

**CAPITAL ALLIANCE INVESTMENT  
GRADE FUND  
COLOMBO 02**

**FINANCIAL STATEMENTS FOR THE  
YEAR ENDED 31ST MARCH 2024**



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## **INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF CAPITAL ALLIANCE INVESTMENT GRADE FUND**

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

#### **Opinion**

We have audited the Financial Statements of Capital Alliance Investment Grade Fund ("the Fund"), which comprise the statement of financial position as at 31<sup>st</sup> March 2024, and the statement of profit or loss and other comprehensive income, the statement of movement in unit holders' fund and the statement of cash flows for the year then ended, and notes to the Financial Statements, including a summary of material accounting policy information as set out on page 05 to 20.

In our opinion, the accompanying Financial Statements give a true and fair view of the financial position of the Fund as at 31<sup>st</sup> March 2024, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### **Basis for Opinion**

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

#### **Responsibilities of the Fund Management Company and the Trustee 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 management determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. 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 SLAuSSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that 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 the Trustee 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 50 of the Collective Investment Scheme Code (CIS Code) issued by the Securities and Exchange Commission of Sri Lanka in terms of Section 183 of the Securities and Exchange Commission Act, No 19 of 2021 and the trust deed.

**BDO Partners**

**CHARTERED ACCOUNTANTS**

**Colombo**

**29<sup>th</sup> July 2024**

**NV/kp**



CAPITAL ALLIANCE INVESTMENT GRADE FUND  
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31ST MARCH 2024

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		2023/2024	2022/2023
	Note	Rs.	Rs.
<b>Investment income</b>			
Interest income	4	5,150,222,393	4,129,946,587
Realised gains on financial assets at fair value through profit or loss	8.3	447,691,330	25,066,845
Unrealised gains on financial assets at fair value through profit or loss	8.4	(12,344,800)	14,005,000
<b>Total investment income</b>		<u>5,585,568,923</u>	<u>4,169,018,432</u>
 Other income	 5	 12,225,144	 1,033,326
<b>Expenses</b>			
Management fees		(242,154,643)	(130,282,983)
Trustee fees		(46,601,722)	(35,880,321)
Custodian fees		(272,892)	(206,374)
Audit fees		(730,285)	(727,555)
Bank charges		(1,346,886)	(1,161,470)
Tax consultancy fees		(38,298)	(16,925)
Impairment charge on financial assets at amortised cost		(199,843,933)	(336,920,595)
<b>Total operating expenses</b>		<u>(490,988,659)</u>	<u>(505,196,223)</u>
 <b>Net operating profit</b>		 5,106,805,408	 3,664,855,535
 <b>Finance cost</b>			
Interest expense		(350)	(878)
 <b>Profit before tax</b>		 5,106,805,058	 3,664,854,657
 Income tax expense	 6	 -	 -
 <b>Profit after tax for the year</b>		 <u>5,106,805,058</u>	 <u>3,664,854,657</u>
 Other comprehensive income		 -	 -
 <b>Total comprehensive income</b>		 <u>5,106,805,058</u>	 <u>3,664,854,657</u>
 <b>Increase in net assets attributable to unitholders</b>		 <u>5,106,805,058</u>	 <u>3,664,854,657</u>

Figures in brackets indicate deductions.

The accounting policies and notes on pages 05 to 20 form an integral part of these Financial Statements.

Colombo  
29th July 2024



CAPITAL ALLIANCE INVESTMENT GRADE FUND  
STATEMENT OF FINANCIAL POSITION  
AS AT 31ST MARCH 2024

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	Note	As at 31.03.2024 Rs.	As at 31.03.2023 Rs.
<b>Assets</b>			
Cash and cash equivalents	7	126,586,352	10,989,534
Financial assets at fair value through profit or loss	8	796,200,800	6,427,795,500
Financial assets at amortised cost	9	45,037,801,719	8,484,483,667
Other receivables	10	233,693,958	235,493,866
<b>Total assets</b>		<b>46,194,282,829</b>	<b>15,158,762,567</b>
<b>Liabilities</b>			
Accrued expenses and other payables	11	95,971,725	18,410,355
<b>Total liabilities</b>		<b>95,971,725</b>	<b>18,410,355</b>
<b>Net assets</b>		<b>46,098,311,104</b>	<b>15,140,352,212</b>
<b>Unitholders' fund</b>			
Net assets attributable to Unitholders		<b>46,098,311,104</b>	<b>15,140,352,212</b>

Figures in brackets indicate deductions.

The accounting policies and notes on pages 05 to 20 form an integral part of these Financial Statements.

