



Gilt Edge Fund

(B Series)

ANNUAL REPORT

2020

“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 (B SERIES)
Annual Report & Accounts 2020
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. A.N. Fernando
Chairman

Mr. I. Ferdinands
CEO/Executive Director

Mr. G.A. Jayashantha
(Nominee - Bank of Ceylon)

Mr. R. M. N. Jeewantha
(Nominee - Bank of Ceylon)

Ms.V. Govindan
(Nominee - Unit Trust of India)

Mr. A.D. Perera
(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 (B SERIES) - Annual Report 2020

REPORT OF THE MANAGER

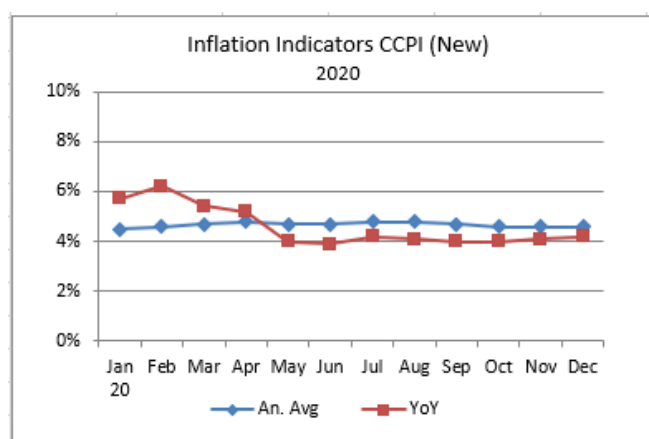
We have great pleasure in presenting the Manager's Report and Audited Accounts of the Ceybank Gilt Edge Fund (B Series) for the period 1st January 2020 to 31st December 2020.

The Net Asset Value per unit of your Fund recorded a negative growth of 14.20% during the period.

Economy

The Sri Lankan Economy contracted by 3.6% in 2020 as opposed to a growth of 2.3% in 2019 (base year=2010), amidst a global pandemic. Sector wise, Industry contracted 6.9%, Services by 1.5% and Agriculture by 2.4%.

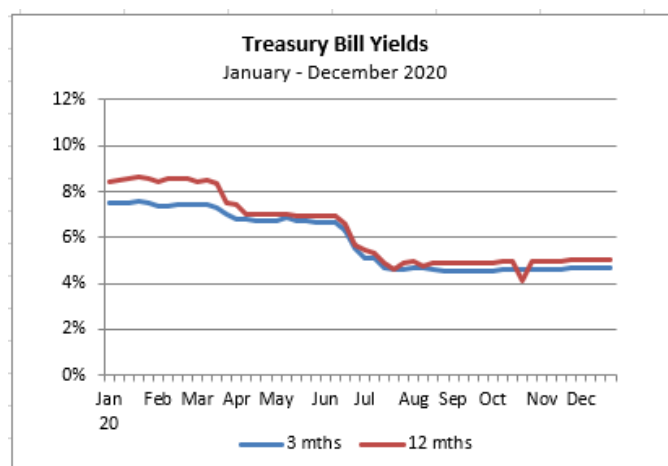
Annual Average Inflation measured by the CCPI, which was at 4.5% at the beginning of the year remained mostly unchanged during the period and closed the year at 4.6% as at end December 2020.



(Source: CBSL)

Market interest rates declined during the year. The benchmark 12-month Treasury bill rate which was at 8.45% p.a. at the beginning of the year declined gradually, mainly due to intervention by Central Bank. The rates dropped by 342 basis points, to close at 5.03% p.a. 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 traded within a range of 4.50% and 7.55% p.a. The exchange rate which was at 181.50 (Rs/US\$) at the beginning of 2020, depreciated to 186.40 (Rs/US\$), as at end December 2020.



(Source: CBSL)

Central Bank key policy rates were changed five times during the year. In 2020 the Bank reduced the Statutory Reserve Requirement (SRR) for Commercial Banks by 300 bps. The Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) were reduced by a total of 250 bps. The SDFR and SLFR at the end of the year were 4.5% and 5.5% respectively, while the SRR was 2%.

