

CEYBANK HIGH YIELD FUND

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.”

CONTENTS

Corporate Information	1
Report of the Manager	2
Report of the Auditors	3
Statement of Comprehensive Income	4
Statement of Financial Position	5
Statement of Changes in Unit holders Funds	6
Statement of Cash Flow	7
Notes to the Financial Statements	8
Declaration by Trustee and Managing Company	9
Management Team	10

**CEYBANK HIGH YIELD FUND
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
SJMS Associates
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 HIGH YIELD FUND - Annual Report 2018

REPORT OF THE MANAGER

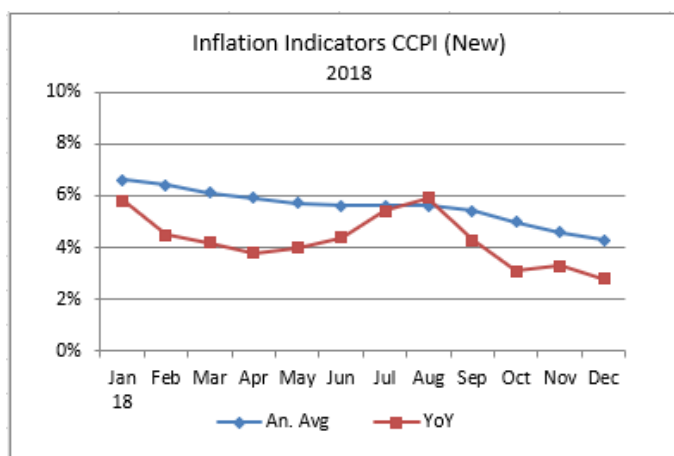
We have great pleasure in presenting the Manager's Report and Audited Accounts of the Ceybank High Yield Fund for the thirteen-month period ended 31st December 2018.

The Net Asset Value per unit of your Fund appreciated by 11.66% 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%.

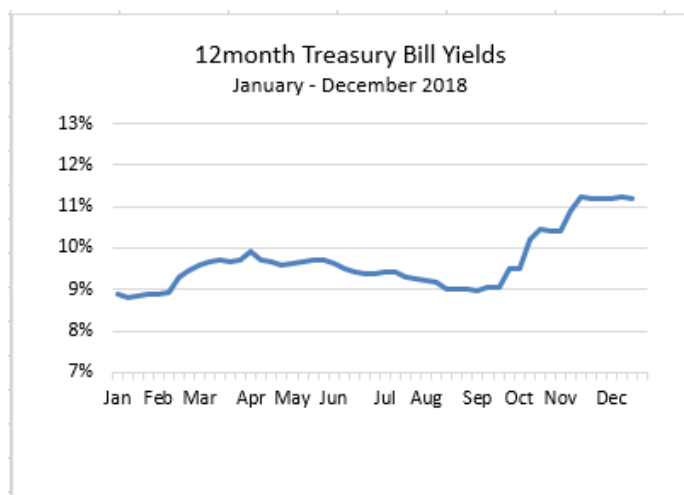
Average Annual Inflation measured by the CCPI, which was at 6.6% at the beginning of the year reduced continuously during the period and closed the year at 4.3% as at end December 2018.



(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. Premiums on corporate paper yields, remained around 2-3% above Treasury yields.

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 11.66% during the period under review.

The Fund generated Rs 48.04 million as net operating profit before taxes during the period. The Fund was mainly invested in a mix of Treasury bills, Repurchase Agreements and Corporate paper with maturities less than 12 months.

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 4th 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 bills, Repurchase Agreements and a mix of Securities issued by Corporate entities. The objective of the Fund is to provide liquidity and maximize returns for the investor. 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.



Chitra Sathkumara
Executive Director/ CEO

8th April 2019

INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS OF CEYBANK HIGH YIELD FUND

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Ceybank High Yield Fund ("the Fund") which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in unit holders' funds and, statement of cash flows for the thirteen months period 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 Fund as at 31 December 2018, and of its financial performance and its cash flows for the thirteen months period 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 Fund 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.

