



NDB WEALTH INCOME FUND

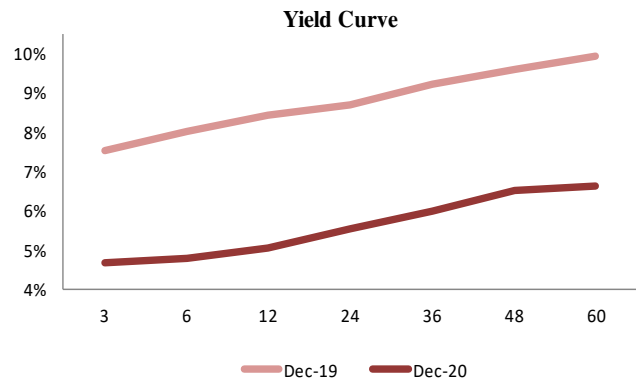
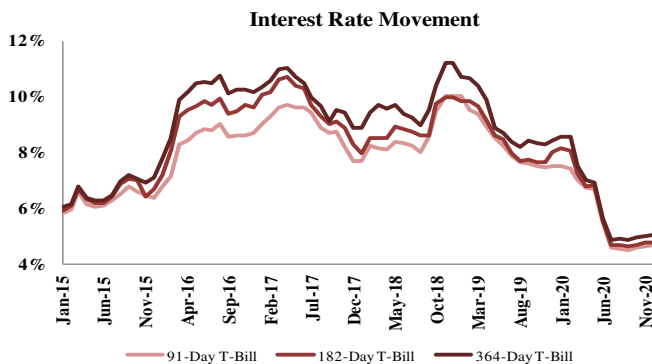
ANNUAL REPORT

FINANCIAL STATEMENTS  
31<sup>ST</sup> DECEMBER 2020

## Fund Review 2020 - NDB Wealth Income Fund

The Central Bank of Sri Lanka (CBSL) resorted to swift policy action to revive the economy hampered by the Covid-19 pandemic through frequent policy rate cuts during the year. Accordingly, the Standing Lending Facility Rate (SLF) and the Standing Deposit Facility Rate (SDF) were slashed by 250 basis points each to 5.50% and 4.50% respectively and the Statutory Reserve Ratio (SRR) by 300 basis points to 2.00%. In this backdrop, interest rates nose-dived across the yield curve with the benchmark 364-day Treasury bill rate falling to 5.03% as at year end, from 8.45% at the beginning of the year (Source: Central Bank of Sri Lanka).

Falling interest rates, deteriorating investor sentiment and flight to safety, drove foreign investors out of rupee denominated government securities, with net foreign selling amounting to LKR 97.8 bn in 2020, reducing the foreign holding in treasury securities to an all time low of LKR 6.8 bn by the end of the year (Source: Central Bank of Sri Lanka).



Source: Central Bank of Sri Lanka

Credit to the private sector which turned negative during the period of lockdown, showed signs of recovery from August on the back of conducive monetary policy. On the fiscal front, consumer taxes remained broadly unchanged to stimulate growth amid low economic activity. However, budget 2021 remains ambitious, expecting investment driven growth to bridge the revenue gap in the face of Covid-19 and external debt challenges. Meanwhile Fitch Ratings downgraded Sri Lanka's sovereign rating to CCC from B- along with S&P and Moody's rating agencies on the back of the country's challenging external-debt repayment position and deteriorating fiscal balances.

During the year under review the NDB Wealth Income Fund yielded the following returns commensurate with the risk parameters and the objective of the Fund:

	NDB Wealth Income Fund	*Average Weighted Fixed Deposit Rate (AWFDR) <sup>*12-month avg.</sup>
Performance - 2020	13.12% (after fees)	8.68%

*\*Source: Central Bank of Sri Lanka*

We expect interest rates to remain low during the first half of 2021 due to the loose monetary policy stance observed by the Central Bank, continued restrictions on imports and low levels of credit growth. However, given widening budget deficits, the large debt servicing burden and an anticipated recovery in private sector credit rate pressures may build towards the second half of the year.

