



# Gilt Edge Fund

(B Series)

**ANNUAL REPORT**

2015

“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 EDGED FUND (B SERIES)  
Annual Report & Accounts 2015  
CORPORATE INFORMATION

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TRUSTEE

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

FUND MANAGERS & REGISTRAR

Ceybank Asset Management Ltd  
Reg. No PV 3326  
No 54/C 1, Ward Place, Colombo -7  
Tel : 011 760 2000-2, Fax : 2683095  
E.mail : ceybank@slt.lk

DIRECTORS OF THE  
MANAGEMENT COMPANY

Mr. P.S.C. Pelpola  
Chairman

Mr. M Selvanathan  
Deputy Chairman

Mr. C. Sathkumara  
CEO/Executive Director

Mr. D. M. Gunasekera  
(Nominee - Bank of Ceylon)

Mr. S.M.S.C.Jayasuriya  
(Nominee - Bank of Ceylon)

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

Mr. M S P Ranjith Perera  
(Nominee - Sri Lanka Insurance)

Mr. P.P.J.Perera  
(Nominee - Sri Lanka Insurance)

Mr. Ajith weeratunge  
(Alternate to Mr. M Selvanathan)

Mr. G.A.Jayashantha  
(Alternate to Mr. D. M. Gunasekera)

Mr. U. D. Liyanagamage  
(Alternate to Mr.P.P.J.Perera)

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

Mr. Tennyson Rodrigo  
Former Managing Director  
Capital Development & Investment Co Ltd

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)

## REPORT OF THE MANAGER

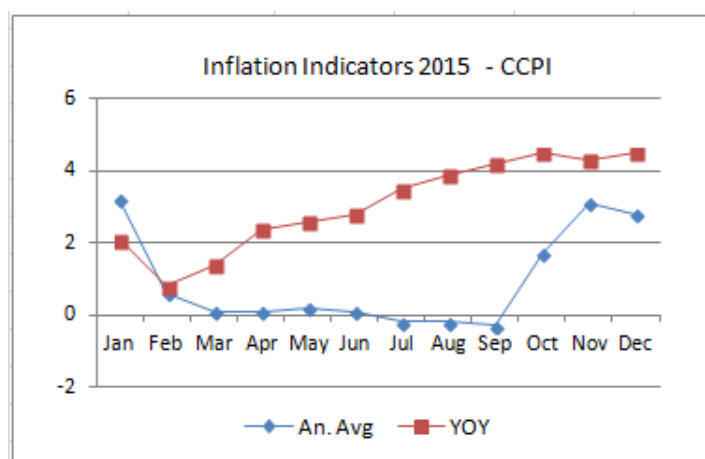
We have great pleasure in presenting the Annual Report and Audited Accounts of the Ceybank Gilt Edge Fund (B series) for the period 1<sup>st</sup> January 2015 to 31st December 2015.

The Net Asset Value per unit of your Fund appreciated by 7.33% during the period and the Fund distributed tax free dividends of Rs 0.35 (35cts per unit). The Fund will distribute dividends in January and July each year.

### Economy

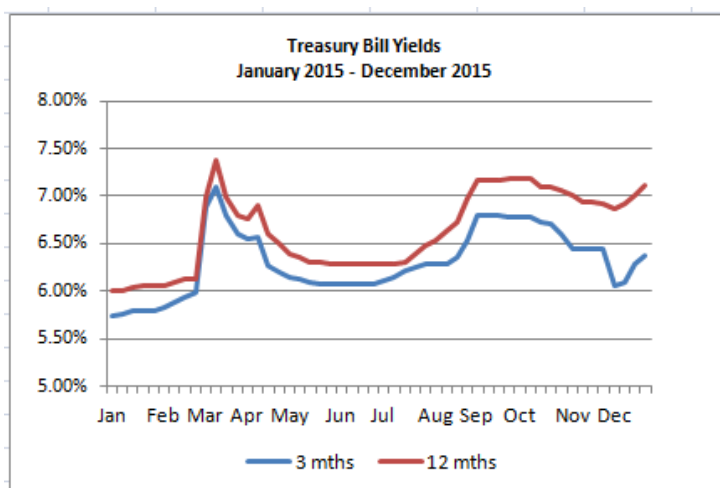
The Sri Lankan Economy recorded an Annual GDP growth of 4.8% in 2015 marginally below the growth of 4.9% achieved in 2014 (base year=2010). Sector wise Industry grew by 3.0%, Services by 5.3%, and Agriculture by 5.5%.

