

2020-21

# ANNUAL REPORT

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FIRST CAPITAL MONEY MARKET FUND



**First Capital**  
A Janashakthi Group Company

**First Capital Asset Management Limited**

## About First Capital Asset Management Limited

First Capital Asset Management Limited is a subsidiary of First Capital Holdings PLC, a Janashakthi Group Company. First Capital provides a diverse range of financial advisory services and products through our integrated business platform in four specialised segments - Capital Markets Advisory, Wealth Management, Fixed Income and Equities. First Capital Holdings PLC is listed on the Colombo Stock Exchange (CSE) since 1994 (Ticker: CFVF), and exemplifies requisite financial transparency and governance standards. Reflecting credit fundamentals including a robust capital structure, liquidity, risk controls and earnings profile, we have been rated “A” by ICRA Lanka Limited.

First Capital Asset Management Limited has two business segments namely, Investment (Portfolio) Management and Management of Unit Trust Funds regulated by the Securities and Exchange Commission of Sri Lanka (SEC). The Bank of Ceylon (BOC) acts as the Trustee for our Unit Trust Funds.

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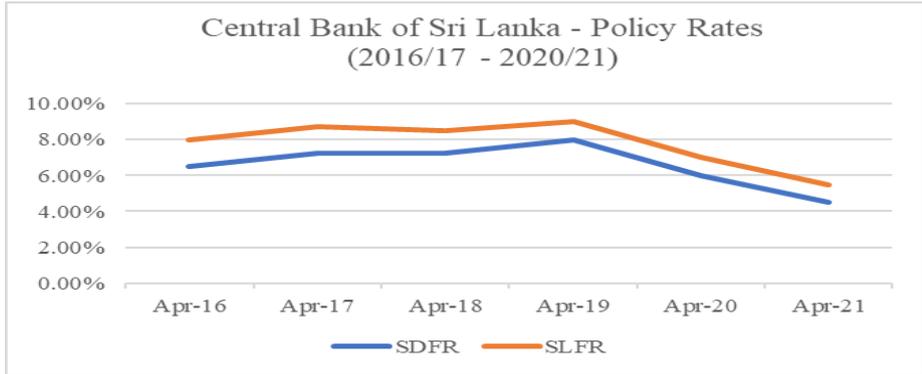
**REPORT OF THE MANAGER**

We have pleasure in presenting to you the Audited Financial Statements of First Capital Money Market Fund for the year ended 31<sup>st</sup> March 2021.

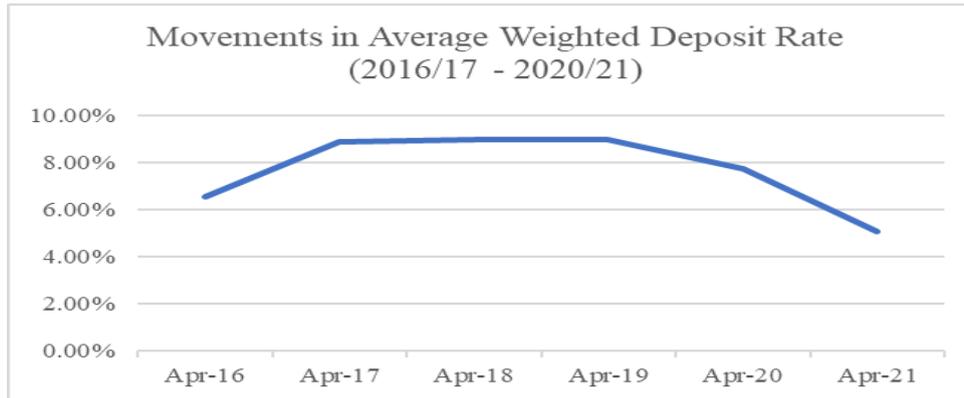
**Economic and Industry Overview**

Sri Lanka confronted a severe economic shrinkage in 2020, recording 3.6% contraction in GDP in the midst of persisted COVID-19 pandemic woes. The economy began to stabilise during the second half of the year with lifting of lockdowns and gradual resurrection of business operations along with the consumer demand, that was dimmed by the re-surge of 2<sup>nd</sup> wave of the pandemic occurred towards the end of the year 2020. The country is going through another lockdown amidst the 3<sup>rd</sup> wave of COVID-19 potentially slowing down economic activity. Nonetheless, the country wide rapid vaccination programmes increased private consumption amidst prevailing low-interest rates and the anticipated future foreign direct investments are expected to fasten the economic recovery in 2021 and beyond.

The market liquidity remained positive throughout 2020 and surged up to over LKR 200Bn during December 2020, while the domestic interest rates were kept low through the continuous injection of liquidity by the Central Bank of Sri Lanka (CBSL). Meanwhile, the private credit growth improved to 7.5% in March 2021 (year-on-year) indicating a gradual revival amidst rising uncertainty. The CBSL continued to extend relief measures to households and businesses affected by the economic distress via adopting an accommodative monetary policy, concessional credit schemes, debt moratorium, etc. to induce private sector credit growth.



The unit trust industry exhibited a significant growth during 2020 owing to the interest rates bottoming out that shifted the client focus towards alternative investments that yield substantial returns, thereby making fixed deposits and bank savings less attractive amidst the rising wealth supported by the excess liquidity, blended with the extensive market awareness campaigns.



During 2020/21, there were 16 licensed unit trust management companies with 67 funds in operation. Total assets under management were Rs. 221Bn as at 31<sup>st</sup> March 2021 (Source: The Unit Trust Association of Sri Lanka).

### **Fund Performance**

First Capital Money Market Fund reported a Profit after Tax of Rs. 1,123Mn for the year ended 31<sup>st</sup> March 2021 compared to Rs. 723Mn in the previous year (2019/20).

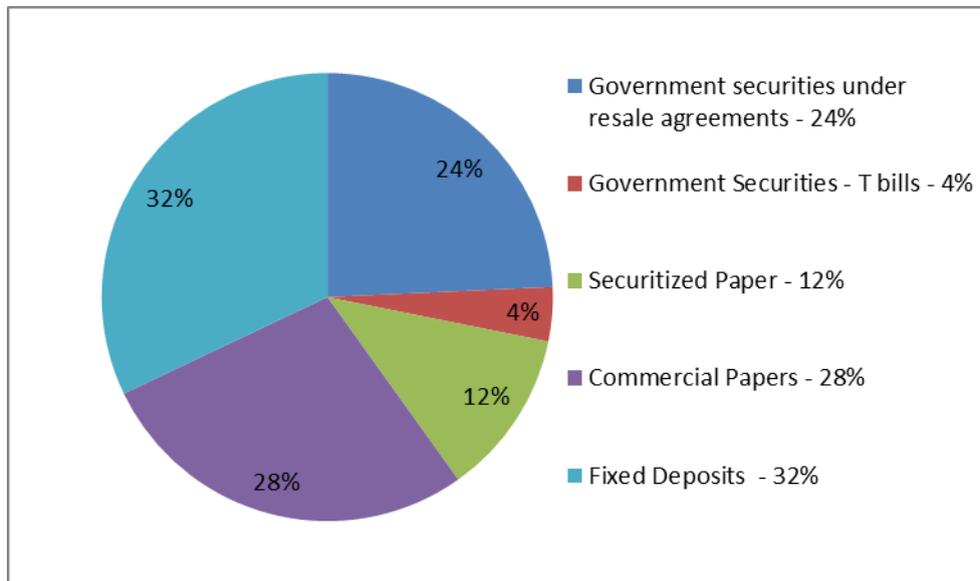
The Fund reported an Annualised Return of 10.43% for the year ended 31<sup>st</sup> March 2021 compared to the Average Weighted Deposit Rate of 6.44% (Source: Central Bank of Sri Lanka – Monthly Economic Indicators; <https://www.cbsl.gov.lk/statistics/economic-indicators/monthly-indicators>). The Annualised Return reported in the previous year (2019/20) was 14.12% compared to the Average Weighted Deposit Rate of 8.67% (Source: Central Bank of Sri Lanka – Monthly Economic Indicators; <https://www.cbsl.gov.lk/statistics/economic-indicators/monthly-indicators>). The Funds under Management as at 31<sup>st</sup> March 2021 were Rs. 21.5Bn compared to Rs. 7Bn in the previous year (2019/20).