**NDB WEALTH INCOME FUND  
COLOMBO - 02**

**FINANCIAL STATEMENTS FOR THE  
YEAR ENDED 31<sup>ST</sup> DECEMBER 2020**



Tel : +94-11-2421878-79-70  
+94-11-2387002-03  
Fax : +94-11-2336064  
E-mail : bdopartners@bdo.lk  
Website : www.bdo.lk

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

## **INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF NDB WEALTH INCOME FUND**

### **Report on the Audit of the Financial Statements**

#### **Opinion**

We have audited the financial statements of NDB Wealth Income Fund ("The Fund"), which comprise the statement of financial position as at 31<sup>st</sup> December 2020, and the statement of profit or loss and other comprehensive income, the statement of changes in unitholders' fund and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 05 to 16.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31<sup>st</sup> December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### **Basis for Opinion**

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the ethical requirements of the Code of Ethics issued by CA Sri Lanka ("Code of Ethics") that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Other Information**

The Fund Management Company is responsible for the other information. The other information generally comprises the information included in the Fund manager's report, but does not include the financial statements and our auditor's report thereon.

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

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

#### **Other Matter**

The financial statements of NDB Wealth Income Fund for the year ended 31<sup>st</sup> December 2019 were audited by another auditor who had expressed an unmodified opinion on those statements on 15<sup>th</sup> June 2020.

#### **Responsibilities of Fund Management Company and the Trustee for the Financial Statements**

The Fund Management Company and the Trustee are responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Fund Management Company is responsible for overseeing the Fund's financial reporting process.

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Partners : Sujeewa Rajapakse FCA, FCMA, MBA. Ashane J.W. Jayasekara FCA, FCMA (UK), MBA. H. Sasanka Rathnaweera FCA, ACMA.  
R. Vasanthakumar Bsc (Acc), ACA. F. Sarah Z. Afker ACA, ACMA (UK), CGMA, MCSI (UK). M.N. Mohamed Nabeel ACA. D. Jerad N. Dias ACA.  
Madhura V. De Silva FCA, MSc.



### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosure 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 the Fund Management Company 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 identified during our audit.

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

These financial statements also comply with the requirements of the Rule 27(3) 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 Park*

**CHARTERED ACCOUNTANTS**

Colombo

26<sup>th</sup> March 2021

MN/cc

NDB WEALTH INCOME FUND  
 STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
 FOR THE YEAR ENDED 31ST DECEMBER 2020

	Notes	2020 LKR	2019 LKR
<b>Investment income</b>			
Interest income	4	43,223,236	36,892,019
Operating expenses	5	(4,640,913)	(6,705,470)
<b>Profit before tax</b>		<u>38,582,323</u>	<u>30,186,549</u>
Income tax expense	6	-	-
<b>Profit for the year</b>		<u>38,582,323</u>	<u>30,186,549</u>
<b>Other comprehensive income</b>			
Unrealised gain/(loss) on financial assets at fair value through other comprehensive income		2,916,988	4,242,251
<b>Total comprehensive income for the year</b>		<u><u>41,499,311</u></u>	<u><u>34,428,799</u></u>
Increase in net assets attributable to unitholders		<u><u>41,499,311</u></u>	<u><u>34,428,799</u></u>

Figures in brackets indicate deductions.

The accounting policies and notes from pages 05 to 16 form an integral part of these financial statements.

Colombo  
 26th March 2021



NDB WEALTH INCOME FUND  
STATEMENT OF FINANCIAL POSITION  
AS AT 31ST DECEMBER 2020

Page 2

	Notes	As at 31.12.2020 LKR	As at 31.12.2019 LKR
<b>Assets</b>			
Cash at bank		55,593	157,631
Financial assets at amortised cost	7	289,727,700	249,819,671
Financial assets at fair value through other comprehensive income	8	79,515,005	81,605,977
<b>Total assets</b>		<b>369,298,298</b>	<b>331,583,280</b>
<b>Liabilities</b>			
Accrued expenses	10	596,849	672,247
<b>Total liabilities</b>		<b>596,849</b>	<b>672,247</b>
<b>Net assets attributable to unitholders</b>		<b>368,701,449</b>	<b>330,911,034</b>
<b>Unitholders' funds</b>			
Unit capital		237,111,875	239,589,639
Investment in revaluation reserve		3,316,287	399,299
Retained earnings		128,273,287	90,922,096
<b>Net assets attributable to unitholders</b>	10	<b>368,701,449</b>	<b>330,911,034</b>



Figures in brackets indicate deductions.