Other Information

Managers and Trustee is responsible for the other information. The other information comprises the information included in the manager's annual report, but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Managers and trustee 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 managers and trustee 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, managers and trustee is responsible for assessing the Fund'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 managers and trustee either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund'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 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 SLAuSs, we exercise professional judgment 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management and trustee.
- Conclude on the appropriateness of management's and trustee'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 Fund's ability to continue as a going concern. If we conclude that a 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 Fund 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

The financial statements are prepared and presented in accordance with and comply with the requirements of the Unit Trust Code of the Securities and Exchange Commission of Sri Lanka.


SJMS ASSOCIATES
Chartered Accountants
Colombo
08 April 2019

Statement of comprehensive income

For the thirteen months period ended 31 December 2018

	Note	13 months period ended 31.12.2018 Rs.
Investment Income		
Interest income	4	53,534,981
Total investment income		53,534,981
Expenses		
Management fee and trustee fee		(3,950,067)
Custodian fee		(209,773)
Audit fee		(72,579)
Notional tax and WHT expense		(893,695)
VAT/NBT Expense		(103,568)
Bank charges		(97,113)
Other expenses		(166,980)
Total operating expenses		(5,493,775)
Net operating profit / (loss) after deductions and before tax		48,041,206
Income tax expense	5	(3,385,697)
Increase / (decrease) in net assets attributable to unit holders		44,655,509


The accounting policies and notes from 1 to 13 form an integral part of these financial statements.




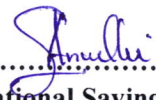
Statement of financial position
As at 31 December 2018

	Note	31.12.2018 Rs.
Assets		
Cash and cash equivalents	6	950,308
Financial assets measured at amortized cost	7	204,545,492
Income tax receivable	8	-
Total assets		<u><u>205,495,800</u></u>
Unit holders' funds and liabilities		
Liabilities		
Payables	9	245,277
Money payable on unit redemption		68,498
Total liabilities (excluding net assets attributable to unit holders)		<u><u>313,775</u></u>
Unit holders' funds		
Net assets attributable to unit-holders	10	205,182,025
Total unit holders' funds and liabilities		<u><u>205,495,800</u></u>

The Fund Management Company and the Trustee are responsible for the preparation and presentation of these financial statements in accordance with Sri Lanka Accounting Standards. These financial statements were approved by the Fund Management Company and the Trustee on 04 April, 2019 and 08 April, 2019 respectively.

.....

Director
Ceybank Asset Management Ltd.
Fund Management Company

.....

Director
Ceybank Asset Management Ltd.
Fund Management Company

.....

National Savings Bank
Trustee

The accounting policies and notes from 1 to 13 form an integral part of these financial statements.

**Statement of changes in unit-holders' funds
For the thirteen months period ended 31 December 2018**

	13 months period ended 31.12.2018 Rs.
Received on unit creations	2,173,644,229
Payments on unit redemptions	(2,013,117,713)
Increase in net assets attributable to unit holders	44,655,509
Unit-holders' funds at the end of the year	<u>205,182,025</u>

The accounting policies and notes from 1 to 13 form an integral part of these financial statements.



Statement of cash flows

For the thirteen months period ended 31 December 2018

	13 months period ended 31.12.2018 Rs.
<i>Cash flows from operating activities</i>	
Net interest received	53,534,981
Management fees and trustee fees paid	(3,794,971)
Custodian fees paid	(192,171)
Operating expenses paid	(264,093)
Tax paid	(4,382,960)
Net investments in repurchase agreements	(10,991,847)
Net investments in commercial paper	(69,960,105)
Net investments in fixed deposits	(123,593,540)
<i>Net cash inflows / (outflows) from operating activities</i>	<u>(159,644,706)</u>
<i>Cash flows from financing activities</i>	
Proceeds from issue of units	2,173,644,229
Payments on redemptions of units	(2,013,049,215)
<i>Net cash inflows / (outflows) from financing activities</i>	<u>160,595,014</u>
<i>Net increase / (decrease) in cash and cash equivalents</i>	<u>950,308</u>
Cash and cash equivalents at the beginning of the year	-
Net increase / (decrease) in cash and cash equivalents	<u>950,308</u>
<i>Cash and cash equivalents at the end of the year</i>	<u>950,308</u>

The accounting policies and notes from 1 to 13 form an integral part of these financial statements.