Fund Performance

The Net Asset Value per unit of your Fund depreciated by 14.20% during the period under review. The Fund generated Rs 4.12 million as net operating profit before taxes during the period. The Fund was mainly invested in a mix of Treasury bill Repurchase Agreements with maturities less than 12 months.

Future Outlook

The Covid 19 pandemic continues to spread widely across the globe bringing new challenges, affecting lives and livelihoods and ravaging economies.

Sri Lanka's Annual GDP is expected to grow by around 2% after contracting by 3.6% in 2020.

Sri Lanka has been challenged on many fronts, and has been trying different strategies to keep the economy on track. Government has increased the supply of money to the system in a bid to stimulate growth while moving into import substitution of some goods, to stem the flow of foreign exchange. Exports however have been affected considerably. The Apparel sector is still to see large orders, while efforts by the Tourism sector has not gained traction, despite new initiatives. The country's looming debt repayments due in 2021 are concerns that need to be addressed. Increased export earnings and Foreign direct investments need to be actively encouraged to help manage the repayments.

The future outlook on growth will depend largely on how the external factors and Debt is managed and also how industries will transform to meet the new realities. Government stimulus to affected sectors will play an important role in the survival and recovery of these sectors.

The gradual increase in global crude oil prices is a concern for power generation. While there is growth in agriculture, the weather will have a greater impact on the sector and food production. Large foreign debt repayments due in 2021 will put pressure on the rupee which is likely to weaken.

Market interest rates could begin to edge up if inflationary pressure continues. The Government is likely to increase its borrowing program to repay earlier debt, and also spend on its proposed development programs of infrastructure and employment generation. Rates could rise slowly towards the second half of the year. Taking these factors into account, the Fund is currently invested in short term Treasury bills Repurchase Agreements. 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.

SGD

Ian Ferdinands

CEO/ Executive Director

14th July 2021

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Ceybank Gilt Edged Fund (B Series) ("the Fund"), which comprise the statement of financial position as at 31st December, 2020 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 as set out on pages 05 to 15.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31st December, 2020, 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 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 2.1.3 of the financial statements which indicates the existence of uncertainty that may cast doubt about the Fund's ability to continue as going concern. Our opinion is not modified in respect of this matter.

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

Ceybank Asset Management Limited ("Management") and the Trustee of the Unit Trust ("the Trustee") 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 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 management 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.
- 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 Fund'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 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

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 as amended by the Act No. 26 of 1991, Act No. 18 of 2003 and Act No.47 of 2009 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 Fund.

CHARTERED ACCOUNTANTS

Colombo 02

13th July 2021

JD/cc

CEYBANK GILT EDGED FUND (B SERIES)
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31ST DECEMBER 2020

Page 1

| | Note | 2020 Rs. | 2019 Rs. |
|---|------|-------------------------|--------------------------|
| Income on financial assets | 4 | 4,766,739 | 22,714,961 |
| Total investment income | | <u>4,766,739</u> | <u>22,714,961</u> |
| Expenses | | | |
| Management fee | | (316,410) | (1,267,887) |
| Trustee and custodian fees | | (199,923) | (578,222) |
| Audit fee | | (90,478) | (84,031) |
| Bank charges | | (2,000) | (17,000) |
| Other miscellaneous expenses | | (35,360) | (58,110) |
| | | <u>(644,171)</u> | <u>(2,005,250)</u> |
| Profit before tax | | <u>4,122,568</u> | <u>20,709,711</u> |
| Income tax expense | | - | - |
| Increase in net assets attributable to unitholders | | <u><u>4,122,568</u></u> | <u><u>20,709,711</u></u> |

Figures in brackets indicate deductions.

The accounting policies and notes on pages 05 to 15 form an integral part of this financial statement.