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

Signed for and on behalf of the Managing Company by:

Director  
Capital Alliance Investments Limited  
Management Company

Director  
Capital Alliance Investments Limited  
Management Company

Signed for and on behalf of the Trustee by:

Hatton National Bank PLC  
Trustee



Hatton National Bank PLC  
Trustee



CAPITAL ALLIANCE INVESTMENT GRADE FUND  
STATEMENT OF MOVEMENT IN UNITHOLDERS' FUND  
FOR THE YEAR ENDED 31ST MARCH 2024

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	2023/2024 Rs.	2022/2023 Rs.
Unitholders' fund at the beginning of the year	15,140,352,212	27,683,088,941
Increase in net assets attributable to unitholders	5,106,805,058	3,664,854,657
Creation of units	122,992,279,213	81,485,354,916
Redemption of units	(97,141,125,379)	(97,692,946,302)
Net increase/ (decrease) due to unitholders' transactions	25,851,153,834	(16,207,591,386)
Unitholders' fund at the end of the year	46,098,311,104	15,140,352,212

Figures in brackets indicate deductions.

The accounting policies and notes on pages 05 to 20 form an integral part of these Financial Statements.

Colombo  
29th July 2024





**CAPITAL ALLIANCE INVESTMENT GRADE FUND**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31ST MARCH 2024**

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	2023/2024 Rs.	2022/2023 Rs.
<b>Cash flows from operating activities</b>		
Interest received	5,294,148,654	4,056,797,471
Other income received	12,225,144	1,033,326
Operating expenses paid	(213,583,356)	(227,898,554)
Other receivables	1,799,908	(235,493,866)
Net investment in repurchase agreements	(17,331,038,000)	422,563,000
Net investment in fixed deposits	1,040,000,000	10,239,817,304
Net investment in debentures	(1,210,000,000)	344,639,201
Net investment in bonds	6,417,993,080	(5,956,406,250)
Net investment in bills	(776,400,500)	14,428,845
Net investment in commercial papers	(4,586,870,303)	7,321,362,587
Net investment in trust certificates	(14,383,831,293)	172,038,411
<b>Net cash (used in)/ generated from operating activities</b>	<b>(25,735,556,666)</b>	<b>16,152,881,475</b>
<b>Cash flows from financing activities</b>		
Cash received on creation of units	122,992,279,213	81,485,354,916
Cash paid on redemption of units	(97,141,125,379)	(97,692,946,302)
Interest paid	(350)	(878)
<b>Net cash generated from/ (used in) financing activities</b>	<b>25,851,153,484</b>	<b>(16,207,592,264)</b>
<b>Net increase/ (decrease) in cash and cash equivalents (Note A)</b>	<b>115,596,818</b>	<b>(54,710,789)</b>
<b>Cash and cash equivalents at the beginning of the year (Note B)</b>	<b>10,989,534</b>	<b>65,700,323</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>126,586,352</b>	<b>10,989,534</b>
<b>At the beginning of the year</b>		<b>Note A</b>
Cash at bank	10,989,534	65,700,323
	10,989,534	65,700,323
<b>At the end of the year</b>		<b>Note B</b>
Cash at bank	126,586,352	10,989,534
	126,586,352	10,989,534

Figures in brackets indicate deductions.

The accounting policies and notes on pages 05 to 20 form an integral part of these Financial Statements.

Colombo  
29th July 2024



## MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

**1. CORPORATE INFORMATION****1.1 General information**

Capital Alliance Investment Grade Fund ("the Fund") is an open-ended Unit Trust Fund approved by the Securities and Exchange Commission of Sri Lanka. The Fund was launched on 30<sup>th</sup> August 2013.

The Fund is managed by Capital Alliance Investments Limited which is incorporated and domiciled in Sri Lanka. The registered office of the Management Company is located at Level 05, "Millennium House", No.46/58, Nawam Mawatha, Colombo 02. The Trustee of the Fund is Hatton National Bank PLC having its place of business at "HNB Towers", No. 479, T. B. Jayah Mawatha (Darley Road), Colombo 10.

**1.2 Operating activities**

The investment objective of the Fund is to optimise investment income at low levels of risk through investments in only investment grade securities.

**1.3 Date of authorisation for issue**

The Financial Statement of the Fund for the year ended 31<sup>st</sup> March 2024 were authorised for issue by the Management Company and the Trustee on 29<sup>th</sup> July 2024.