Average Annual Inflation measured by the CCPI, which was at 3.2% at the beginning of the year declined and remained flat for most of the year, but increased sharply in September and closed the year at 2.8% as at end December 2015.



Market interest rates remained volatile during the year. The benchmark 12 month Treasury bill rate which was at 6.01% p.a. at the beginning of the year increased to 7.11% p.a. by the end of the year. A parallel shift was seen on long term Treasury bonds yields.

Overnight call money rates generally traded within a range of 5.80% and 7.00% p.a. The exchange rate which was at 131.96 (Rs/US\$) at the beginning of the year, depreciated during the year moving up to 144.06 (Rs/US\$), as at end December 2015.



(Source: CBSL)

Central Bank key policy rates were reduced by 0.5% in April 2015. The Standing Deposit Facility Rate (SDFR) was reduced to 6.00% while the Standing Lending Facility Rate (SLFR) was reduced to 7.5%. The Statutory Reserve Requirement (SRR) for Commercial Banks remained unchanged at 6%.

## **Fund Performance**

The Net Asset Value per unit of your Fund appreciated by 7.33% during the period under review.

The Fund generated a net operating profit of Rs 29.98 million and declared tax free dividends of Rs 16.71 million, a total of Rs 0.35 per unit to the unit holders for the period under review. The Fund was mainly invested in a mix of Treasury bills and Repurchase Agreements, with maturities less than one year.

## **Future Outlook**

The Sri Lankan Economy recorded an Annual GDP growth of 4.8% in 2015, with the Agriculture sector the best performer contributing 5.5%. The Services sector contributed 5.3% while Industry lagged at 3%.

The future outlook on growth will depend largely on new Government policy which continues to be unclear, with amended budget proposals and new taxes.

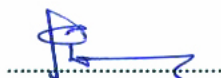
Export markets remain a concern, as both Europe and the USA face declining economic growth. The negotiations of the GSP plus concession appears to be positive, but resumption of the concession seem to be set for the end of 2016. The relatively low crude oil prices globally augurs well. However local weather conditions will be important and will affect the level of growth that will be finally achieved.

During the first two months of the New Year, Central bank raised the Statutory Reserve Requirement (SRR) for Commercial banks by 150 bps while the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) was increased by 50 bps signaling an increase in interest rates. The Government's increased borrowing program also indicates a rate movement upwards. Taking these factors into account the Fund is currently invested in short term Treasury bills and Repurchase Agreements. The objective of the Fund is to provide liquidity and a regular income 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, the Board of Directors and the members of the Investment Advisory Panel 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  
31<sup>st</sup> March 2016



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Chartered Accountants  
"Charter House"  
65/2, Sir Chittampalam A Gardiner Mawatha  
Colombo 02  
Sri Lanka

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Ceybank Gilt Edged Fund (B Series), which comprise the statement of financial position as at 31<sup>st</sup> December, 2015 and the statement of comprehensive income, statement of changes in unitholder's fund and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 05 to 17.

