



First Capital
A Janashakthi Group Company

ANNUAL REPORT 2021/22

FIRST CAPITAL FIXED INCOME FUND

Managed by

FIRST CAPITAL ASSET MANAGEMENT LIMITED

CONTENTS

DESCRIPTION	Page
Fund Manager's Report	1
<u>Financial Reports</u>	
Independent Auditor's Report	4
Statement of Profit or Loss and Other Comprehensive Income	6
Statement of Financial Position	7
Statement of Changes in Unitholders' Funds	8
Statement of Cash Flows	9
Notes to the Financial Statements	10
Reconciliation on Net Assets	34
Corporate Information	35

REPORT OF THE MANAGER

We have pleasure in presenting to you the Audited Financial Statements of First Capital Fixed Income Fund for the year ended 31st March 2022.

Economic and Industry Overview

The Sri Lankan economy recouped in 2021 from the widespread pandemic in 2020, albeit confronting multifaceted headwinds that emanated from the global and domestic front ultimately resulting in a social political tension in the beginning of 2022. Among all, the major issue was the foreign reserves shortage causing large overshoot of the foreign exchange creating significant vulnerabilities in the economy. Nonetheless, a successful debt restructuring programme and long overdue structural reforms in conjunction with an economic adjustment programme supported by the IMF are expected to facilitate the economy recovery in 2022 and beyond.

Until August 2021, CBSL provided monetary stimulus to support the pandemic affected economy. Since then, CBSL commenced adopting a tight monetary policy stance to preempt the inflationary pressures and to address the imbalances in the external and financial markets. As a result of tightened policy rates, overall liquidity in the domestic market remained negative towards the latter half of the year and has been dragged up to Rs. -366.3Bn causing a gradual upward adjustment in the market interest rates. However, supported by the low interest rates environment that prevailed for most part of the year, credit growth to the private sector remained robust at 13.1% YoY basis for 2021 relative to 6.5% registered in 2020.

The unit trust industry exhibited a contraction in total assets by 3% during 2021 against a backdrop of strong equity market and due to the shift of the client focus on alternative investments that yield substantial returns.

During 2021/22, there were 16 licensed unit trust management companies with 68 funds in operation. Total assets under management were Rs. 178Bn as at 31st March 2022 (Source: The Unit Trust Association of Sri Lanka).

Fund Performance

First Capital Fixed Income Fund reported a Profit after Tax of Rs. 56Mn for the year ended 31st March 2022 compared to Rs. 113Mn in the previous year (2020/21). The Reduction in Profit after Tax is due to the fair valuation loss on fixed income securities portfolio amounting to Rs. 40.9Mn (2020/21 – fair valuation gain of Rs. 19.9Mn was reported).

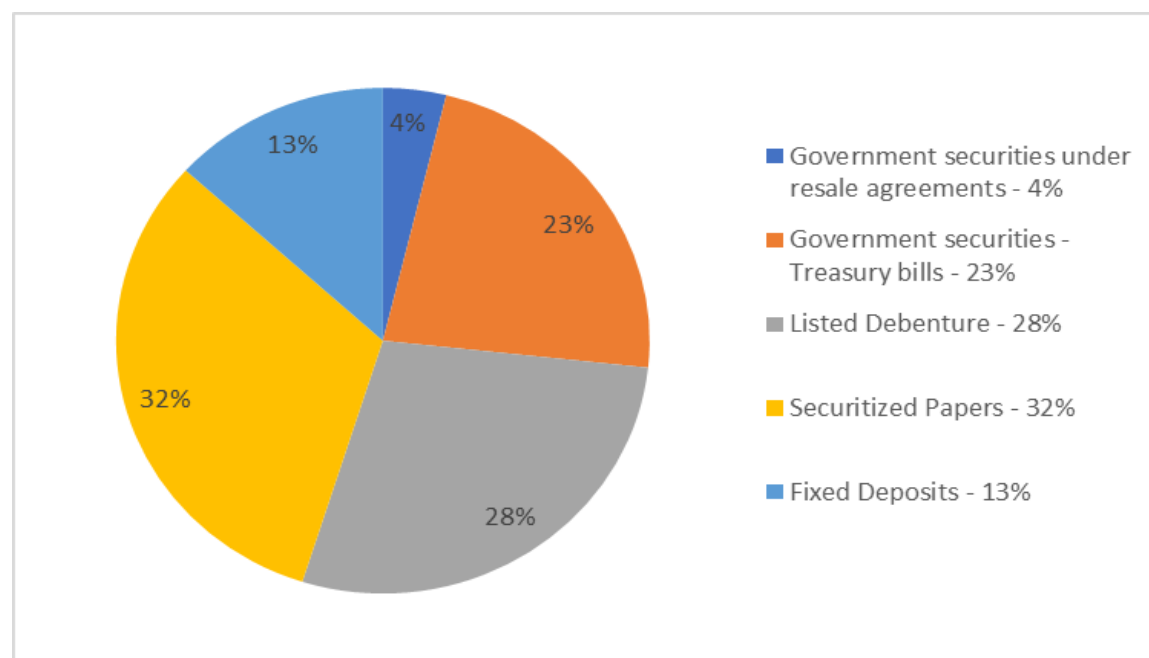
The Fund reported an Annualised Return of 5.98% for the year ended 31st March 2022 compared to the average 5-year treasury bond yield (base yield) of 10% (source: Central Bank of Sri Lanka - *Monthly Economic Indicators*; <https://www.cbsl.gov.lk/statistics/economic-indicators/monthly-indicators>. 5-year treasury bond (risk free return) is used to evaluate the performance of the Fund which denotes the return over the risk-free return since there is no appropriate benchmark index for the Fund).