The accounting policies and notes from pages 05 to 16 form an integral part of these financial statements.

The Fund Management Company and the Trustee are responsible for the preparation of these financial statements in accordance with Sri Lanka Accounting Standards.

These financial statements were approved by the Fund Management Company and the Trustee on 26th March 2021.

  
.....  
NDB Wealth Management Ltd  
Fund Management Company

  
.....  
Bank of Ceylon  
Trustee 

  
.....  
NDB Wealth Management Ltd  
Fund Management Company



Colombo  
26th March 2021

NDB WEALTH INCOME FUND  
STATEMENT OF CHANGES IN UNITHOLDERS' FUND  
FOR THE YEAR ENDED 31ST DECEMBER 2020

Page 3

	Unit capital LKR	Fair vale reserve LKR	Retained earnings LKR	Total LKR
Balance as at 01st January 2019	233,450,580	(3,842,950)	58,834,128	288,441,755
Net increase due to creations and redemptions of units	6,139,059	-	1,901,420	8,040,479
Increase in net assets attributable to unitholders	-	-	30,186,549	30,186,549
Other comprehensive income				
Unrealized gain on financial assets at fair value through other comprehensive income	-	4,242,251	-	4,242,251
<b>Balance as at 31st December 2019</b>	<b>239,589,639</b>	<b>399,299</b>	<b>90,922,096</b>	<b>330,911,034</b>
Net decrease due to creations and redemptions of units	(2,477,764)	-	(1,231,132)	(3,708,896)
Increase in net assets attributable to unitholders	-	-	38,582,323	38,582,323
Other comprehensive loss				
Unrealized loss on financial assets at fair value through other comprehensive income	-	2,916,988	-	2,916,988
<b>Balance as at 31st December 2020</b>	<b>237,111,875</b>	<b>3,316,287</b>	<b>128,273,287</b>	<b>368,701,449</b>

Figures in brackets indicate deductions.

The accounting policies and notes from pages 05 to 16 form an integral part of these financial statements.

Colombo  
26th March 2021





NDB WEALTH INCOME FUND  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31ST DECEMBER 2020

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	2020 LKR	2019 LKR
<b>Cash flows from operating activities</b>		
Interest income received	34,865,922	39,821,406
Management fees paid	(3,552,979)	(3,088,137)
Other expenses paid	(1,163,330)	(1,175,253)
Net disposal of/ (investment in) lease securitization	(28,874,186)	(86,543,862)
Net disposal of commercial papers	4,851,654	(52,782,912)
Net disposal of/ (investment in) debentures	5,000,000	(10,000,000)
Net investment in fixed deposits	2,625,405	103,795,369
<b>Net cash generated from / (used in) operating activities</b>	<u>13,752,486</u>	<u>(9,973,389)</u>
<b>Cash flows from financing activities</b>		
Amount received on creation of units	48,943,670	33,292,269
Amount paid on redemption of units	(52,652,566)	(25,251,790)
<b>Net cash generated from / (used in) financing activities</b>	<u>(3,708,896)</u>	<u>8,040,479</u>
Net increase in cash and cash equivalents	10,043,590	(1,932,910)
Cash and cash equivalents at the beginning of the year	4,371,731	6,304,641
<b>Cash and cash equivalents at the end of the year</b>	<u>14,415,321</u>	<u>4,371,731</u>
<b>Cash and cash equivalents at the end of the year comprise of</b>		
Cash at bank	55,593	157,631
Money market savings accounts	14,359,728	4,214,100
	<u>14,415,321</u>	<u>4,371,731</u>

Figures in brackets indicate deductions.