Colombo
13th July 2021



CEYBANK GILT EDGED FUND (B SERIES)
STATEMENTS OF FINANCIAL POSITION
AS AT 31ST DECEMBER 2020

Page 2

| | Note | As at 31.12.2020 Rs. | As at 31.12.2019 Rs. |
|---|-----------|----------------------------|----------------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 7 | 241,489 | 509,363 |
| Tax recoverable | 8 | - | - |
| Financial assets at amortized cost | 9 | 1,501,319 | 172,926,287 |
| Total current assets | | <u>1,742,808</u> | <u>173,435,650</u> |
| Total assets | | <u>1,742,808</u> | <u>173,435,650</u> |
| UNITHOLDER'S FUNDS AND LIABILITIES | | | |
| Current liabilities | | | |
| Other payables | 10 | 1,312,937 | 1,487,889 |
| Total current liabilities | | <u>1,312,937</u> | <u>1,487,889</u> |
| Unitholder's fund | | <u>429,871</u> | <u>171,947,761</u> |
| Total unitholder's fund | | <u>429,871</u> | <u>171,947,761</u> |
| Total unitholder's funds and liabilities | | <u>1,742,808</u> | <u>173,435,650</u> |
| Commitments and contingencies | 11 and 12 | | |

The accounting policies and notes on pages 05 to 15 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 01st July 2021 and 13th July 2021 respectively.



 Director
 Management Company



 Director
 Management Company

Colombo
 13th July 2021
 JD/cc



CEYBANK GILT EDGED FUND (B SERIES)
STATEMENT OF CHANGES IN UNITHOLDER'S FUNDS
FOR THE YEAR ENDED 31ST DECEMBER 2020

Page 3

| | Unit capital Rs. | Retained earnings Rs. | Total Rs. |
|--|------------------------|-----------------------------|-----------------------|
| Unitholders' funds as at 01st January 2019 | 2,823,764 | 196,704 | 3,020,468 |
| Increase in net assets attributable to unitholders | - | 20,709,711 | 20,709,711 |
| Received on unit creations | 459,761,824 | 40,238,176 | 500,000,000 |
| Paid on unit redemptions | (314,295,627) | (37,486,791) | (351,782,418) |
| Unitholders' funds as at 31st December 2019 | <u>148,289,961</u> | <u>23,657,800</u> | <u>171,947,761</u> |
| Increase in net assets attributable to unitholders | - | 4,122,568 | 4,122,568 |
| Received on unit creations | - | - | - |
| Paid on unit redemptions | (147,857,895) | (27,782,563) | (175,640,458) |
| Unitholders' funds as at 31st December 2020 | <u><u>432,066</u></u> | <u><u>(2,195)</u></u> | <u><u>429,871</u></u> |

Figures in brackets indicate deductions.

The accounting policies and notes on pages 05 to 15 form an integral part of these financial statements.

Colombo
13th July 2021



CEYBANK GILT EDGED FUND (B SERIES)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST DECEMBER 2020

Page 4

| | 2020 Rs. | 2019 Rs. |
|--|----------------------|----------------------|
| Cash flows from operating activities | | |
| Interest received | 4,766,739 | 22,714,961 |
| Net investments in financial assets | 171,424,968 | (169,851,521) |
| Management fees and trustees fees paid | (643,590) | (493,233) |
| Other expenses paid | (175,533) | (349,963) |
| Net cash from/(used in) operating activities | 175,372,584 | (147,979,756) |
| Cash flows from financing activities | | |
| Proceeds from applications by unitholders | - | 500,000,000 |
| Payments for redemptions by unitholders | (175,640,458) | (351,782,418) |
| Net cash from/(used in) financing activities | (175,640,458) | 148,217,582 |
| Net increase/(decrease) in cash and cash equivalents | (267,874) | 237,826 |
| Cash and cash equivalents at the beginning of the year (Note A) | 509,363 | 271,537 |
| Cash and cash equivalents at the end of the year (Note B) | 241,489 | 509,363 |
| At the beginning | | Note A |
| Cash at bank | 509,363 | 271,537 |
| At the end | | Note B |
| Cash at bank | 241,489 | 509,363 |

Figures in brackets indicate deductions.

The accounting policies and notes on pages 05 to 15 form an integral part of these financial statements.