Notes to the financial statements**For the thirteen months period ended 31 December 2018****1. General information**

Ceybank high yield fund is a unit trust fund, which was launched in November 2017 by Ceybank Asset Management Ltd with the objective of maximizing the income by investing the funds in a portfolio of Corporate Debt & Money Market instruments with maturities less than one year. The registered office of the Management company is located at 85, York Street, Colombo 1.

1.2 Date of authorization for issue

The financial statements of the fund for the year ended 31 December 2018 were authorized for issue by the fund management company on 04 April 2019 and by the trustee on 08 April 2019.

2. Preparation of financial statements**2.1 Statement of compliance**

The financial statements which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in unit holders' funds and, statement of cash flows for the thirteen months period then ended, and notes to the financial statements, including a summary of significant accounting policies, have been prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRS and LKAS), laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Unit Trust Code of the Securities Exchange Commission of Sri Lanka.

2.2 Basis of preparation

The financial statements have been prepared on the historical cost basis. Historical cost is generally the fair value of the consideration given in exchange of assets. The financial statements are presented in Sri Lankan rupees (LKR/Rs.).

The statement of financial position is presented on a liquidity basis and assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current.

2.3 Significant accounting judgments, estimates and assumptions

The preparation of financial statements in conformity with SLFRSs requires management to make judgments, estimates and assumptions that influence the application of Accounting Policies and the reported amounts of assets, liabilities, income and expenses. In the selection and application of the company's accounting policies, which are described below, the directors are required to make judgments and assumptions and use assumptions in measuring items reported in the financial statements. These estimates are based on management's knowledge of current facts and circumstances, and assumptions based on such knowledge and expectations of future events. Actual results may differ from such estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period or in the period of the revision and future periods as well, if the revision affects both current and future periods.

Management considers credit, liquidity and market risk and assesses the impact on valuation of investments when determining the fair value. Following are the key sources 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.

Notes to the financial statements**For the thirteen months period ended 31 December 2018****2.4 Summary of significant accounting policies****2.4.1 Financial instruments****2.4.1.1 Recognition and derecognition**

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

2.4.1.2 Classification and initial measurement of financial assets

All financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- * Amortized cost
- * Fair value through profit or loss (FVTPL)
- * Fair value through other comprehensive income (FVOCI).

In the periods presented the trust does not have any financial assets categorised as FVTPL and FVOCI.

The classification is determined by both:

- The entity's business model for managing the financial asset
- The contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in statement of comprehensive income.

2.4.1.3 Subsequent measurement of financial assets**Financial assets at amortised cost**

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- They are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- The contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest method.

Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

During the year the company had not classified any financial assets as FVTPL.

Notes to the financial statements**For the thirteen months period ended 31 December 2018****Financial assets at fair value through other comprehensive income (FVOCI)**

The Company accounts for financial assets at FVOCI if the assets meet the following conditions:

- They are held under a business model whose objective it is “hold to collect” the associated cash flows and sell and
- The contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Any gains or losses recognised in other comprehensive income (OCI) will be recycled upon derecognition of the asset.

During the year the company had not classified any financial assets at FVOCI.

2.4.2 Impairment of financial assets

IFRS 9’s impairment requirements use more forward-looking information to recognise expected credit losses – the ‘expected credit loss (ECL) model’. This replaces IAS 39’s ‘incurred loss model’.

Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the unit trust first identifying a credit loss event.

Instead the trust considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- Financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (‘Stage 1’) and
- Financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (‘Stage 2’).

‘Stage 3’ would cover financial assets that have objective evidence of impairment at the reporting date.

‘12-month expected credit losses’ are recognised for the first category while ‘lifetime expected credit losses’ are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

2.4.3 Cash and cash equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in values.

2.4.4 Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities measured at amortised cost include accrued expenses and other payables.