First Capital Money Market Fund has been the best performing Unit Trust in its category of “Open-ended Money Market Funds” with highest Compounded Annual Growth Rate (CAGR) for past five years as at 31<sup>st</sup> March 2021 (Source: The Unit Trust Association of Sri Lanka).

The asset allocation of the Fund as at the reporting date is as follows.

### Asset Allocation as at 31<sup>st</sup> March 2021

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### Future Outlook

As a result of the COVID-19 pandemic, Sri Lanka's economy contracted by 3.6% in 2020. The Central Bank of Sri Lanka anticipates that growth estimates to be revised to below 5.0% from an earlier expectation of 6.0% amidst extensive restrictions on businesses, livelihoods, and many aspects of everyday lives resulting in a heavier toll on the economy. However, the economy is expected to recover in the short to medium term supported by the Government's stimulus measures introduced, improved business sentiments fueled by the COVID-19 vaccination drive and improving prospects of the global economy. Nevertheless, the effort to maintain the prevailing low interest rate environment will be contested to a certain extent with Sri Lanka's challenging medium-term debt service requirement.

### Appreciations

We take this opportunity to thank our valued unitholders for the confidence placed in us. We also place on record our appreciation for the unstinted support extended by the Securities and Exchange Commission of Sri Lanka and our Trustee, Bank of Ceylon.

We convey our sincere thanks to the Board of Directors, Management Team and Staff of First Capital Asset Management Limited for their enthusiasm and hard work which has contributed towards our performance.

## **INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF FIRST CAPITAL MONEY MARKET FUND**

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

#### **Opinion**

We have audited the financial statements of First Capital Money Market Fund ("the Fund"), which comprise the statement of financial position as at 31 March 2021, and the 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 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 March 2021, 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 comprises the report of the manager but does not include in the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information included in the Manager's report and we will 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 identified above 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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to communicate the matter to those charged with governance. We have nothing to report in this regard.

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

The fund management company is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as the 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, Fund 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 fund manager either intends to liquidate the fund or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by fund manager.
- Conclude on the appropriateness of fund 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**

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.

*SJMS Associates*

**SJMS ASSOCIATES**

Chartered Accountants

Colombo

30 June 2021

**FIRST CAPITAL MONEY MARKET FUND**  
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 MARCH 2021**

	Note	2020/2021 Rs.	2019/2020 Rs.
Income	7	1,221,227,960	756,936,984
Direct expenses	8	<u>(360,360)</u>	<u>(253,831)</u>
<b>Net trading income</b>		<b>1,220,867,600</b>	<b>756,683,153</b>
(Loss) / Gain on fair valuation of financial assets recognised through profit or loss		(13,508,215)	11,403,221
		<u><b>1,207,359,385</b></u>	<u><b>768,086,374</b></u>
Administration expenses	9	(81,169,878)	(37,948,039)
Other operating expenses	10	(576,566)	(3,696,511)
Provision for impairment of financial assets at amortised cost	14.3.1	<u>(2,234,491)</u>	<u>(3,187,958)</u>
<b>Profit before taxation</b>		<b>1,123,378,450</b>	<b>723,253,866</b>
Income tax expenses	11	-	-
<b>Profit for the year</b>		<u><b>1,123,378,450</b></u>	<u><b>723,253,866</b></u>
<b>Other comprehensive income</b>		-	-
<b>Total comprehensive income for the year</b>		<u><u><b>1,123,378,450</b></u></u>	<u><u><b>723,253,866</b></u></u>

Figures in bracket indicate deductions.

The attached notes from 1 to 26 form an integral part of these financial statements.

**FIRST CAPITAL MONEY MARKET FUND  
STATEMENT OF FINANCIAL POSITION  
AS AT 31 MARCH 2021**

	Note	31.03.2021 Rs.	31.03.2020 Rs.
<b>Assets</b>			
Cash at bank	12	18,775,444	475,248,970
Financial assets at fair value through profit and loss	13	9,358,051,401	4,043,542,225
Financial assets at amortised cost	14	12,091,948,498	2,439,931,408
Taxes receivable	15	-	-
Other receivables	16	52,094,775	191,406,683
<b>Total Assets</b>		<b><u>21,520,870,118</u></b>	<b><u>7,150,129,286</u></b>
<b>Unit holders' funds and liabilities</b>			
<b>Liabilities</b>			
Borrowings on repurchase agreement	17	-	125,141,305
Accruals and other payable	18	42,648,665	20,715,558
<b>Total Liabilities</b>		<b><u>42,648,665</u></b>	<b><u>145,856,863</u></b>
<b>Unit holders' funds</b>			
Net assets attributable to unit holders		21,478,221,453	7,004,272,423
		<b><u>21,478,221,453</u></b>	<b><u>7,004,272,423</u></b>
<b>Total Unit Holders' Funds and Liabilities</b>		<b><u>21,520,870,118</u></b>	<b><u>7,150,129,286</u></b>
Net assets per unit (Rs.)	19	1,931.73	1,749.27

The attached notes from 1 to 26 form an integral part of these financial statements.

The Management Company of First Capital Money Market Fund is responsible for the preparation and presentation of these financial statements in accordance with the Sri Lanka Accounting Standards.

Approved by the Fund Management Company on 30 June 2021.



**Mangala Jayashantha**  
Chief Financial Officer  
First Capital Asset Management Limited  
Fund Management Company



**Dilshan Wirasekara**  
Director/Chief Executive Officer  
First Capital Asset Management Limited  
Fund Management Company



**Dinesh Schaffter**  
Managing Director  
First Capital Asset Management Limited  
Fund Management Company

**FIRST CAPITAL MONEY MARKET FUND  
STATEMENT OF CHANGES IN UNIT HOLDERS' FUNDS  
FOR THE YEAR ENDED 31 MARCH 2021**

	<b>Unit holders' Capital Rs.</b>	<b>Retained Earnings Rs.</b>	<b>Total Rs.</b>
<b>Balance as at 1 April 2019</b>	1,537,236,004	641,045,601	2,178,281,605
Capital infused during the year	16,061,615,622	-	16,061,615,622
Capital withdrawals made during the year	(11,958,878,670)	-	(11,958,878,670)
Increase in net assets attributable to unit holders	-	723,253,866	723,253,866
<b>Balance as at 31 March 2020</b>	<b><u>5,639,972,956</u></b>	<b><u>1,364,299,467</u></b>	<b><u>7,004,272,423</u></b>
<b>Balance as at 1 April 2020</b>	5,639,972,956	1,364,299,467	7,004,272,423
Capital infused during the year	36,694,016,043	-	36,694,016,043
Capital withdrawals made during the year	(23,343,445,463)	-	(23,343,445,463)
Increase in net assets attributable to unit holders	-	1,123,378,450	1,123,378,450
<b>Balance as at 31 March 2021</b>	<b><u>18,990,543,536</u></b>	<b><u>2,487,677,917</u></b>	<b><u>21,478,221,453</u></b>

Figures in bracket indicate deductions.

