A SERIES)

## Annual Report & Accounts 2018

### DECLARATION BY TRUSTEES AND MANAGING COMPANY

Declaration by Trustees and Management Company as per SEC Circular No 02/2009 on Guidelines for Trustees and Management Companies of Unit Trust Funds.

National Savings Bank the Trustee and Ceybank Asset Management Ltd the Managers of Ceybank Unit Trust Funds hereby declare that,

1. the requirements of Guidelines for Trustees and Managing Companies of Unit Trust Funds set by the Securities and Exchange Commission of Sri Lanka have been complied with during the year.
2. the transactions were and will be carried out at arm's length basis and on terms which are best available for the Fund, as well as act, at all times, in the best interest of the Fund's unit holders.



Trustee to  
Ceybank Unit Trust Fund

**National Savings Bank**



General Manager/Compliance Officer  
Ceybank Asset Management Ltd



CEYBANK GILT EDGE FUND (A SERIES)  
Annual Report & Accounts 2018  
MANAGEMENT TEAM

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CEYBANK ASSET MANAGEMENT LTD

MANAGEMENT TEAM

**CHAIRMAN**

Palitha Pelpola

**CEO / EXECUTIVE DIRECTOR**

*Chitra Sathkumara*

B.Sc, MBA (Finance)

**General Manager**

W. D. F. Wimalaratne  
FIB (IBSL), Dip. In Bank Mgt. (IBSL),  
Pg.DBFA (ICASL)  
Former Deputy General Manager  
Bank of Ceylon

**Manager – Investment &  
Business Development**

Ian Ferdinands  
Chartered Marketer  
Certified e Marketer  
MBA(Finance)

**Manager – Finance**

Ravindra Hettiarachchi  
Chartered Finalist (ICASL)  
B.Sc (Mgt) Sp. Hons  
MBA

**Acting Registrar**

Pamudi Kariyawasam

**Fund Manager**

Kanchana Karannagoda  
B.Sc. B. Admin. Sp. (Finance) Hons  
CIMA,CGMA

**Marketing Manager**

Kumudu Kekirideniya  
Dip.in Marketing (UK),  
MICM (UK)