The Annualised Return reported in the previous year (2020/21) was 13.71% compared to the average 5-year treasury bond yield (base yield) of 7% (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 31st March 2022 were Rs. 996Mn compared to Rs. 939Mn as at 31st March 2021.

In accordance with Sri Lanka Financial Reporting Standards, the Fund is accounted for on marked-to-market basis wherein the return to investors reduces during periods of rising interest rates and increases when interest rates are decline.

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

Asset Allocation as at 31st March 2022



Future Outlook

Sri Lankan economy has recovered from the contraction of 3.6% recorded in 2020 and registered a growth of 3.7% in 2021. However, growth prospects for 2022 are expected to be significantly influenced by the unfavorable developments occurred since 2021 in the domestic front particularly severe shortage in foreign currency and other shortages stemming from global supply chain disruptions and resultant rising commodity prices. Consequently, current economic conditions are expected to remain in the first half of 2022 with the GDP growth getting negatively impacted and interest rates remaining at high levels. However, the economy is expected to recover in the medium to long term conditional on restoring political stability, reassuring social coherence and seeking an economic adjustment programme from the International Monetary Fund (IMF). A commitment to rationalise government expenditure and enhancing government revenue, together with policy thrust towards developing exporters and the gradual recovery of tourism activities provide reasons to be optimistic that the country will successfully overcome the stresses that we are confronting in the short-term.

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.

INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF FIRST CAPITAL FIXED INCOME FUND

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of First Capital Fixed Income Fund ("the Fund"), which comprise the statement of financial position as at 31 March 2022, 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 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the fund in accordance with the 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
15 June 2022



FIRST CAPITAL FIXED INCOME FUND
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2022

	Note	2021/2022 Rs.	2020/2021 Rs.
Income	6	104,968,300	99,994,847
Direct expenses	7	<u>(496,575)</u>	<u>(468)</u>
Net trading income		104,471,725	99,994,379
(Loss)/gain on fair valuation of financial assets - fair value through profit or loss		<u>(40,865,052)</u>	<u>19,940,389</u>
		63,606,673	119,934,768
Administration expenses	8	(7,377,377)	(6,785,247)
Other operating expenses	9	(20,950)	(11,000)
Provision/ (reversal) for impairment of financial assets at amortised cost	13.3.1	<u>(5,771)</u>	<u>139,600</u>
		<u>(7,404,098)</u>	<u>(6,656,647)</u>
Profit before taxation		56,202,575	113,278,121
Income tax expenses	10	-	-
Profit for the year		<u>56,202,575</u>	<u>113,278,121</u>
Other comprehensive income		-	-
Increase in net assets attributable to unitholders		<u><u>56,202,575</u></u>	<u><u>113,278,121</u></u>

Figures in bracket indicate deductions.

The attached notes from 1 to 22 form an integral part of these financial statements.



**FIRST CAPITAL FIXED INCOME FUND
STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2022**

	Note	31.03.2022 Rs.	31.03.2021 Rs.
Assets			
Cash at bank	11	618,803	235,775
Financial assets -at fair value through profit or loss	12	815,362,681	743,474,234
Financial assets - at amortised cost	13	169,795,208	190,149,392
Other receivable	14	11,158,511	6,825,645
Total assets		996,935,203	940,685,046
Unitholders' funds and liabilities			
Liabilities			
Accrued expenses and other liabilities	15	1,271,235	1,223,653
Total liabilities		1,271,235	1,223,653
Unitholders' funds			
Net assets attributable to unitholders		995,663,968	939,461,393
		995,663,968	939,461,393
Total unitholders' funds and liabilities		996,935,203	940,685,046
Net assets per unit (Rs.)	16	1,985.90	1,873.80

The Management Company of First Capital Fixed Income 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 15 June 2022.