The attached notes from 1 to 26 form an integral part of these financial statements.

**FIRST CAPITAL MONEY MARKET FUND  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 MARCH 2021**

	<b>2020/2021</b>	<b>2019/2020</b>
	<b>Rs.</b>	<b>Rs.</b>
<b>Cash flows from operating activities</b>		
Profit before taxation	1,123,378,450	723,253,867
Adjustment for :		
(Loss)/Gain on financial assets at fair value through profit and loss	13,508,215	(11,403,221)
Provision for impairment of financial assets at amortised cost ( <i>Note 14.3.1</i> )	2,234,491	3,187,958
Provision for tax receivable ( <i>Note 15</i> )	-	3,190,202
<b>Operating profit before working capital changes</b>	<b>1,139,121,156</b>	<b>718,228,806</b>
Increase in financial assets at fair value through profit and loss	(5,328,017,391)	(3,397,631,903)
Increase in financial asset at amortised cost	(9,654,251,581)	(907,499,595)
Increase / (decrease) in other receivables	139,311,908	(187,348,731)
Increase / (decrease) in payable under resale agreements	(125,141,305)	125,141,305
Increase in accruals and other payable	21,933,107	17,715,631
<b>Cash used in operations</b>	<b>(13,807,044,106)</b>	<b>(3,631,394,487)</b>
Tax paid	-	-
<b>Net cash flows used in operating activities</b>	<b>(13,807,044,106)</b>	<b>(3,631,394,487)</b>
<b>Net cash flows from / (used in) investing activities</b>	<b>-</b>	<b>-</b>
<b>Cash flows from (used in) financing activities</b>		
Capital infused during the year	36,694,016,043	16,061,615,622
Capital redeemed during the year	(23,343,445,463)	(11,958,878,670)
<b>Net cash flows from financing activities</b>	<b>13,350,570,580</b>	<b>4,102,736,952</b>
<b>Net (decrease)/increase in cash and cash equivalents during the year</b>	<b>(456,473,526)</b>	<b>471,342,464</b>
Cash and cash equivalents at the beginning of the year	475,248,970	3,906,506
<b>Cash and cash equivalents at the end of the year (<i>Note 12</i>)</b>	<b>18,775,444</b>	<b>475,248,970</b>

Figures in bracket indicate deductions.

The attached notes from 1 to 26 form an integral part of these financial statements.

**FIRST CAPITAL MONEY MARKET FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2021**

**1. Reporting entity**

First Capital Money Market Fund is an Open-Ended Unit Trust approved by the Securities and Exchange Commission of Sri Lanka on 16 September 2014.

The registered office/ place of business of the Unit Trust is located at No. 2, Deal Place, Colombo 03. First Capital Asset Management Limited is the Managing Company of First Capital Money Market Fund while Bank of Ceylon has been appointed as the Trustee.

**1.1. Principal activities**

The Unit Trust engages in investment in short term fixed income securities on behalf of its clients. The operations of the Unit Trust commenced on 24 September 2014.

The objective of the First Capital Money Market Fund is to yield superior returns to unit holders while minimizing their risk through investments in fixed income securities placed according to the parameters stated in the Unit Trust Code.

There were no significant changes in the nature of the principle activities of the Unit Trust during the year under review.

**1.2. Approval of financial statements**

The financial statements of the fund for the year ended 31 March 2021 were authorized for issue by the Fund Management Company and the Trustee on 30 June 2021.

**2. Basis of preparation**

**2.1. Statement of compliance**

The financial statements of the Unit Trust which comprise the statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in unit holders' funds, statement of cash flows and notes thereto have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRS and LKAS) laid down by the Institute of Chartered Accountants of Sri Lanka and adopted as directed by Securities and Exchange Commission 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.

**2.2. Basis of measurement**

The financial statements have been prepared on the historical cost basis and applied consistently with no adjustments being made for inflationary factors affecting the financial statements, except for the financial assets at fair value through profit and loss.

**2.3. Functional and presentation currency**

The financial statements are presented in Sri Lankan Rupees, which is the Unit Trust's functional currency.

**FIRST CAPITAL MONEY MARKET FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2021**

**2.4. Use of estimates and judgments**

The preparation of financial statements in conformity with the Sri Lanka Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the relevant Notes as follows.

- Recognition and measurement of financial instruments (Note 4.1.1 to 4.1.5)
- Identification, measurement and assessment of impairment (Note 4.1.6)

**2.5 Going concern**

The Fund Managing Company has made an assessment of the Unit Trust's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Unit Trust's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

**3. Materiality and presentation**

Each material class of similar item is presented separately in the financial statements. Items of dissimilar nature or function are presented separately unless they are immaterial.

Assets and liabilities are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. Where appropriate, the significant accounting policies are disclosed in the succeeding notes.

Assets and liabilities are offset and the net amount reported in the Statement of Financial Position, only when there is a legally enforceable 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. Income and expenses are not offset in the Income Statement, unless required or permitted by Sri Lanka Accounting Standards.

**4. Significant accounting policies**

**4.1. Financial Instruments**

**4.1.1. Initial Recognition**

Financial assets and liabilities 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 or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

**FIRST CAPITAL MONEY MARKET FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2021**

**4.1.2. 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.

**4.1.3. Measurement categories of financial assets and liabilities**

The Fund classifies all 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.

**4.1.4. Subsequent measurement**

**Amortised cost:** A debt instrument is measured at amortised cost if it is held within a business model whose 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.

Debt instruments at amortised cost in the statement of financial position comprise of investments in Resale agreements against Government Securities and Fixed Deposits. Any gain or loss arising on de-recognition is recognised directly in profit or loss and presented in 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 whose 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 them 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 unrealised gains/(losses) in the period in which it arises. Financial assets at fair value through profit or loss at statement of financial position comprise of investment in Government Securities and Corporate Debt Securities.

**4.1.5. 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:

**FIRST CAPITAL MONEY MARKET FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2021**

***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.

**4.1.6. Identification, measurement and assessment of impairment**

The Fund assesses on a forward-looking basis, the expected credit losses (ECLs) associated with its debt instruments not held at fair value through profit or loss. 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 lifetime 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.

At each reporting date the Unit Trust assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Unit Trust on terms that the Unit Trust would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

**FIRST CAPITAL MONEY MARKET FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2021**

**4.1.6. Identification, measurement and assessment of impairment (Contd..)**

The Unit Trust considers evidence of impairment for financial asset at amortised cost at both a specific asset and collective level. All individually significant financial asset at amortised cost are assessed for specific impairment. All individually significant financial asset at amortised cost found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial asset at amortised cost that are not individually significant are collectively assessed for impairment by grouping together financial asset at amortised cost with similar risk characteristics.

