# Softlogic SOFTLOGIC FINANCE PLC AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2018 IN ACCORDANCE WITH SECTION 29(2) OF THE FINANCE BUSINESS ACT NO. 42 OF 2011

## Income Statement

For the year ended 31 <sup>st</sup> March 2018		
In Rupees (Thousands)	From 01/04/2017 to 31/03/2018	From 01/04/2016 to 31/03/2017 (Restated)
Interest income	3,523,556	3,431,752
Interest expenses	(2,561,130)	(2,291,408)
Net interest income	962,426	1,140,343
Fee and commission income	470,335	602,310
Fee and commission expenses	-	-
Net fee and commission income	470,335	602,310
Net gain/(loss) from trading	4,791	16,128
Other operating income (net)	147,711	128,518
Total operating income	1,585,264	1,887,299
Impairment for loans and other losses		
Individual impairment	(12,282)	9,449
Collective impairment	(96,143)	(211,204)
Others	-	(239,067)
Net operating income	1,476,839	1,446,478
Personnel expenses	(465,770)	(441,067)
Depreciation and amortisation	(88,800)	(79,065)
Other expenses	(629,860)	(602,009)
Operating profit/(loss) before value added tax (VAT)	292,408	324,336
VAT & NBT on financial services	(99,329)	(40,734)
Operating profit/(loss) after VAT	193,079	283,603
Share of profit of associates and joint ventures	-	-
Profit/(loss) before tax	193,079	283,603
Tax (expenses)/reversal	25,686	(39,268)
Profit/(loss) for the period	218,766	244,335
Earnings per share on profit		
Basic earnings per ordinary share (Rs)	3.70	4.14

# Statement of Comprehensive Income

In Rupees (Thousands)	From 01/04/2017 to 31/03/2018	From 01/04/2016 to 31/03/2017 (Restated)
Profit/(loss) for the period Other comprehensive income, net of tax	218,766	244,335
Changes in revaluation surplus	14,984	30,000
Actuarial gains and losses on defined benefit plans	(5,987)	(4,026)
Gain and losses on re-measuring available-for-sale financial assets	(1,042)	4,339
Others	-	(15,116)
Other comprehensive income for the period, net of taxes	7,955	15,197
Total comprehensive income for the period	226,720	259,531

# **Statement of Financial Position**

As at 31 <sup>st</sup> March 2018			
In Rupees (Thousands)	As at 31/03/2018	As at 31/03/2017 (Restated)	As at 31/03/2016 (Restated)
Assets			
Cash and cash equivalents	643,032	427,659	436,306
Placements with banks	537,267	466,156	348,556
Loans and receivables - Leases	1,440,366	705,707	759,736
Loans and receivables - Hire purchase	126,170	243,609	684,495
Loans and receivables - Others	15,811,256	17,040,493	14,462,118
Financial investments - Available-for-sale	268,148	184,194	179,848
Financial investments - Held-to-maturity	1,607,399	1,638,821	1,710,369
Property, plant and equipment	522,564	373,818	373,352
Goodwill and intangible assets	78,045	95,066	37,431
Deferred tax assets	97	-	94,523
Other assets	645,871	530,460	855,650
Total assets	21,680,217	21,705,982	19,942,383
Liabilities			
Due to banks	1,342,695	1,362,995	888,402
Due to customers	16,391,947	16,048,474	14,055,203
Other borrowings	1,574,211	2,308,397	3,188,118
Current tax liabilities	-	-	56,162
Deferred tax liabilities	-	30,733	-
Other provisions	28,833	16,939	14,855
Other liabilities	62,081	96,903	83,792
Total liabilities	19,399,767	19,864,440	18,286,533
Equity			
Stated capital	2,002,270	1,692,615	1,692,615
Statutory reserve fund	219,655	175,902	127,035
Retained earnings	17,752	(53,806)	(171,409)
Other reserves	40,773	26,831	7,608
Total equity	2,280,450	1,841,542	1,655,850
Total equity and liabilities	21,680,217	21,705,982	19,942,383
Contingent liabilities and commitments	15,137	107,187	31,497
Net assets per share	33.57	31.18	28.03

