

CEYBANK HIGH YIELD FUND

ANNUAL REPORT

2019

“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 HIGH YEILD FUND
Annual Report & Accounts 2019
CORPORATE INFORMATION

TRUSTEE

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

FUND MANAGERS & REGISTRAR

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

**DIRECTORS OF THE
MANAGEMENT COMPANY**

Mr. P.S.C. Pelpola
Chairman

Mr. C. Sathkumara
CEO/Executive Director

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

Mr. D. P. K. Gunasekera
(Nominee - Bank of Ceylon)

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

Mr. R. D. M. U. M. M. Bandara
(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 HIGH YIELD FUND - Annual Report 2019

REPORT OF THE MANAGER

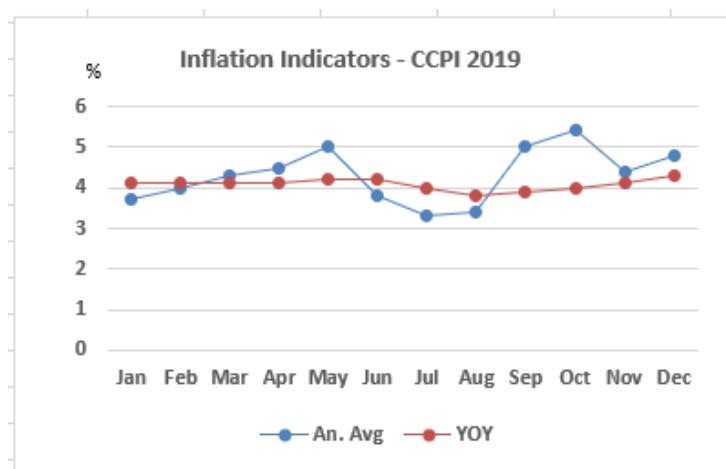
We have great pleasure in presenting the Manager's Report and Audited Accounts of the Ceybank High Yield Fund for the period 1st January 2019 to 31st December 2019.

The Net Asset Value per unit of your Fund appreciated by 11.82% during the period.

Economy

The Sri Lankan Economy recorded an Annual GDP growth of 2.3% in 2019, lower than the growth of 3.3% achieved in 2018 (base year=2010). Sector wise, Industry grew by 2.7%, Services expanded by 2.3%, while Agriculture grew by a mere 0.6%.

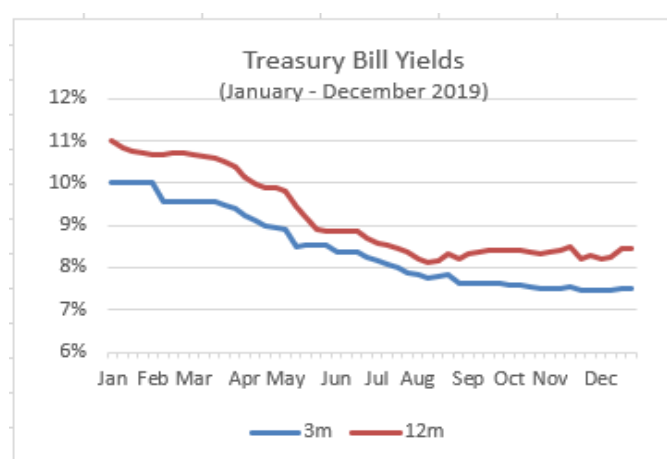
Average Annual Inflation measured by the CCPI, which was at 4.1% at the beginning of the year remained mostly unchanged during the period and closed the year at 4.3% as at end December 2019.



(Source: CBSL)

Market interest rates declined during the year. The benchmark 12-month Treasury bill rate which was at 10.99% p.a. at the beginning of the year declined gradually, mainly due to intervention by Central Bank. The rates dropped by 254 basis points, to close at 8.45% p.a. at the end of the year. Long term Treasury bond yields also moved in tandem with the Treasury Bills during this period. Premiums on corporate paper yields, remained around 2-3% above Treasury yields.

Overnight call money rates generally traded within a range of 7.10% and 9.00% p.a. The exchange rate which was at 182.9113 (Rs/US\$) at the beginning of 2019, appreciated marginally, to 181.6340 (Rs/US\$), as at end December 2019.



