



**ANNUAL REPORT**  
2017

“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 SURAKUM FUND**  
**Annual Report & Accounts 2017**  
**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. D. M. Gunasekera  
(Nominee - Bank of Ceylon)

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

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

MS. E.M.M. Tennakoon  
(Nominee - Sri Lanka Insurance)

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

Mr.A.P. weeratunge  
(Nominee – Carson Cumberbatch PLC )

Mr. M.D.C. Nilantha  
(Alternate to Mr. D. M. Gunasekera)

Mr.R.D.M.U.M.M.Bandara  
(Alternate to Ms. E.M.M.Tennakoon)

**MEMBERS OF  
THE INVESTMENT ADVISORY PANEL**

Mr. Hari Selvanathan  
Deputy Chairman  
Carson Cumberbatch PLC

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

**AUDITORS**  
SJMS Associates  
Chartered Accountants

**TAX CONSULTANTS**  
Ernst & Young  
Chartered Accountants

**BANKERS & CUSTODIAN**  
Bank of Ceylon

**LAWYERS**

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

Nithya Partners  
Attorneys –at-Law

# CEYBANK SURAKUM FUND - Annual Report 2017

## REPORT OF THE MANAGER

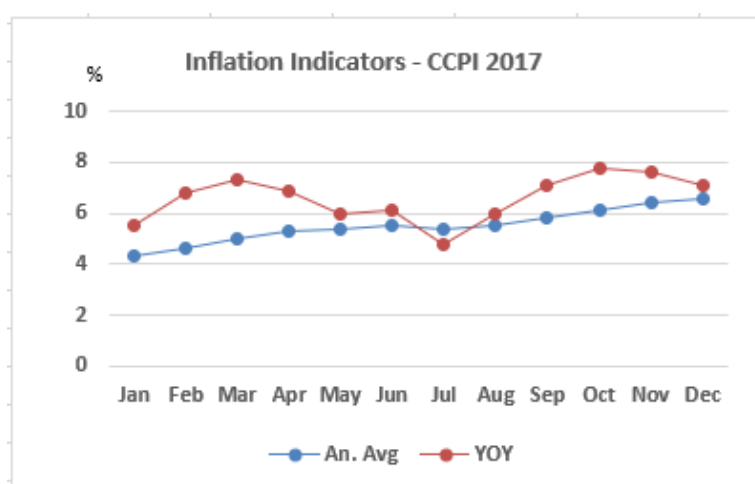
We have great pleasure in presenting the Annual Report and Audited Accounts of the Ceybank Surakum Fund for the period 1<sup>st</sup> January 2017 to 31st December 2017.

The Net Asset Value per unit of your Fund appreciated by 8.11% during the period and the Fund distributed tax free dividends of Rs 0.95 (95cts per unit). The Fund will distribute dividends in January and July each year.

### Economy

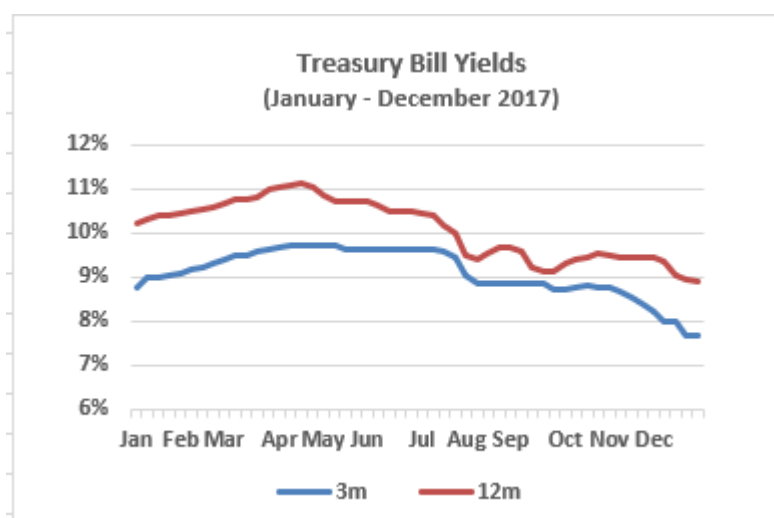
The Sri Lankan Economy recorded an Annual GDP growth of 3.1% in 2017 down from the growth of 4.5% achieved in 2016 (base year=2010). Sector wise Industry grew by 3.9%, Services by 3.2%, while Agriculture recorded a negative growth of 0.8%, affected by both floods and drought.