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




A. D. E. I. Perera
Director
First Capital Asset Management Limited
Fund Management Company



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

The attached notes from 1 to 22 form an integral part of these financial statements.

FIRST CAPITAL FIXED INCOME FUND
STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS
FOR THE YEAR ENDED 31 MARCH 2022

	Unitholders' capital	Increase in net assets attribute to unitholders	Net assets attributable to unitholders
	Rs.	Rs.	Rs.
Balance as at 1 April 2020	536,746,323	289,436,949	826,183,272
Increase in net assets attributable to unitholders	-	113,278,121	113,278,121
Balance as at 31 March 2021	536,746,323	402,715,070	939,461,393
Balance as at 1 April 2021	536,746,323	402,715,070	939,461,393
Capital infused during the year	-	-	-
Capital withdrawals made during the year	-	-	-
Increase in net assets attributable to unitholders	-	56,202,575	56,202,575
Balance as at 31 March 2022	536,746,323	458,917,645	995,663,968

Figures in brackets indicate deductions.

The attached notes from 1 to 22 form an integral part of these financial statements.



**FIRST CAPITAL FIXED INCOME FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2022**

	2021/2022 Rs.	2020/2021 Rs.
Cash flows from operating activities		
Profit before taxation	56,202,575	113,278,121
Adjustment for :		
(Loss)/gain on fair valuation of financial assets at fair value through profit or loss	40,865,052	(19,940,389)
(Provision/ (reversal) for impairment of financial assets at amortised cost (<i>Note 13.3.1</i>)	5,771	(139,600)
Operating profit before working capital changes	<u>97,073,398</u>	<u>93,198,132</u>
Increase in financial assets -at fair value through profit or loss	(112,753,499)	(134,264,235)
Decrease in financial investments -at amortised cost	20,348,413	46,175,252
Increase in other receivables	(4,332,866)	(5,440,612)
Increase/(decrease) in accrued expenses and other liabilities	47,582	(219,629)
Cash flows from/(used in) operating activities	<u>383,028</u>	<u>(551,092)</u>
Tax paid	-	-
Net cash flows (used in) / from operating activities	<u>383,028</u>	<u>(551,092)</u>
Net cash flows from / (used in) investing activities	<u>-</u>	<u>-</u>
Cash flows from financing activities		
Capital infused/ (redeemed) by unitholders (Net)	-	-
Net cash flows used in financing activities	<u>-</u>	<u>-</u>
Net increase/(decrease) in cash and cash equivalents for the year	383,028	(551,092)
Cash and cash equivalents at the beginning of the period	235,775	786,867
Cash and cash equivalents at the end of the period (<i>Note 11</i>)	<u><u>618,803</u></u>	<u><u>235,775</u></u>

Figures in bracket indicate deductions.

The attached notes from 1 to 22 form an integral part of these financial statements.



**FIRST CAPITAL FIXED INCOME FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022**



1. Reporting entity

First Capital Fixed Income Fund is an Open-ended Unit Trust approved by the Securities and Exchange Commission of Sri Lanka on 25 April 2014.

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

1.1. Principal activities

The Unit Trust engages in investment in fixed income securities (i.e. Government Securities and Corporate Debt Securities) on behalf of its clients. The operations of the Trust commenced on 25th July 2014.

The Objective of the First Capital Fixed Income Fund is to yield superior returns to Unitholders 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 2022 were authorised for issue by the Fund Management Company on 15 June 2022.

2. Basis of preparation

2.1. Statement of compliance

The financial statements of the Fund which comprise the statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in unitholders' 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 the 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 or loss.

2.3. Functional and presentation currency

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

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.

**FIRST CAPITAL FIXED INCOME FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022**



2.4 Use of estimates and judgments (Contd.)

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 management has made an assessment of the Fund'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 Fund'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 market place.

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.

**FIRST CAPITAL FIXED INCOME FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022**

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/(loss) during 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:

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.



**FIRST CAPITAL FIXED INCOME FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022**



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

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.

The Fund considers evidence of impairment for financial assets at amortised cost at both a specific asset and collective level. All individually significant financial assets at amortised cost are assessed for specific impairment. All individually significant financial assets 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 assets at amortised cost that are not individually significant are collectively assessed for impairment by grouping together financial assets at amortised cost with similar risk characteristics.