(Source: CBSL)

Central Bank key policy rates were changed three times during the year. In March 2019 the Bank reduced the Statutory Reserve Requirement (SRR) for Commercial Banks by 100 bps (to 5%), the Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) were reduced twice in May and August by a total of 100 bps. The SRR was 5% while the SDFR and SLFR at the end of the year were 7% and 8% respectively.

Fund Performance

The Net Asset Value per unit of your Fund appreciated by 11.82% during the period under review. The Fund generated Rs 24.90 million as net operating profit before taxes during the period. The Fund was mainly invested in a mix of Treasury bill Repurchase Agreements and Corporate paper with maturities less than 12 months.

Future Outlook

At the time of this report being finalized, the Covid 19 pandemic has spread widely across the globe affecting lives and livelihoods extensively due to the economic fallout.

The Sri Lanka's Annual GDP is expected to contract by 1.5% in 2020.

While Sri Lanka is planning to move into import substitution of some goods, the policies will need to be fashioned out more clearly. The postponed General election is expected to take place in the near future. Sri Lanka has its unique set of challenges with exports hit hard due to the Apparel sector facing the cancellation of large orders, and the collapse of Tourism, as the world reacts to a spreading corona virus pandemic. The volatile financial markets and the country's looming debt repayments due in 2020 are further concerns.

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

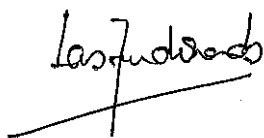
While the drop in crude oil prices globally is a favorable factor especially for power generation, the weather will have a greater impact on the agriculture sector and food production. Pressure on the rupee too is likely to continue as large foreign debt repayments are due in 2020, unless larger debt components are re scheduled.

Market interest rates could remain flat for most of the year as the Government crowds out the private sector, in an attempt to kick start the economy. 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 and a mix of Securities issued by Corporate entities. The objective of the Fund is to provide liquidity and maximize returns for the investor. The Managers will continue to monitor the changing environment to address any change required in the asset allocation in order to meet the Fund objective.

Management

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

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



Ian Ferdinands

Acting CEO (w.e.f.16.07.2020)

28th Aug 2020

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Ceybank High Yield Fund ("the Fund") which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of changes in unit holders' funds and, statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2019, 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.

Other Information

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

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

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

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

Managers and trustee is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as managers and trustee determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, managers and trustee is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless managers and trustee either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

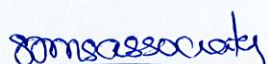
As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management and trustee.
- Conclude on the appropriateness of management's and trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

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



SJMS ASSOCIATES

Chartered Accountants

Colombo

25 August 2020



Statement of comprehensive income

For the year ended 31 December 2019

	Note	2019 Rs.	2017/2018 Rs.
Investment Income			
Interest income	4	28,668,413	53,534,981
Total investment income		<u>28,668,413</u>	<u>53,534,981</u>
Expenses			
Management fee and trustee fee		(2,018,132)	(3,950,067)
Custodian fees		(180,000)	(209,773)
Audit fee		(73,508)	(72,579)
Notional tax and WHT expenses		(1,314,150)	(893,695)
VAT / NBT expense		(60,679)	(103,568)
Bank charges		(37,000)	(97,113)
Other expenses		<u>(77,887)</u>	<u>(166,980)</u>
Total operating expenses		<u>(3,761,356)</u>	<u>(5,493,775)</u>
Net operating profit / (loss) after deductions and before tax		24,907,058	48,041,206
Income tax expense	5	-	(3,385,697)
Increase / (decrease) in net assets attributable to unit holders		<u>24,907,058</u>	<u>44,655,509</u>

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

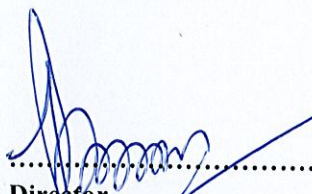


Statement of financial position

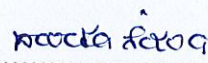
As at 31 December 2019

	Note	31.12.2019 Rs.	31.12.2018 Rs
Assets			
Cash and cash equivalents	6	1,443,422	950,308
Financial assets measured at amortized cost	7	263,615,756	204,545,492
Income tax receivable	8	-	-
Total assets		265,059,178	205,495,800
Unit holders' funds and liabilities			
Liabilities			
Payables	9	433,651	245,277
Money payable on unit redemption		2,212,973	68,498
Total liabilities (excluding net assets attributable to unit holders)		2,646,624	313,775
Unit holders' funds			
Net assets attributable to unit-holders	10	262,412,555	205,182,025
Total unit holders' funds and liabilities		265,059,178	205,495,800

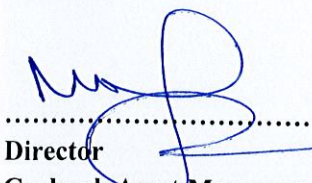
The Fund Management Company and the Trustee is responsible for the preparation and presentation of these financial statements in accordance with Sri Lanka Accounting Standards. These financial statements were approved by the Fund Management Company on 25 August 2020 and by the Trustee on 29 June 2020.