**2. PREPARATION OF FINANCIAL STATEMENTS****2.1 Basis of preparation**

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

**2.2 Statement of compliance**

The Financial Statements which comprise the statement of financial position as at 31<sup>st</sup> March 2024, statement of profit or loss and other comprehensive income, statement of movement in Unitholders' Fund and statement of cash flows for the year then ended, and a summary of material accounting policies and other explanatory information have been prepared and presented in accordance with Sri Lanka Accounting Standards and the requirements of the Unit Trust Deed and Collective Investment Scheme Code (CIS Code) of the Securities and Exchange Commission of Sri Lanka.

**2.3 Basis of measurement**

The Financial Statements have been prepared under the historical cost convention with the exception of certain assets and liabilities at fair value.

**2.4 Functional and presentation currency**

The Financial Statements have been presented in Sri Lankan Rupees, the Fund's functional and presentation currency, which is the primary economic environment in which the Fund operates.

**2.5 Materiality aggregation**

Each material class of similar items is presented separately in the Financial Statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.





**2.6 Going concern**

These Financial Statements are prepared on the assumption that the Fund is a going concern i.e. as continuing in operation for the foreseeable future. It is, therefore, assumed that the Fund has neither the intention nor the necessity of liquidation.

**2.7 Significant Accounting Judgments, Estimates and Assumptions**

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

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

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

Management uses its judgment in determining the appropriate valuation technique for financial instruments that are not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Other financial instruments are valued using a discounted cash flow analysis based on the assumptions supported, where possible, by observable market prices or rates.

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

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: techniques which use inputs other than quoted prices included within Level 1, that are observable, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: techniques which use inputs that are not based on observable market data

**2.8 Summary of significant accounting policies**

**2.8.1 Financial instruments**

**2.8.1.1 Initial recognition**

Financial assets and liabilities, are initially recognised 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 regulations or convention in the market place.



## MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

**2.8.1.2 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 Fair Value through Profit and Loss (FVTPL) are expensed in the statement of profit or loss.

**2.8.1.3 Measurement categories of financial assets and liabilities**

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

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

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

**2.8.1.4 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 the payments of principal and interest on the principal amount outstanding.

Debt instruments at amortised cost in the statement of financial position comprise investments in treasury bill repurchase agreements, trust certificates, fixed deposits and commercial papers. 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.

**Fair value through profit or loss:**

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 the 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 FVTPL when doing so it eliminates or significantly reduces a measurement or recognition inconsistency and that would otherwise arise from measuring assets or liabilities or recognising their gains and losses on different bases.

A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within unrealised gains/(losses) in the period in which it arises.





#### 2.8.1.5 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 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 de-recognised as well as through the EIR amortisation process.

#### 2.8.1.6 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, are discounted at an approximation of the original effective interest rate.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since the 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 Lanka Rating Agency Limited as applicable to determine the significant deterioration in credit risk and to estimate the ECLs.

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

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

For debt instruments at amortised cost issued by the Sovereign, the Fund applies the low-risk simplification.





## MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

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

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

**Write-offs**

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

**2.8.1.7 Derecognition**

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 transferred substantially all the risks and rewards of the asset, or
  - the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

**2.8.1.8 Offsetting of financial instruments**

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

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

**2.8.2 Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position and statement of cash flows comprise cash at bank.

**2.8.3 Income tax**

Current tax assets and liabilities for the current and prior year are measured at the amount expected to be recovered from, or paid to the taxation authorities. Until 31<sup>st</sup> March 2018, the Fund is liable to pay income tax at the rate of 10% in accordance with the Inland Revenue Act No. 10 of 2006. Subsequent to the enactment of the new Inland Revenue Act No. 24 of 2017, effective from 01<sup>st</sup> April 2018, an Eligible Unit Trust would not be liable for income tax on any income which is a 'pass through' to its Unitholders. Accordingly, post 31<sup>st</sup> March 2018, the Fund has considered all income as being a 'pass through' to its Unitholders.

**2.8.4 Recognition of income**

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



## MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

**Interest income**

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

**2.8.5 Expenses**

The Management and Trustee fees of the Fund as per the Trust Deed are as follows.

Management fee	-	0.75% of Net Asset Value of the Fund
Trustee fee	-	0.16% of Net Asset Value of the Fund from 01 <sup>st</sup> April 2023 to 05 <sup>th</sup> July 2023
	-	0.13% of Net Asset Value of the Fund from 06 <sup>th</sup> July 2023 to 31 <sup>st</sup> March 2024
Custody fee	-	Rs: 15,000/- per month from 01 <sup>st</sup> April 2023 to 05 <sup>th</sup> July 2023
	-	Rs: 20,000/- per month from 06 <sup>th</sup> July 2023 to 31 <sup>st</sup> March 2024

**2.8.6 Unitholders' fund and net assets attributable to Unitholders**

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

Units can be issued and redeemed based on the Fund's net asset value per unit, calculated by dividing the net assets of the Fund as described in the Trust Deed and directives issued by the Securities and Exchange Commission of Sri Lanka, by the number of units in issue. Income not distributed is included in net assets attributable to Unitholders.

