

CEYLON FINANCIAL SECTOR FUND

FINANCIAL STATEMENTS

31 DECEMBER 2022

GSM/DS/JJ

**INDEPENDENT AUDITORS' REPORT
TO THE UNIT HOLDERS OF CEYLON FINANCIAL SECTOR FUND**

Report on the Financial Statements

Opinion

We have audited the Financial Statements of Ceylon Financial Sector Fund ('the Fund'), which comprise the Statement of Financial Position as at 31 December 2022, and the Statement of Profit or Loss and Other Comprehensive Income, Statement of Movement 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 2022 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 Code of Ethics issued by CA Sri Lanka (Code of Ethics) 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.

Manager's Responsibility for the Financial Statements

The Manager, Ceylon Asset Management Company Limited is 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 Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Manager is 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.



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Auditor's responsibilities for the audit of the financial statements (continued)

Misstatements can arise from fraud or error and are considered material if, individually or in 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 the Manager.
- Conclude on the appropriateness of the Manager'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 Deed and Unit Trust Code of the Securities and Exchange Commission of Sri Lanka.

19 April 2023
Colombo

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2022

	Notes	2022 Rs.	2021 Rs.
INVESTMENT INCOME			
Dividend Income	4.1	5,227,234	1,776,366
Interest Income	4.2	350,338	297,836
Realised Gain/ (Loss) on Financial Assets Held at Fair Value Through Profit or Loss	7.2	(491,816)	65,119,327
Unrealised Gain/(Loss) on Financial Assets at Fair Value Through Profit or Loss	7.3	(36,565,390)	3,575,066
Total Investment Income/(Loss)		(31,479,633)	70,768,595
EXPENSES			
Management Fees		(642,132)	(894,108)
Trustee Fees		(142,636)	(193,127)
Audit Fees		(227,185)	(147,109)
Professional Fees		(69,574)	(68,760)
Brokerage Expense		(447,699)	(6,151,593)
Other Expenses		(47,720)	(12,626)
		(1,576,947)	(7,467,324)
NET PROFIT/(LOSS) BEFORE TAX FOR THE YEAR		(33,056,579)	63,301,272
Income Tax Expense	5	-	-
NET PROFIT/(LOSS) AFTER TAX FOR THE YEAR		(33,056,579)	63,301,272
INCREASE/(DECREASE) IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS		(33,056,579)	63,301,272

The accounting policies and notes on pages 07 through 21 form an integral part of the Financial Statements.



Ceylon Financial Sector Fund

STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	2022 Rs.	2021 Rs.
ASSETS			
Cash and Cash Equivalents	6	27,300	30,000
Financial Assets - At Fair Value Through Profit or Loss	7	45,038,243	109,857,019
Financial Assets - At Amortised Cost	8	1,876,443	2,851,273
Receivable on Share Sales		-	4,069,623
Other Receivables		1,379	20,934
Income Tax Receivable	5.3	-	-
		<u>46,943,365</u>	<u>116,828,849</u>
LIABILITIES			
Accrued Expenses and Other Payables	10	269,369	5,230,897
		<u>269,369</u>	<u>5,230,897</u>
NET ASSETS			
		<u>46,673,996</u>	<u>111,597,952</u>
UNIT HOLDERS' FUNDS			
Net Assets Attributable to Unit Holders		<u>46,673,996</u>	<u>111,597,952</u>

The Manager is responsible for these Financial Statements and these Financial Statements were approved by the Manager.

Signed for and on behalf of the Manager by;


Director
Management Company


Director
Management Company


Trustee

The accounting policies and notes on pages 07 through 21 form an integral part of the Financial Statements.



STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS

Year ended 31 December 2022

	2022 Rs.	2021 Rs.
UNIT HOLDERS' FUNDS AS AT 01 JANUARY	111,597,952	122,262,607
Total Comprehensive Profit/(Loss) for the Year	(33,056,579)	63,301,271
Received on Creation of Units	8,610,995	263,023,532
Paid on Redemption of Units	(40,478,370)	(336,989,458)
Net Increase due to Unit Holders' Transactions	(31,867,375)	(73,965,925)
UNIT HOLDERS' FUNDS AS AT 31 DECEMBER	<u>46,673,996</u>	<u>111,597,952</u>

The accounting policies and notes on pages 07 through 21 form an integral part of the Financial Statements.



Ceylon Financial Sector Fund
STATEMENT OF CASH FLOWS

Year ended 31 December 2022

	Note	2022 Rs.	2021 Rs.
Cash Flows from Operating Activities			
Interest Received		367,198	277,578
Dividend Received		5,227,234	1,776,366
Management Fee and Trustee Fee paid		(909,723)	(1,032,852)
Other Expenses Paid		(341,206)	(275,342)
Investment from Money Market Savings Deposits		974,830	(28,184)
Sale Proceeds from Sale of Equity Securities	7.2	37,583,979	334,482,232
Purchase of Equity Securities		(6,404,540)	(266,029,103)
Net Cash (used in)/ generated from Operating Activities		<u>36,497,773</u>	<u>69,170,699</u>
Cash Flows from Financing Activities			
Cash Received on Creation of Units		8,610,995	263,023,532
Cash Paid on Redemption of Units		(40,478,370)	(332,356,359)
Paid for Redemption		(4,633,098)	-
Net Cash (used in)/ generated from Financing Activities		<u>(36,500,473)</u>	<u>4,633,098</u>
Net Increase in /(Decreased in) Cash and Cash Equivalents		(2,700.00)	(162,131)
Cash and Cash Equivalents at the beginning of the year		30,000	192,131
Cash and Cash Equivalents at the end of the year	6	<u><u>27,300</u></u>	<u><u>30,000</u></u>

The accounting policies and notes on pages 07 through 21 form an integral part of the Financial Statements.



1. GENERAL INFORMATION

Ceylon Financial Sector Fund is an Index Fund that was launched on 17 September 2010 by a Trust Deed executed between Ceylon Asset Management Company Limited as Fund Manager and the Deutsche Bank AG as the Trustee. Consequently, on 1st April 2021 Hatton National Bank PLC was appointed with a revised trust deed executed on 1st April 2021.

The Fund is managed by Ceylon Asset Management Company Limited which is incorporated and domiciled in Sri Lanka. The registered office of the management company is located at Ground Floor, The Parkland 1, No.33, Park Street, Colombo 02. The Trustee of the Fund is Hatton National Bank PLC having its place of business at Level 15, HNB Tower, Colombo 01.

The main investment objective of the Fund is to invest in 10 of the high-performing companies in the Banking, Finance and Insurance sector listed on the Colombo Stock Exchange.



2. ACCOUNTING POLICIES

2.1 Basis of Preparation

The financial statements have been prepared on the historical cost basis unless otherwise indicated. The financial statements are presented in Sri Lankan rupees. The statement of financial position is presented on a liquidity basis.

2.1.1 Statement of Compliance

The financial statements which comprise the statement of financial position as at 31 December 2022, statement of profit or loss and other comprehensive income, statement of movement in unit holders' Funds and cash flows statement for the year then ended, and a summary of significant accounting policies and other explanatory information have been prepared and presented in accordance with Sri Lanka Accounting Standards and the requirements of the Unit Trust Deed and Unit Trust Code of the Securities and Exchange Commission of Sri Lanka.

2.1.2 Going Concern

These financial statements are prepared on the assumption that the Fund is a going concern i.e. as continuing in operation for the foreseeable future. It is therefore assumed that the Fund has neither the intention nor the necessity of liquidation or of curtailing materially the scale of its operation.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.2.1 Financial instruments

2.2.1.1 Initial recognition

All financial assets are initially recognized on the trade date, i.e. the date that the Fund becomes a party to the contractual provisions of the instrument. This includes purchases of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

2.2.1.2 Initial measurement of financial instrument

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. At initial recognition, the Fund measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in the statement of profit or loss.