Average Annual Inflation measured by the CCPI, which was at 4.3% at the beginning of the year increased continuously during the period and closed the year at 6.6% as at end December 2017.



Market interest rates remained volatile during the year. The benchmark 12-month Treasury bill rate which was at 10.22% p.a. at the beginning of the year dropped 132 basis points to 8.90% p.a. by the end of the year. Long term Treasury bond yields also eased off during this period.

Overnight call money rates generally traded within a range of 7.75% and 8.80% p.a. The exchange rate which was at 149.75 (Rs/US\$) at the beginning of 2017 depreciated by 2.32% during the year to 153.23 (Rs/US\$), as at end December 2017.



(Source: CBSL)

Central Bank key policy rates were increased by 25 bps for the year. In March 2017, the Standing Deposit Facility Rate (SDFR) was increased from 7.00% to 7.25% while the Standing Lending Facility Rate (SLFR) was increased from 8.50% to 8.75%. The Statutory Reserve Requirement (SRR) for Commercial Banks remained unchanged at 7.5% during 2017.

### **Fund Performance**

The Net Asset Value per unit of your Fund appreciated by 8.11% during the period under review.

The Fund generated a net operating profit of Rs 37.64 million and declared and distributed tax free dividends of Rs 37.59 million, a total of Rs 0.95 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.

### **Future Outlook**

The Sri Lankan Economy recorded an Annual GDP growth of 3.1% in 2017, down from a growth of 4.5% in 2016 mainly due to a poor performance in the Agriculture sector.

Unclear Government policy continues to hamper investments into the country as large direct Investors remain on the sideline. The future outlook on growth will depend largely on the implementation of the budget proposals and clarity of direction.

The resumption of GSP plus concessions, has given a boost to some sectors and needs to be further capitalized by exporters in order to reap the full benefit of GSP. A widening trade deficit and increasing crude oil prices globally is a matter of much concern. However, if the rains continue as predicted, it would bring much needed relief to the agriculture sector and hydro power generation. This in turn would help reduce imports and pressure on the currency.

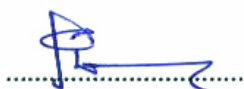
Market interest rates continue to rise slowly, and the Government's increased borrowing program to repay previously taken loans, indicates a rate movement upwards. Taking these factors into account the Fund is currently invested in short term Treasury bills and Repurchase Agreements. The objective of the Fund is to provide liquidity and a stable 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.

The Government's budget proposed an additional tax on Unit Trusts effective 1<sup>st</sup> April 2018. However, the Unit trust industry which made representations and counter proposals to the Finance Ministry for concessions is awaiting the decision of the Government and Inland Revenue department in this regard.

### **Management**

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

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



Chitra Sathkumara  
Executive Director/ CEO  
31<sup>st</sup> March 2018



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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 SURAKUM FUND**

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

We have audited the accompanying financial statements of Ceybank Surakum Fund, which comprise the statement of financial position as at 31<sup>st</sup> December, 2017 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 18.

### **Management's 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 fund'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 Surakum Fund as at 31<sup>st</sup> December, 2017 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**

These financial statements also comply with the requirements of the Unit Trust Code of September, 2011 issued by the Securities and Exchange Commission of Sri Lanka under the Act No.36 of 1987 and the Trust Deed.