2.4.4.1 Payables and provisions

Payables are initially recognized at fair value, which is the fair value of the consideration to be paid in the future for goods and service received, whether or not billed to the Trust, and subsequently at amortized cost.

Provisions are recognized when the fund has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Notes to the financial statements**For the thirteen months period ended 31 December 2018****2.4.5 Revenue recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the fund and the revenue can be reliably measured. The following specific criteria must also be met before interest income is recognised.

Interest income

For all financial instruments measured at amortized cost, interest income is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income of treasury securities, fixed deposits and corporate debt securities are recognized gross of or withholding tax up to 31.03.2018 and thereafter net of withholding tax, due to the changes in the new Inland Revenue Act No. 24 of 2017.

2.4.6 Expenses

The management participation fee of the fund is as follows:

Management fee -	0.75% p.a. of Net Asset Value of the Fund
Trustee fee -	0.15% p.a. up to Rs. 1.5 Billion of Net Asset Value of the Fund 0.125% p.a. up to Rs. 1.5 Billion & Rs. 3.5 Billion of Net Asset Value of the Fund
Custodian fee -	0.1% p.a. above Rs. 3.5 Billion of Net Asset Value of the Fund 0.025% p.a. of Net Asset Value of the Fund Subject to a minimum of Rs. 15,000 per month

2.4.7 Accrued expenses

Payables are initially recognized at fair value, which is the fair value of the consideration to be paid in the future for service received, whether or not billed to the fund, and subsequently at amortized cost.

2.4.8 Income tax

The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provisions of Inland Revenue Act.

The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date. The fund is liable to pay income tax at the rate of 10% in accordance with the Inland Revenue Act No.10 of 2006 for the period up to 31 March 2018 and thereafter, the new Inland Revenue Act No. 24 of 2017 is applicable.

2.4.9 Distributions

In accordance with the trust deed, the Fund distributes income, to Unit Holders by cash or reinvestment in units. The distributions are recorded in the statement of movement in Unit Holders' Funds.

2.4.10 Unitholders' funds

Unitholders' funds has 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.

3. Financial instruments and risk management**3.1 Financial instruments**

The Fund's principal financial assets comprise investments in repurchase agreements, commercial papers, fixed deposits and cash at bank. The main purpose of these financial instruments is to generate a return on the investment made by Unit Holders. The Fund's principal financial liabilities comprise amounts attributable to Unit Holders, which are the amounts owed to Unit Holders of the Fund. The Fund also has other financial instruments such as receivables and payables which arise directly from its operations.

Notes to the financial statements**For the thirteen months period ended 31 December 2018****3.1 Financial instruments - (Contd..)**

In accordance with SLFRS 09 Financial Instruments: Recognition and Measurement, the investments in repurchase agreements, commercial papers & fixed deposits are classified as 'loans and receivables' and are valued at amortised cost. Amounts attributable to Unit Holders are classified as 'other financial liabilities' and are carried at the redemption amount being net asset value. Payables are designated as 'other financial liabilities' at amortised cost.

3.2 Financial risk management objectives, policies and processes

Risks arising from holding financial instruments are inherent in the Fund's activities, and are managed through a process of ongoing identification, measurement and monitoring. The Fund is exposed to credit risk, market risk, and liquidity risk.

Financial instruments of the Fund comprise investments in repurchase agreements, commercial papers and fixed deposits for the purpose of generating a return on the investment made by Unit Holders, in addition to cash at bank, and other financial instruments such as other receivables and other payables, which arise directly from its operations.

The manager is responsible for identifying and controlling the risk that arise from these financial instruments. The Manager agrees policies for managing each of the risks identified below.

The risks are measured using a method that reflects the expected impact on the statement of profit or loss and other comprehensive income and Statement of Financial Position of the Fund from reasonably possible changes in the relevant risk variables. Information about these risk exposures at the reporting date, measured on this basis, is disclosed below.