**3. FINANCIAL RISK MANAGEMENT****(a) Financial instruments**

The Fund's principal financial assets comprise investments repurchase agreements, commercial papers, trust certificates, fixed deposits and cash at bank. The overall objective of the Fund is to optimise income at very low levels of risk, essentially retaining the risk-free nature of Government Securities but offering the convenience of a unit trust. The Fund's principal financial liabilities comprise amounts attributable to Unitholders, which are the amounts owed to Unitholders of the Fund. The Fund also has other financial instruments such as receivables and payables, which arise directly from its operations.

In accordance with SLFRS 9 Financial Instruments: Recognition and Measurement, the investments in repurchase agreements, commercial papers, trust certificates and fixed deposits are classified as 'financial assets at amortised cost' and are valued at amortised cost. Amounts attributable to Unitholders are classified as 'equity' and are carried at the redemption amount being net asset value. Accrued expenses are classified as 'other financial liabilities' at amortised cost.

**(b) Financial risk management objectives, policies and processes**

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





## MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

Financial instruments of the Fund comprise investments in treasury bills/bond repurchase agreements, for the purpose of generating a return on the investment made by Unitholders, in addition to cash at bank, and other financial instruments such as receivables and payables, which arise directly from its operations.

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

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

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

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

(c) Credit risk

Credit risk is the risk that the counterparty to the financial statement will fail to discharge an obligation and cause the Fund to incur a financial loss.

The Fund's exposure to credit risk from its financial assets arises from default of the counterparty. It is the Fund's policy to enter into financial instruments with reputable counterparties.

Capital Alliance Investment Grade Fund's investments are only in repurchase agreements against Government securities, Trust Certificates, Commercial papers, fixed deposits and Debenture Repurchase Agreements.

The methodology used for ECL calculation is disclosed under 2.7.1.6 Impairment and it was updated for the latest macroeconomic forecasts and adjusted for the negative impacts due to Covid 19 pandemic. ECL calculations also consider weighted scenario analysis. Further, the Fund has taken initiatives to de-risk the Unit Trust portfolios with investments in Government Securities and instruments rated A- and above.

**Risk concentration of credit risk exposure**

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





## MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

The credit ratings of the counterparties with which the Fund places investments are as set out below:

Counterparty	Credit Rating	Rating Agency
L B Finance PLC	A-	Fitch Rating
Fixed Income Investment I (Pvt) Limited	A	LRA Rating
Fixed Income Investment II (Pvt) Limited	A	LRA Rating
Fixed Income Investment III (Pvt) Limited	A	LRA Rating
Fixed Income Investment V (Pvt) Limited	A	LRA Rating
LOLC Holdings PLC	A	Fitch Rating
CIC Holdings PLC	AA+	Fitch Rating
Asia Asset Finance PLC	A+	LRA Rating
People's Bank	A	Fitch Rating
HNB Finance PLC	BBB+	Fitch Rating
Richard Pieris Finance Limited	A	Fitch Rating
Singer Finance (Lanka) PLC	BBB	Fitch Rating
Siyapatha Finance PLC	BBB+	Fitch Rating

The Fund's maximum exposure to credit risk can be analysed as follows:

	Balance as at 31.03.2024 Rs.		Balance as at 31.03.2023 Rs.	
	Amortised cost	Maximum exposure	Amortised cost	Maximum exposure
Cash and cash equivalents	126,586,352	126,586,352	10,989,534	10,989,534
Financial assets at fair value through profit or loss	796,200,800	796,200,800	6,427,795,500	6,427,795,500
Financial assets at amortised cost	45,580,989,964	45,580,989,964	8,827,827,980	8,827,827,980
Other receivables	233,693,958	233,693,958	235,493,866	235,493,866
<b>Total</b>	<b>46,737,471,074</b>	<b>46,737,471,074</b>	<b>15,502,106,880</b>	<b>15,502,106,880</b>

## (d) Market risk

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

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

The Fund uses a range of different fund arrangements for investment assets. Where a Unitholder is invested in more than one investment portfolio, this reduces the impact of a particular manager underperforming. Within the underlying investment portfolio, diversification is achieved at a number of levels. The diversified portfolios are invested across a range of investment sectors. Within each sector of the diversified portfolios, the Fund managers invest in a variety of securities.



## MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

**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 are exposed it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The risk is measured using sensitivity analysis. However, due to the short-term nature of the investment instruments at the fixed rate of interest, it is reasonably expected that the fluctuation in interest rate will not materially impact the net assets value of the Fund.

**(e) Liquidity risk**

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

Due to the nature of a unit trust, it is unlikely that a significant number of unitholders would exit at the same time. However, to control liquidity risk, the Fund invests in financial instruments which readily converted into cash under normal market conditions. In addition, the Fund invests within established limits to ensure there is no concentration of risk. The Manager ensures that a minimum liquidity level of 3% of the total NAV of the Fund is available in cash or near cash form at any given time as required by the Unit Trust Code, reducing the liquidity risk to its investors.

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

The Fund's investments are managed on short-term basis and by investing in Government Securities. Further, liquidity is managed by the Fund Management Company through bank facilities and investment in highly liquid short-term instruments.

The table below analyses the Fund's non-derivative financial assets and liabilities into relevant maturity groupings based on the remaining period at the end of the reporting year. The amounts in the table are the contractual undiscounted cash flows.

31 March 2024	Less than 1 month Rs.	1-6 months Rs.	6-12 months Rs.	1-2 years Rs.	Over 2 Years Rs.	Total Rs.
Financial assets	18,103,877,644	18,339,697,967	1,253,913,902	3,672,052,641	5,896,000	47,265,542,154
Financial liabilities	95,971,725	-	-	-	-	95,971,725
31 March 2023	Less than 1 month Rs.	1-6 months Rs.	6-12 months Rs.	1-2 years Rs.	Over 2 Years Rs.	Total Rs.
Financial assets	904,952,172	45,589,644	2,428,212,500	-	13,565,091,026	16,943,845,342
Financial liabilities	18,410,355	-	-	-	-	18,410,355





## MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

The contractual amounts disclosed in this analysis are gross undiscounted cash flows and therefore, may not agree with the carrying amounts in the Statement of Financial Position.

## (f) Capital risk management

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

Daily applications and redemptions are reviewed relative to the liquidity of the Fund's underlying assets on a daily basis by the Management Company. Under the terms of the Collective Investment Scheme Code, the Management Company has the discretion to reject an application for Units and to defer redemption of Units if the exercise of such discretion is in the best interests of Unitholders.

The following are the disclosures of Unitholders' fund:

The movement in the Unitholders' fund as at 31<sup>st</sup> March 2024

## I. In terms of Value

	Rs.
Unitholders' fund as at 01 <sup>st</sup> April 2023	15,140,352,212
Creations during the year	122,992,279,213
Redemptions during the year	(97,141,125,379)
Increase in net assets attributable to Unitholders	5,106,805,058
Unitholders' fund as at 31 <sup>st</sup> March 2024	46,098,311,104

## II. In terms of No. of Units

	Units
No. of Units as at 01 <sup>st</sup> April 2023	579,342,678
Unit creations during the year	4,003,662,735
Unit redemptions during the year	(3,163,353,366)
No. of Units as at 31 <sup>st</sup> March 2024	1,419,652,047

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







	2023/2024 Rs.	2022/2023 Rs.
<b>4. INTEREST INCOME</b>		
Treasury bill/Bond repurchase agreements	786,175,184	425,421,292
Debentures	581,632,181	652,320,380
Treasury bonds	290,290,110	127,026,000
Treasury bills	39,172,500	176,369,635
Trust certificates	2,640,459,768	1,091,713,646
Commercial papers	269,463,778	788,644,511
Fixed deposits	543,028,872	868,451,123
	<u>5,150,222,393</u>	<u>4,129,946,587</u>

<b>5. OTHER INCOME</b>		
Miscellaneous income	12,225,144	1,033,326
	<u>12,225,144</u>	<u>1,033,326</u>

**6. INCOME TAX EXPENSE**

Following the enactment of the new Inland Revenue Act No. 24 of 2017 effective from 1st April 2018, the Fund is deemed to be conducting an eligible investment business and is treated as a tax pass through vehicle. Hence, no provision for income tax was made in the Financial Statements for the year ended 31st March 2024.