### **Managements' Responsibility for the Financial Statements**

Ceybank Asset Management Limited ("Management") and the Trustee of the Unit Trust are responsible for the preparation of these 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of Ceybank Gilt Edged Fund (B Series) as at 31<sup>st</sup> December, 2015 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

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

As required by section 163 (2) of the Companies Act No. 07 of 2007 we state the following:

- a) The basis of opinion and scope and limitations of the audit are as stated above.
- b) In our opinion:
  - 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,
  - The financial statements of the Fund, comply with the requirements of section 151 of the Companies Act No. 07 of 2007 the Unit Trust Deed and the Unit Trust Code of the securities and Exchange Commission of Sri Lanka.

**Sgd. BDO Partnes**

**CHARTERED ACCOUNTANTS**

**Colombo**

**13<sup>th</sup> May, 2016**

**SM/dm**

BDO Partners, a Sri Lankan Partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Partners : S. Rajapakse FCA, FCMA, MBA. Tishan H. Subasinghe FCA, ACMA, CISA, MBA. H.S. Rathnaweera FCA, ACMA. Ashane J.W. Jayasekara FCA, FCMA (UK), MBA. H.M. Saman Siri Lal FCA, ACMA, MBA. Hasanthi D.Amarakoon ACA, ACMA

CEYBANK GILT EDGED FUND (B SERIES)  
FOR THE YEAR ENDED 31ST DECEMBER, 2015  
STATEMENT OF COMPREHENSIVE INCOME

Page 1

		01st January, 2015 to 31st December, 2015 (12 Months) Rs.	01st October, 2013 to 31st December, 2014 (15 Months) Rs.
	Note	<u>Rs.</u>	<u>Rs.</u>
Net Income on Financial Instruments Held at Fair Value Through Profit or Loss	4	33,647,075	229,661,207
Miscellaneous Receipts		-	639
<b>Total Investment Income</b>		<u>33,647,075</u>	<u>229,661,846</u>
<b>Expenses</b>			
Management Fee		(2,514,296)	(10,762,046)
Trustee and Custodian Fee		(898,289)	(3,408,614)
Audit Fee		(72,600)	(66,000)
Bank Charges		(49,350)	(92,700)
Other Miscellaneous Expenses		(126,290)	(328,791)
		<u>(3,660,825)</u>	<u>(14,658,151)</u>
<b>Net Operating Profit</b>		29,986,250	215,003,695
Finance Expenses		(27,775)	(5,357)
		<u>29,958,475</u>	<u>214,998,338</u>
Distributions to Unitholders	5	(16,718,784)	(1,060,415)
<b>Profit After Deductions and Before Tax</b>		<u>13,239,691</u>	<u>213,937,923</u>
Income Tax Expense		(2,995,849)	(21,499,833)
<b>Increase in Net Assets Attributable to Unitholders</b>	6	<u><u>10,243,842</u></u>	<u><u>192,438,090</u></u>

Figures in brackets indicate deductions.

The accounting policies and notes on page 05 to 17 form an integral part of this financial statement.

Colombo  
13th May, 2016



CEYBANK GILT EDGED FUND (B SERIES)  
STATEMENTS OF FINANCIAL POSITION  
AS AT 31ST DECEMBER, 2015

Page 2

	Note	As at 31st December, 2015 Rs.	As at 31 December, 2014 Rs.
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	7	132,761	3,084,520
Income Tax Receivable	8	368,910	-
Financial Assets Held at Fair Value through Profit or Loss	9	507,940,252	535,792,712
<b>Total Current Assets</b>		<u>508,441,923</u>	<u>538,877,232</u>
<b>Total Assets</b>		<u>508,441,923</u>	<u>538,877,232</u>
<b>UNITHOLDER'S FUNDS AND LIABILITIES</b>			
<b>Current Liabilities</b>			
Securities Sold under Reverse Repurchase Agreement	10	-	30,000,000
Other Payables	11	430,495	379,328
Income Tax Payables		-	660,972
Money Payable On Unit Redemption		-	50,630
<b>Total Current Liabilities</b>		<u>430,495</u>	<u>31,090,930</u>
<b>Unitholder's Fund</b>		<u>508,011,428</u>	<u>507,786,302</u>
<b>Total Unitholder's Fund</b>		<u>508,011,428</u>	<u>507,786,302</u>
<b>Total Unitholder's Funds and Liabilities</b>		<u>508,441,923</u>	<u>538,877,232</u>
Commitments and Contingencies	11 and 12		

Figures in brackets indicate deductions.