The manager also monitors information about the total fair value of financial instruments exposed to risk, as well as compliance with established investment mandate limits. These mandate limits reflect the investment strategy and market environment of the Fund, as well as the level of risk that the Fund is willing to accept, with additional emphasis on selected industries. This information is prepared and reported to relevant parties within the Manager on a regular basis as deemed appropriate, including the Fund manager, other key management, Risk and Investment Committees, and ultimately the Trustees of the Fund.

Concentration of risk arises when a number of financial instruments or contracts are entered in to with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economics, political or other conditions.

3.2.1 Market risk

Market risk represents the risk that the value of the Fund's investments portfolios will fluctuate as a result of changes in market prices.

This risk is managed by ensuring that all investment activities are undertaken in accordance with established mandate limits and investments strategies. As such, Unit Holders can manage this risk through their choices of which investment portfolios to participate in.

The Fund uses a range of different Fund managers for investment assets. Where a Unit Holder is invested in more than one investment portfolio, this reduces the impact of a particular manager underperforming. Within the underlying investment portfolio, diversification is achieved at a number of levels. The diversified portfolios are invested across a range of investment sectors. Within each sector of the diversified portfolios, the Fund managers invest in a variety of securities.

Notes to the financial statements

For the thirteen months period ended 31 December 2018

3.2.2 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rates.

The Fund's interest bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The risk is measured using sensitivity analysis. However, due to the short term nature of the instruments of repurchase agreements and trust certificates it is reasonably expected that the fluctuation in interest rate will not materially impact the net assets value of the Fund. The table below summarises the Fund's exposure to interest rate risks.

	Floating interest rate	Fixed interest rate Rs.	Non- interest bearing Rs.	Total Rs.
As at 31.12.2018				
Financial assets				
Cash and cash equivalents	-	-	950,308	950,308
Financial assets valued at amortized cost	-	204,545,492	-	204,545,492
Total exposure	-	204,545,492	950,308	205,495,800

3.2.3 Credit risk

Credit risk is the risk that the counterparty to the financial instruments will fail to discharge an obligation and cause the fund to incur a financial loss of interest and/or principal.

The fund's exposure to credit risk from its financial assets arises from default of the counterparty, with the current exposure equal to the carrying amount of financial assets as at the reporting date. It is the fund's policy to enter into contracts with reputable counterparties.

The fund is also subject to credit risk on its bank balance. The credit risk exposure on these instruments is not deemed to be significant.

The fund's maximum exposure to credit risk can be analysed as follows;

	31.12.2018 Rs.
Conservative - Reverse repurchase agreement	10,991,847
Balanced - Commercial Papers and Fixed deposits	193,553,645

3.2.4 Liquidity risk

Liquidity risk is the risk that the fund will encounter difficulty in raising funds to meet its obligation to pay unitholders. Exposure to liquidity risk arises because of the possibility that the fund could be required to pay its liabilities or redeem its units earlier than expected. Units are redeemable at the unitholder's option based on the fund's net asset value per unit at the time of redemption.

The fund manages its obligation when required to do so and its overall liquidity risk by:
Investing primarily in financial instruments, which under normal market conditions are readily convertible to cash.

Investing within established limits to ensure there is no concentration of risk.

Notes to the financial statements

For the thirteen months period ended 31 December 2018

3.2.4 Liquidity risk - (Contd..)

Maintaining sufficient cash and cash equivalents to meet normal operating requirements and expected redemption requests. The unit trust code requires a minimum of 3% of the deposited property to be maintained in cash or near cash. (near cash means investments such as bank/call deposits, repurchase agreements with maturities of less than 3 months, commercial paper endorsed or guaranteed by a Licensed Commercial Bank or Licensed Specialized Bank with maturities of less than 3 months and government securities including government bonds with maturities of less than one year which can be readily convertible into cash.)

If the total amount to be redeemed is greater than or equal to 3% (three per cent) of the net asset value based on the market value of the Fund, the unit holder will be required to give the Manager, written instructions, prior to the date of redemption. The period of notice required is at the Manager's discretion and is limited to a maximum of one calendar month. The redemption will be carried out at the Manager's Buying Price on the redemption date.