Selected Performance Indicators (as per regulatory reporting) As at 31st March 2018		
	As at 31/03/2018	As at 31/03/2017 (Restated)
Regulatory capital adequacy		
Core capital (Tier 1 capital), Rs. '000	2,177,200	1,753,277
Total capital base, Rs. '000	1,962,448	1,645,910
Core capital adequacy ratio, as a % of risk weighted assets (minimum requirement, 5%)	12.67%	9.76%
Total capital adequacy ratio, as a % of risk weighted assets (minimum requirement, 10%)	11.42%	9.17%
Capital funds to deposit liabilities ratio (minimum requirement, 10%)	13.22%	11.36%
Asset quality (quality of loan portfolio)		
Gross non-performing accommodations, Rs. '000	2,434,062	1,758,178
Gross non-performing accommodations ratio, %	13.33%	9.33%
Net non-performing accommodations ratio, %	11.46%	7.81%
Profitability (%)		
Interest margin	4.44%	5.48%
Return on assets (before tax)	0.89%	1.36%
Return on equity (after tax)	10.61%	13.97%
Regulatory liquidity (Rs. '000)		
Required minimum amount of liquid assets	1,755,717	1,728,677
Available amount of liquid assets	2,787,699	2,532,636
Required minimum amount of Government Securities	1,472,156	1,462,664
Available amount of Government Securities	1,607,399	1,638,821
Memorandum information		
Number of employees	551	490
Number of branches	35	31
Number of pawning centres	1	5



Tel : +94 11 2463500 Fax Gen : +94 11 2697369 Tax : +94 11 5578180 Ernst & Young Chartered Accountants 201 De Saram Place P.O. Box 101 Colombo 10 ev.com

eysl@lk.ey.com

#### SPF/WDPL/MFI

### INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SOFTLOGIC FINANCE PLC

#### Report on the audit of the financial statements

Sri Lanka

Opinion We have audited the financial statements of Softlogic Finance PLC ("the Company"), which comprise the statement of financial position as at 31 March 2018, and the statement of comprehensive income, statement of changes in equity 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 Company as at 31 March 2018 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 Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Kev audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

#### Other information included in the Company's 2018 Annual Report

Other information consists of the information included in the Company's 2018 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Company's Annual Report is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available 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.

#### Responsibilities of management and those charged with governance

Management 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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:

# **CERTIFICATION:**

We, the undersigned, being the Chief Executive Officer/Director and the Chief Financial Officer of Softlogic Finance PLC, certify jointly that;

- (a) the above statements have been prepared in compliance with the format and definitions prescribed by the Central Bank of Sri Lanka;
- (b) the information contained in these statements have been extracted from the audited financial statements of Softlogic Finance PLC.

V. S. Premawardana

(Sgd.) Chief Financial Officer Date: 29/06/2018

N. H. G. Wijekoon (Sgd.) Chief Executive Officer / Director Date: 29/06/2018

Board of Directors: Ashok Pathirage - Chairman, A. Russell-Davison - Deputy Chairman, Nalin Wijekoon - CEO, Chris Corea, Dushan Soza, Haresh Kaimal, Nilantha Bastian Date of incorporation: 24/08/1999 Licensed by the Monetary Board of the Central Bank of Sri Lanka under the Finance Business Act No: 42 of 2011