2.2.1.3 Measurement categories of financial assets and liabilities

The Fund classifies all of its financial assets in the following measurement categories:

- those to be measured at amortised cost
- those to be measured at fair value through profit or loss

Financial liabilities of the Fund are measured at amortised cost, and includes all financial liabilities, other than those measured at fair value through profit or loss. The financial liabilities of the Fund include accrued expenses and other payables.



2.2.1.4 Subsequent measurement

Amortised cost: A debt instrument is measured at amortised cost if it is held within a business model where objective is to hold financial assets in order to collect contractual cash flows and its contractual terms give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

As of 31 December 2022, the Fund has investment only in Money Market Savings Deposits. Any gain or loss arising on derecognition is recognised directly in the Statement of Profit or Loss and presented as realised gain/(loss) on debt Instruments held at amortised cost.

FVPL: A financial asset is measured at fair value through profit or loss if:

- (a) Its contractual terms do not give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding

Or

- (b) It is not held within a business model where the objective is either to collect contractual cash flows or to both collect contractual cash flows and sell.

Or

- (c) At initial recognition, it is irrevocably designated as measured at FVPL when doing so eliminate or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on different bases.

A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within unrealized gains/(losses) in the period in which it arises. As of 31 December 2022, financial assets at fair value through profit or loss comprise of investments in quoted equity securities.

2.2.1.5 Financial liabilities**a) Initial recognition and measurement**

The Fund determines the classification of its financial liabilities at initial recognition.

The Fund's financial liabilities comprise of accrued expenses and other payables in the Statement of Financial Position.

b) Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

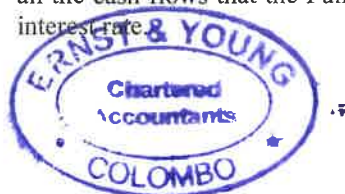
Other financial liabilities

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the profit or loss and other comprehensive income statement when the liabilities are derecognised as well as through the EIR amortisation process.

2.2.1.6 Impairment

The Fund assesses on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Fund expects to receive, discounted at an approximation of the original effective interest rate.



ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures from which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL)

The Fund uses the ratings from either Fitch Rating Lanka Limited or ICRA Lanka Limited as applicable to determine the significant deterioration in credit risk and to estimate the ECLs.

Consistent with the policies of the Fund, investments when rated below BBB- are considered as non-investment grade investments and the Fund considers such investments as having incurred significantly deteriorated credit risk. Such investments are considered for life time ECL calculation.

Further, movements within the ratings of the investment grade stipulate significant deterioration of credit risk. Significant deterioration is measured through a two notches downgrade of the external credit rating of the counterparty since the origination of the instrument.

For debt instruments at amortized cost issued by Sovereign, the Fund applies the low risk simplification. Investment in Treasury bill repurchase agreements that are obtained from primary dealers with a collateral of either treasury bills or bonds that are graded in the top investment category- AAA rating and, therefore, are considered to be low risk investments.

As at the reporting date Fund did not have investments in corporate debt securities measured at amortised cost which had been considered for 12-month ECL.

2.2.1.7 Derecognition

A financial asset is derecognised when,

- a. The rights to receive cash flows from the asset have expired,
- b. The Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either,
 - The Fund has transferred substantially all the risks and rewards of the asset or
 - The Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

2.2.1.8 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if:

- There is a currently enforceable legal right to offset the recognised amounts and
- There is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.2.2 Recognition of income

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 revenue is recognized.