Colombo
13th July 2021





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

Page 5

1. CORPORATE INFORMATION

1.1 General

Under Section 31A of the Securities and Exchange Commission of Sri Lanka, Act No. 36 of 1987 as amended by the Act No. 26 of 1991, Act No. 18 of 2003 and Act No.47 of 2009, the Securities and Exchange Commission of Sri Lanka granted a license to operate the Fund to Ceybank Asset Management Limited ("the Management Company") on 23rd September, 2013. The Fund commenced its commercial operations on 01st October, 2013. 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 preserve capital and provide a regular stream of dividend income bi-annually.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 General accounting policies

2.1.1 Basis of preparation

The financial statements are prepared in accordance with and comply with Sri Lanka Accounting Standards (SLFRS/LKAS) 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 are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The statement of financial position is 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 (SLFRS/LKAS).

2.1.3 Going concern

The Fund has reported a decrease in net assets as at 31st December 2020 from Rs.171,947,761/= (2019) to Rs.429,871/= as no unit creations were reported for the year compared to Rs. 500,000,000/= worth of units created in 2019.

The management has considered the recent performance of the Fund and steps have been taken to shift the existing Unit Holders to their other Unit Trust Funds according to the discretion of the Unit Holders and close the Fund, once all of existing unit holders are moved out of the Fund. This process is in progress as of the reporting date.

The management of the fund has also considered the potential impact of COVID 19 in assessing the future performance of the fund.



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 Funds' principal financial liabilities comprise amounts attributable to unitholders, which are the amounts owed to unitholders of the Fund. The Fund also has various other financial instruments such as receivables and payables which arise directly from its operations.

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 and categorized as;

- 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 reclassified subsequent to their initial recognition unless the Fund changes its business model for managing financial assets in which case all affected financial assets are reclassified 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 financial assets of the Fund are classified as financial assets at amortized cost which include repurchase agreements and money market saving instruments.

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 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 reflects how it manages groups of financial assets to achieve its business objective.

2.2.1.2 Recognition/de-recognition

The Fund recognizes financial assets and financial liabilities on the date it becomes 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 have expired or the Fund has transferred substantially all 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 expires.

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 whether financial assets carried at amortized cost 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.

Management consider 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 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.

Dividend to unitholders is declared according to the explanatory memorandum. Distribution to unitholders is recognized in the statement of changes in unitholder's funds. Income not distributed is included in net assets attributable to unitholders.

2.2.4 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 unitholders' funds.



2.2.5 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.

2.2.6 Payables

Payables include liabilities and accrued expenses owing 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 recognized separately in the statement of financial position when unitholders are presently entitled to the distributable income under the trust deed.

2.2.7 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 gross of any exit fees payable after the cancellation of units redeemed.

2.2.8 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.

2.2.9 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.

2.3.2 Expenditure recognition

All expenses, including management fees, trustee fees and custodian fees, are recognized in profit or loss on an accrual basis.



2.3.3 Taxation

The charge for taxation is based on the results for the year as adjusted for disallowable items. With the enactment of the new Inland Revenue Act No 24 of 2017, effective 01 April 2018, an eligible unit trust would not be liable for income tax on any income which is a pass through to its unitholders. Accordingly, post 31st March 2018, the Fund has considered all income as being a pass through its unitholders.

2.3.4 Distribution

In accordance with the trust deed, the Fund distributes income adjusted for amounts determined by the Ceybank Asset Management Limited, to unitholders by cash or reinvestment. The distributions are recognized in the 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. Movements in net assets attributable to unitholders are recognized in statement of changes in unitholders' funds.

3 FINANCIAL RISK MANAGEMENT

The Fund's activities expose it 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 risk 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 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.

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 of contractual repricing on maturity dates.

| As at 31 st December, 2020 | Floating interest Rs. | Fixed interest Rs. | Non-interest Rs. | Total Rs. |
|---------------------------------------|-----------------------------|--------------------------|---------------------|--------------|
| Financial assets | | | | |
| Cash and cash equivalents | Nil | Nil | 241,489 | 241,489 |
| Financial assets at amortized cost | Nil | 1,501,319 | Nil | 1,501,319 |
| Total exposure | Nil | 1,501,319 | 241,489 | 1,742,808 |

3.2 Summarized sensitivity analysis

The following table summarizes the sensitivity of the Funds operating profit and net assets attributable to unitholders to 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 levels 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 maybe greater or less than 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 on interest rate risk 31 st December, 2020 |
|---|--|
| Change in interest rate of the trust's investment in trading securities: | |
| +1.5% | 71,501 |
| -1.5% | (71,501) |

3.3 Credit risk

The Fund is exposed to credit risk, which is the risk that 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 st December, 2020 Rs. |
|-----------------------|--|
| Repurchase agreements | |
| Rating | |
| Risk free | 1,501,319 |
| Total | 1,501,319 |

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.