Key Audit Matter	How our audit addressed the key audit matter	<ul> <li>Identify and</li> </ul>
Impairment of Leases, HP, Loans and Receivables As at 31 March 2018, Leases and HP, and Loans and receivables (net of impairment) amounted to Rs. 1,566,537 (Rs.'000) and Rs. 15,811,256 (Rs.'000) respectively. These collectively contributed 80% to the Company's total assets. The allowance for impairment (both individual and collective) of these financial assets is estimated by management. The setimation involves a complex calculation. Assumptions used by management in this calculation are in-therently judgmental. Note 3.1.4 to the Financial Statements more fully describes the assumptions to which this estimate is most sensitive.	To assess the reasonableness of the allowance for impairment, we performed the following key procedure, among others: » We understood the process over estimation of the allowance for impairment including those over identifying occurrence of loss events, following which we decided to use a fully substantive approach rather than relying on controls within the process; » In addition to the above, focused procedures were performed as follows: Individual allowance for impairment: Obtained a list of leases and loans subject to individual impairment, and checked a sample for management's identification of customers for whom an impairment event has occurred. For such customers, we test – checked the appropriateness of management's calculation over the estimation of recoverable amount and timing of such amounts.	<ul> <li>whether du to those ris provide ab resulting fr involve coi override of</li> <li>Obtain an design aud the purpos internal cor</li> <li>Evaluate reasonable manageme</li> <li>Conclude of basis of a a material significant we concluc in our audii if such disc based on thowever, fi</li> </ul>
We considered the estimation of allowance for impairment as a Key Audit Matter due to sensitivity of reported results (on financial berformance) to this allowance and the inherent uncertainty nvolved in its estimation.	Collective allowance for impairment: For loss rates used by management, we assessed the appropriateness of the loss emergence period and the observation period including consistency with historical loss experience. We test - checked a sample of the underlying calculations and data used in such calculations	<ul> <li>Continue as</li> <li>Evaluate ti statements represent ti presentatio</li> <li>We communic matters, the pl including any s audit.</li> <li>We also provid complied with communicate w thought to bear</li> </ul>
T System and Controls The Company is heavily reliant upon automated controls and IT dependent manual controls. The IT platform is key to its evenue generation and is also relied upon for many aspects of he financial reporting process.	<ul> <li>As part of the audit, we review the supporting IT General Controls that provide assurance over the continued integrity of these controls for the full financial reporting.</li> <li>We identified recurring control matters, particularly in relation to the management of IT privileged access to IT systems, among other factors and therefore have relied on additional substantive procedures.</li> </ul>	From the ma determine thos statements of describe these public disclosu determine that adverse conse public interest <b>Report on Oth</b>
	<ul> <li>Where controls continued to be ineffective for the full financial period, and these control matters affected applications and supporting IT systems within the scope of the audit, we performed additional substantive audit procedures.</li> <li>On the basis of our additional audit testing,</li> </ul>	As required by obtained all the as far as appea by the Compar CA Sri Lanka signing this ind
	we were able to place reliance on the data and reports from in-scope applications.	(Sgd.) 29 June 2018 Colombo

d assess the risks of material misstatement of the financial statements, ue to fraud or error, design and perform audit procedures responsive isks, and obtain audit evidence that is sufficient and appropriate to basis for our opinion. The risk of not detecting a material misstatement rom fraud is higher than for one resulting from error, as fraud may Illusion, forgery, intentional omissions, misrepresentations, or the f internal contro

understanding of internal control relevant to the audit in order to dit procedures that are appropriate in the circumstances, but not for se of expressing an opinion on the effectiveness of the Company's ontrol.

the appropriateness of accounting policies used and the eness of accounting estimates and related disclosures made by ent.

on the appropriateness of management's use of the going concern accounting and, based on the audit evidence obtained, whether uncertainty exists related to events or conditions that may cast doubt on the Company's ability to continue as a going concern. If de that a material uncertainty exists, we are required to draw attention litor's report to the related disclosures in the financial statements or. closures are inadequate, to modify our opinion. Our conclusions are the audit evidence obtained up to the date of our auditor's report. future events or conditions may cause the Company to cease to as a going concern.

the overall presentation, structure and content of the financial , including the disclosures, and whether the financial statements the underlying transactions and events in a manner that achieves fair

cate with those charged with governance regarding, among other planned scope and timing of the audit and significant audit findings, significant deficiencies in internal control that we identify during our

ide those charged with governance with a statement that we have h relevant ethical requirements regarding independence, and to with them all relationships and other matters that may reasonably be ar on our independence, and where applicable, related safeguards.

atters communicated with those charged with governance, we se matters that were of most significance in the audit of the financial the current period and are therefore the key audit matters. We e matters in our auditor's report unless law or regulation precludes ure about the matter or when, in extremely rare circumstances, we at a matter should not be communicated in our report because the equences of doing so would reasonably be expected to outweigh the benefits of such communication.

#### her Legal and Regulatory Requirements

y section 163 (2) of the Companies Act No. 07 of 2007, we have e information and explanations that were required for the audit and, ears from our examination, proper accounting records have been kept any.

membership number of the engagement partner responsible for dependent auditor's report is 2199.

W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayesinghe FCA FCMA Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA Partners: T P M Ruberu FCMA FCCA Principal

A member firm of Ernst & Young Global Limited

No. 13, De Fonseka Place, Colombo 4. Tel: 0112 359 700, 0112 359 600 Fax: 0112 359 799 Email: info@softlogicfinance.lk Web: www.softlogicfinance.lk