The accounting policies and notes from pages 05 to 16 form an integral part of these financial statements.

Colombo  
26th March 2021



## 1. GENERAL INFORMATION

### 1.1 General

NDB Wealth Income Fund (“the Fund”) is an open ended unit trust fund licensed by the Securities and Exchange Commission of Sri Lanka and established under trust deed signed on 17 November 1997. The Fund which invests mainly in government securities and corporate debt securities is domiciled in Sri Lanka.

The Fund is managed by NDB Wealth Management Limited while Bank of Ceylon acts as the Trustee of the Fund. The registered office of the Fund manager is located at No. 40, Nawam Mawatha, Colombo 02, Sri Lanka and the principal place of business is located at Level G, NDB Capital Building, No.135, Bauddhaloka Mawatha, Colombo 04, Sri Lanka.

The Trustee’s principal place of business is located at Head office, Bank of Ceylon Mawatha, Colombo 01, Sri Lanka.

### 1.2 Date of authorization for issue

The financial statement of the Fund for the year ended 31<sup>st</sup> December 2020 were authorized for issue by the Fund Management Company and the Trustee on 26<sup>th</sup> March 2021.

## 2. PREPARATION OF FINANCIAL STATEMENTS

### 2.1 Basis of preparation

The financial statements are prepared and presented in accordance with and comply with the relevant Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka. The statement of financial position is presented on a liquidity basis and assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. The financial statements have been prepared on the historical cost basis, except as noted below. Historical cost is generally the fair value of the consideration given in exchange of assets. The financial statements are presented in Sri Lankan rupees (LKR).

### 2.2 Statement of compliance

The financial statements which comprise the statement of financial position as at 31 December 2020, statement of profit or loss and other comprehensive income, statement of changes in unitholders’ funds and statement of cash flows 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.

### 2.3 Significant accounting judgments, estimates and assumptions

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



**2.4 Significant accounting judgments, estimates and assumptions (Contd...)**

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

Management considers credit, liquidity and market risk and assesses the impact on valuation of investments when determining the fair value.

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.

**Determination of Fair Value and Fair Value Hierarchy**

The Fund uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique.

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Techniques which use inputs other than quoted prices included within level 1, that are observable, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

**2.5 Summary of significant accounting policies**

Accounting policies set out below have been applied consistently to all periods presented in these financial statements.

**2.5.1 Classification and measurement of financial assets and financial liabilities**

SLFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value through Profit or Loss (FVTPL). The classification of financial assets under SLFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

**2.5.2 Financial instruments**

**(i) Recognition and initial measurement**

All financial assets are initially recognized on the date 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.



(ii) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost or FVOCI. Financial assets are not reclassified subsequent to their initial recognition unless the Fund changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

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

The Fund's financial assets classified under amortised cost include treasury bills under repurchase agreements and term deposits and asset backed securities.

A debt investment is measured at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely the payments of principal and interest on the principal amount outstanding.

(iii) Subsequent measurement and gains and losses

Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses, if any. Interest income and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, and impairment is recognised in profit or loss. The changes in fair value of FVOCI debt instruments are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

(iv) Impairment

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

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



#### **Credit-impaired financial assets**

At each reporting date, the Fund assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

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

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

#### **Presentation of allowance for ECL in the statement of financial position**

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

#### **Write-offs**

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

#### **2.5.3 Financial liabilities - Classification, subsequent measurement and gains and losses**

Financial liabilities are classified as measured at amortized cost. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Any gain or loss on derecognition is also recognized in profit or loss. Financial liabilities measured at amortized cost include accrued expenses and other payables.

#### **2.5.4 Derecognition**

##### **Financial assets**

The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Fund neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Fund enters into transactions whereby it transfers assets recognized in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

##### **Financial liabilities**

The Fund derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Fund also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid is recognized in profit or loss.



#### 2.5.5 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 recognized amounts and
- There is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

#### 2.5.6 Cash and cash equivalents

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

#### 2.5.7 Payables and provisions

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

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

#### 2.5.8 Recognition of income

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

##### (i) Interest income

For all financial instruments measured at amortized cost, interest income is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset.