	As at 31.03.2024 Rs.	As at 31.03.2023 Rs.
<b>7. CASH AND CASH EQUIVALENTS</b>		
Hatton National Bank - savings account	126,558,838	-
Deutsche Bank AG - savings account	-	10,962,858
Sanasa Development Bank PLC - savings account	27,514	26,676
	<u>126,586,352</u>	<u>10,989,534</u>

**8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

<b>8.1 Treasury Bonds</b>		
Balance at the beginning of the year	6,427,795,500	-
Purchases during the year	9,686,488,545	7,992,020,750
Sales during the year	(16,735,892,985)	(2,205,516,500)
Accrued interest during the year	184,665,110	616,648,250
Change in unrealised (loss)/gain on financial assets at fair value through profit or loss	(14,005,000)	14,005,000
Realised gain on sales of financial assets at fair value through profit or loss	450,948,830	10,638,000
Market value as at 31st March	Note 8.3 <u>-</u>	<u>6,427,795,500</u>

<b>8.2 Treasury Bills</b>		
Purchases during the year	2,499,040,700	3,794,079,020
Sales/ matured during the year	(1,740,415,100)	(3,984,877,500)
Accrued interest during the year	39,172,500	176,369,635
Unrealised gain on financial assets at fair value through profit or loss	1,660,200	-
Realised (loss)/gain on sales of financial assets at fair value through profit or loss	(3,257,500)	14,428,845
Market value as at 31st March	Note 8.4 <u>796,200,800</u>	<u>-</u>

<b>8.3 Realised (loss)/ gain on financial assets at fair value through profit or loss</b>		
Treasury bills	(3,257,500)	14,428,845
Treasury Bonds	450,948,830	10,638,000
	<u>447,691,330</u>	<u>25,066,845</u>

<b>8.4 Unrealised (loss)/ gain on financial assets at fair value through profit or loss</b>		
Treasury bills	1,660,200	-
Treasury Bonds	(14,005,000)	14,005,000
	<u>(12,344,800)</u>	<u>14,005,000</u>



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8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTD...)

	As at 31.03.2024		As at 31.03.2023	
	Carrying value	Holding as a % of net asset value	Carrying value	Holding as a % of net asset value
	Rs.		Rs.	
8.5 Treasury Bonds				
Capital Alliance PLC	-	-	6,427,795,500	42%
	-	-	6,427,795,500	42%

	As at 31.03.2024		As at 31.03.2023	
	Carrying value	Holding as a % of net asset value	Carrying value	Holding as a % of net asset value
	Rs.		Rs.	
8.6 Treasury Bills				
Capital Alliance PLC	796,200,800	2%	-	-
	796,200,800	2%	-	-

		As at	As at
		31.03.2024	31.03.2023
		Rs.	Rs.
9. FINANCIAL ASSETS AT AMORTISED COST			
Treasury bills repurchase agreements	9.1	18,432,250,140	892,714,496
Fixed deposits	9.2	1,413,471,652	2,568,150,123
Trust certificates	9.3	16,809,709,471	2,205,069,005
Commercial papers	9.4	4,626,016,106	-
Debentures	9.5	4,299,542,595	3,161,894,355
Less: Impairment	9.6	(543,188,245)	(343,344,312)
		45,037,801,719	8,484,483,667

	As at 31.03.2024		As at 31.03.2023	
	Carrying value	Holding as a % of net asset value	Carrying value	Holding as a % of net asset value
	Rs.		Rs.	
9.1 Treasury bills repurchase agreements				
Capital Alliance PLC	-	-	501,205,480	3%
Hatton National Bank PLC	14,639,504,110	32%	-	-
Commercial Bank of Ceylon PLC	3,792,746,030	8%	391,509,016	3%
	18,432,250,140	40%	892,714,496	6%

9.2 Fixed deposits				
Siyapatha Finance PLC	-	-	544,692,945	4%
HNB Finance PLC	-	-	1,073,019,863	7%
Asia Asset Finance PLC	1,413,471,652	3%	950,437,315	6%
	1,413,471,652	3%	2,568,150,123	17%

9.3 Trust Certificates				
HNB Finance PLC	2,025,171,063	4%	1,156,743,156	8%
L B Finance PLC	1,113,971,944	2%	-	-
Richard Pieris Finance Limited	1,626,730,328	4%	1,048,325,849	7%
Fixed Income Investment I (Pvt) Limited	1,038,792,554	2%	-	-
Fixed Income Investment II (Pvt) Limited	2,986,458,246	6%	-	-
Fixed Income Investment III (Pvt) Limited	4,429,977,087	10%	-	-
Fixed Income Investment V (Pvt) Limited	3,588,608,249	8%	-	-
	16,809,709,471	36%	2,205,069,005	15%