In assessing collective impairment, the Fund 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, during 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 equity security is recognised in other comprehensive income.

**FIRST CAPITAL FIXED INCOME FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022**

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.

There were no sale and repurchase borrowings as of year end 31 March 2022 and 31 March 2021.

4.1.8. Impairment of non-financial assets

The carrying amounts of the Unit Trust's non-financial assets, other than deferred tax 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 during 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-recognised 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 substantially transferred 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 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.



**FIRST CAPITAL FIXED INCOME FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022**



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.

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 Comprehensive Income include interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis and fair value changes in 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.

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 Inland Revenue Act No. 24 of 2017 as amended by the Inland Revenue (Amendment) Act No. 10 of 2021. 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 as amended by the Inland Revenue (Amendment) Act No. 10 of 2021.

4.8. Expenses

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

Management fee	-	0.5% p.a. of net asset value of the fund calculated on a daily basis
Trustee fee	-	0.22% p.a. of net asset value of the fund calculated on a daily basis.

4.9. Unitholders' funds

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

**FIRST CAPITAL FIXED INCOME FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022**

4.10. 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.

4.11. 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 have occurred after the reporting date have been considered and appropriate disclosures are made in the financial statements.

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.



**FIRST CAPITAL FIXED INCOME FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022**

	2021/2022 Rs.	2020/2021 Rs.
6 Income		
Interest income on financial assets at fair value through profit and loss	85,865,560	84,277,521
Interest income on financial assets - at amortised cost	18,597,877	14,522,805
Placement fee	504,863	1,194,521
	<u>104,968,300</u>	<u>99,994,847</u>
7 Direct expenses		
Interest expense on repurchase agreements	496,575	468
	<u>496,575</u>	<u>468</u>
8 Administration expenses		
Management fees	4,848,729	4,458,705
Trustee fee	2,304,116	2,118,776
Auditor's remuneration	224,532	207,766
	<u>7,377,377</u>	<u>6,785,247</u>
9 Other operating expenses		
Bank charges	20,950	11,000
	<u>20,950</u>	<u>11,000</u>
10 Income tax expenses		
First Capital Fixed Income Fund (the Fund) is not liable to pay income tax as at the reporting date in accordance with Inland Revenue Act No. 24 of 2017, as amended by the Inland Revenue (Amendment) Act No. 10 of 2021. 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, as amended by the Inland Revenue (Amendment) Act No. 10 of 2021. (2020/2021 - nil).		
Reconciliation between current tax expense and the accounting profit		
Accounting profit from ordinary activities before tax	56,202,575	113,278,121
Less:- Exempted income	<u>(56,202,575)</u>	<u>(113,278,121)</u>
Taxable income	-	-
Income tax provision for the year	<u>-</u>	<u>-</u>
	31.03.2022	31.03.2021
	Rs.	Rs.
11 Cash at bank		
Bank of Ceylon - Corporate Branch (Note 11.1)	618,803	235,775
	<u>618,803</u>	<u>235,775</u>



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

Above balance represents as at 31 March 2022 and 31 March 2021 is with Credit rating of (AA-).

FIRST CAPITAL FIXED INCOME FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022

	31.03.2022 Rs.	31.03.2021 Rs.
12. Financial assets at fair value through profit or loss		
Securitized papers (<i>Note 12.1</i>)	307,284,021	340,532,947
Debentures (<i>Note 12.2</i>)	280,466,980	299,772,010
Commercial papers (<i>Note 12.3</i>)	-	103,169,277
Government securities - Treasury bills	227,611,680	-
	<u>815,362,681</u>	<u>743,474,234</u>

12.1 Securitized papers

Name of the issuer	31.03.2022 Market value (Rs.)	Percentage exposure to each issuer against the net value of the fund	31.03.2021 Market value (Rs.)	Percentage exposure to each issuer against the net value of the fund
Alliance Finance Company PLC	106,948,405	11%	-	-
Commercial Credit and Finance PLC	-	-	122,504,824	13%
Prime Finance PLC	69,446,897	7%	94,200,450	10%
LOLC Development Finance PLC	130,888,719	13%	123,827,673	13%
Total	<u>307,284,021</u>		<u>340,532,947</u>	

12.2 Debentures

Name of the issuer		31.03.2022 Market value (Rs.)	Percentage exposure to each issuer against the net value of the fund		31.03.2021 Market value (Rs.)	Percentage exposure to each issuer against the net value of the fund
	Number of debentures			Number of debentures		
Janashakthi Limited	1,300,000	115,615,630	12%	1,300,000	129,488,710	14%
Softlogic Capital PLC	1,500,000	164,851,350	17%	1,500,000	170,283,300	18%
Total		<u>280,466,980</u>			<u>299,772,010</u>	

From the above investments as at 31 March 2022, LKR 164,851,350 represents credit rating of (BBB+) and balance of LKR 115,615,630 represents credit rating of (BB+). (As at 31 March 2021 represent Credit rating of (BBB-) and above).