The accounting policies and notes on pages 05 to 17 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 29th March, 2016 and on 04th May, 2016 respectively.

  
.....  
Director  
Management Company

  
.....  
Director  
Management Company

Colombo  
13th May, 2016  
SM/dm



CEYBANK GILT EDGED FUND (B SERIES)  
STATEMENT OF CHANGES IN UNITHOLDER'S FUNDS  
FOR THE YEAR ENDED 31ST DECEMBER, 2015

Page 3

	Unit Capital Rs.	Retained Earnings Rs.	Total Rs.
<b>Unitholders Funds as at 01/10/2013</b>	-	-	-
Increase in Net Assets Attributable to Unitholders	-	192,438,090	192,438,090
Received on Unit Creations	11,387,948,992	236,432,521	11,624,381,513
Paid on Unit Redemptions	(10,897,755,858)	(411,277,443)	(11,309,033,301)
<b>Unitholders Funds as at 31/12/2014</b>	<u>490,193,134</u>	<u>17,593,168</u>	<u>507,786,302</u>
Increase in Net Assets Attributable to Unitholders	-	10,243,842	10,243,842
Received on Unit Creations	1,739,067,097	99,319,138	1,838,386,235
Paid on Unit Redemptions	(1,757,445,013)	(90,959,938)	(1,848,404,951)
<b>Unitholders Funds as at 31/12/2015</b>	<u><u>471,815,218</u></u>	<u><u>36,196,210</u></u>	<u><u>508,011,428</u></u>

Figures in brackets indicate deductions.

The accounting policies and notes on pages 05 to 17 form an integral part of these financial statements.

Colombo  
13th May, 2016

CEYBANK GILT EDGED FUND (B SERIES)  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31ST DECEMBER, 2015

Page 4

	01st January, 2015 to 31st December, 2015 (12 months) Rs.	From 01st October, 2013 to 31st December, 2014 (15 months) Rs.
<b>Cash Flows from Operating Activities</b>		
Interest Received	33,647,156	208,388,626
Securities Sold under Reverse Repurchase Agreement	-	30,000,000
Settlements of Reverse Repurchase Agreement	(30,000,000)	-
Miscellaneous Receipts	-	639
Net Investments in Financial Assets Held at Fair value through Profit & Loss	27,852,378	(514,520,131)
Management Fees and Trustees Fees Paid	(3,428,661)	(13,874,689)
Tax Paid	(4,025,731)	(20,838,861)
Other Expenses Paid	(208,772)	(358,861)
<b>Net Cash Inflow from Operating Activities</b>	<b>23,836,370</b>	<b>(311,203,277)</b>
<b>Cash Flows from Financing Activities</b>		
Proceeds from Applications by Unitholders	1,838,386,235	11,624,381,513
Payments for Redemptions by Unitholders	(1,848,455,580)	(11,309,033,301)
Distribution Paid	(16,718,784)	(1,060,415)
<b>Net Cash (Outflow) from Financing Activities</b>	<b>(26,788,129)</b>	<b>314,287,797</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>(2,951,759)</b>	<b>3,084,520</b>
<b>Cash and Cash Equivalents at the Beginning of the Year (Note A)</b>	<b>3,084,520</b>	<b>-</b>
<b>Cash and Cash Equivalents at the End of the Year (Note B)</b>	<b>132,761</b>	<b>3,084,520</b>
<b>At the Beginning</b>		
Balance at Bank	3,084,520	-
<b>At the End</b>		
Balance at Bank	132,761	3,084,520

Figures in brackets indicate deductions.