In assessing collective impairment, the Unit Trust uses of historical trends of the probability of default, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical data.

Impairment loss on assets carried at amortised cost is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment loss is recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment loss on financial asset at fair value through other comprehensive income is recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired financial asset at fair value through other comprehensive income increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired financial asset at fair value through other comprehensive income is recognised in other comprehensive income.

The Unit Trust writes off certain loans and advances and investment securities when they are determined to be uncollectible.

**4.1.7. Sale and repurchase agreements**

Securities sold subject to repurchase agreements (repos) remain on the Statement of Financial Position, the counterparty liability is included under borrowings. Securities purchased under agreements to resell (reverse repos) are recorded as loans and advances. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

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**4.1.8. Impairment of non-financial assets**

The carrying amounts of the Unit Trust's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. For intangible assets that have indefinite useful lives, the recoverable amount is estimated each year. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment loss is recognised in profit or loss.

An impairment loss recognised in prior periods is assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**4.1.9. De-recognition**

A financial asset is de-recognized when,

- 1) The rights to receive cash flows from the asset have expired.
- 2) 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.

**4.1.10. 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

**4.2. Dividend payable**

Dividend payable is recognised at the time the dividend recommended and declared by the Board of Directors of the fund managing company.

**4.3. Provision**

A provision is recognised if, as a result of a past event, the Unit Trust has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

**4.4. Commitments and contingencies**

All discernible risks are accounted for in determining the amount of all known liabilities.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

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**4.5. Interest**

Interest income and expenses are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Unit Trust estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

Interest income and expenses presented in the Statement of Profit and Loss and other Comprehensive Income include interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis and fair value changes of financial asset measured at fair value through profit and loss.

Fair value changes on all other financial assets and liabilities carried at fair value through profit or loss, are presented in net trading income in the statement of comprehensive income.

Interest income is recognised on net of withholding tax up to 31 December 2019 and on gross basis with effect from 1 January 2020 in line with notice issued by Department of Inland Revenue on changes to Inland Revenue Act No. 24 of 2017.

**4.6. Gain/ (loss) on securities**

**i. Unrealised gains / (losses) on financial assets at FVTPL**

Unrealised gains / (losses) on financial assets at FVTPL includes all gains and losses that arise from changes in fair value of the financial assets at FVTPL as at the reporting date.

**ii. Realised gains / (losses) on financial assets at FVTPL**

Realised gains / (losses) on financial assets at FVTPL includes realised trading gains and losses on sale of quoted equity securities.

**4.7. Income tax expenses**

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

The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date. The fund is not liable to pay income tax as at the reporting date in accordance with the Inland Revenue Act No. 24 of 2017. The fund's income generated through investment business are treated as "pass through vehicles" under the provisions of Inland Revenue Act No. 24 of 2017.

**4.8. Statement of cash flows**

The statement of cash flows has been prepared using the "Indirect Method" of preparing cash flows in accordance with the Sri Lanka Accounting Standard LKAS 7 - "Statement of Cash Flows". Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

**4.9. Events occurring after the reporting period**

Events occurring after the reporting period are those events, favorable and unfavorable, that occur between the reporting date and the date the Financial Statements are authorised for issue.

All material and important events that occurred after the reporting date have been considered and appropriate disclosures are made in the financial statements.

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**5. Comparative information**

The comparative information is re-classified wherever necessary to conform with the current year's classification in order to provide a better presentation.

**6. New Accounting Standard amendments issued but not effective as at reporting date**

The Institute of Chartered Accountants of Sri Lanka has issued following new Sri Lanka Accounting Standard amendments (SLFRSs/LKASs) which will become applicable for financial periods beginning after on or after 1<sup>st</sup> April 2021. Accordingly, the Fund has not applied the following new standard amendments in preparing these Financial Statements.

The following amended standards are not expected to have a significant impact on the Fund's financial statements.

**6.1. Interest Rate Benchmark Reform (IBOR) (Amendments to SLFRS 9 and SLFRS 7)**

IBOR reform is expected to result in a change to the basis for determining contractual cash flows of impacted assets and liabilities of the Fund. The amendments provide a practical expedient to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate.

The standard includes amendments in respect of:

- Modification of a financial asset or a financial liability measured at amortised cost
- Additional relief for hedging relationships

On 15 January 2021, the CA Sri Lanka issued Interest Rate Benchmark Reform (Phase 1 and Phase 2) which is mandatory for application in respect of annual periods beginning on or after 1 January 2021.

**6.2. Onerous Contracts - Cost of fulfilling the contract (Amendments to LKAS 37 - Provisions, Contingent Liabilities and Contingent Assets)**

The amendment specifies that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The above amendment to Standard will be effective for annual reporting periods beginning on or after 1 January 2022.

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	2020/2021 Rs.	2019/2020 Rs.
<b>7. Income</b>		
Interest income on Financial assets at fair value through profit and loss	704,467,035	345,794,374
Interest income on financial assets at amortised cost	390,574,922	290,032,079
Placement fee	126,186,003	121,110,531
	<u>1,221,227,960</u>	<u>756,936,984</u>
<b>8. Direct expenses</b>		
Interest expense on repo borrowings	360,360	253,831
	<u>360,360</u>	<u>253,831</u>
<b>9. Administration expenses</b>		
Management fee	61,004,749	28,178,785
Trustee fee	19,765,539	9,477,654
Auditor's remuneration	399,590	291,600
	<u>81,169,878</u>	<u>37,948,039</u>
<b>10. Other operating expenses</b>		
Provision for WHT rebate	52,002	-
Provision for Tax Receivable ( <i>Note 10.1</i> )	-	3,190,202
Bank charges	524,564	506,309
	<u>576,566</u>	<u>3,696,511</u>

**10.1 Provision for Tax Receivables**

Provision had made for the remaining withholding tax receivable of the Fund in prior year since the recoverability is remote in line with the prevailing tax legislation. No any tax receivables identified during 2020/2021 period. The Fund is not subject to income tax as an entity.

**11. Income Tax Expenses**

First Capital Money Market Fund is a Unit Trust licensed by the Securities and Exchange Commission of Sri Lanka. Unit Trust is defined as "Pass through vehicle" and is not taxed as an entity in accordance with the Inland Revenue Act, No. 24 of 2017 and the amendments thereto (2019/20 - nil).

	31.3.2021 Rs.	31.3.2020 Rs.
<b>Reconciliation between current tax expense and the accounting profit</b>		
Profit before tax as per financial statements	1,123,378,450	723,253,866
Less: Exempted income	(1,123,378,450)	(723,253,866)
Taxable income	<u>-</u>	<u>-</u>
Income tax expense	<u>-</u>	<u>-</u>
<b>12. Cash at bank</b>		
Bank of Ceylon - Corporate Branch ( <i>Note 12.1</i> )	18,775,444	475,248,970
	<u>18,775,444</u>	<u>475,248,970</u>

**12.1** Bank balances are maintained only to settle day to day operations. Excess cash balances are reviewed on a daily basis and transferred the same to investment account. Remaining cash at bank represent current account balance with banks, which are due on demand. Accordingly no impairment provision is required.