12.3 Commercial Papers

Name of the issuer	31.03.2022 Market value (Rs.)	Percentage exposure to each issuer against the net value of the fund	31.03.2021 Market value (Rs.)	Percentage exposure to each issuer against the net value of the fund
LOLC Holdings PLC	-		103,169,277	11%
Total	<u>-</u>		<u>103,169,277</u>	

(Above investment as at 31 March 2021 represent Credit rating of A).



FIRST CAPITAL FIXED INCOME FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022

	31.03.2022 Rs.	31.03.2021 Rs.
13. Financial investments - at amortised cost		
First Capital Treasuries PLC - Repurchase agreements (<i>Note 13.1</i>)	38,060,123	190,149,392
Investments in fixed deposits (<i>Note 13.2</i>)	131,735,085	-
	<u>169,795,208</u>	<u>190,149,392</u>

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

13.2 Investments in fixed deposits

	31.03.2022		31.03.2021	
Name of investee company	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
Richard Pieris Finance Limited	131,735,085	13%	-	
Total	<u>131,735,085</u>		<u>-</u>	

Above investment as at 31 March 2022 represent credit rating of (AA-).

	31.03.2022 Rs.	31.03.2021 Rs.
13.2.1 Investments in fixed deposits	131,740,856	-
Less :- Provision for impairment (<i>Note 13.3</i>)	(5,771)	-
	<u>131,735,085</u>	<u>-</u>

13.3 Impairment of investment in fixed deposit as at 31 March 2022, represents " Stage 1" in accordance with SLFRS 9. Accordingly, individual impairment provision has been made for lifetime expected loss.

	31.03.2022 Rs.	31.03.2021 Rs.
Stage 1 - 12 months expected loss	5,771	-
Total	<u>5,771</u>	<u>-</u>



FIRST CAPITAL FIXED INCOME FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022

	31.03.2022 Rs.	31.03.2021 Rs.
13.3.1. Movement in provision for expected credit loss		
Balance as the beginning of the year	-	139,600
Provision/(reversal) for the year	5,771	(139,600)
Balance at the end of the year	<u>5,771</u>	<u>-</u>
14. Other receivable		
Miscellaneous receivable	3,217,851	2,768,085
Coupon interest receivable	7,940,660	4,057,560
	<u>11,158,511</u>	<u>6,825,645</u>
15. Accrued expenses and other liabilities		
Management fee payable	422,511	397,505
Trustee fee payable	200,777	188,895
Auditor's remuneration	224,532	213,840
Miscellaneous payables	423,415	423,413
	<u>1,271,235</u>	<u>1,223,653</u>
16. Net assets per unit		
Net assets (Rs.)	995,663,968	939,461,393
Total number of units	501,367	501,367
Net assets per unit (Rs.)	<u>1,985.90</u>	<u>1,873.80</u>

Movements in the number of units during the year is as follows:

	No. of Units	Rs.
Balance as at 1 April 2020	501,367	826,183,272
Increase due to unit creation during the year	-	-
Decrease due to unit redemption during the year	-	-
Increase in net assets attributable to unit holders	-	113,278,121
Balance as at 31 March 2021	<u>501,367</u>	<u>939,461,393</u>
Balance as at 1 April 2021	501,367	939,461,393
Increase due to unit creation during the year	-	-
Decrease due to unit redemption during the year	-	-
Increase in net assets attributable to unit holders	-	56,202,575
Income distribution to unit holders	-	-
Balance as at 31 March 2022	<u>501,367</u>	<u>995,663,968</u>



FIRST CAPITAL FIXED INCOME FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022

17 Analysis of financial instrument by measurement basis

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

As at 31 March 2022

	Measured at fair value Rs.	Carried at cost Rs.	Amortised cost Rs.	Total Rs.
<u>Assets</u>				
Cash at bank	-	-	618,803	618,803
Financial assets				
- Financial assets recognised through profit or loss	815,362,681	-	-	815,362,681
- Financial assets - at amortised cost	-	-	169,795,208	169,795,208
Total	<u>815,362,681</u>	<u>-</u>	<u>170,414,011</u>	<u>985,776,692</u>
<u>Liabilities</u>				
Accrued expenses and other liabilities	-	1,271,235	-	1,271,235
Total	<u>-</u>	<u>1,271,235</u>	<u>-</u>	<u>1,271,235</u>