(i) Interest Income

Effective 01 April 2018, Notional Tax is not applicable for treasury bill/bond repurchase agreements. Interest income from fixed deposits, income from commercial papers and savings deposits have been recognized net of WHT as the Fund considers such income to be a pass through to its unit holders. Effective 01 January 2020, withholding tax was abolished in respect of interest received by resident persons. Accordingly, total gross interest has been recognized as investment income. (Refer note 2.2.5 and note 4.2.1).

(ii) Dividend Income

Dividend income is recognized when the Fund's right to receive payment is established. Effective 01 January 2020, withholding tax was abolished in respect of dividend received by resident persons. Accordingly, total gross interest has been recognized as investment income. (Refer note 2.2.5 and note 4.2.1).

(iii) Unrealised gains/(losses) on financial assets held at fair value through profit or loss

Unrealised gains/(losses) on financial assets held at fair value through profit or loss includes all gains and losses that arise from changes in fair value of financial assets held at fair value through profit or loss" as at the reporting date.

(iv) Realised gains/(losses) on financial assets held at fair value through profit or loss

Realised gains/(losses) on financial assets held at fair value through profit or loss includes results of buying and selling of quoted equity securities

2.2.3 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

2.2.4 Distributions

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

2.2.5 Income tax

Until 31 March 2018, the Fund was liable to pay income tax at the rate of 10% in accordance with the Inland Revenue Act No.10 of 2006. Thereafter, current tax assets and liabilities were measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date.

Subsequent to the enactment of the new Inland Revenue Act No. 24 of 2017, effective 01 April 2018, an Eligible Unit Trust would not be liable for Income Tax on any Income which is a pass through to its unit holders. Accordingly, post 31 March 2018, the Fund has considered all income as being a pass through to its unit holders.



2.2.6 Expenses

The management and trustee fees of the Fund as per the trust deed is as follows,

Management fee	-	1% p.a of net asset value of the Fund
Trustee fee	-	0.2% p.a of net asset value of the Fund

2.2.7 Unit holders' funds

Unit holders' Funds has been calculated as the difference between the carrying amounts of the assets and the carrying amounts of the liabilities, other than those due to unit holders 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 as described in the Trust Deed and directives issued by the Securities and Exchange Commission of Sri Lanka, by the number of units in issue. Income not distributed is included in net assets attributable to unit holders.

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**(a) Financial Instruments**

The Fund's principal financial assets comprise the investments in quoted equity securities, money market savings 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 financial liabilities comprise accrued expenses and other payables which arise directly from its operations.

In accordance with SLFRS 9 Financial Instruments: Recognition and Measurement, the Fund's financial investments in Money Market Savings deposits is classified as 'financial assets at amortised cost'. Investments in Quoted Equity securities are classified as 'fair value through profit or loss', meaning they are valued at fair value. Amounts attributable to Unit Holders are classified as 'Unit Holders Funds' and are carried at the redemption amount being net asset value. Payables are designated as 'Accrued expenses' at amortized cost.

(b) Financial risk management objectives, policies and processes

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.

Financial instruments of the Fund comprise investments in quoted equity securities, Money Market Savings and treasury bill/bond repurchase agreements 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 receivables and payables, which arise directly from its operations.

Risk arising from holding financial instruments is inherent in the Fund's activities, and is managed through a process of ongoing identification, measurement and monitoring. The Manager is responsible for identifying and controlling the risk arising from the financial instruments held in the Fund and has policies for managing each of the risks identified 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 and regulatory 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 Management Company on a regular basis as deemed appropriate, including the Fund Manager, Risk and Investment Personnel and ultimately the Trustees of the Fund.



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.

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. The Securities and Exchange Commission of Sri Lanka as Regulator has stipulated the level of concentration permitted per counter party. The Fund itself applies and adheres to stringent internal limits.

Further, the Manager has appointed an investment committee which meets monthly to review, evaluate and reassess the investment policies and risk.

(c) 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. While market risk cannot be eliminated the Fund manager will attempt to reduce this risk by diversifying the Fund's investment portfolio in line with investment objectives of the Fund.