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	<b>31.03.2021</b>	<b>31.03.2020</b>
	<b>Rs.</b>	<b>Rs.</b>
<b>13. Financial assets at fair value through profit or loss</b>		
Commercial papers (Note 13.1)	5,954,394,976	2,614,167,326
Securitised papers (Note 13.2)	2,566,138,975	1,193,553,649
Government securities - Treasury bills	837,517,450	235,821,250
	<u>9,358,051,401</u>	<u>4,043,542,225</u>

**13.1 Commercial papers**

Name of the Issuer	Value - Net	Percentage exposure to each issuer against the Net Value of the Fund	Value - Net	Percentage exposure to each issuer against the Net Value of the Fund
Softlogic Holdings PLC	271,134,750	1%	918,864,970	13%
LOLC Holdings PLC	2,828,577,621	13%	1,035,155,765	15%
Janashakthi Limited	2,596,669,748	12%	508,240,278	7%
Softlogic Capital PLC	258,012,857	1%	-	-
Orient Finance PLC	-	0%	151,906,313	2%
<b>Total</b>	<u><b>5,954,394,976</b></u>		<u><b>2,614,167,326</b></u>	

Above Investment represents Credit rating of (BBB-) and above ( as at 31<sup>st</sup> March 2021 and 31<sup>st</sup> March 2020).

**13.2 Securitised papers**

Name of the Issuer	Value - Net	Percentage exposure to each issuer against the Net Value of the Fund	Value - Net	Percentage exposure to each issuer against the Net Value of the Fund
Abans Finance PLC	496,425,734	2%	-	-
Commercial Credit and Finance PLC	915,728,382	4%	226,442,375	3%
LOLC Development Finance PLC	-	-	468,971,437	7%
Orient Finance PLC	258,818,568	1%	149,978,419	2%
Softlogic Finance PLC	868,739,302	4%	165,212,932	2%
Sarvodaya Development Finance Ltd	26,426,989	0%	-	-
Trade Finance & Investments PLC	-	-	182,948,486	3%
<b>Total</b>	<u><b>2,566,138,975</b></u>		<u><b>1,193,553,649</b></u>	

Out of the above investments as at 31<sup>st</sup> March 2021, a sum of LKR 1,412,154,116/-represents credit rating of (BBB-) and above and the balance of LKR 1,153,984,859/- reflects the below credit rating. ( As at 31<sup>st</sup> March 2020 - Investment represents Credit rating of (BBB-) and above).

	<b>31.03.2021</b>	<b>31.03.2020</b>
	<b>Rs.</b>	<b>Rs.</b>
<b>14. Financial assets at amortised cost</b>		
Government securities under resale agreements (Note 14.1)	5,207,833,357	-
Investments in fixed deposits (Note 14.2)	6,884,115,141	2,439,931,408
	<u>12,091,948,498</u>	<u>2,439,931,408</u>

**14.1** This represent investment in Resale agreements entirely backed by Government securities. No impairment provisions derived through these investments.

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**14.2 Investments in fixed deposits (Net of provision for impairment)**

Name of the Issuer	31.03.2021		31.03.2020	
	Value - Net	Percentage exposure to each issuer against the Net Value of the Fund	Value - Net	Percentage exposure to each issuer against the Net Value of the Fund
	Rs.		Rs.	
Abans Finance PLC	529,857,066	2%	202,749,975	3%
Trade Finance & Investment PLC	265,841,687	1%	-	-
Asia Asset and Finance PLC	972,278,894	5%	835,659,059	12%
Bimputh Finance PLC	-	-	15,214,775	0%
Commercial Credit and Finance PLC	1,582,975,419	7%	411,887,071	6%
Merchant Bank of Sri Lanka & Finance PLC	-	-	143,299,394	2%
Prime Finance PLC	315,827,788	1%	-	-
Richard Pieris Finance Limited	1,063,671,513	5%	585,116,181	8%
LOLC Development Finance PLC	1,158,957,049	5%	-	-
Vallibel Finance PLC	262,148,216	1%	-	-
Softlogic Finance PLC	732,557,509	3%	246,004,953	4%
<b>Total</b>	<b>6,884,115,141</b>		<b>2,439,931,408</b>	

Out of the above investments as at 31 March 2021, a sum of LKR 6,151,557,632/- represents credit rating of (BBB-) and above and the balance of LKR 732,557,509/- reflects the below credit rating.

Out of the above investments as at 31 March 2020, a sum of LKR 2,193,926,455/- represents credit rating of (BBB-) and above and the balance of LKR 246,004,953/- reflects the below credit rating.

	31.03.2021 Rs.	31.03.2020 Rs.
<b>14.2.1</b> Investments in fixed deposits	6,889,991,645	2,443,573,421
Less :- Provision for Impairment (Note 14.3)	(5,876,504)	(3,642,013)
	<u>6,884,115,141</u>	<u>2,439,931,408</u>

**14.3. Provision for impairment in investment in fixed deposit represents "Stage 1" , "Stage 2" and "Stage 3" expected credit**

losses (ECL) in accordance with SLFRS 9. Accordingly, individual impairment provision has been derived as follows,

	31.03.2021 Rs.	31.03.2020 Rs.
Stage 1 - 12 months expected loss	1,272,897	2,244,235
Stage 2 - Life time expected loss	-	504,870
Stage 3 - Life time expected loss	4,603,607	892,908
Total	<u>5,876,504</u>	<u>3,642,013</u>

**14.3.1. Movement in provision for expected credit loss**

Balance as the beginning of the year	3,642,013	454,055
Provision for the year	2,234,491	3,187,958
Balance at the end of the year	<u>5,876,504</u>	<u>3,642,013</u>

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	31.03.2021	31.03.2020
	Rs.	Rs.
<b>15. Taxes receivable</b>		
Balance at the beginning of the period	-	3,190,202
Provision made during the year	-	(3,190,202)
Balance at the end of the period	<u>-</u>	<u>-</u>
<b>16. Other Receivables</b>		
Maturity proceeds receivable	-	149,838,090
Placement Fee receivables	14,275,174	9,535,622
Other receivables	37,819,601	32,032,971
	<u>52,094,775</u>	<u>191,406,683</u>
<b>17. Borrowings on Repurchase Agreement</b>		
Repo borrowings against Government Securities	-	125,141,305
	<u>-</u>	<u>125,141,305</u>
<b>18. Accruals and other payable</b>		
Management fee payable	8,301,995	6,432,153
Trustee fee payable	2,689,847	1,064,457
Auditor's remuneration payable	375,289	291,600
Placement Fee received in advance	10,745,205	135,569
Unit investments received in advance	14,623,000	9,999,277
Other payables	5,913,329	2,792,502
	<u>42,648,665</u>	<u>20,715,558</u>
<b>19. Net assets per unit</b>		
Net assets (Rs.)	21,478,221,453	7,004,272,423
Total number of units	11,118,650	4,004,111
Net assets per unit (Rs.)	<u>1,931.73</u>	<u>1,749.27</u>

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**20. Analysis of financial instrument by measurement basis**

The following tables compare the fair values of the financial instruments with their carrying values.