The accounting policies and notes on pages 05 to 17 form an integral part of these financial statements.

Colombo  
13th May, 2016

## 1. CORPORATE INFORMATION

### 1.1 General

Under Section 31 of the Securities and Exchange Commission of Sri Lanka, Act No. 36 of 1987 as amended by the Act No. 26 of 1991 and the Act No. 18 of 2003, the Securities and Exchange Commission of Sri Lanka granted a license to operate the Fund to Ceybank Asset Management Limited on 23<sup>rd</sup> September, 2013. The Fund commenced its commercial operations on 01<sup>st</sup> October, 2013. The registered office of the Management Company is located at 54/C1, Ward Place, Colombo 07.

### 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 (SLFRSs and LKASs) issued by the Institute of Chartered Accountants of Sri Lanka and adopted as directed by the Securities and Exchange Commission of Sri Lanka.

The financial statements 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 unit holders. The amount expected to be recovered or settled within twelve months after the end of each reporting period cannot be reliably determined.

#### 2.1.2 Statement of Compliance

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

### 2.2 Statement of Financial Position

#### 2.2.1 Financial Instruments

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

**SIGNIFICANT ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS**

In accordance with LKAS 39 Financial Instruments: Recognition and Measurement, the Fund's receivables are classified as 'loans and receivables'. Trading securities are classified as 'held for trading', meaning they are valued at fair value through profit or loss. The amount attributable to Unit holders is classified as a financial liability and is carried at the redemption amount being net asset value. Payables are designated as 'other financial liabilities' at amortized cost.

**2.2.1.1 Classification**

The Fund's investments are classified as at fair value through profit or loss. They comprise: -

**2.2.1.1.1 Financial Instruments Held for Trading**

Derivative financial instruments such as futures, forward contracts, options and interest rate swaps are included under this classification. The Fund does not designate any derivatives as hedges in a hedging relationship.

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

**2.2.1.1.2 Financial Instruments Designated at Fair Value Through Profit or Loss Upon Initial Recognition**

These include financial assets that are not held for trading purposes and which may be sold. These are investments in exchange traded debt and equity instruments, unlisted trusts and commercial paper.

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

**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 expired.

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

### 2.2.1.3 Measurement

#### 2.2.1.3.1 Financial Assets and Liabilities Held at Fair Value through Profit or Loss

At initial recognition, the fund measures a financial assets and liabilities at its fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of comprehensive income.

The fair value of financial assets and liabilities traded in active markets is subsequently based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. The quoted market price used for financial assets held by the Fund is the current bid price and the quoted market price for financial liabilities is the current asking price.

The fair value of financial assets and liabilities that are not traded in an active market are determined using valuation techniques. Accordingly, there may be a difference between the fair value at initial recognition and amounts determined using a valuation technique. If such a difference exists, the Fund recognizes the difference in profit or loss to reflect a change in factors, including time that market participants would consider in setting a price.

#### 2.2.1.3.2 Loans and Receivables

Loan assets are measured initially at fair value plus transaction costs and subsequently amortized using the effective interest rate method, less impairment losses if any. Such assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment.

If evidence of impairment exists, an impairment loss is recognized in profit or loss as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

If in a subsequent period the amount of an impairment loss recognized on a financial asset carried at amortized cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through profit or loss.

### 2.2.2 Unitholders' Funds and Net Assets Attributable to Unitholders

Unit holders' 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.

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 unit holders is declared according to the explanatory memorandum. Distribution to unitholders is recognized in the statement of comprehensive income as finance costs. Income not distributed is included in net assets attributable to unit holders.

### 2.2.3 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.

### 2.2.4 Receivable

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

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

### 2.2.5 Payable

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 recognised separately in the statement of financial position when unitholders are presently entitled to the distributable income under the Trust Deed.