As at 31 March 2021

	Measured at fair value Rs.	Carried at cost Rs.	Amortised cost Rs.	Total Rs.
<u>Assets</u>				
Cash at bank	-	-	235,775	235,775
Financial assets				
- Financial assets recognised through profit or loss	743,474,234	-	-	743,474,234
- Financial assets - at amortised cost	-	-	190,149,392	190,149,392
Total	<u>743,474,234</u>	<u>-</u>	<u>190,385,167</u>	<u>933,859,401</u>
<u>Liabilities</u>				
Accrued expenses and other payables	-	1,223,653	-	1,223,653
Total	<u>-</u>	<u>1,223,653</u>	<u>-</u>	<u>1,223,653</u>



FIRST CAPITAL FIXED INCOME FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022

18. 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.

	Total carrying value	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total fair value Rs.
As at 31 March 2022					
Financial assets measured at fair value					
Financial assets at fair value through profit or loss					
- Investment in Debentures	280,466,980		280,466,980	-	280,466,980
- Investment in Securitized papers	307,284,021	-	307,284,021	-	307,284,021
- Investment in Government securities - Treasury bills	227,611,680	227,611,680	-		227,611,680
Total financial assets measured at fair value	815,362,681	227,611,680	587,751,001	-	815,362,681
	Total carrying value	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total fair value Rs.
As at 31 March 2021					
Financial assets measured at fair value					
Financial assets at fair value through profit or loss					
- Investment in Debentures	299,772,010	-	299,772,010	-	299,772,010
- Investment in Securitized papers	340,532,947	-	340,532,947	-	340,532,947
- Investment in Commercial papers	103,169,277	-	103,169,277	-	103,169,277
Total financial assets measured at fair value	743,474,234	-	743,474,234	-	743,474,234

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.



**FIRST CAPITAL FIXED INCOME FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022**

18.1 Measurement of fair values

18.1 (1) Valuation techniques and significant unobservable inputs

The following table reflects the valuation techniques used in measuring Level 2 fair values, as well as the observable inputs used.

Financial instruments measured at fair value

Type	Valuation technique	Observable inputs
Investment in Debenture	The valuation model is based on Yield Curve of the Government Securities. Yields relating to Government Securities based on the maturities of the respective debentures 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 (5.20% - 6.09%)
Investment in Securitized 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 Securitized 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% - 4.79%)

18.1.1 (a) Sensitivity of the Market Yield on Financial Instruments measured at Fair Value is as follows.

	(-) 0.5% Decrease (Effect in Rs.)	(+) 0.5% Increase (Effect in Rs.)
Investment in Debentures	2,409,420	(2,780,450)
Investment in Securitized Papers	1,304,888	(1,293,067)
Investment in Treasury Bills	108,330	(108,100)

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.



**FIRST CAPITAL FIXED INCOME FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022**

19. 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.

19.1 Risk management framework

The Board of Directors of the fund manager bears 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) of the fund manager 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.

19.1(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 manager.
- The operational authority for managing market risk is vested with the Investment Committee (IC) of the fund manager.
- Interest rate risk is managed within the approved limits by the Investment Committee of the fund manager.

19.1(b) Liquidity risk

Liquidity risk is the risk that the Unit Trust will not have adequate financial resources to meet Unit Trusts' 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.



FIRST CAPITAL FIXED INCOME FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022

19.1(b) Liquidity risk (Contd.)

Maturity analysis of the financial assets and financial liabilities

As at 31 March 2022	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	618,803	618,803	-	-	-	-
Financial assets at fair value through profit or loss	815,362,680	250,848,610	177,098,685	387,415,385	-	-
Financial assets - at amortised cost	169,795,208	38,060,123	131,740,855	-	-	-
Total financial assets	<u>985,776,691</u>	<u>289,527,536</u>	<u>308,839,540</u>	<u>387,415,385</u>	<u>-</u>	<u>-</u>
 As at 31 March 2021						
<u>Assets</u>						
Cash at bank	235,775	235,775	-	-	-	-
Financial assets at fair value through profit or loss	743,474,234	-	255,528,811	317,662,123	170,283,300	-
Financial assets - at amortised cost	190,149,392	190,149,392	-	-	-	-
Total financial assets	<u>933,859,401</u>	<u>190,385,167</u>	<u>255,528,811</u>	<u>317,662,123</u>	<u>170,283,300</u>	<u>-</u>

19.1(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 investment in corporate debt securities and investment in reverse repo agreements.