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 are held in investments not actively traded on a stock exchange.

Units are redeemed on demand at the unitholder's 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 from 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.

| As at 31 st December, 2020 | Less than one month Rs. | 01 to 06 months Rs. | 06 to 12 months Rs. | Total Rs. |
|---|-------------------------------|---------------------------|---------------------------|------------------|
| Accrued expenses | | | | |
| - Management fee payable | 1,099,054 | Nil | Nil | 1,099,054 |
| - Custodian fee payable | 126,565 | Nil | Nil | 126,565 |
| - Other payables | Nil | 87,318 | Nil | 87,318 |
| Contractual cash flows (Excluding gross settled derivatives) | 1,225,619 | 87,318 | Nil | 1,312,937 |

3.5 Fair value of financial instruments

3.5.1 Financial assets and financial liabilities not carried at fair value

Assets for which fair value approximates carrying value:

For financial assets and financial liabilities that have a short-term maturity (original maturity less than a year), it is assumed that the carrying amounts approximate their fair values.

Accordingly, the following is a list of financial instruments whose carrying amount is a reasonable approximation of fair value.

Assets

Cash and cash equivalents

Financial assets - Debt instrument at amortized cost

Liabilities

Other payables



| | | 2020 Rs. | 2019 Rs. |
|--|----------|------------------|-------------------|
| 4. INCOME ON FINANCIAL ASSETS | | | |
| Interest income on financial assets | Note 4.1 | 4,766,739 | 22,714,961 |
| | | <u>4,766,739</u> | <u>22,714,961</u> |
| 4.1 Interest income on financial assets | | | |
| Interest from | | | |
| - Repurchase agreements | | 4,766,739 | 22,714,961 |
| | | <u>4,766,739</u> | <u>22,714,961</u> |

5. NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

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

| | From 01st January, 2020 to 31st December, 2020 | | From 01st January, 2019 to 31st December, 2019 | |
|---|---|----------------|---|--------------------|
| | Number | Rs. | Number | Rs. |
| Opening balance | 14,828,848 | 171,947,761 | 282,371 | 3,020,468 |
| Creations | - | - | 45,975,723 | 500,000,000 |
| Redemptions | (14,785,641) | (175,640,458) | (31,429,246) | (351,782,418) |
| Increase/(decrease) in net assets attributable to unitholders | - | 4,122,568 | - | 20,709,711 |
| Closing balance | <u>43,207</u> | <u>429,871</u> | <u>14,828,848</u> | <u>171,947,761</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 attaching to it as all other units of the Fund.

6. CAPITAL RISK MANAGEMENT

the Fund considers its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders 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. Under the 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 unitholders.