#### 2.5.9 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 date of the statement of financial position.

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 directive issued by the Securities and Exchange Commission of Sri Lanka, by the number of units in issue.

### 3. TAXATION

Unit Trusts that conduct eligible investment business are treated as pass through vehicles and tax will be payable by unitholders in accordance with the new Inland Revenue Act No. 24 of 2017.



	2020 LKR	2019 LKR
<b>4. INTEREST INCOME</b>		
Income from financial assets at amortised cost (Note 4.1)	33,363,499	28,280,738
Income from financial assets at fair value through other comprehensive income	9,859,737	8,611,281
	<u>43,223,236</u>	<u>36,892,019</u>
<b>4.1 Income from financial assets at amortised cost</b>		
Fixed deposits	5,842,247	14,415,730
Asset backed securities	20,391,681	11,603,918
Commercial papers	6,446,337	1,916,260
Money market saving accounts	683,234	344,830
	<u>33,363,499</u>	<u>28,280,738</u>
<b>5. OPERATING EXPENSES</b>		
Management fees	3,596,999	3,129,504
Trustee fees	582,730	598,609
Custodian fees	194,243	181,759
Auditor's remuneration	112,860	241,786
Impairment provision for Notional Tax Recoverable	-	58,604
Write off Notional Tax Recoverable (Prior to 2018/19)	-	1,430,490
Impairment provision for WHT Recoverable	-	897,269
Write of other - receivable	-	42,668
Tax consultancy fee	84,671	60,000
Bank charges	69,410	64,781
	<u>4,640,913</u>	<u>6,705,470</u>
<b>6. INCOME TAX</b>		
Tax expense for the year (Note 3)	<u>-</u>	<u>-</u>



	31.12.2020 LKR	As a % of net assets value	31.12.2019 LKR	As a % of net assets value
<b>7. FINANCIAL ASSETS AT AMORTISED COST</b>				
Fixed deposits (Note 7.1)	45,489,612	12.34%	48,067,951	14.53%
Asset backed securities (Note 7.2)	176,984,029	48.00%	141,612,919	42.79%
Money market saving accounts (Note 7.3)	14,481,375	3.93%	4,222,541	1.28%
Commercial papers (Note 7.4)	52,772,684	14.31%	55,916,260	16.90%
	<u>289,727,700</u>	<u>78.58%</u>	<u>249,819,671</u>	<u>75.49%</u>
<b>7.1 Fixed deposits</b>				
Commercial Leasing & Finance PLC	13,976,700	3.79%	17,438,002	5.27%
Siyapatha Finance PLC	5,261,032	1.43%	5,311,253	1.61%
Richard Pieris Finance Limited	11,234,643	3.05%	10,302,319	3.11%
People's Leasing and Finance PLC	15,017,238	4.07%	15,016,376	4.54%
	<u>45,489,612</u>	<u>12.34%</u>	<u>48,067,950</u>	<u>14.53%</u>
<b>7.2 Asset backed securities</b>				
Commercial Leasing & Finance PLC	43,352,316	11.76%	37,342,360	11.28%
LOLC Finance PLC	13,447,383	3.65%	-	-
Merchant Bank of Sri Lanka & Finance PLC	40,855,848	11.08%	52,985,624	16.01%
Richard Pieris Finance Limited	10,464,411	2.84%	51,284,935	15.50%
Singer Finance (Lanka) PLC	10,648,669	2.89%	-	-
Citizens Development Business Finance PLC	58,215,402	15.79%	-	-
	<u>176,984,029</u>	<u>48.00%</u>	<u>141,612,919</u>	<u>42.79%</u>
<b>7.3 Money Market Saving Accounts</b>				
Hatton National Bank PLC	14,481,375	3.93%	4,222,541	1.28%
	<u>14,481,375</u>	<u>3.93%</u>	<u>4,222,541</u>	<u>1.28%</u>
<b>7.4 Commercial Papers</b>				
Lanka Orix Leasing Company	52,772,684	14.31%	55,916,260	16.90%
	<u>52,772,684</u>	<u>14.31%</u>	<u>55,916,260</u>	<u>16.90%</u>