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.



FIRST CAPITAL FIXED INCOME FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022

Credit quality by class of financial assets

As at 31 March 2022

	12 Month expected credit losses	Life time expected credit losses not credit impaired	Life time expected credit losses credit impaired	Total
	Rs.	Rs.	Rs.	Rs.
<u>Assets</u>				
Cash at bank	618,803	-	-	618,803
Financial assets - at amortised cost	169,795,208	-	-	169,795,208
Total financial assets	170,414,011	-	-	170,414,011

As at 31 March 2021

	12 Month expected credit losses	Life time expected credit losses not credit impaired	Life time expected credit losses credit impaired	Total
	Rs.	Rs.	Rs.	Rs.
<u>Assets</u>				
Cash at bank	235,775	-	-	235,775
Financial assets - at amortised cost	190,149,392	-	-	190,149,392
Total financial assets	190,385,167	-	-	190,385,167



FIRST CAPITAL FIXED INCOME FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022

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 2022	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	618,803	227,611,680	-	228,230,483
Corporate	-	587,751,001	169,795,208	757,546,209
Total	618,803	815,362,681	169,795,208	985,776,692

As at 31 March 2021

<u>Sector wise breakdown</u>				
Government	235,775	-	-	235,775
Corporate	-	743,474,234	190,149,392	933,623,626
Total	235,775	743,474,234	190,149,392	933,859,401

19.1 (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 investments, 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 31.03.2022 Rs.	Effect on the profit for the year ended 31.03.2021 Rs.
Increased in interest	+0.5%	(4,181,617)	(5,974,135)
Decreased in interest	-0.5%	3,822,638	5,811,758



**FIRST CAPITAL FIXED INCOME FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022**

19.1 (e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the company'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 behaviour.

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 authorisation 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 of the Fund manager.



**FIRST CAPITAL FIXED INCOME FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022**

20. Related party disclosures

20.1 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. Ramesh Schaffter
Janashakthi Limited	Ultimate Parent	-	Director	-	Director	-	Chairman	-	Managing Director/Group CEO
Janashakthi Insurance PLC	Subsidiary of the Ultimate Parent	-	Director	-	-	-	-	-	Director
Janashakthi Capital Limited	Subsidiary of the Ultimate Parent	-	-	-	-	-	-	-	Director
Janashakthi Business Services (Private) Limited	Subsidiary of the Ultimate Parent	-	-	-	-	-	-	-	Director
Janashakthi Corporate Services Limited	Subsidiary of the Ultimate Parent	-	Director	-	-	-	-	-	Director
Orient Finance PLC	Subsidiary of the Ultimate Parent	-	-	-	-	Director	-	-	-
Orient Capital Limited	Subsidiary of the Ultimate Parent	-	-	-	-	-	-	-	-
First Capital Limited	Immediate Parent	Chairman	Managing Director	Director /CEO	Director	Director	Director	Director	-



**FIRST CAPITAL FIXED INCOME FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022**

20.1 Directorships in other companies (Contd.)

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. Ramesh Schaffter
First Capital Treasuries PLC	Subsidiary of Immediate Parent	Chairman	Managing Director	Director /CEO	-	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	-
First Capital Trustee Services (Private) Limited	Subsidiary of Immediate Parent	-	Managing Director	Director /CEO	-	-	-	-	-
Kelsey Developments PLC	Subsidiary of the Ultimate Parent	-	-	-	Chairman/ Director	-	-	-	Director
Kelsey Homes (Private) Limited	Subsidiary of the Ultimate Parent	-	-	-	Director	-	-	-	Director
Kelsey Homes (Central Park) Limited	Subsidiary of the Ultimate Parent	-	-	-	Director	-	-	-	Director
Premier Synthetic Leather Manufacturers (Private) Limited	Related party through KMP	-	Director	-	-	-	-	-	-
Nextventures Limited	Related party through KMP	-	Director	-	-	-	-	-	-