*BDO Partners*

**CHARTERED ACCOUNTANTS**

**Colombo**

**04<sup>th</sup> April, 2018**

**SSR/dm**

CEYBANK SURAKUM FUND  
STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31ST DECEMBER, 2017

Page 1

	Note	2017 Rs.	2016 Rs.
Income on Financial Assets	3	40,742,024	42,089,386
<b>Total Investment Income</b>		<b>40,742,024</b>	<b>42,089,386</b>
Expenses			
Management Fee		(2,066,718)	(2,386,366)
Trustee and Custodian Fee		(704,016)	(799,910)
Audit Fee		(85,800)	(85,800)
Bank Charges		(80,850)	(103,249)
Other Miscellaneous Expenses		(158,825)	(177,103)
		<b>(3,096,209)</b>	<b>(3,552,428)</b>
<b>Net Operating Profit</b>		<b>37,645,815</b>	<b>38,536,958</b>
Finance Expenses			
Interest Expenses			
<b>Profit Before Tax</b>		<b>37,645,815</b>	<b>38,536,958</b>
Income Tax Expense		(3,761,934)	(3,825,981)
<b>Increase in Net Assets Attributable to Unitholders</b>		<b>33,883,881</b>	<b>34,710,977</b>

Figures in brackets indicate deductions.

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

Colombo  
04th April, 2018





CEYBANK SURAKUM FUND  
STATEMENT OF FINANCIAL POSITION  
AS AT 31ST DECEMBER, 2017

Page 2

	Note	2017 Rs.	2016 Rs.
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash & Cash Equivalents	6	597,599	789,382
Financial Assets Held for Trading	7	160,053,241	219,151,800
Financial Assets Loans and Receivables	8	245,253,973	205,367,891
Receivables	9	406,867	406,859
Income Tax Receivable	10	7,487,754	7,190,576
<b>Total Current Assets</b>		<b>413,799,434</b>	<b>432,906,508</b>
<b>Total Assets</b>		<b>413,799,434</b>	<b>432,906,508</b>

**UNITHOLDER'S FUNDS AND LIABILITIES**

<b>Current Liabilities</b>			
Other Payables	11	1,569,260	1,583,524
<b>Total Current Liabilities</b>		<b>1,569,260</b>	<b>1,583,524</b>
<b>Unitholder's Fund</b>			
<b>Total Unitholder's Fund</b>		<b>412,230,174</b>	<b>431,322,984</b>
<b>Total Unitholders' Funds and Liabilities</b>		<b>413,799,434</b>	<b>432,906,508</b>

Commitments and Contingencies

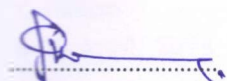
12 and 13

Figures in brackets indicate deductions.

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

The Board of Directors of the management company is responsible for the preparation and presentation of these Financial Statements.

The financial statements were approved by the management company and by the trustee on 04th April, 2018.



Director  
Management Company



Director  
Management Company

Colombo  
04th April, 2018  
SSR/dm



CEYBANK SURAKUM FUND  
STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS  
FOR THE YEAR ENDED 31ST DECEMBER, 2017

Page 3

	Unit Capital Rs.	Retained Earnings Rs.	Total Rs.
<b>Balance as at 01st January, 2016</b>	668,872,602	33,636,141	702,508,743
Increase in Net Assets Attributable to Unit Holders	-	34,710,977	34,710,977
Received on Unit Creations	62,162,678	2,742,683	64,905,361
Paid on Unit Redemptions	(325,861,071)	(10,842,645)	(336,703,716)
Distributions to Unitholders	-	(34,098,381)	(34,098,381)
<b>Balance as at 31st December, 2016</b>	<u>405,174,209</u>	<u>26,148,775</u>	<u>431,322,984</u>
Increase in Net Assets Attributable to Unit Holders	-	33,883,881	33,883,881
Received on Unit Creations	14,939,412	599,625	15,539,037
Paid on Unit Redemptions	(29,810,684)	(1,105,504)	(30,916,188)
Distributions to Unitholders	-	(37,599,540)	(37,599,540)
<b>Balance as at 31st December, 2017</b>	<u><u>390,302,937</u></u>	<u><u>21,927,237</u></u>	<u><u>412,230,174</u></u>

Figures in brackets indicate deductions.