 Director
 Ceybank Asset Management Ltd.
 Fund Management Company



 National Savings Bank
 Trustee



 Director
 Ceybank Asset Management Ltd.
 Fund Management Company

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



Statement of changes in unit-holders' funds
For the year ended 31 December 2019

	2018/2019 Rs.	Total Rs.
Opening balance as at 01.01.2018	-	-
Applications of units during the year	2,173,644,229	2,173,644,229
Redemptions of units during the year	(2,013,117,713)	(2,013,117,713)
Increase in net assets attributable to unit holders	44,655,509	44,655,509
Unit-holders' funds as at 31.12.2018	<u>205,182,025</u>	<u>205,182,025</u>
Applications of units during the year	108,873,121	108,873,121
Redemptions of units during the year	(76,549,649)	(76,549,649)
Increase in net assets attributable to unit holders	24,907,058	24,907,058
Unit-holders' funds as at 31.12.2019	<u><u>262,412,555</u></u>	<u><u>262,412,555</u></u>

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



Statement of cash flows

For the year ended 31 December 2019

	Note	31.12.2019 Rs.	31.12.2018 Rs.
<i>Cash flows from operating activities</i>			
Net interest received	4	28,668,413	53,534,981
Management fees and trustee fees paid		(1,969,467)	(3,794,971)
Custodian fees paid		(163,800)	(192,171)
Operating expenses paid		(114,887)	(264,093)
Tax paid		(1,374,829)	(4,382,960)
Other payables to management company		50,000	-
Net investments in repurchase agreements	7	(11,511,645)	(10,991,847)
Net investments in commercial papers	7	(53,608,320)	(69,960,105)
Net investments in fixed deposits	7	6,049,702	(123,593,540)
<i>Net cash outflows from operating activities</i>		<u>(33,974,832)</u>	<u>(159,644,706)</u>
<i>Cash flows from financing activities</i>			
Proceeds from issue of units	10	108,873,120	2,173,644,229
Payments on redemptions of units		(74,405,174)	(2,013,049,215)
<i>Net cash inflows from financing activities</i>		<u>34,467,946</u>	<u>160,595,014</u>
<i>Net increase / (decrease) in cash and cash equivalents</i>		493,114	950,308
<i>Cash and Cash Equivalents at the Beginning of the Year</i>		950,308	-
<i>Cash and Cash Equivalents at the End of the Year</i>	6	<u>1,443,422</u>	<u>950,308</u>
Cash and cash equivalents at the beginning of the year		950,308	-
Net increase / (decrease) in cash and cash equivalents		493,114	950,308
<i>Cash and cash equivalents at the end of the year</i>		<u>1,443,422</u>	<u>950,308</u>

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



1. General information

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

1.2 Date of authorization for issue

The financial statements of the fund for the year ended 31 December 2019 were authorized for issue by the fund management company on 25 August and by the trustee on 29 June 2020.

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

The financial statements which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of changes in unit holders' funds and, statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, have been prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRS and LKAS), laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Unit Trust Code of the Securities Exchange Commission of Sri Lanka.

2.2 Basis of preparation

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

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

Comparative information

Comparative information are not comparable since comparative information are given for the thirteen months period ended 31st December 2018 as fund was formed in November 2017.

2.3 Significant accounting judgments, estimates and assumptions

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

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

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

2.4 Summary of significant accounting policies**2.4.1 Financial instruments****2.4.1.1 Recognition and derecognition**

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

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



2.4.1.2 Classification and initial measurement of financial assets

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

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

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

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

The classification is determined by both:

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

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

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

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

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

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

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

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

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

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

Financial assets at fair value through other comprehensive income (FVOCI)

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

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

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

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



2.4.2 Impairment of financial assets

The fund recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost. The fund measures loss allowances at an amount equal to lifetime ECL, except for bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECLs is the maximum contractual period over which the fund is exposed to credit risk.