**FIRST CAPITAL FIXED INCOME FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022**



20. Related party disclosures (Contd.)

KMP - Key Management Personnel

- Mr. Prakash Schaffter has stepped down from the Board of Directors of First Capital Holdings PLC and acting as alternate Director to Mr. Ramesh Schaffter with effect from 2 September 2021.
- Mr. Prakash Schaffter has stepped down from the Board of Directors of Janashakthi Insurance PLC, Kelsey Developments PLC, Premier Synthetic Leather Manufacturers (Pvt) Ltd, K H L Corporate Services Limited, First Capital Treasuries PLC and Orient Capital Limited with effect from 11 August 2021, 2 September 2021, 26 November 2021, 26 November 2021, 10 January 2022 and 1 February 2022 respectively.
- Mr. Prakash Schaffter has been appointed to the Board of Directors of Kelsey Homes (Pvt) Ltd and Kelsey Homes (Central Park) Limited with effect from 1 January 2022. Mr. Ramesh Schaffter acting as alternate Director to Mr. Prakash Schaffter in Kelsey Homes (Pvt) Ltd and Kelsey Homes (Central Park) Ltd.
- Mr. Ramesh Schaffter has stepped down from the Board of Directors of Janashakthi Insurance PLC and Kelsey Developments PLC and appointed as alternate Director to Mr. Prakash Schaffter with effect from 11 August 2021 and 2 September 2021 respectively.
- Mr. Ramesh Schaffter has stepped down from the Board of Directors of Orient Finance PLC with effect from 6 September 2021 and the position of Alternate Director (to Mr. Prakash Schaffter) from the Board of Orient Finance PLC with effect from 2 March 2022.
- Mr. Ramesh Schaffter has stepped down from the Board of Directors of Premier Synthetic Leather Manufacturers (Pvt) Ltd and Orient Capital Limited with effect from 26 November 2021 and 1 February 2022.
- Mr. Ramesh Schaffter has been appointed to the Board of Janashakthi Business Services (Private) Limited with effect from 14 February 2022.
- Mr. Dinesh Schaffter has been appointed to the Board of Janashakthi Insurance PLC with effect from 5 July 2021.
- Mr. Dinesh Schaffter has stepped down from the Board of Directors of Kelsey Developments PLC, Kelsey Homes (Central Park) Limited (formerly know as Twid Capital (Pvt) Ltd) and Kelsey Homes (Pvt) Ltd with effect from 2 September 2021.
- Mr. Chandana Lal de Silva has stepped down from the Board of Directors of Kelsey Developments PLC with effect from 2 September 2021.
- Mr. Eardley Perera has stepped down from the Board of Directors of Janashakthi Insurance PLC with effect from 30 June 2021.

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 FIXED INCOME FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022**

20.2 Transaction with managing company

Name of the company	Nature of the Transaction	<u>Year ended 31.03.2022</u>		<u>Year ended 31.03.2021</u>	
		2021/22	Amounts owed (to) / by the related party as at 31-03-2022	2020/21	Amounts owed (to) / by the related party as at 31-03-2021
		Rs.	Rs.	Rs.	Rs.
First Capital Asset Management Limited	Management fee	4,848,729	(422,511)	4,458,705	(397,505)
	Bank deposit made		(60,158)	-	(60,158)

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

Nature of transaction					
Interest income		9,770,057	-	11,221,796	-
Interest expense		496,575	-	468	-
Resale agreements		-	-	-	190,149,392
Investment in debentures		-	115,615,630	-	129,488,710
Investment in unit trust		-	(995,542,586)	-	(939,355,474)
Benefit accrued on Unit Trust		(56,197,515)	-	113,267,163	-



FIRST CAPITAL FIXED INCOME FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022

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

As per 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
- c. Dependents of the Individual or the individual's domestic partner

Close Family Members are related parties to the Entity.

Transactions with KMP/CFM	<u>Year ended 31.03.2022</u>		<u>Year ended 31.03.2021</u>	
	2021/22	Amounts owed (to) / by the related party as at 31-03-2022	2020/21	Amounts owed (to) / by the related party as at 31-03-2021
	Rs.	Rs.	Rs.	Rs.
Investment in Unit Trust	-	(1,926)	-	(1,818)
Benefit accrued on Unit Trust	(109)	-	220	-
			220	

21. 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.

22. 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 Fixed Income Fund**Reconciliation of Net Asset Value reported as at 31st March 2022**

	Rs.
Net Asset Value as per Monthly Return	995,669,739
Adjustment on provision for financial asset - at amortised cost as per SLFRS 9	(5,771)
Net Asset Value as per Audited Financial Statements	995,663,968

CORPORATE INFORMATION

NAME OF THE FUND (UNIT TRUST)

First Capital Fixed Income 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

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

Janashakthi Corporate Services Limited
(Formerly known as K H L Corporate
Services Limited)
No. 15, Walukarama Road
Colombo 3
Tel: 0112145030

EXTERNAL AUDITORS

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

INTERNAL AUDITORS

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

PRINCIPAL BANKERS

Sampath bank
Bank of Ceylon