(d) Price Risk

Price risk is the risk that the fair value of the Fund's investment in trading securities in fluctuates as a result of changes in the price of the Fund's investments in trading securities. Price risk exposure arises from the Fund's investment portfolios.

The Fund is exposed to equity securities price risk. This arises from investments held by the Fund for which prices in the future are uncertain. Paragraph below sets out how this component of price risk is managed and measured. Investments are classified in the statement of financial position at fair value through profit or loss. All securities investments present a risk of loss of capital, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Management Company mitigates price risk through diversification and a careful selection of securities within specified limits set by the management company. Maximum limit of 96% of the net assets attributable to unit holders are invested in equity securities and remaining amount is invested in short term investments such as repurchase agreements.

The table below is the summary of the equity investment in the banks, finance and insurance sector.

Sector	<u>Investment as a % of Net Asset value</u>	
	2022	2021
Banks, finance and insurance	96.50%	98%

The table below shows the impact on the statement of profit or loss and other comprehensive income and statement of financial position due to a reasonably possible change in the price of the Fund's investment in financial assets held at fair value through profit or loss in note 7, with all other variables held constant:

	2022 Increase/ (decrease) of (loss)/profit before tax and amounts attributable to Unit Holders Rs.	2021 Increase/ (decrease) of(loss)/profit before tax and amounts attributable to Unit Holders Rs.
Change in price of the Fund's investments in financial assets held at fair value through profit or loss		
+10%	4,503,824	10,985,702
-10%	(4,503,824)	(10,985,702)



(e) 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 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.

31 December 2022	Floating interest rate Rs.	Fixed interest rate Rs.	Non- interest bearing Rs.	Total Rs.
<i>Financial assets</i>				
Cash and cash equivalents	-	27,300	-	27,300
Financial Assets at Amortised Cost	-	1,876,443	-	1,876,443
Financial Assets at Fair Value Through Profit or Loss	-	-	45,038,243	45,038,243
Other Receivables	-	-	1,379	1,379
Total Exposure	-	1,903,743	45,039,622	46,943,365

31 December 2021	Floating interest rate Rs.	Fixed interest rate Rs.	Non- interest bearing Rs.	Total Rs.
<i>Financial assets</i>				
Cash and cash equivalents	-	30,000	-	30,000
Financial Assets at Amortised Cost	-	2,851,273	-	2,851,273
Financial Assets at Fair Value Through Profit or Loss	-	-	109,857,019	109,857,019
Receivable on Share Sales	-	-	4,069,623	4,069,623
Other Receivables	-	-	20,934	20,934
Total Exposure	-	2,881,273	113,947,576	116,828,849

(f) 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 main concentration of credit risk, to which the Fund is exposed, arises from the Fund's investment in cash and cash equivalents.

The Fund is also subject to credit risk on its bank balance and other receivables. The carrying value of these assets under SLFRS 9 represents the Fund's maximum exposure to credit risk on financial instruments and are not deemed to be significant. Hence no separate credit risk disclosure is provided for these instruments.



(g) 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. Due to the nature of a unit trust, it is unlikely that a significant number of unit holders would exit at the same time. However, to control liquidity risk, it primarily holds investments that are traded in an active market and can be readily disposed.

The time frame for return of cash to investors is six business days in which time equities may be liquidated to realise cash for redemption payouts.

In addition, the Securities Exchange Commission and the Fund require additional business days' notice to the Fund from large investors redeeming over 3% of the Fund and the Fund is also permitted to borrow up to 15% of the deposited property for redemption payouts. No such borrowings have arisen during the period.

Furthermore 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 Specialised 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.)

(h) Capital risk management

The Fund considers its net assets attributable to unit holders as capital, notwithstanding net assets attributable to unit holders are classified as a liability. 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 unit holders.