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

Colombo  
04th April, 2018

CEYBANK SURAKUM FUND  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31ST DECEMBER, 2017

Page 4

	2017 Rs.	2016 Rs.
<b>Cash Flows from Operating Activities</b>		
Interest Received	40,742,024	42,089,386
Cash Received on Debtors		
Net Investment in Financial Assets Held at Fair Value through Profit or Loss	19,212,470	271,797,706
Securities Sold Under Repurchase Agreement	-	-
Management Fee and Trustee's Fee Paid	(2,784,997)	(3,332,025)
Tax Paid	(4,059,112)	(4,175,635)
Other Expenses Paid	(325,477)	(365,052)
<b>Net Cash Flow from Operating Activities</b>	<b>52,784,908</b>	<b>306,014,380</b>
<b>Cash Flow from Financing Activities</b>		
Proceeds from Unit Creation	15,539,037	64,905,361
Proceeds from Unit Redemption	(30,916,188)	(336,703,716)
Dividends Paid	(37,599,540)	(34,098,381)
<b>Net Cash Used in Financing Activities</b>	<b>(52,976,691)</b>	<b>(305,896,736)</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>(191,783)</b>	<b>117,644</b>
<b>Cash and Cash Equivalents At the Beginning of the Year (Note A)</b>	<b>789,382</b>	<b>671,738</b>
<b>Cash and Cash Equivalents At the End of the Year (Note B)</b>	<b>597,599</b>	<b>789,382</b>
<b>At the Beginning</b>		<b>Note A</b>
Balance at Bank	789,382	671,738
<b>At the End</b>		<b>Note B</b>
Balance at Bank	597,599	789,382

Figures in brackets indicate deductions.

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

Colombo  
04th April, 2018

## **1. CORPORATE INFORMATION**

### **1.1 General**

Under Section 31 A of the Securities and Exchange Commission of Sri Lanka, Act No. 36 of 1987 as amended by the Act No. 26 of 1991, the Act No. 18 of 2003 and the Act No. 47 of 2009, the Securities and Exchange Commission of Sri Lanka granted a license to operate the Fund to the Ceybank Asset Management Limited on 29<sup>th</sup> November, 2010. The Fund commenced its commercial operations on 02<sup>nd</sup> December, 2010. The registered office of the Management Company is located at 85, York Street, Colombo 01.

### **1.2 Principal Activities and Nature of Operations**

The Fund is an Open-Ended Unit Trust and invests mainly in a portfolio consisting of treasury bills, treasury bonds and any other government or central bank securities or securities guaranteed by the government of Sri Lanka and repurchase agreements in relation to such bills, bonds and securities and the primary investment objective of the fund is to preserve capital and it provides 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 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**

The statement of comprehensive income of the company, complies with Sri Lankan Accounting Standards (SLFRs and LKASs).

### **2.2 Statement of Comprehensive Income**

#### **2.2.1 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.

**SIGNIFICANT ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS**

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

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

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

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, pre-payment 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 premia or discounts.

**2.2.2 Expenditure Recognition**

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

**2.2.3 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.

**2.2.4 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 recognised in statement of changes in unitholders fund.

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

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

## **2.3 Statement of Financial Position**

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

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 unitholders is classified as financial liability and is carried at the redemption amount being the net asset value. Payables are designated as 'other financial liabilities' at amortized cost.

#### **2.3.1.1 Classification**

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

##### **2.3.1.1.1 Financial Instruments Held for Trading**

Derivative financial instruments such as future 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.

##### **2.3.1.1.2 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 losses 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.

#### **2.3.1.2 Recognition/De-recognition**

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

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

#### **2.3.1.3 Measurement**

##### **2.3.1.3.1 Financial Assets and Liabilities Held at Fair Value Through Profit or Loss**

At initial recognition, the Fund measures a financial asset and liability at its fair value. Transaction costs of financial assets and liabilities 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 recognises the difference in profit or loss to reflect a change in factors, including time that market participants would consider in setting a price.

##### **2.3.1.3.2 Loans and Receivables**

Loan assets are measured initially at fair value plus transaction costs and subsequently amortised 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 recognised 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 recognised on a financial asset carried at amortised 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.

#### **2.3.2 Unitholders' Funds and Net Assets Attributable to Unitholders**

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

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

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

**SIGNIFICANT ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS****2.3.3 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.

**2.3.4 Receivable**

Receivables 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.

**2.3.5 Payable**

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

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

**2.3.6 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.

**2.3.7 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 date of the statement of financial position, that have significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

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

Management uses its judgment 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.