### 2.2.6 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.

### 2.2.7 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.

### 2.2.8 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 method. Interest income on assets held at fair value through profit or loss is included in the net gains/(losses) on financial instruments.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

### 2.3.2 Expenditure Recognition

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

### 2.3.3 Taxation

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

### 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 profit or loss as finance costs attributable to unitholders.

### 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 profit or loss as finance costs.

## 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 reprising or maturity dates.

As at 31 <sup>st</sup> December, 2015	Floating Interest Rs.	Fixed Interest Rs.	Non-Interest Rs.	Total Rs.
<b>Financial Assets</b>				
Cash and Cash Equivalents	Nil	Nil	132,761	132,761
Financial Assets Held At Fair Value Through Profit or Loss	Nil	507,940,253	Nil	507,940,253
<b>Total Exposure</b>	Nil	507,940,253	132,761	508,073,014

3.2 Summarized Sensitivity Analysis

The following table summarizes the sensitivity of the funds operating profit and net assets attributable to unit holders 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 funds 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 Interest rate risk 31 <sup>st</sup> December, 2015
Change in interest rate of the Trust's investment in trading securities:	
+1.5%	504,706
-1.5%	(504,706)

### 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.

	<u>31<sup>st</sup> December, 2015</u> Rs.
<b>Treasury Bills</b>	
<b>Rating</b>	
Risk Free	504,139,417
<b>Repurchase Agreements</b>	
<b>Rating</b>	
Risk Free	3,800,835
<b>Total</b>	<u><u>507,940,252</u></u>

#### 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 for the medium to long term.

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

<b>As at 31<sup>st</sup> December, 2015</b>	<b>Less Than One Month Rs.</b>	<b>01 to 06 Months Rs.</b>	<b>06 to 12 Months Rs.</b>	<b>Total Rs.</b>
<b>Accrued Expenses</b>				
- Management Fee Payable	279,895	Nil	Nil	279,895
- Other Payables	12,000	138,600	Nil	150,600
<b>Contractual Cash Flows (Excluding Gross settled Derivatives)</b>	291,895	138,600	Nil	430,495

### 3.5 Fair Value Estimation

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

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

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

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

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

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

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

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

### 3.6 Fair Value Hierarchy

Classification of financial assets and financial liabilities

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

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

### 3.6.1 Classification of Financial Assets and Financial Liabilities

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

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

The tables below set out the Fund’s financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 31<sup>st</sup> December, 2015.

As At 31 <sup>st</sup> December, 2015	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Totals Rs.
Financial Assets				
Financial Assets Held for Trading:				
- Treasury Bills	Nil	504,139,417	Nil	504,139,417
- Repurchase Agreements	Nil	3,800,835	Nil	3,800,835
Cash & Cash Equivalents	Nil	Nil	132,761	132,761
<b>Total</b>	<b>Nil</b>	<b>507,940,253</b>	<b>132,761</b>	<b>508,073,013</b>

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

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

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

		01st January, 2015 to 31st December, 2015 (12 Months) Rs.	01st October, 2013 to 31st December, 2014 (15 Months) Rs.
<b>4. NET INCOME ON FINANCIAL INSTRUMENTS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS</b>			
Income on Financial Assets Held at Fair Value Through Profit or Loss	Note 4.1	33,647,156	208,388,626
Net Realized Gain/(loss) on Financial Assets Held at Fair Value Through Profit or Loss		(81)	21,272,581
Net Gain on Financial Assets Held at Fair Value Through Profit or Loss		<u>33,647,075</u>	<u>229,661,207</u>
<b>4.1 Income on Financial Assets Held at Fair Value Through Profit or Loss</b>			
Interest From			
- Treasury Bills		33,418,526	206,020,207
- Repurchase Agreements		228,630	2,368,419
		<u>33,647,156</u>	<u>208,388,626</u>

Net income recognized in relation to financial assets held at fair value through profit or loss:

**5. DISTRIBUTIONS TO UNITHOLDERS**

		16,718,784	1,060,415
	Date of Dividend Declaration	Dividend Paid in Number of Units	Dividend Paid in Rupees
<b>Dividend Paid</b>			
<b>Dividend Paid for 2015</b>			
01st July, 2014 to 30th June, 2015	11th August, 2015	47,767,955	16,718,784
		<u>47,767,955</u>	<u>16,718,784</u>
<b>Dividend Paid for 2014</b>			
01st October, 2013 to 30th June, 2014	07th August, 2014	5,302,075	1,060,415
		<u>5,302,075</u>	<u>1,060,415</u>

**6. NET ASSETS ATTRIBUTABLE TO UNITHOLDERS**

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

	For the 01st January, 2015 to 31st December, 2015		For the 01st October 2013 to 31st December, 2014	
	Number	Rs.	Number	Rs.
Opening Balance	49,019,788	507,786,302	-	-
Applications	173,905,624	1,838,386,235	1,138,795,403	11,624,381,513
Redemptions	(175,744,833)	(1,848,404,951)	(1,089,775,615)	(11,309,033,301)
Decrease in Net Assets Attributable to Unitholders	-	10,243,842	-	192,438,090
Closing Balance	<u>47,180,579</u>	<u>508,011,428</u>	<u>49,019,788</u>	<u>507,786,302</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.

**6.1 Capital Risk Management**

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

Daily applications and redemptions are reviewed relative to the liquidity of the Fund's underlying assets on a daily basis by the responsible entity. 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 31st December, 2015 Rs.	As at 31st December, 2014 Rs.
<b>7. CASH AND CASH EQUIVALENT</b>					
Cash at Bank				132,761	3,084,520
<b>8 INCOME TAX RECEIVABLE</b>					
Balance as at the Beginning of the Period				660,972	-
Add : Income Tax Expense on Current Period Profit				2,995,849	21,499,833
				3,656,821	21,499,833
Less : Notional Tax				(3,364,716)	(20,838,861)
Income tax Paid				(661,015)	-
Balance as at the End of the Period				(368,910)	660,972
<b>9. FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS</b>					
Investment in Treasury Bills			Note 9.1	504,139,417	535,792,712
Investment in Repurchase Agreements			Note 9.2	3,800,835	-
				507,940,252	535,792,712
<b>9.1 Investment in Treasury Bills</b>					
As at 31st December, 2015					
	Yield (in%)	Investment Date	Maturity Date	Cost Rs.	Market value Rs.
LKA18216B057	6.15%	13/11/2015	05/02/2016	499,999,994	504,139,417
As at 31st December, 2014					
	Yield (in%)	Investment Date	Maturity Date	Cost Rs.	Market value Rs.
LKA36415A162	7.03	17-Jan-14	16-Jan-15	23,357,925	24,932,334
LKA36415G102	6.93	11-Jul-14	10-Jul-15	7,481,528	7,729,369
LKA36415B202	5.55	21-Nov-14	20-Feb-15	161,753,786	162,764,960
LKA18215B273	5.56	21-Nov-14	27-Feb-15	197,050,400	198,284,416
LKA36415C069	5.57	21-Nov-14	6-Mar-15	141,195,797	142,081,633
				530,839,436	535,792,712
<b>9.2 Investment in Repurchase Agreements</b>					
As at 31st December, 2015					
	Yield (in%)	Investment Date	Maturity Date	Cost Rs.	Market value Rs.
Bank of Ceylon	4.00%	30/12/2015	04/01/2016	3,800,000	3,800,835
<b>10. SECURITIES SOLD UNDER REVERSE REPURCHASE AGREEMENT</b>					
	Yield (%)	Investment Date	Maturity Date	2015 Cost Rs.	2014 Cost Rs.
LKA36415B202	6.50%	31-Dec-14	2-Jan-15	-	30,000,000
				As at 31st December, 2015 Rs.	As at 31st December, 2014 Rs.
<b>11. OTHER PAYABLES</b>					
Management Fee Payable				279,895	295,971
Accrued Expenses				84,600	78,000
Other Creditors				66,000	-
Interest Payable				-	5,357
				430,495	379,328

**12. UNRECOGNISED CONTRACTUAL COMMITMENTS**

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

**13. CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

**13.1 Contingent Liabilities**

There were no contingent liabilities as at the reporting date.