Following being the disclosures of Unit holders' Funds;

The movement in the Unit holder's Funds as at 31 December 2022

I. In term of Value

	Rs.
Unit Holders' Funds as at 01 January 2022	111,597,952
Creations during the year	8,610,995
Redemptions during the year	(40,478,370)
Decrease in net assets attributable to Unit Holders	(33,056,579)
Unit Holders' Funds as at 31 December 2022	46,673,998



II. In term of No of units

Opening no of units as at 01 January 2022	13,633,428
Unit creations during the year	976,019
Unit redemptions during the year	(5,360,605)
Closing no of units as at 31 December 2022	9,248,842

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



4. INVESTMENT INCOME

	2022	2021
	Rs.	Rs.
4.1 Dividend income	<u>5,227,234</u>	<u>1,776,366</u>
4.2 Interest on		
Treasury Bill Repurchase Agreements	-	96,470
Money Market Saving	<u>350,338</u>	<u>201,366</u>
	<u>350,338</u>	<u>297,836</u>

4.2.1 As detailed under Note 2.2.4, subsequent to the enactment of the new Inland Revenue Act No. 24 of 2017, effective 01 April 2018, notional tax is not applicable for Treasury Bill/Bond Repurchase Agreements. In relation to interest income from Fixed Deposits, Savings Deposits and Commercial Papers has been recognized net of Withholding Tax as the Fund considers its income to be a pass through to its unit holders. Effective 01 January 2020, withholding tax was abolished in respect of dividend and interest received by resident persons. Accordingly, total gross interest has been recognized as investment income.

5. TAXATION

With effect from 01 April 2018, no income tax is recognised in the financial statements as the Fund has considered all income as being passed through to its Unit Holders.

5.2 Tax Loss on brought Forward	<u>2,374,512</u>	<u>2,374,512</u>
Tax Losses Carried Forward	<u>2,374,512</u>	<u>2,374,512</u>

The Fund has not recognized a deferred tax asset as at 31 December 2022 due to the Fund being unable to assess with reasonable certainty that taxable profits would be available to recover the asset in the foreseeable future.

5.3 Income Tax Receivable

Income Tax Receivable	71,376	71,376
Impairment Provision for Income Tax Receivable (5.4)	<u>(71,376)</u>	<u>(71,376)</u>
	<u>-</u>	<u>-</u>

5.4 As of December 2022, the income Tax Receivable balance comprises of Notional Tax Credit (2019 - Rs. 71,376/-). This can be carried forward to be set off against future income tax liability if any within three consecutive years of assessment commencing from the year of assessment 2018/2019. However, subsequent to the enactment of the new Inland Revenue Act No 24 of 2017, effective 01 April 2018, an Eligible Unit Trust would not be liable for Income Tax on any Income which is a pass through to its unit holders. Therefore, the Fund Manager is unable to assess with a reasonable certainty that there will be a future income tax liability to offset this income tax receivable balance. Hence, an impairment provision is made against the income tax receivable balance amounting to Rs. 71,376/-.

6. CASH AND CASH EQUIVALENTS

	2022	2021
	Rs.	Rs.
6.1 Favourable Cash and Cash Equivalents Balances		
Cash at Bank	<u>27,300</u>	<u>30,000</u>
Total Cash and Cash Equivalents for the Purpose of Cash Flow Statement	<u>27,300</u>	<u>30,000</u>



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

7. FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

7.1 Quoted equity securities

	2022 Rs.	2021 Rs.
Cost as at 31 December	79,197,657	107,387,015
Appreciation /(Depreciation) of market value of quoted equity securities	(34,159,414)	2,470,004
Market Value as at 31 December	<u>45,038,243</u>	<u>109,857,019</u>