NDB WEALTH INCOME FUND  
NOTES TO THE FINANCIAL STATEMENTS

8. FINANCIAL ASSETS OF FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at 31.12.2020		As at 31.12.2019	
	Amortised value	Market value	Amortised value	Market value
	LKR	LKR	LKR	LKR
Debentures	76,198,718	79,515,005	81,206,678	81,605,977
Total unrealised gain / (loss)		3,316,287		399,299
Recognised in other comprehensive income		2,916,988		

8.1 Debentures

	As at	As a % of net assets value	As at	As a % of net assets value
	31.12.2020		31.12.2019	
	LKR		LKR	
HDFC Bank of Sri Lanka	50,846,308	13.79%	49,618,317	14.99%
Hatton National Bank PLC	4,091,252	1.11%	6,318,393	1.91%
DFCC Bank	4,751,957	1.29%	4,387,191	1.33%
Senkadagala Finance	5,402,463	1.47%	5,249,349	1.59%
People's Leasing and Finance PLC	-	0.00%	5,344,508	1.62%
Siyapatha Finance PLC	11,864,021	3.22%	10,688,218	3.23%
HNB PLC	2,559,004	0.69%	-	-
	79,515,005	21.57%	81,605,977	24.66%

9. TAX RECOVERABLE

	As at	As at
	31.12.2020	31.12.2019
	LKR	LKR
Notional Tax Recoverable	58,604.00	1,489,094
Withholding Tax Credit	897,269.00	2,441,131
Upfront WHT Adjustment for Asset Backed Securities	-	(1,543,862)
Write off Notional Tax Recoverable (Prior to 2018/19)	-	(1,430,490)
Accumulated Impairment provision for Notional Tax Recoverable	(58,604)	(58,604)
Accumulated Impairment provision for WHT Recoverable	(897,269)	(897,269)
Income tax payable	-	-
Balance as at 31st December	-	-

As of 31st December 2018, the net Income Tax Recoverable comprises of notional tax credit recoverable amounting to Rs. 1,489,093/- and WHT of Rs. 897,269/-. The Fund Manager intends to claim the WHT recoverable by means of a refund. The Notional Tax credit recoverable will be carried forward as per section 138(2) of the Inland Revenue Act No 10 of 2006 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 to 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 WHT receivable balance amounting to Rs. 897,269/- and an impairment provision is made against notional tax recoverable amount of Rs. 58,604/- relevant to 2018.

The remaining notional tax recoverable amount related to the period prior to year 2018 amounting to Rs.1,430,489/- has been written off.

	As at 31.12.2020 LKR	As at 31.12.2019 LKR
<b>10. ACCRUED EXPENSES</b>		
Management fees	326,069	282,049
Trustee fees	52,824	45,693
Custodian fees	17,608	15,231
Auditor's remuneration	112,860	241,785
Tax consultancy fee	87,488	87,488
	<u>596,849</u>	<u>672,247</u>

**11. NET ASSETS ATTRIBUTABLE TO UNITHOLDERS**

The movement in the number of units and net assets attributable to unitholders during the period were as follows:

	31.12.2020 Units	31.12.2019 Units	31.12.2020 LKR	31.12.2019 LKR
Opening capital balance	23,763,575	23,162,225	330,911,034	288,441,756
Units issued during the period	3,217,762	2,461,386	48,943,670	33,292,269
Units redeemed during the period	(3,463,504)	(1,860,037)	(52,652,566)	(25,251,790)
Increase in net assets attributable to unitholders	-	-	41,499,311	34,428,799
<b>Closing balance</b>	<u>23,517,833</u>	<u>23,763,575</u>	<u>368,701,449</u>	<u>330,911,034</u>

The creation price was at LKR 15.91 (2019 -LKR. 14.06) per unit and the redemption price was at 15.91 (2019 - LKR. 14.06) per unit as at 31 December 2020.