		As at 31.03.2024		As at 31.03.2023	
		Carrying Value Rs.	Holding as a % of Net Asset Value	Carrying Value Rs.	Holding as a % of Net Asset Value
<b>9.</b>	<b>FINANCIAL ASSETS AT AMORTISED COST (CONTD....)</b>				
<b>9.4</b>	<b>Commercial Papers</b>				
	LOLC Holdings PLC	3,610,966,685	8%	-	-
	CIC Holdings PLC	1,015,049,421	2%	-	-
		<u>4,626,016,106</u>	<u>10%</u>	<u>-</u>	<u>-</u>
<b>9.5</b>	<b>Debentures</b>				
	People's Bank	262,909,589	1%	-	-
	Singer Finance (Lanka) PLC	877,169,733	2%	894,787,808	6%
	Bank of Ceylon	3,159,463,273	7%	2,267,106,547	15%
		<u>4,299,542,595</u>	<u>10%</u>	<u>3,161,894,355</u>	<u>21%</u>
				<b>2023/2024</b>	<b>2022/2023</b>
				<b>Rs.</b>	<b>Rs.</b>
<b>9.6</b>	<b>Impairment during the year</b>				
	Opening balance			343,344,312	6,423,717
	Charge to the income statement			199,843,933	336,920,595
	Closing balance			<u>543,188,245</u>	<u>343,344,312</u>
<b>9.6.1</b>	<b>Movement in Impairment during the Year</b>				
				<b>2023/2024</b>	<b>2022/2023</b>
				<b>Rs.</b>	<b>Rs.</b>
	<b>Stage 1</b>				
	Balance at the beginning of the year			12,757,836	6,205,283
	Charge to income statement			34,123,904	6,552,553
	Balance at the end of the year			<u>46,881,740</u>	<u>12,757,836</u>
	<b>Stage 2</b>				
	Balance at the beginning of the year			330,586,476	218,434
	Charge to income statement			165,720,029	330,368,042
	Balance at the end of the year			<u>496,306,505</u>	<u>330,586,476</u>
	<b>Total</b>			<u>543,188,245</u>	<u>343,344,312</u>
				<b>As at</b>	<b>As at</b>
				<b>31.03.2024</b>	<b>31.03.2023</b>
				<b>Rs.</b>	<b>Rs.</b>
<b>10.</b>	<b>OTHER RECEIVABLES</b>				
	Other receivables			233,693,958	235,493,866
				<u>233,693,958</u>	<u>235,493,866</u>
<b>11.</b>	<b>ACCRUED EXPENSES AND OTHER PAYABLES</b>				
	Management fee			36,372,956	9,865,153
	Trustee and Custodian fee			6,329,248	2,438,282
	Audit fee			886,787	649,809
	Consultancy fee			1,243	8,822
	Fund received for unit creation			47,933,202	1,000,000
	Other payables			4,448,289	4,448,289
				<u>95,971,725</u>	<u>18,410,355</u>







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12. CONTINGENCIES

There are no material contingencies existing as at the reporting date that require adjustments to or disclosures in the financial statements.

13. EVENTS AFTER THE REPORTING DATE

There have been no material events occurring after the reporting date that require adjustments to, and/or disclosure in these financial statements.

14. CAPITAL COMMITMENTS

The Fund does not have significant capital commitments as at the reporting date.

15. UNITS IN ISSUE AND UNIT PRICE

Units in issue and are deemed to be in issue as at 31 March 2024 are 1,419,652,047.23 (2023 - 579,342,678.37) and unit price as at this date is Rs. 32.8542 (2023 - Rs. 26.7263).

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Financial assets carried at fair value

	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
As at 31st March 2024				
Financial assets at fair value through profit or loss	796,200,800	-	-	796,200,800
As at 31st March 2023				
Financial assets at fair value through profit or loss	6,427,795,500	-	-	6,427,795,500

Assets for which fair value approximates carrying value

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

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

Assets	Liabilities
Cash and cash equivalents	Accrued expenses and other payables
Financial assets at amortised cost	
Other receivables	

17. RELATED PARTY DISCLOSURES

17.1 Management Company and Trustee

The Management Company is Capital Alliance Investments Limited.  
The Trustee is Hatton National Bank PLC.

17.2 Key management personnel

Key management personnel includes the persons who were directors of Capital Alliance Investments Limited at any time during the financial year.

i) Directors

Mr. W. A. T. Fernando (Resigned w.e.f. 30th November 2023)  
Ms. H. M. S. Perera  
Mr. K. S. C. P. K. Gunasinghe (Resigned w.e.f. 01st February 2024)  
Mrs. M. De Zoysa (Appointed with effect from 01st December 2023)  
Mr. K P Mannakkara

ii) Other key management personnel

Other KMPs include persons with responsibility for planning, directing and controlling the activities of the Fund, directly or indirectly during the financial year.