7.1.1 Quoted equity securities	2022			2021		
	No. of shares	Market value	Holdings as a % of Net Asset Value	No. of shares	Market value	Holdings as a % of Net Asset Value
		Rs.	Rs.		Rs.	Rs.
<i>Banks, finance and insurance</i>						
Central Finance Company PLC	59,364	3,710,250	8%	83,604	7,775,172	7%
Commercial Bank of Ceylon PLC	126,138	6,332,128	14%	202,133	16,029,147	14%
DFCC Bank PLC	86,946	2,782,272	6%	103,661	6,219,660	6%
Hatton National Bank PLC	93,046	7,341,329	16%	119,469	16,128,315	14%
National Development Bank PLC	79,168	2,533,376	5%	113,699	7,833,861	7%
Nations Trust Bank PLC	53,843	2,487,547	5%	78,915	4,340,325	4%
Peoples Leasing and Finance Company PLC	535,492	2,677,460	6%	616,385	6,595,320	6%
Sampath Bank PLC	194,537	6,653,165	14%	310,955	16,200,756	15%
LOLC Holding PLC	12,542	4,991,716	11%	14,242	16,549,204	15%
LB Finance PLC	138,225	5,529,000	12%	179,195	12,185,260	11%
Total value of quoted equity securities		<u>45,038,243</u>	<u>96.50%</u>		<u>109,857,019</u>	<u>98%</u>
(At Market Value)						

7.2 Realised loss on financial assets held at fair value through profit or loss

	2022 Rs.	2021 Rs.
Proceeds on Sale of Equity Securities	33,514,357	335,918,227
Average Cost of Equity Securities sold	(34,006,172)	(274,023,689)
	<u>(491,816)</u>	<u>65,119,327</u>

7.3 Unrealised gains on financial assets held at fair value through profit or loss

Equity Securities	<u>(36,565,390)</u>	<u>3,575,066</u>
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8. FINANCIAL ASSETS HELD AT AMORTISED COST

	2022 Rs.	2021 Rs.
Money Market Savings Deposits		
Hatton National Bank PLC	1,866,144	2,840,733
Seylan Bank PLC	10,299	10,540
	<u>1,876,443</u>	<u>2,851,273</u>



9. FAIR VALUE OF FINANCIAL INSTRUMENTS

Determination of fair value and fair value hierarchy

SLFRS 7 *Financial Instruments: Disclosures* require fair value measurements to be disclosed by the source of inputs, using a three level hierarchy. The hierarchy for measuring fair value consists of Levels 1 to 3:

Level 1 – An investment in a fund is classified in Level 1 of the hierarchy when that investment is quoted in an active market and measured at the unadjusted quoted price at the reporting date.

Level 2 – An investment in a fund is classified in Level 2 of the hierarchy when that investment is measured using inputs that are directly observable at the reporting date.

Level 3 – An investment in a fund is classified in Level 3 of the hierarchy when the investment is measured using unobservable inputs at the reporting date.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

As at 31 December 2022	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets - Fair Value Through Profit or Loss				
Quoted equity securities	45,038,243	-	-	45,038,243

As at 31 December 2021

Financial Assets - Fair Value Through Profit or Loss				
Quoted equity securities	109,857,019	-	-	109,857,019

Financial Assets and Financial Liabilities not carried at fair value

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

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

Assets

Cash at Bank
Other Receivable
Financial Assets Held at Amortised Cost

Liabilities

Accrued Expenses and Other Payables

10. ACCRUED EXPENSES AND OTHER PAYABLES

	2022 Rs.	2021 Rs.
Management Fee Payable	40,631	144,051
Trustee Fee and Custodian Fee Payable	15,193	36,727
Audit Fee	183,842	140,499
Tax Consultancy Fee	29,699	69,768
Front End Fee Payable	-	1,228
Payable on Share Purchase	-	205,526
Payment on Redemption	5	4,633,098
	<u>269,369</u>	<u>5,230,898</u>

11. CONTINGENCIES

There are no material contingencies existing as at the reporting date that require adjustments to or disclosure in the Financial Statements.