3.2.5 Capital risk management

The Fund considers its net assets attributable to Unit Holders as capital. The amount of net assets attributable to Unit Holders can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of Unit Holders.

Daily applications and redemptions are reviewed relative to the liquidity of the Fund's underlying assets on a daily basis by the Management Company. Under the terms of the Unit Trust Code, the Management Company has the discretion to reject an application for units and to defer redemption of units if the exercise of such discretion is in the best interests of unitholders.

Following being the disclosures of Unit Holders' Funds;

The movement in the Unit Holder's Funds as at 31 December 2018

i In terms of Value

Increase in net assets attributable to unit holders	44,655,509
Received on unit creations	2,173,644,229
Payments on unit redemptions	(2,013,117,713)
Unit-holders' funds at the end of the year	205,182,025

In terms of No of units

ii Opening no of units as at 01 November 2017	-
Closing no of units as at 31 December 2018	18,376,035

Notes to the financial statements

For the thirteen months period ended 31 December 2018

4. Interest income from financial assets - loans and receivables

	2017/2018
Interest on repurchase agreements	3,928,171
Interest income on fixed deposits	25,585,895
Interest on commercial papers	24,020,915
	<u>53,534,981</u>

4.1 Interest on government securities and reverse repurchase agreements has been recognised gross of notional tax up to 31 March 2018.

5. Income tax expense**2017/2018****Rs.**

Tax expense for the year	3,385,697
	<u>3,385,697</u>

5.1 A reconciliation between the tax expense and the product of taxable profit multiplied by the statutory tax rate is as follows:

	2017/2018
	Rs.
Profit before tax up to 31 March 2018	33,690,238
Total taxable income	<u>33,690,238</u>
Income tax at the rate of 10% (up to 31.03.2018) (2017 - 10%)	
Income tax expense reported in profit or loss	<u>3,369,024</u>

5.2 The fund has calculated the income tax liability up to 31 March 2018 in accordance with the previous Inland Revenue Act No. 10 of 2006. Following the enactment of the new Inland Revenue Act No. 24 of 2017 effective from 1 April 2018, the fund is deemed as conducting eligible investment business and is treated as a tax pass through vehicle. Hence no provision for income tax was made in the financial statements, for the last nine months.

6. Cash and cash equivalents**31.12.2018****Rs.****% on Net Assets**

Cash at bank - Bank of Ceylon	950,308	0.46%
	<u>950,308</u>	

7. Financial assets measured at amortised cost**31.12.2018****Rs.****% on Net Assets**

Repurchase agreements (note 07 (a))	10,991,847	5.36%
Commercial papers (note 07 (b))	69,960,105	34.10%
Fixed deposits (note 07 (c))	123,593,540	60.24%
	<u>204,545,492</u>	

Notes to the financial statements

For the thirteen months period ended 31 December 2018

a) Investments in repurchase agreements

31.12.2018	Yield	Investment date	Maturity date	Cost	Carrying Value
First Capital Treasuries PLC	9.00%	27-Dec-18	03-Jan-19	9,479,787	9,491,474
Union Bank of Colombo PLC	9.07%	31-Dec-18	07-Jan-19	1,500,000	1,500,373
				10,979,787	10,991,847

b) Investment in commercial papers

31.12.2018	Yield	Investment date	Maturity date	Cost	Carrying Value
Soflogic Holdings PLC	14.00%	12-Nov-18	12-Feb-19	14,965,253	15,252,258
LOLC PLC	13.75%	12-Dec-18	11-Jan-19	21,742,152	21,905,963
Soflogic Holdings PLC	14.25%	21-Dec-18	21-Jan-19	11,000,000	11,047,240
First Capital Holdings PLC	13.75%	24-Dec-18	24-Jan-19	21,689,280	21,754,644
				69,396,685	69,960,105