Credit - impaired financial assets at each reporting date, the fund assesses whether financial assets carried at amortised 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.

Evidence that a financial asset is credit-impaired includes the following observable data: –

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or being more than 90 days past due;
- The restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- It is probable that the borrower will enter bankruptcy or other financial reorganization.

As of the date of the statement of financial position the fund has not observed any of the above thus no impairment provision has been recognized in the financial statements.

2.4.3 Cash and cash equivalents

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

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

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

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

2.4.4.1 Payables and provisions

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

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

2.4.5 Revenue recognition

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

Interest income

For all financial instruments measured at amortized cost, interest income is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income of treasury securities, fixed deposits and corporate debt securities are recognized gross of or withholding tax.



2.4.6 Expenses

The management participation fee of the fund is as follows:

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

2.4.7 Income tax

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

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

2.4.8 Distributions

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

2.4.9 Unitholders' funds

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.

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

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

In accordance with SLFRS 09 Financial Instruments: Recognition and Measurement, the investments in repurchase agreements, commercial papers & fixed deposits are classified as debt instrument at amortised cost. Amounts attributable to Unit Holders are classified as 'other financial liabilities'.

3.2 Financial risk management objectives, policies and processes

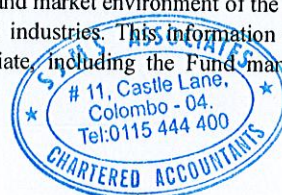
Risks arising from holding financial instruments are inherent in the fund's activities, and are managed through a process of ongoing identification, measurement and monitoring. The fund is exposed to credit risk, market risk, and liquidity risk.

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

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

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

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



3.2 Financial risk management objectives, policies and processes - (Contd.)

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

3.2.1 Market risk

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

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

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

3.2.2 Interest rate risk

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

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

	Floating interest rate	Fixed interest rate Rs.	Non- interest bearing Rs.	Total Rs.
As at 31.12.2019				
Financial assets				
Cash and cash equivalents	-	-	1,443,422	1,443,422
Financial assets valued at amortized cost	-	263,615,756	-	263,615,756
Total exposure	-	263,615,756	1,443,422	265,059,178



3.2.3 Credit risk

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

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

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

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

	31.12.2019 Rs.	31.12.2018 Rs.
Conservative - Reverse repurchase agreement	22,503,492	10,991,847
Balanced - Commercial papers and fixed deposits	241,112,264	193,553,645

The fund invests in debt securities which have an investment grade categorization as rated by Fitch. An analysis of debt by rating is set out in the table below.

	31.12.2019 Rs.	31.12.2018 Rs.
Repurchase agreements		
Risk free	22,503,492	10,991,847
	<u>22,503,492</u>	<u>10,991,847</u>
Commercial papers		
A- (ICRA)	31,217,498	21,754,644
BBB+	46,248,505	48,205,461
BBB- (ICRA)	30,022,356	-
BB+(ICRA)	10,055,479	-
	<u>117,543,839</u>	<u>69,960,105</u>
Fixed Deposits		
A+ (ICRA)	-	18,437,447
A- (ICRA)	-	21,232,391
BBB+ (ICRA)	27,988,866	46,830,801
BBB- (ICRA)	70,985,000	21,073,575
BBB (ICRA)	15,208,169	16,019,326
BB+(ICRA)	9,386,390	-
	<u>123,568,425</u>	<u>123,593,540</u>
Total	<u>263,615,756</u>	<u>204,545,492</u>

3.2.4 Liquidity risk

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

The fund manages its obligation when required to do so and its overall liquidity risk by:

Investing primarily in financial instruments, which under normal market conditions are readily convertible to cash.

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



3.2.4 Liquidity risk - (Contd..)

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

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.