### 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 maximise 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 Fund's Exposure to 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 31st December, 2017	Floating Interest Rs.	Fixed Interest Rs.	Non-Interest Rs.	Total Rs.
<b>Financial Assets</b>				
Cash and Cash Equivalents	Nil	Nil	597,599	597,599
Receivables	Nil	Nil	406,867	406,867
Financial Assets Held for Trading	Nil	160,053,241	Nil	160,053,241
Financial Assets-Loans and Receivables	Nil	245,253,972	Nil	245,253,972
<b>Total Exposure</b>	<b>Nil</b>	<b>405,307,213</b>	<b>1,004,466</b>	<b>406,311,679</b>

#### 3.2 Summarized Sensitivity Analysis

The following table summarizes the sensitivity of the funds operating profit and net assets attributable to unitholders to interest rate risk and other price risk. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in interest rates, historical correlation of the funds investment with the relevant benchmark and market volatility.

However, actual movements in the risk variables may be 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, 2017 (Rs.)
Change in interest rate of the Trust's investment in trading securities:	
+1.5%	611,130
-1.5%	(611,130)

### 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 investment. An analysis of debt by rating is set out in the table below.

	31 <sup>st</sup> December, 2017 Amount Rs.
<b>Treasury bills</b>	
Rating	
Risk Free	160,053,241
<b>Repurchase Agreements</b>	
Rating	
Risk Free	245,253,972
<b>Total</b>	<b>405,307,213</b>

#### 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 is 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.

As at 31 <sup>st</sup> December, 2017	Less Than One Month Rs.	01 to 06 Months Rs.	06 to 12 Months Rs.	Total Rs.
<b>Accrued Expenses</b>				
- Management Fee Payable	226,756	Nil	Nil	226,756
- Other Payables to Mgt Co.	Nil	Nil	891,953	891,953
- Other Payables	92,800	Nil	357,752	450,552
Contractual Cash Flows (Excluding Gross settled Derivatives)	319,556	Nil	1,249,705	1,569,261

### 3.5 Fair Value Estimation

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

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

## SIGNIFICANT ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

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 are 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

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 categorised 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 the 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 according to the fair value hierarchy at 31st December, 2017.

As At 31 <sup>st</sup> December, 2017	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
<b>Financial Assets</b>				
Loans and Receivables	Nil	245,253,972	Nil	245,253,972
Held for Trading	Nil	160,053,241	Nil	160,053,241
Receivables	Nil	Nil	406,867	406,867
Cash and Cash Equivalents	Nil	Nil	597,599	597,599
<b>Total</b>	Nil	405,307,213	1,004,466	406,311,679

**SIGNIFICANT ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS**

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. 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.

		2017 Rs.	2016 Rs.
<b>3. INCOME ON FINANCIAL ASSETS</b>			
Interest Income on Financial Assets	<b>Note 3.1</b>	40,591,127	41,756,365
Net Realized Gain on Financial Assets		-	-
Net Unrealized Gain on Financial Assets		150,897	333,021
Net Gain on Financial Assets		<u>40,742,024</u>	<u>42,089,386</u>

**3.1 Interest Income on Financial Assets**

Interest from			
- Treasury Bills		15,468,033	12,413,075
- Treasury Bonds		-	1,769,555
- Repurchase Agreements		25,123,094	27,573,735
- Quoted Redeemable Debentures		-	-
		<u>40,591,127</u>	<u>41,756,365</u>

**4. DISTRIBUTIONS TO UNITHOLDERS**

Dividend Paid		<u>37,599,540</u>	<u>34,098,382</u>
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	Date of Dividend Declaration	Dividend Paid in Number of Units	Dividend Paid in Rupees
<b>Dividend Paid for 2017</b>			
01st July, 2016 to 31st December, 2016	14th February, 2017	40,384,903	18,173,206
01st January, 2017 to 30th June, 2017	07th September, 2017	38,852,669	19,426,334
		<u>79,237,572</u>	<u>37,599,540</u>
<b>Dividend Paid for 2016</b>			
01st July, 2015 to 31st December, 2015	16th February, 2016	69,724,025	20,917,208
01st January, 2016 to 30th June, 2016	03rd August, 2016	37,660,497	13,181,174
		<u>107,384,522</u>	<u>34,098,382</u>