<b>As at 31 March 2021</b>	<b>Measured at Fair Value</b>	<b>Amortised Cost</b>	<b>Carried at Cost</b>	<b>Total</b>
	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>
<u>Assets</u>				
Cash at bank	-	18,775,444	-	18,775,444
Financial assets recognised through profit or loss				
- measured at fair value				
Securitised papers	2,566,138,975	-	-	2,566,138,975
Commercial papers	5,954,394,976	-	-	5,954,394,976
Government securities - Treasury bills	837,517,450	-	-	837,517,450
Financial assets at amortised cost				
Government securities under resale agreements	-	5,207,833,357	-	5,207,833,357
Investments in fixed deposits	-	6,884,115,141	-	6,884,115,141
<b>Total</b>	<b>9,358,051,401</b>	<b>12,110,723,942</b>	<b>-</b>	<b>21,468,775,343</b>
<u>Liabilities</u>				
Accruals and other payable	-	-	42,648,665	42,648,665
<b>Total</b>	<b>-</b>	<b>-</b>	<b>42,648,665</b>	<b>42,648,665</b>
<b>As at 31 March 2020</b>	<b>Measured at Fair Value</b>	<b>Amortised Cost</b>	<b>Carried at Cost</b>	<b>Total</b>
	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>
<u>Assets</u>				
Cash at bank	-	475,248,970	-	475,248,970
Financial assets recognised through profit or loss				
- measured at fair value				
Securitised papers	1,193,553,649	-	-	1,193,553,649
Commercial papers	2,614,167,326	-	-	2,614,167,326
Government securities - treasury bills	235,821,250	-	-	235,821,250
Financial assets at amortised cost				
Government securities under resale agreements	-	-	-	-
Investments in fixed deposits	-	2,439,931,408	-	2,439,931,408
<b>Total</b>	<b>4,043,542,225</b>	<b>2,915,180,378</b>	<b>-</b>	<b>6,958,722,603</b>
<u>Liabilities</u>				
Repo borrowing	-	125,141,305	-	125,141,305
Accruals and other payable	-	-	20,715,558	20,715,558
<b>Total</b>	<b>-</b>	<b>125,141,305</b>	<b>20,715,558</b>	<b>145,856,863</b>

**21. Determining of fair value and hierarchy of fair value**

The following tables show an analysis of financial instruments at fair value and by level of fair value hierarchy.

<b>As at 31 March 2021</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total fair value</b>
	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>
<b>Financial assets measured at fair value</b>				
Financial assets recognised through profit or loss				
- measured at fair value				
- Investment in securitised papers	-	2,566,138,975	-	2,566,138,975
- Investment in commercial papers	-	5,954,394,976	-	5,954,394,976
- Government securities - treasury bills	837,517,450	-	-	837,517,450
	<b>837,517,450</b>	<b>8,520,533,951</b>	<b>-</b>	<b>9,358,051,401</b>
<b>As at 31 March 2020</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total fair value</b>
	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>
<b>Financial assets measured at fair value</b>				
Financial assets recognised through profit or loss				
- measured at fair value				
- Investment in securitised papers	-	1,193,553,649	-	1,193,553,649
- Investment in commercial papers	-	2,614,167,326	-	2,614,167,326
- Government securities - treasury bills	235,821,250	-	-	235,821,250
	<b>235,821,250</b>	<b>3,807,720,975</b>	<b>-</b>	<b>4,043,542,225</b>

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**Level 1** - Financial Instruments that are measured in whole or in part by reference to published quotes in an active market. A Financial Instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange and those prices represent actual and regularly occurring market transactions on an arm's length basis.

**Level 2** - Financial instruments that are measured at fair value on regular basis. As market quotes generally are not readily available or accessible for these securities, their fair value measures are determined using relevant information generated by the market transactions involving comparable securities.

**Level 3** - Financial Instruments that are not supported by observable market prices information.

Due to the nature of short term maturity, carrying value of the financial assets at amortised cost are approximated to their fair value.

**21.1 Measurement of fair values**

**21.1.1 Valuation techniques and significant unobservable inputs**

The following table show the valuation techniques used in measuring Level 2 fair values, as well as the significant unobservable inputs used.

**Financial instruments measured at fair value**

Type	Valuation technique	Significant unobservable inputs
Investment in commercial papers	The valuation model is based on Yield Curve of the Government Securities. Yields relating to Government Securities based on the maturities of the respective commercial paper is interpolated in the valuation considering the initial risk premiums (at the time of issue) of the investee companies are constant as at the reporting date.	Risk premium of the investee companies (3.40% - 9.07%)
Investment in Securitised papers	The valuation model is based on Yield Curve of the Government Securities. Yields relating to Government Securities based on the maturities of the respective Securitised paper is interpolated in the valuation considering the initial risk premiums (at the time of issue) of the investee companies are constant as at the reporting date.	Risk premium of the investee companies (2.58% - 8.37%)

**21.1.1 (a)** Sensitivity of the Market Yield on Financial Instruments measured at fair value is as follows.

	(-) 1% Decrease (Effect in Rs.)	(+) 1% Increase (Effect in Rs.)
Investment in Commercial Papers	5,954,463	(5,916,513)
Investment in Securitised Papers	851,085	(1,861,855)

**Financial Instruments for which fair value approximates carrying value**

For financial assets and financial liabilities that have a short term maturity (original maturity less than a year), it is assumed that the carrying amount approximates their fair values. This assumption is also applied to lending without specific maturity or revolving nature.

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**22. Financial risk management**

**Overview**

The Unit Trust has exposure to the following risks via financial instruments.

- Market Risk
- Liquidity Risk
- Credit Risk
- Operational Risk

This Note presents information about the Unit Trust's exposure to each of the above risks and the objectives, policies and processes for measuring and managing risk.

**22.1 Risk management framework**

The Board of Directors of the fund management company has the overall responsibility for the establishment and oversight of the Unit Trust's risk management framework. The Managing Company has established an Enterprise Risk Management Committee (ERMC) which is tasked with reviewing wide-ranging risk categories that includes market, liquidity, credit and operational risk. The committee members have been assigned the responsibility to manage these risks prudently.

Unit Trust's risk management policies are established to identify and analyse the risk confronted by the Unit Trust, to set appropriate risk limits and controls and to monitor risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

**22.1(a) Market risk**

Market risk is the risk that changes in market prices, such as interest rates will affect the Unit Trust's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risk includes the following elements.

- Overall authority for managing market risk is vested with the Board of Directors of the fund management company.
- The operational authority for managing market risk is vested with the Investment Committee (IC).
- Interest rate risk is managed within the approved limits by the Investment Committee.

**22.1(b) Liquidity Risk**

Liquidity risk is the risk that the Unit Trust will not have adequate financial resources to meet Unit Trusts's obligations as when they fall due. This risk arises from mismatches in the timing of cash flows.

Management of liquidity risk includes the following elements:

Taking steps to ensure, as far as possible, that it will always have adequate financial resources to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Unit Trust's reputation.