	Less than 1 month Rs.	1-6 months Rs.	6-12 months Rs.	Total Rs.
As at 31.12.2019				
Payables	237,564	196,087	-	433,651
Amount payable on unit redemption	2,212,973			2,212,973
Contractual cash	2,450,538	196,087	-	2,646,624
As at 31.12.2018				
Payables	172,698	72,579	-	245,277
Amount payable on unit redemption	68,498	-	-	68,498
Contractual cash	241,196	72,579		313,775

3.2.5 Capital risk management

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

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

Following being the disclosures of unit holders' funds;

The movement in the Unit Holder's Funds as at 31 December 2019

i In terms of Value

Unit-holders' funds at the beginning of the year	205,182,025
Increase in net assets attributable to unit holders	24,907,058
Received on unit creations	108,873,121
Payments on unit redemptions	(76,549,649)
Unit-holders' funds at the end of the year	262,412,555

ii In terms of No of units

Opening no of units as at 01 January 2019	18,376,035
Closing no of units as at 31 December 2019	21,018,152



4. Interest income from financial assets - loans and receivables

	2019 Rs	2017/2018 Rs
Interest on repurchase agreements	659,196	3,928,171
Interest income on fixed deposits	12,896,960	25,585,895
Interest on commercial papers	15,112,258	24,020,915
	<u>28,668,413</u>	<u>53,534,981</u>

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

5. Income tax expense

	2019 Rs.	2017/2018 Rs
Tax expense for the year	-	3,385,697
	<u>-</u>	<u>3,385,697</u>

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

	2019 Rs.	2017/18 Rs
Profit before tax up to 31 March 2018	-	33,690,238
Total taxable income	<u>-</u>	<u>33,690,238</u>
Income tax (up to 31.03.2018 -10%)		
Income tax expense reported in profit or loss	<u>-</u>	<u>3,369,024</u>

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

6. Cash and cash equivalents

	31.12.2019 Rs.	31.12.2018 Rs.	% on Net Assets
Cash at bank - Bank of Ceylon	1,443,422	950,308	0.55%
	<u>1,443,422</u>	<u>950,308</u>	

7. Financial assets measured at amortised cost

	31.12.2019 Rs.	31.12.2018 Rs.	% on Net Assets
Repurchase agreements (note 07 (a))	22,503,492	10,991,847	8.58%
Fixed deposits (note 07 (b))	123,568,425	123,593,540	47.09%
Commercial papers (note 07 (c))	117,543,839	69,960,105	44.79%
	<u>263,615,756</u>	<u>204,545,492</u>	

Carrying value of the investments at the year end are approximate to fair value of the investments.



a) Investments in repurchase agreements

31.12.2019	Yield	Investment Date	Maturity date	Cost Rs	Carrying Value Rs
Bank of Ceylon	5.65%	31-Dec-19	02-Jan-20	22,500,000	22,503,492
				22,500,000	22,503,492

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

b) Investment in fixed deposits

31.12.2019	Yield (%)	Investment date	Maturity date	Cost Rs	Carrying Value Rs
Richard Pieris & Company	9.38%	28/11/2019	28/02/2020	21,234,839	21,420,379
Mercantile Investments & Finance PLC	9.38%	24/10/2019	24/01/2020	21,109,040	21,483,347
Mercantile Investments & Finance PLC	9.88%	29/11/2019	29/05/2020	14,000,000	14,125,056
Sanasa Development Bank	12.00%	29/11/2019	29/02/2020	25,000,000	25,271,233
Richard Pieris Finance PLC	9.38%	21/11/2019	21/02/2020	6,500,000	6,568,487
Singer Finance PLC	9.33%	17/09/2019	17/03/2020	5,500,000	5,649,024
Singer Finance PLC	9.88%	09/12/2019	09/06/2020	9,500,000	9,559,145
Abans Finance Plc.	8.88%	05/10/2019	05/04/2020	9,189,646	9,386,390
Prime Finance PLC	9.38%	21/11/2019	21/02/2020	10,000,000	10,105,364
				122,033,525	123,568,425

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



c) Investments in commercial papers

As at 31.12.2019	Yield	Investment date	Maturity date	Cost	Carrying value
				Rs	Rs
LOLC PLC	12.75%	13/12/2019	12/06/2020	15,000,000	15,099,555
Alliance Finance Co. PLC	13.60%	30/12/2019	30/07/2020	30,000,000	30,022,356
Janashakthi Limited	13.00%	23/10/2019	23/01/2020	10,000,000	10,249,315
Janashakthi Limited	12.90%	08/11/2019	07/02/2020	10,329,247	10,526,380
Janashakthi Limited	14.00%	29/11/2019	29/05/2020	10,311,288	10,441,803
Softlogic Holdings PLC	15.75%	22/10/2019	22/04/2020	14,751,893	15,203,846
Softlogic Holdings PLC	15.50%	13/11/2019	13/02/2020	15,620,078	15,945,104
Abans Finance PLC	13.50%	17/12/2019	17/06/2020	10,000,000	10,055,479
				116,012,505	117,543,839