**12. CONTINGENCIES**

There were no significant contingencies existing at the statement of financial position date that require adjustments to or disclosures in the financial statements.

**13. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE**

No significant events have taken place since the date of the statement of financial position that require adjustments to or disclosure in these financial statements.

**14. CAPITAL COMMITMENTS**

There were no capital commitments at the statement of financial position date.



#### 14. RELATED PARTY TRANSACTIONS

The following have been identified as related parties to NDB Wealth Income Fund in accordance with the Sri Lanka Accounting Standards LKAS 24, Related Party Disclosures for the reasons stated below.

The Fund Management Company NDB Wealth Management Ltd. is a subsidiary of NDB Capital Holdings PLC. The Fund's ultimate parent entity and controlling party is National Development Bank PLC, which is incorporated and domiciled in Sri Lanka.

Mr. D.S.P. Wickramanayake, Mr. Bernard Sinniah, Mr. Shankanada Abeywardene, Mr. Sanjaya Perera and Mr. Dimantha Seneviratne are directors of the NDB Wealth Management Ltd.

Details of fund management fees and trustee fees paid/payable are as follows:

Name of the related party	Nature of interest	Particulars of financial dealings	Transaction value LKR	Outstanding value LKR
NDB Wealth Management Limited	Fund Management Company	Management fee	3,596,999	326,069
Bank of Ceylon	Trustee	Trustee fees	582,730	52,824
	Custodian	Custodian fees	194,243	17,608

The Fund maintains a current account with the Trustee, Bank of Ceylon, corporate branch via which all settlement transactions of the Fund were made.

#### 16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

##### (a) Financial instruments

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

In accordance with SLFRS 09 Financial Instruments, Recognition and Measurement, financial assets are classified as 'fair value through other comprehensive income' and 'amortised cost'. Amounts attributable to unitholders are classified as 'other financial liabilities' and are carried at the redemption amount being net asset value. Payables are designated as 'other financial liabilities' at amortised cost.



16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTD...)

(b) Financial risk management objectives, policies and processes

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

Financial instruments of the Fund comprise investments in fixed income securities for the purpose of generating a return on the investment made by unitholders, in addition to cash at bank and other financial instruments such as receivables and payables, which arise directly from its operations.

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

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

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

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

(i) Credit risk

Credit risk is the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The Fund's exposure to credit risk from its financial assets arises from default of the counterparty, with the current exposure equal to fair value of these instruments as detailed below. It is the Fund's policy to enter into financial instruments with reputable counterparties.

**Risk concentration of credit risk exposure**

Concentration of credit risk is managed by counterparty and by market sector. The Fund is also subject to credit risk on its bank balance and receivables. The credit risk exposure on these instruments is not deemed to be significant.

	As at 31.12.2020 LKR	As at 31.12.2019 LKR
Conservative: Money market savings	14,481,375	4,222,541
Balanced: Fixed deposits/asset backed securities and debentures	298,672,359	270,887,548
	<u>313,153,734</u>	<u>275,110,089</u>



16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTD...)

(ii) Market risk

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

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

(iii) 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 following table demonstrates the sensitivity of the statement of comprehensive income to reasonably possible changes in interest rates, with all other variables held constant.

Increase / (decrease) in basis points	2020 LKR	2019 LKR
+ 0.25%	841,684	775,327
- 0.25%	(841,684)	(775,327)

(iv) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in raising funds to meet its obligation to pay unitholders.

Due to the nature of a unit trust, it is unlikely that a significant number of unitholders would exit at the same time. However to control liquidity risk, the Fund invests in financial instruments, which under normal market conditions are readily convertible to cash. In addition, the Fund invests within established limits to ensure there is no concentration of risk. The Fund's exposure to liquidity risk can be analysed as follows:

	As at 31.12.2020 LKR	As at 31.12.2019 LKR
<b>Fixed income securities</b>		
Long term (1 year or more than 1 year)	253,182,747	222,819,597
Short-term (less than 1 year)	59,970,987	52,290,492
	<u>313,153,734</u>	<u>275,110,089</u>