**5. NET ASSETS ATTRIBUTABLE TO UNITHOLDERS**

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

	31st December		31st December	
	2017 Number	2016 Number	2017 Rs.	2016 Rs.
Opening Balance	40,386,299	66,691,627	431,322,984	702,508,743
Applications	1,489,240	6,202,141	15,539,037	64,905,361
Redemptions	(2,971,710)	(32,507,469)	(30,916,188)	(336,703,716)
Increase in Net Assets Attributable to Unitholders	-	-	33,883,881	34,710,977
Distribution to Unitholders	-	-	(37,599,540)	(34,098,381)
Closing Balance	<u>38,903,829</u>	<u>40,386,299</u>	<u>412,230,174</u>	<u>431,322,984</u>

As stipulated within the Fund Constitution, 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 like all other units of the Fund.

**5.1 Capital Risk Management**

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

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

	2017 Rs.	2016 Rs.
<b>6. CASH AND CASH EQUIVALENTS</b>		
Cash at Bank	597,599	789,382

**7. FINANCIAL ASSETS HELD FOR TRADING**

Investment in Treasury Bills	Note 7.1	160,053,241	219,151,800
		<u>160,053,241</u>	<u>219,151,800</u>

**7.1 Investment in Treasury Bills**

As at 31st December, 2017

ISIN Number	Yield	Investment Date	Maturity Date	Cost Rs.	Market Value Rs.
LKA36418K231	9.48	24-Nov-17	23-Nov-18	18,268,180	18,527,989
LKA36418I078	9.05	27-Nov-17	7-Sep-18	140,107,050	141,525,252
				<u>158,375,230</u>	<u>160,053,241</u>

As at 31st December, 2016

ISIN Number	Yield	Investment Date	Maturity Date	Cost Rs.	Market Value Rs.
LKA36417G140	10.54	15-Jul-16	14-Jul-17	18,093,000	19,005,061
LKA36417G140	10.55	15-Jul-16	14-Jul-17	18,091,360	19,005,061
LKA18217A271	9.50	29-Jul-16	27-Jan-17	19,093,080	19,873,887
LKA18217A271	9.60	29-Jul-16	27-Jan-17	19,083,960	19,873,887
LKA18217A271	9.65	29-Jul-16	27-Jan-17	19,079,420	19,873,887
LKA18217A271	9.70	29-Jul-16	27-Jan-17	19,074,860	19,873,887
LKA36417G280	10.40	29-Jul-16	28-Jul-17	18,115,940	18,937,425
LKA36417G280	10.44	29-Jul-16	28-Jul-17	18,109,380	18,937,425
LKA36417G280	10.48	29-Jul-16	28-Jul-17	18,102,820	18,937,425
LKA36417G280	10.50	29-Jul-16	28-Jul-17	5,526,695	5,782,543
LKA18217D077	9.42	7-Oct-16	7-Apr-17	9,550,190	9,762,828
LKA18217D077	9.44	7-Oct-16	7-Apr-17	9,549,270	9,762,828
LKA18217D077	9.46	7-Oct-16	7-Apr-17	9,548,360	9,762,828
LKA18217D077	9.48	7-Oct-16	7-Apr-17	9,547,450	9,762,828
				<u>210,565,785</u>	<u>219,151,800</u>

**8. FINANCIAL ASSETS LOANS AND RECEIVABLES**

Investment in Repurchase Agreement	Note 8.1	245,253,973	205,367,891
		<u>245,253,973</u>	<u>205,367,891</u>

**8.1 Investment in Repurchase Agreement**

As at 31st December, 2017

Company	Yield	Investment Date	Maturity Date	Cost Rs.	Market Value Rs.
First Capital Treasuries	8.6	7-Dec-17	7-Mar-18	73,813,238	74,248,029
Wealth Trust Securities Ltd.	7.9	22-Dec-17	5-Jan-18	57,000,000	57,123,370
Nat Wealth Securities Ltd	8.5	7-Dec-17	7-Mar-18	43,699,889	43,954,306
Wealth Trust Securities Ltd.	7.85	28-Dec-17	4-Jan-18	41,632,479	41,668,294
Union Bank Of Colombo	8.1	26-Dec-17	9-Jan-18	15,050,240	15,070,280
First Capital Treasuries	8.05	26-Dec-17	9-Jan-18	13,172,263	13,189,694
				<u>244,368,109</u>	<u>245,253,973</u>

