# Softlogic Finance

## SOFTLOGIC FINANCE PLC

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2020 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 2020		
In Sri Lanka Rupees Thousands	From 01/04/2019 To 31/03/2020	From 01/04/2018 To 31/03/2019
Interest income	3,607,234	3,674,450
Interest expenses	(2,516,527)	(2,490,557)
Net interest income	1,090,707	1,183,892
Fee and commission income	128,400	225,680
Net fee and commission income	128,400	225,680
Other operating income (net)	81,342	118,763
Total operating income	1,300,450	1,528,335
Impairment for loans and other losses	(390,137)	(189,682)
Net Operating Income	910,313	1,338,653
Personnel expenses	(443,014)	(447,572)
Depreciation and amortization	(74,759)	(72,223)
Other expenses	(878,071)	(754,385)
Operating profit/(loss) before taxes on financial services	(485,532)	64,473
Taxes on financial services	(53,081)	(1,358)
Operating profit/(loss) after taxes on financial services	(538,613)	63,115
Share of profits of associates and joint ventures	-	-
Profit/(loss) before income tax	(538,613)	63,115
Income tax expenses	204,654	140,854
Profit/(loss) for the year	(333,959)	203,969
Earnings per share on profit		
Basic earnings per ordinary share (Rs.)	(4.29)	3.00

STATEMENT OF COMPREHENSIVE INCOME For the Year ended 31st March 2020		
In Sri Lanka Rupees Thousands	From 01/04/2019 To 31/03/2020	From 01/04/2018 To 31/03/2019
Profit/(loss) for the year	(333,959)	203,969
Other comprehensive income, net of tax		
Changes in revaluation surplus	11,160	12,240
Actuarial gains and losses on defined benefit plans	(5,987)	304
Net gain / (loss) on equity instruments at fair value through other comprehensive income	10,582	(43,293)
Other comprehensive income for the year, net of taxes	15,756	(30,749)
Total comprehensive income for the year	(318,204)	173,220

STATEMENT OF FINANCIAL POSITION		
As at 31 <sup>st</sup> March 2020		
In Sri Lanka Rupees Thousands	As at 31.03.2020	As at 31.03.2019
Assets		
Cash and cash equivalents	389,597	709,895
Placements with banks	861,451	223,544
Loans and receivables - Leases	2,079,091	1,872,294
Loans and receivables - Hire purchase	81,193	93,699
Loans and receivables - Others	14,552,099	16,052,232
Equity instruments at fair value through other comprehensive income	136,137	224,855
Securities purchased under repurchase agreements	1,554,145	1,523,033
Property, plant and equipment	493,552	512,018
Intangible assets	182,036	59,186
Rights of use assets	176,873	-
Deferred tax assets	338,715	136,073
Other assets	901,703	997,772
Total assets	21,746,592	22,404,601
Liabilities		
Due to banks	1,011,252	2,194,856
Due to customers	17,063,396	17,115,400
Other borrowings	1,167,774	1,147,850
Retirement benefit obligations	47,045	32,475
Other liabilities	416,135	157,323
Total Liabilities	19,705,603	20,647,904
Equity		
Stated capital	2,604,765	2,002,270
Statutory reserve fund	260,449	260,449
Retained earnings	(855,687)	(515,741)
Other reserves	31,462	9,720
Total Equity	2,040,989	1,756,697
Total equity and liabilities	21,746,592	22,404,601
Contingent liabilities and commitments	563,330	177,452
Net assets per share (Rs.)	19.74	25.86

SELECTED PERFORMANCE INDICATORS (AS PER REGULATORY REPORTING)	
As at 31st March 2020	

In Sri Lanka Rupees Thousands	As at 31.03.2020	As at 31.03.2019
Regulatory Capital Adequacy		
Core Capital (Tier 1 Capital), Rs. '000	(1,409,094)	544,494
Total Capital Base, Rs. '000	(1,462,469)	446,907
Core Capital Adequacy Ratio, as % of Risk Weighted Assets (Minimum requirement, 6.5%)	-5.6%	2.2%
Total Capital Adequacy Ratio, as % of Risk Weighted Assets (Minimum requirement, 10.5%)	-5.8%	1.8%
Capital Funds to Deposit Liabilities Ratio (Minimum requirement, 10%)	11.8%	10.4%
Assets Quality (Quality of Loan Portfolio)		
Gross Non-Performing Accommodations, Rs. '000	6,038,784	2,867,960
Gross Non-Performing Accommodations Ratio, %	33.1%	14.9%
Net Non-Performing Accommodations Ratio, %	29.2%	12.9%
Profitability (%)		
Interest Margin	4.9%	5.4%
Return on Assets (Before Tax)	-2.4%	0.3%
Return on Equity (After Tax)	-17.6%	10.1%
Regulatory Liquidity (Rs. '000)		
Required minimum amount of Liquid Assets	1,042,295	1,874,390
Available amount of Liquid Assets	2,306,291	2,456,472
Required minimum amount of Government Securities	994,293	1,463,922
Available amount of Government Securities	1,553,953	1,523,033
Memorandum information		
Number of employees	475	528
Number of branches	35	35
Number of pawning centers	1	1

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Ernst & Young Chartered Accountants 201 De Saram Place P.O. Box 101 Colombo 10 Sri Lanka

Tel : + 94 11 2463500 FaxGen : + 94 11 2697369 Tax : + 94 11 5578180 eysl@lk.ey.com ev.com

APAG/WDPL/DM

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

### Report on the audit of the financial statements

#### Opinion

We have audited the financial statements of Softlogic Finance PLC ("the Company"), which comprise the statement of financial position as at 31 March 2020, and income statement, 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 2020 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### Basis for opinior

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.