17. RELATED PARTY DISCLOSURE (CONTD....)

17.3 Key management personnel compensation

Key management personnel are paid by Capital Alliance Investments Limited. Payments made from the Fund to Capital Alliance Investments Limited do not include any amounts directly attributable to the compensation of key management personnel.

17.4 Other transactions within the Fund

Apart from those details disclosed in Note 17.5 and 17.6, key management personnel have not entered into any other transactions involving the Fund during the financial year.

17.5 Related party unit holding and other transactions

As at 31st March 2024

Name	Relationship	No.of units	Value Rs.
Mr. K.P. Mannakkara	Director of Management Company	1,206,957.69	39,653,629.43
Mrs. H. M. S. Perera	Director of Management Company	772,995.07	25,396,134.78
Mrs. M. De Zoysa	Director of Management Company	112,449.45	3,694,436.75
Capital Alliance Investments Limited	Management Company	11,653,190.77	382,856,260.20
FipBox Private Limited	A subsidiary of Ultimate Parent Company	461,162.69	15,151,131.25
Capital Alliance Holdings Limited	Ultimate parent of the managing Company	10,459,513.73	343,638,955.99

As at 31st March 2023

Name	Relationship	No.of units	Value Rs.
Mr. W. A. T. Fernando	Director of Management Company	585,211.35	15,640,533.99
Mr. K.P. Mannakkara	Director of Management Company	50,713.85	1,355,393.64
Capital Alliance Investments Limited	Management Company	3,850,336.12	102,905,238.45
FipBox Private Limited	A subsidiary of Ultimate Parent Company	1,795,099.80	47,976,375.78

17.6 Other transactions with and amounts due to related parties

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

	Charge for the year		Balance as at	
	2023/2024 Rs.	2022/2023 Rs.	31.03.2024 Rs.	31.03.2023 Rs.
Fund Management fee	242,154,643	130,282,983	36,372,956	9,865,153
Trustee and Custodian fees	46,874,614	36,086,695	6,329,248	2,438,282
The Bank balance held at Hatton National Bank PLC/ Deutsche Bank AG			126,558,838	10,962,858

In addition to the above, certain administrative expenses were borne by the Management Company.





17. RELATED PARTY DISCLOSURE (CONTD....)

17.6 Other transactions with and amounts due to related parties (Contd...)

Investments in Treasury bills Repurchase Agreements, Trust certificates, treasury bills, and treasury bonds have been made in the ordinary course of operations with the following related parties. The resulting investment income and outstanding investment balances are given below.

	Investment income during the year		Balance as at 31 March	
	2024 Rs.	2023 Rs.	2024 Rs.	2023 Rs.
Investments in Treasury bill repurchase agreements with Capital Alliance PLC - (Subsidiary of Ultimate Parent Company of the Management Company)	145,353,264	74,297,037	-	501,205,480
Investments in Treasury bills with Capital Alliance PLC - Subsidiary of Ultimate Parent Company of the Management Company)	39,172,500	53,186,000	796,200,800	-
Investments in Treasury bonds with Capital Alliance PLC - Subsidiary of Ultimate Parent Company of the Management Company)	290,290,110	127,026,000	-	6,427,795,500
Investments in Commercial Papers with Capital Alliance Holdings Limited - (Ultimate Parent Company of the Management Company)	-	35,320,473	-	-
Investments in trust certificates with Fixed Income Investment I (Pvt) Ltd - (Subsidiary of Ultimate Parent Company of the Management Company)	360,703,738	-	1,038,792,554	-
Investments in trust certificates with Fixed Income Investment II (Pvt) Ltd - (Subsidiary of Ultimate Parent Company of the Management Company)	375,139,591	-	2,986,458,246	-
Investments in trust certificates with Fixed Income Investment III (Pvt) Ltd - (Subsidiary of Ultimate Parent Company of the Management Company)	344,259,800	-	4,429,977,087	-
Investments in trust certificates with Fixed Income Investment V (Pvt) Ltd - (Subsidiary of Ultimate Parent Company of the Management Company)	582,856,922	-	3,588,608,249	-

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

	As at 31.03.2024 Rs.	As at 31.03.2023 Rs.
Net asset value as per financial statements	46,098,311,104	15,140,352,212
Impairment provision	543,188,245	343,344,312
Published net asset value	46,641,499,349	15,483,696,524
Number of units outstanding	1,419,652,047.23	579,342,678.37
Published net asset value per unit	32.8542	26.7263