c) Investment in Fixed deposits

As at 31.12.2018	Yield	Investment date	Maturity date	Cost	Carrying value
Merchant Bank & Finance PLC	12.46%	17-Dec-2018	17-Jan-2019	5,147,557	5,173,915
Merchant Bank & Finance PLC	12.46%	30-Dec-2018	30-Jan-2019	16,047,519	16,058,476
Singer Finance PLC	12.46%	8-Nov-2018	8-Feb-2019	15,729,371	16,019,326
Vallibel Finance PLC	12.46%	19-Dec-2018	19-Jan-2019	18,355,987	18,437,447
Richard Pieres Finance PLC	12.46%	28-Nov-2018	28-Feb-2019	24,237,876	24,519,194
Citizens Development	12.46%	19-Dec-2018	19-Jan-2019	5,152,320	5,175,185
Development Business Finance	12.46%	31-Dec-2018	31-Jan-2019	17,130,574	17,136,422
Mercantile Investments & Finance PLC	12.45%	24-Oct-2018	24-Jan-2019	20,589,000	21,073,575
				122,390,204	123,593,540

8. Income tax receivable 31.12.2018

Withholding tax recoverable	3,233,867
Notional tax receivable	270,456
Provision for notional tax & WHT	(118,626)
Income tax payable	(3,385,697)
	-

9. Payables

31.12.2018

Management fee payable	155,096
Custodian fee payable	17,602
Audit fee payable	72,579
	245,277

Notes to the financial statements

For the thirteen months period ended 31 December 2018

10. Net assets attributable to unit holders

Movements in the number of units and net assets attributable to unit holders during the year were as follows:

	<u>31.12.2018</u>	
	Units	LKR
Opening capital balance		-
Applications	214,956,465	2,173,644,229
Redemptions	(196,580,430)	(2,013,117,713)
Increase in net assets attributable to unit holders		44,655,509
Closing balance	18,376,035	205,182,025
		31.12.2018
Net assets attributable to unit holders		205,182,025
		205,182,025

Distributions to unit-holders

Distributions during the year,

	<u>2017/18</u>	
	No of Units	Rs '000
Distributions	-	-

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

The creation price was Rs. 11.17 per unit and the redemption price was Rs. 11.17 per unit as at 31 December 2018.

11. Related party transactions**a) Management entity**

The management entity of Ceybank High Yield Fund is Ceybank Asset Management Limited.

b) Key management personnel**i) Directors**

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

- Mr. P. S. C. Pelpola (Chairman)
- Mr. C. Sathkumara (CEO/ Executive Director)
- Mr. B. Babu Rao
- Mr. W. P. R. P. H. Fonseka
- Mr. A. P. Weeratunge
- Mr. K.B.S. Bandara

ii) 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 year.

Notes to the financial statements

For the thirteen months period ended 31 December 2018

p

c) *Key management personnel unit holdings*

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

d) *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.

e) *Other transactions within the Trust*

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

f) *Related party unit holding*

The management company of Ceybank High Yield held units in the fund as follows:

31 December 2018

	No of units held opening	No of units held closing	Fair value of investment Rs.'000	Distribution paid by the fund Rs.'000
Ceybank Asset Management Ltd	-	9,921,028.6	110,780,190	-

g) *Transactions with and amounts due to related parties*

The fees charged by the management company and trustee for services provided during the year and the balances outstanding from such dues as at year end are as disclosed below:

	Charge for the year	Balance outstanding
	2018	31.12.2018
Management fees and Trustee fees	3,950,067	(155,096)
	3,950,067	(155,096)

12. **Contingent assets and liabilities and commitments**

There were no material capital commitment, contingent liabilities & contingent assets at the end of the reporting date.

13. **Events occurring after the end of reporting period**

No significant events have occurred since the end of the reporting period which would impact on the financial position of the trust disclosed in the statement of financial position as at 31 December 2018 or on the results and statement of cash flows of the trust for the year ended on that date.

CEYBANK HIGH YIELD FUND 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.

Pradeep Kumar

Trustee to
Ceybank Unit Trust Fund

National Savings Bank

9-4

General Manager/Compliance Officer
Ceybank Asset Management Ltd



CEYBANK HIGH YIELD FUND
Annual Report & Accounts 2018
MANAGEMENT TEAM

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)