#### Key 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

Key audit matter	How our audit addressed the key audit matter
Impairment Allowance for Lease receivables, Factoring receivables and Loan receivables : Our audit considered impairment for Lease receivables, Factoring receivables and Loan receivables as a key audit matter. The materiality of the reported amounts for Lease receivables, Factoring receivables and Loan receivables (and impairment thereof), the subjectivity associated with management's impairment estimation, complex manual calculations of impairment and transition to Sri Lanka Financial Reporting Standard 9: Financial Instruments (SLFRS 9) underpinned our basis for considering it as a Key Audit Matter. As at 31 March 2020 the total of the Factoring receivables, Gold Ioan receivables, Loan receivables and Lease receivables amounted to LKR 18,264 Million (Note 21, 22,23 and 24), net of total allowance for impairment of LKR 1,552 Million (Note 21, 22,23 and 24). These collectively contributed 77% to the total assets.	<ul> <li>To assess the reasonableness of the allowance for impairment, we carried out audit procedures (among others) to obtain sufficient and appropriate audit evidences, that included the following:</li> <li>We evaluated the design, implementation and operating effectiveness of key internal controls over estimation of impairment for Lease receivables, Factoring receivables and Loan receivables, which included assessing the level of oversight, review and approval of impairment policies by the Board Audit Committee and management.</li> <li>We test-checked the underlying calculations and data used in such calculations.</li> <li>In addition to the above, following focused procedures were performed:. For those individually assessed for impairment: <ul> <li>we assessed the main criteria used by the management for determining whether an impairment event had occurred.</li> <li>where impairment indicators existed, we assessed the reasonableness of management's estimated future recoveries including the expected future cash flows, discount rates and the valuation of collateral held. We also compared the actual recoveries against previously estimated amounts of future recoveries.</li> <li>For those collectively assessed for impairment: <ul> <li>we tested the completeness of the underlying information used in the impairment calculations by agreeing details to the source documents and information in IT systems.</li> <li>we also considered reasonableness of macro-economic and other factors used by management in their judgmental overlays, by comparing them with relevant publicly available data and information sources.</li> </ul> </li> </ul></li></ul>
Management's use of significant judgements relating to the impacts of the evolving COVID-19 pandemic on the Company	Our audit procedures included the following; - We gained an understanding of significant judgements used by the management related to the impact of the COVID-19 pandemic on the business of the Company.
Management has assessed the impact of the evolving COVID-19 pandemic on its business and financial statements of the Company as disclosed in Note 6.	<ul> <li>We obtained an understanding of the procedures adopted by the management to manage and mitigate the prevailing business interruption which are disclosed in note 6.</li> </ul>
We considered such management's assessment in the wake of the evolving COVID-19 pandemic as a key audit matter, since it involved the use of significant	- We evaluated the sensitivity of the projected available funding by considering assumed scenarios together with reasonable changes to the key assumptions.
management judgments and estimates considering	<ul> <li>We inspected the facility agreements for the Company's other borrowed funds and assessed the Company's compliance with the covenants in understanding the</li> </ul>

and assessed the Company's compliance with the covenants in understanding the future events, circumstances and impacts on cash availability of adequate funding. The nature of the significant assumptions involved, are

We reviewed the adequacy of the disclosures made in Note 6 in the financial statements

#### Other information included in the Company's 2020 Annual Report

flows, based on available information.

disclosed in Note 6 to the financial statements.

Other information consists of the information included in the Company's 2020 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 thereor

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,

Description	Year ended 31.03.2020	Year ended 31.03.2019
SLFRS 9 based impairment provisions recorded in the Financial Statements (Rs. '000)	1,551,771	1,266,167
Regulatory provisions reported to Central Bank without Interest in Suspense (Rs. '000)	3,305,877	1,623,848
Interest in Suspense reported to Central Bank (Rs. '000)	995,202	431,516
Total Regulatory provisions (Rs. '000)	4,301,079	2,055,364
Impairment Provision Gap (Rs. '000)	2,749,308	789,197
Profit / (Loss) as reported in accordance with the Central Bank provisioning method (Rs. '000)	(1,366,758)	(240,525)
Capital Adequacy Ratios ( as per Central bank Direction )		
Tier 1 Ratio - ( Minimum Requirement - 6.5%)	-5.6%	2.2%
Total Capital ratio - ( Minimum Requirement - 10.5%)	-5.8%	1.8%

#### Certification:

We, the undersigned, being the Chief Executive Officer/Director and the Chief Manager 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 the Softlogic Finance PLC.

M.H.P. Wijesekera (Sgd.) Chief Executive Officer/Director Date: 06/08/2020

U.S. Athukorala (Sgd.) Chief Manager Date: 06/08/2020

#### Board of Directors: A. Russell-Davison - Chairman,

M.H. Priyantha Wijesekera - CEO, Haresh Kaimal, Manilka Fernando, Dinesh P Renganathan 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

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:

- 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 Company'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 Company'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 Company 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication

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

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 1697.

06th August 2020 Colombo

W R H Fernando FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H De Silva ACA ACMA W K B S P Fernando FCA FCMA M. K. R. M. Fernando FCA ACMA Ms. L. K. H. L. FONSKA FCA A. P.A. Gunasekara FCA FCMA A. Herath. FCA D. K. Hulangamuwa FCA FCMA L. B. 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 G.B. Goudian ACMA A.A. J. R. Perera. ACA ACMA T. P. M. Ruberu. FCMA FCCA va FCA FCMA LLB (Lond) H M A Javesinghe FCA FCMA

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