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**Maturity analysis of the financial assets and financial liabilities**

As at 31 March 2021	Carrying amount Rs.	Up to 3 months Rs.	3 months to 1 year Rs.	1-3 years Rs.	3-5 years Rs.	Over 5 years Rs.
<u>Assets</u>						
Cash at bank	18,775,444	18,775,444	-	-	-	-
Financial assets recognised through profit or loss - measured at fair value	9,358,051,401	1,627,484,298	7,730,567,103	-	-	-
Financial assets at amortised cost	12,091,948,498	5,787,134,995	6,304,813,503	-	-	-
Total financial assets	<u>21,468,775,343</u>	<u>7,433,394,737</u>	<u>14,035,380,606</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Liabilities</u>						
Borrowings on repurchase agreement	-	-	-	-	-	-
Accruals and other payable	42,648,665	42,648,665	-	-	-	-
Total financial liabilities	<u>42,648,665</u>	<u>42,648,665</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
As at 31 March 2020	Carrying amount Rs.	Up to 3 months Rs.	3 Months to 1 year Rs.	1-3 years Rs.	3-5 years Rs.	Over 5 years Rs.
<u>Assets</u>						
Cash at bank	475,248,970	475,248,970	-	-	-	-
Financial assets recognised through profit or loss - measured at fair value	4,043,542,225	1,838,964,750	2,204,577,475	-	-	-
Financial assets at amortised cost	2,439,931,408	834,007,615	1,605,923,793	-	-	-
Total financial assets	<u>6,958,722,603</u>	<u>3,148,221,335</u>	<u>3,810,501,268</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Liabilities</u>						
Borrowings on repurchase agreement	125,141,305	125,141,305	-	-	-	-
Accruals and other payable	20,715,558	20,715,558	-	-	-	-
Total Financial liabilities	<u>145,856,863</u>	<u>145,856,863</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

**22.1(c) Credit Risk**

Credit risk is the risk of financial loss to the Unit Trust if a client or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Unit Trust's advances to clients, investment in corporate debt securities, investment in reverse repo agreements and forward transactions.

Management of credit risk includes the following components:

- Formulating credit policies in consultation with business units covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities.
- Limiting concentration of exposures to counterparties.
- Reviewing compliance through regular audits by internal audit.

**Credit quality by class of financial assets**

As at 31 March 2021	12 Month Expected Credit Losses Rs.	Life Time Expected Credit Losses not credit impaired Rs.	Life Time Expected Credit Losses credit impaired Rs.	Total Rs.
<u>Assets</u>				
Cash at bank	18,775,444	-	-	18,775,444
Financial assets at amortised cost	12,091,948,498	-	-	12,091,948,498
Total financial assets	<u>12,110,723,942</u>	<u>-</u>	<u>-</u>	<u>12,110,723,942</u>
As at 31 March 2020	12 Month Expected Credit Losses Rs.	Life Time Expected Credit Losses not credit impaired Rs.	Life Time Expected Credit Losses credit impaired Rs.	Total Rs.
<u>Assets</u>				
Cash at bank	475,248,970	-	-	475,248,970
Financial assets at amortised cost	2,439,931,408	-	-	2,439,931,408
Total financial assets	<u>2,915,180,378</u>	<u>-</u>	<u>-</u>	<u>2,915,180,378</u>

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**Analysis of concentration risk**

The following table shows the risk concentration by sector for the components of the Statement of Financial Position.

As at 31 March 2021	Cash at Bank	Financial assets recognised through profit or loss - measured at fair value	Financial assets - at amortised cost	Total Financial Assets
	Rs.	Rs.	Rs.	Rs.
<u>Sector wise breakdown</u>				
Government	18,499,404	837,517,450	-	856,016,854
Corporate	276,040	8,520,533,951	12,091,948,498	20,612,758,489
Total	<u>18,775,444</u>	<u>9,358,051,401</u>	<u>12,091,948,498</u>	<u>21,468,775,343</u>

As at 31 March 2020	Cash at Bank	Financial assets recognised through profit or loss - measured at fair value	Financial assets at amortised cost	Total Financial Assets
	Rs.	Rs.	Rs.	Rs.
<u>Sector wise breakdown</u>				
Government	474,963,540	235,821,250	-	710,784,790
Corporate	285,430	3,807,720,975	2,439,931,408	6,247,937,813
Total	<u>475,248,970</u>	<u>4,043,542,225</u>	<u>2,439,931,408</u>	<u>6,958,722,603</u>

**22.1 (d) 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 risks is measured using sensitivity analysis. However, due to the short term nature of the, it is reasonably expected that the fluctuation in interest rate will not materially impact the net assets value of the fund.

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	Effect on the profit for the year ended 31.03.2021 (Rs.)	Effect on the profit for the year ended 31.03.2020 (Rs.)
Increase in Interest Rate	+0.5%	(7,173,634)	(6,944,464)
Decrease in Interest Rate	-0.5%	8,521,311	6,981,164

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**22.1 (e) Operational Risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Fund's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior.

The Unit Trust's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the business reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Unit Trust's standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions.
- Requirements for the reconciliation and monitoring of the transaction.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.
- Development of business contingency plans.
- Training and professional development.
- Ethical and business standards.
- Risk mitigation, including insurance where this is effective.

Compliance with Unit Trust's internal controls and procedures is supported by a programme of periodic reviews undertaken by Internal Audit. The results of internal audit reviews are discussed with the management of the business unit with summaries submitted to the Audit Committee.

**FIRST CAPITAL MONEY MARKET FUND  
NOTES TO THE FINANCIAL STATEMENTS  
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**23. Related party disclosures**

**23.1 Directorships in other companies**

The Directors of First Capital Asset Management Limited (Managing Company of the Unit Trust) and First Capital Holdings PLC (Parent Company of the Business Cluster) are also Directors of the following companies.

Name of the company	Relationship	Mr. Nishan Fernando	Mr. Dinesh Schaffter	Mr. Dilshan Wirasekara	Mr. Eardley Perera	Ms. Minette Perera	Mr. Chandana Lal de Silva	Dr. Nishan de Mel	Mr. Prakash Schaffter	Mr. Ramesh Schaffter
Janashakthi Limited	Ultimate Parent	-	Director	-	Director	-	Chairman	-	Deputy Chairman	Managing Director / Group CEO
Janashakthi Insurance PLC	Subsidiary of the Ultimate Parent	-	-	-	Director	-	-	-	Chairman	Director
Janashakthi Capital Limited	Subsidiary of the Ultimate Parent	-	-	-	-	-	-	-	Director	Director
Orient Finance PLC	Subsidiary of the Ultimate Parent	-	-	-	-	Director	-	-	Director	Director
Orient Capital Limited	Subsidiary of the Ultimate Parent	-	-	-	-	-	-	-	Director	Director
First Capital Limited	Immediate Parent	Chairman	Managing Director	Director/CEO	Director	Director	Director	Director	-	-
First Capital Treasuries PLC	Subsidiary of Immediate Parent	Chairman	Managing Director	Director/CEO	-	Director	Director	Director	Director	Director
First Capital Markets Limited	Subsidiary of Immediate Parent	Chairman	Managing Director	Director/CEO	Director	Director	Director	Director	-	-
First Capital Equities (Private) Limited	Subsidiary of Immediate Parent	Chairman	Managing Director	Director	Director	Director	Director	Director	-	-
First Capital Trustee Services (Private)	Subsidiary of Immediate Parent	-	Managing Director	Director/CEO	-	-	-	-	-	-
Kelsey Developments PLC	Subsidiary of the Ultimate Parent	-	Director	-	Chairman	-	Director	-	Director	Director
Kelsey Homes (Private) Limited	Subsidiary of the Ultimate Parent	-	Managing Director	-	Director	-	Director	-	-	-
K H L Corporate Services Limited	Subsidiary of the Ultimate Parent	-	Director	-	-	-	-	-	Director	Director
Kelsey Homes (Central Park) Limited (formerly Twid Capital (Private) Limited)	Subsidiary of the Ultimate Parent	-	Director	-	Director	-	Director	-	-	-
Premier Synthetic Leather Manufacturers (Private) Limited	Related party through KMP	-	Director	-	-	-	-	-	Director	Director
Thornton Engineering (Private) Limited	Related party through KMP	-	Director	-	-	-	Director	-	-	-
Nextventures Limited	Related party through KMP	-	Director	-	-	-	-	-	-	-

First Capital Asset Management Limited manages licensed Unit Trusts namely First Capital Wealth Fund, First Capital Fixed Income Fund, First Capital Gilt Edged Fund, First Capital Money Market Fund and First Capital Equity Fund which are also treated as Related Parties of the Company.