**13.2 Contingent Assets**

There were no contingent assets as at the reporting date.

**14. 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.

**15. RELATED PARTY TRANSACTIONS**

**15.1 Responsible Entity**

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

**15.2 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. K. L. Hewage (Chairman) | - Mr. M. Selvanathan  |
| - Mr. C. Sathkumara           | - Mr. Sri B.Babu Rao  |
| - Mr. D. M. Gunasekara        | - Mr. M.S.P.R. Perera |
| - Mr. P. Kudabalage           | - Mr. P. P. J. Perera |

**b) Other key management personnel**

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

15. RELATED PARTY TRANSACTIONS (CONTD..)

15.3 Key Management Personnel Unitholding

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

15.4 Other Transactions within the Fund

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

15.5 Related Party Unitholding

The management company of Ceybank Gilt Edged Fund (B Series) did not hold any units in the Fund.

15.6 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.

<u>Name of Related Company</u>	<u>Relationship</u>	
Ceybank Asset Management Limited	Managing Company	Management Fee Rs. 2,514,296/-
Bank Of Ceylon	Custodian	Custodian Fee Rs. 144,000/-
National Savings Bank	Trustee	Trustee Fee Rs. 754,289/-

16. 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 do not include any amounts directly attributable to the compensation of key management personnel.

17. COMPARATIVE INFORMATION

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

17.1 Significant Reclassification

The Ceybank Gilt Edged Fund (B Series) has recognized fund received on unit creation and paid on unit Redemptions amounting to Rs.24,514,893/- and Rs.42,782,470/- respectively to Statement of changes in unitholder's fund erroneously.

Accordingly balance under the Unitholder's fund received on unit creation and paid on unit Redemptions were reclassified from Retained earnings to Unit capital in order to provide a better presentation as follows,

	<u>As Disclosed in period ended 31.12.2014 Rs.</u>	<u>Adjustments Rs.</u>	<u>Reclassified in period ended 31.12.2014 Rs.</u>
<b>Under Retained Earnings</b>			
Received on Unit Creations	211,917,628	24,514,893	236,432,521
Paid on Unit Redemptions	(368,494,973)	(42,782,470)	(411,277,443)
<b>Under Unit Capital</b>			
Received on Unit Creations	11,412,463,885	(24,514,893)	11,387,948,992
Paid on Unit Redemptions	(10,940,538,328)	42,782,470	(10,897,755,858)



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**DECLARATION BY  
TRUSTEES AND MANAGING COMPANY**

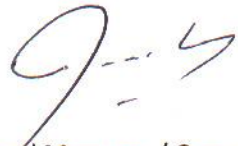
Declaration by Trustees and Management Company as per SEC circular No 02/2009 on Guidelines for Trustees and Management Companies of Unit trust Funds.

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 EDGED FUND (B SERIES)  
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MANAGEMENT TEAM

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CEYBANK ASSET MANAGEMENT LTD

MANAGEMENT TEAM

**CHAIRMAN**

Palitha Pelpola

**CEO / EXECUTIVE DIRECTOR**

*Chitra Sathkumara*

B.Sc, MBA (Finance)

**General Manager**

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

**Manager – Investment &  
Business Development**

Ian Ferdinands  
Chartered Marketer  
Certified e Marketer

**Manager – Finance**

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

**Registrar**

K. Dorin Sherina

**Assistant Fund Manager**

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

**Marketing Manager**

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