12. EVENTS OCCURRING AFTER THE REPORTING PERIOD

There have been no material events occurring after the reporting date that require adjustments to or disclosure in the Financial Statements.

13. CAPITAL COMMITMENTS

There were no material capital and financial commitments as at the reporting date.

14. UNITS IN ISSUE AND UNIT PRICE

Units in issue and deemed to be in issue as at 31 December 2022 is 9,248,842 (2021 -13,633,428). The creation and redemption price as at the reporting date were Rs. 5.21 (2021 - Rs. 8.45) and Rs. 5.00 (2021 - Rs. 8.10) respectively.

15. RELATED PARTY DISCLOSURE

15.1 Management Company and Trustee

The Management Company is Ceylon Asset Management Company Limited.
The Trustee is Deutsche Bank AG.

15.2 Key management personnel

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

i) Directors

Mr. Malaka Bandara (Chairman)
Mr. Dulindra Fernando (Managing Director)
Mr. Michael Preiss
Mr. Ravindra Ajith Fernando
Mr. Rajeendra Shashika Ranasinghe
Mr. Dinesh Jamnadas Ambani
Mr. Danushka Pabodha Samarasinghe (w.e.f.17/08/2022)

ii) Other key management personnel

Other persons with responsibility for planning, directing and controlling the activities of the Fund, directly or indirectly during the financial year are given below;

Mr. Thilina Withanage - (Senior Consultant-Operations)
Ms. Janethri Gurusinghe (Consultance -Compliance)

15.3 Key management personnel compensation

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

15.4 Other transactions within the Fund

Apart from the details disclosed in note 15.5 and 15.6 key management personnel have not entered in to any other transactions involving the Fund during the financial year.



Ceylon Financial Sector Fund
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2022

15. RELATED PARTY DISCLOSURE (Contd...)

15.5 Related party unit holding and other transactions

The following are the related party holdings of Ceylon Financial Sector Fund.

	Relationship	No. of Units	Value of units holding	Total interest held	Distribution paid or payable by the Fund
Unit holder			Rs.	%	Rs.
As at 31 December 2022					
MR. Senitha Gunawardena	Senior Finance Manager	182,408.40	912,042	1.952%	-
Unit holder					
As at 31 December 2021					
Ms. Janethri Gunasinghe	Consultant-Compliance	43,343	354,785	0.318%	-
Mr. Dulindra Fernando	Managing Director	8,099	66,295	0.059%	-
Mr. M. Priess	Director	17,661	144,568	0.130%	-

15.6 Transactions with and amounts due to related parties

The fees charged by the Management Company, Trustee and other related parties for services provided during the year and the balances outstanding from such dues as at period end are as disclosed below:

	Charge for the year 31 December		Payable as at 31 December	
	2022	2021	2022	2021
	Rs.	Rs.	Rs.	Rs.
Management fees - Ceylon Asset Management	642,132	894,108	40,631	144,051
Front-end fees	-	-	-	1,228
Trustee fees - Hatton National Bank PLC	142,636	193,127	15,193	36,727

15.7 Other Transactions with related parties

Investments in Money Market Saving has been made in the ordinary course of operations with following related parties. The resulting investment income and outstanding investment balance are given below.

	Investment income during the year 31 December		Balance as at 31 December	
	2022	2021	2022	2021
	Rs.	Rs.	Rs.	Rs.
Investment in Money Market Saving with Hatton National Bank PLC (trustee of the fund)	349,945	152,738	1,866,144	2,840,733
The Bank Balance held at Hatton National PLC as at 31 December	-	-	25,000	25,000

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

	2022	2021
	Rs.	Rs.
Net Asset Value as per Financial Statements	46,673,996	111,597,951
Audit fee, professional fees and other expense adjustments	46,043	-
Published Net Asset Value	46,720,039	111,597,951
Number of units outstanding	9,248,841.72	13,633,428.00
Net Asset Value per Unit	5.05	8.19