| | | | | As at 31.12.2020 Rs. | As at 31.12.2019 Rs. |
|--|------------------------|----------------------------|--------------------------|----------------------------|-----------------------------|
| 7. CASH AND CASH EQUIVALENTS | | | | | |
| Cash at bank - BOC | | | | | |
| - Bank A/C - Operation | | | | 189,989 | 457,863 |
| - Bank A/C - Redemption | | | | 26,500 | 26,500 |
| - Bank A/C - Income distribution | | | | 25,000 | 25,000 |
| | | | | <u>241,489</u> | <u>509,363</u> |
| 8. TAX RECOVERABLE | | | | | |
| Balance as at the beginning of the year | | | | 203,942 | 203,942 |
| Add: Tax for the year | | | | - | - |
| | | | | <u>203,942</u> | <u>203,942</u> |
| Less: Provision for tax recoverable | | | | (203,942) | (203,942) |
| Balance as at the end of the year | | | | <u>-</u> | <u>-</u> |
| 9. FINANCIAL ASSETS AT AMORTIZED COST | | | | | |
| Investment in repurchase agreements | | Note 9.1 | | <u>1,501,319</u> | <u>172,926,287</u> |
| | | | | <u>1,501,319</u> | <u>172,926,287</u> |
| 9.1 Investment in repurchase agreements | | | | | |
| As at 31st December, 2020 | | | | | |
| Dealer | Yield (in%) | Investment date | Maturity date | Cost Rs. | Market value Rs. |
| Bank of Ceylon | 4.00% | 12.24.2020 | 01.07.2021 | 1,500,000 | 1,501,319 |
| | | | | <u>1,500,000</u> | <u>1,501,319</u> |
| As at 31st December, 2019 | | | | | |
| Dealer | Yield (in%) | Investment date | Maturity date | Cost Rs. | Market value Rs. |
| Acuity Securities Limited | 7.70% | 18.12.2019 | 03.01.2020 | 93,647,433 | 93,924,014 |
| Union Bank of Colombo PLC | 7.75% | 24.12.2019 | 07.01.2020 | 78,868,305 | 79,002,273 |
| | | | | <u>172,515,738</u> | <u>172,926,287</u> |
| | | | | As at 31.12.2020 Rs. | As at 31.12.2019 Rs. |
| 10. OTHER PAYABLES | | | | | |
| Management fee payable | | | | 1,099,054 | 1,193,708 |
| Custodian fees payable | | | | 126,565 | 159,168 |
| Accrued expenses | | | | 87,318 | 80,000 |
| Other payables to CAML | | | | - | 55,013 |
| | | | | <u>1,312,937</u> | <u>1,487,889</u> |



11. UNRECOGNISED CONTRACTUAL COMMITMENTS

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

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 DATES

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 (B Series) is Ceybank Asset Management Limited.

14.2 Key management personnel

a) Directors

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

- Mr. Ruwan Kumara (Acting Chairman)
- Mr. I.C.C. Ferdinands (Acting CEO)
- Ms. Vasantha Govindan
- Mr. G.A. Jayashantha

- Mr. R.M.N. Jeewantha
- Mr. A.D. Perera
- Mr. S. Paravithana

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 year.

14.3 Key management personnel unitholding

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

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 year 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 (B Series) did not hold any units in the Fund.



14. RELATED PARTY TRANSACTIONS (CONTD..)

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 | Transaction | Amount (Rs.) | |
|----------------------------------|------------------|----------------|--------------|-----------|
| | | | 2020 | 2019 |
| Ceybank Asset Management Limited | Managing company | Management fee | 316,412 | 1,267,887 |
| Bank of Ceylon | Custodian | Custodian fee | 105,000 | 197,856 |
| National Savings Bank | Trustee | Trustee fee | 94,923 | 380,366 |

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

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

16. COMPARATIVE INFORMATION

Comparative information of the Fund has been reclassified wherever necessary to conform with the current year's presentation/classification.

17. RECONCILIATION BETWEEN THE NET ASSET VALUE AS PER FINANCIAL STATEMENTS AND THE PUBLISHED NET ASSET VALUE

| | As at 31.12.2020 Rs. | As at 31.12.2019 Rs. |
|--|----------------------------|----------------------------|
| Net asset value as per financial statement | 429,871 | 171,947,761 |
| Audit fee adjustment | 38,318 | - |
| Published net asset value | <u>468,189</u> | <u>171,947,761</u> |
| No of units outstanding | 43,207 | 14,828,848 |
| Published net asset value per unit | <u>10.84</u> | <u>11.60</u> |



CEYBANK GILT EDGE FUND (B SERIES)
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**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 the 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 Funds

National Savings Bank


General Manager / Compliance Officer
Ceybank Asset Management Ltd



CEYBANK GILT EDGE FUND (B SERIES)
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MANAGEMENT TEAM

CEYBANK ASSET MANAGEMENT LTD

MANAGEMENT TEAM

CEO / EXECUTIVE DIRECTOR

Ian Ferdinands
Chartered Marketer
Certified e Marketer
MBA(Finance)

General Manager

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

Accountant

Vimukthi Thalpavila
Chartered Finalist (ICASL)
B.Sc. Accounting (Sp.)
DISSCA (ICASL)

Fund Manager

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

Marketing Manager

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

Registrar

Pamudi Kariyawasam