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

8. Income tax receivable	31.12.2019	31.12.2018
	Rs	Rs
Withholding tax recoverable	1,164	3,233,867
Notional tax receivable	-	270,456
Provision for notional tax & WHT	(1,164)	(118,626)
Income tax payable	-	(3,385,697)
	-	-

9. Payables	31.12.2019	31.12.2018
	Rs	Rs
Management fee payable	203,762	155,096
Custodian fee payable	33,802	17,602
Other Payables to UTMCL	50,000	-
Audit fee payable	146,087	72,579
	433,651	245,277

10. Net assets attributable to unit holders

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

	31.12.2019		31.12.2018	
	Units	LKR	Units	LKR
Opening capital balance	18,376,035	205,182,025	-	-
Applications	9,107,362	108,873,121	214,956,465	2,173,644,229
Redemptions	(6,465,246)	(76,549,649)	(196,580,430)	(2,013,117,713)
Increase in net assets attributable to unit holders	-	24,907,058	-	44,655,509
Closing balance	21,018,151	262,412,555	18,376,035	205,182,025

	31.12.2019	31.12.2018
	Rs	Rs
Net assets attributable to unit holders	262,412,555	205,182,025
	262,412,555	205,182,025



Distributions to unit-holders

Distributions during the year,

	2018/2019	
	No of Units	Rs '000
Distributions	-	-

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

The creation price was Rs. 12.4852 per unit and the redemption price was Rs. 12.4852 per unit as at 31 December 2019

11. Related party transactions

The following have been identified as related parties to Ceybank Unit Trust Fund in accordance with LKAS 24 - Related Party Disclosures.

a) Management entity

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

b) Key management personnel

i) Directors

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

- Mr. P. S. C. Pelpola (Chairman)
- Mr. C. Sathkumara (CEO/ Executive Director)
- Ms. Vasantha Govindan
- Mr. D.P.K. Gunasekara
- Mr. R.D.M.U.M.M. Bandara
- Mr. K.B.S. Bandara

ii) Other key management personnel

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

c) Key management personnel unit holdings

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

d) Key management personnel compensation

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

e) Other transactions within the Trust

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



f) *Related party unit holding*

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

31 December 2019

	No of units held opening	No of units held closing	Fair value of investment Rs.'000	Distribution paid by the fund Rs.'000
Ceybank Asset Management Ltd	9,921,029	8,704,357	108,675,633	-

31 December 2019

	Amount of the investment during the year (Rs) Rs.'000	Amount of the redemption during the year (Rs) Rs.'000
Ceybank Asset Management Ltd	-	13,977,736

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

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

	Charge for the year 2019	Balance outstanding 31.12.2019
Management fees and Trustee fees	2,018,132	203,762
	2,018,132	203,762

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

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

13. **Events occurred after the reporting period**

There were no significant events that occurred after the reporting period which required adjustments to or disclosures in the financial statements.



CEYBANK HIGH YEILD FUND Annual Report & Accounts 2019

DECLARATION BY TRUSTEES AND MANAGING COMPANY

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

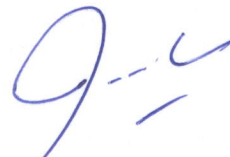
National Savings Bank the Trustee and Ceybank Asset Management Ltd the Managers of Ceybank Unit Trust Funds hereby declare that,

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



Trustee to
Ceybank Unit Trust Fund

National Savings Bank



General Manager/Compliance Officer
Ceybank Asset Management Ltd



CEYBANK HIGH YEILD FUND
Annual Report & Accounts 2019
MANAGEMENT TEAM

CEYBANK ASSET MANAGEMENT LTD

MANAGEMENT TEAM

CHAIRMAN

Palitha Pelpola

CEO / EXECUTIVE DIRECTOR

Chitra Sathkumara

B.Sc, MBA (Finance)

General Manager

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

**Manager – Investment &
Business Development**

Ian Ferdinands
Chartered Marketer
Certified e Marketer
MBA(Finance)

Manager – Finance

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

Acting Registrar

Pamudi Kariyawasam

Fund Manager

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

Marketing Manager

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