As at 31st December, 2016

Company	Yield	Investment Date	Maturity Date	Cost Rs.	Market Value Rs.
Union Bank Of Colombo	9.15	29-Dec-16	5-Jan-17	25,592,856	25,612,103
Commercial Bank	8.65	30-Dec-16	6-Jan-17	46,136,672	46,158,600
First Capital Treasuries	9.25	28-Dec-16	4-Jan-17	51,591,433	51,643,731
First Capital Treasuries	9.25	29-Dec-16	5-Jan-17	38,902,143	38,931,719
First Capital Treasuries	9.25	30-Dec-16	6-Jan-17	42,999,943	43,021,738
				<u>205,223,047</u>	<u>205,367,891</u>

	2017 Rs.	2016 Rs.
<b>9. RECEIVABLES</b>		
Sundry Debtors	406,867	406,859
	<u>406,867</u>	<u>406,859</u>
<b>10. INCOME TAX RECEIVABLES</b>		
Balance as at the Beginning of the Year	7,190,576	6,840,922
Add : Notional Tax	4,059,112	4,175,635
	<u>11,249,688</u>	<u>11,016,557</u>
Less : Income Tax Expense on Current Year's Profit	(3,761,934)	(3,825,981)
Balance as at the End of the Year	<u>7,487,754</u>	<u>7,190,576</u>
<b>11. OTHER PAYABLES</b>		
Other Payables to UTMCL	891,954	891,953
Management Fee Payable	226,756	241,019
Accrued Expenses	92,800	92,800
Other Payables	357,750	357,752
	<u>1,569,260</u>	<u>1,583,524</u>

**12. UNRECOGNIZED CONTRACTUAL COMMITMENTS**

There were no 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 DATE**

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 Surakum Fund is Ceybank Asset Management Limited.



## 15. RELATED PARTY TRANSACTIONS (CONTD....)

### 15.2 Key Management Personnel

#### a) Directors

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

- Mr. Palitha Palpola (Chairman)	- Mr. A.P. Weeratunge
- Mr. C. Sathkumara	- Mr. Shri B.Babu Rao
- Mr. D. M. Gunasekara	- Mr. W.P.R.P.H. Fonseka
- Mrs. E.M.M. Tennakoon	- Mr. P.A. Liyanamana

#### b) Other key management personnel

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

### 15.3 Key Management Personnel Unitholdings

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 year 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 Surakum Fund 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.

Name of Related Company	Relationship	Nature of Transaction
Ceybank Asset Management Limited	Managing Company	Management Fee Rs. 2,066,718/-
Bank Of Ceylon	Custodian	Custodian Fee Rs. 84,000/-
National Savings Bank	Trustee	Trustee Fee Rs,620,016/-

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

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

## 17. COMPARATIVE INFORMATION

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

**DECLARATION BY  
TRUSTEES AND MANAGING COMPANY**

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

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

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

*Pradeep Silva*

Trustee to  
Ceybank Unit Trust Fund

**National Savings Bank**

*9-4*

General Manager/Compliance Officer  
Ceybank Asset Management Ltd



CEYBANK SURAKUM FUND  
Annual Report & Accounts 2017  
MANAGEMENT TEAM

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CEYBANK ASSET MANAGEMENT LTD

MANAGEMENT TEAM

**CHAIRMAN**

Palitha Pelpola

**CEO / EXECUTIVE DIRECTOR**

*Chitra Sathkumara*

B.Sc, MBA (Finance)

**General Manager**

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

**Manager – Investment &  
Business Development**

Ian Ferdinands  
Chartered Marketer  
Certified e Marketer  
MBA(Finance)

**Manager – Finance**

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

**Acting Registrar**

Pamudi Kariyawasam

**Fund Manager**

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

**Marketing Manager**

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