The Fund carries out transactions with parties who are defined as related parties as per Sri Lanka Accounting Standard (LKAS 24), "Related Party Disclosure", in the ordinary course of its business. The details of such transactions are reported below. The pricing applicable to such transactions is based on the assessment of risk and pricing model of the Fund and is comparable with what is applied to transactions between the Fund and its unrelated customers. Related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

**FIRST CAPITAL MONEY MARKET FUND  
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**23.2 Transaction with managing company**

Name of the company	Nature of the Transaction	Year ended 31.03.2021		Year ended 31.03.2020	
		2020/2021	Amounts owed (to) / by the Related Party as at 31-03-2021	2019/2020	Amounts owed (to) / by the Related Party as at 31-03-2020
First Capital Asset Management Limited	Management fee	61,004,749	(8,301,995)	28,178,785	(6,432,153)
	Bank deposit made	-	(277,374)	-	(344,003)
	Investment in Unit Trust	-	(10,672,360)	-	(62,086,788)
	Benefit Accrued on Unit Trust	5,523,866	-	7,319,910	-

**23.3 Transaction with ultimate parent company/ parent company/ immediate parent company, subsidiaries of the immediate parent of the managing company**

Nature of transaction	Year ended 31.03.2021		Year ended 31.03.2020	
	2020/2021	Amounts owed (to) / by the Related Party as at 31-03-2021	2019/2020	Amounts owed (to) / by the Related Party as at 31-03-2020
Interest income	269,583,681	-	92,679,957	-
Placement fee income	823,479	-	-	-
Interest expense	360,360	-	253,831	-
Investment in Unit Trust	-	(3,016,550,831)	-	(698,551,470)
Repo borrowings	-	-	-	(125,141,305)
Resale agreements	-	-	-	-
Benefit Accrued on Unit Trust	164,165,753	-	79,882,020	-
Investment in Commercial Papers	-	2,598,119,984	-	660,146,591
Investment in Securitized Papers	-	258,818,568	-	149,978,419

**23.4 Transactions with key management personnel (KMP) and their close family members (CFM)**

According to Sri Lanka Accounting Standard LKAS 24 - "Related Party Disclosures", Key Management Personnel, are those having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. Accordingly, the Board of Directors has been classified as key management personnel of the entity.

Close Family Members of a Key Management Person are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the Entity. They may include;

- a. The individual's domestic partner and children;
- b. Children of the individual's domestic partner; and

Close Family Members are related parties to the Entity.

Transactions with KMP/CFM	Year ended 31.03.2021		Year ended 31.03.2020	
	2020/21	Amounts owed (to) / by the Related Party as at 31-03-2021	2019/20	Amounts owed (to) / by the Related Party as at 31-03-2020
Investment in Unit Trust	-	(80,349,545)	-	(53,719,522)
Benefit Accrued on Unit Trust	13,652,920	-	4,885,507	-

**24. Capital commitments and contingent liabilities**

There were no material capital commitments and contingent liabilities as at the reporting date which require disclosure in the financial statements.

**25. Events occurring after the reporting period**

There were no material events after the reporting period, which require adjustments to or disclosures in the financial statements.

**FIRST CAPITAL MONEY MARKET FUND  
NOTES TO THE FINANCIAL STATEMENTS  
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**26. Impact on COVID-19 Pandemic**

The World Health Organisation declared COVID 19 as a Global Pandemic situation on 11<sup>th</sup> March 2020. The pandemic significantly affected the Sri Lankan economy as well as the business environment. The situation is being continued effecting many aspects of the country. With the declaration of COVID 19 as a Global Pandemic situation and in response to the serious threat imposed on public health and safety, Sri Lankan Government enforced several measures to control the pandemic in March 2020.

The Country began to stabilise during the second half of year 2020 with lifting of lockdowns and gradual resurrection of business operations along with the consumer demand, that was lowered by the re-surge of 2<sup>nd</sup> wave of the pandemic occurred towards the end of year 2020. The Country has been going through another distress as a result of 3<sup>rd</sup> wave of COVID 19 since April 2021.

COVID-19 Pandemic had a low impact on the Company's general business routines. The Company followed the government guidelines and acted to ensure the safety of employees, stakeholder and business partners. The Company was equipped with a strong Business Continuity Plan. Accordingly, the Company was better prepared and equipped to face such contingent situations when the Government initially imposed curfew in March 2020. The Company had adequate infrastructure in place to face such emergency and therefore the impact on the business operations was minimal. The outbreak of COVID-19 does not have a significant impact on the performance, liquidity and valuation of assets of the Company.

**FIRST CAPITAL MONEY MARKET FUND**  
**RECONCILIATION OF NET ASSET VALUE REPORTED AS AT 31<sup>ST</sup> MARCH 2021**

	<b>Rs.</b>
<b>Net Asset Value as per Monthly Return</b>	<b>21,486,011,183</b>
Adjustment on provision for financial asset - at amortised cost as per SLFRS 9	(5,876,504)
Adjustment on fair valuation of financial asset - at fair value through profit or loss	(1,861,125)
Adjustment on under provision for Audit Fee	(52,101)
<b>Net Asset Value as per Audited Financial Statements</b>	<b>21,478,221,453</b>

# CORPORATE INFORMATION

## **NAME OF THE FUND (UNIT TRUST)**

First Capital Money Market Fund

## **FUND MANAGING COMPANY**

First Capital Asset Management Limited (PB  
187)

## **TRUSTEE OF THE FUND**

Bank of Ceylon

## **REGISTERED OFFICE OF FUND MANAGING COMPANY**

No. 2, Deal Place  
Colombo 3  
Sri Lanka

## **BOARD OF DIRECTORS OF FUND MANAGING COMPANY**

Mr. Nishan Fernando  
Mr. Dinesh Schaffter  
Mr. Dilshan Wirasekara  
Mr. Eardley Perera  
Ms. Minette Perera  
Mr. Chandana de Silva  
Dr. Nishan de Mel

## **SECRETARIES**

K H L Corporate Services Limited  
No. 15, Walukarama Road  
Colombo 3

## **EXTERNAL AUDITORS**

Messrs SJMS Associate (Deloitte)  
Chartered Accountants  
No. 11, Castle Lane  
Colombo 4

## **INTERNAL AUDITORS**

Messrs PricewaterhouseCoopers  
Chartered Accountants  
No. 100, Braybrooke Place  
Colombo 2

## **PRINCIPAL BANKERS**

Bank of Ceylon  
Sampath bank