



COLOMBO TRUST FINANCE PLC

COLOMBO TRUST FINANCE PLC

AUDITED FINANCIAL STATEMENTS

For the year ended 31st March 2018

Statement of Profit or Loss (Audited)

For the year ended 31st March

	2018 Rs. '000	2017 Rs. '000 (Restated)
Interest income	204,821	172,195
Interest expense	(93,775)	(75,481)
Net interest income	111,046	96,714
Fee and commission income	1,811	1,923
Fee and commission expenses	(25)	(343)
Net fee and commission income	1,786	1,580
Net gain/(loss) from financial instruments at fair value through profit or loss	225	143
Other operating income	8,251	6,638
Total operating income	121,308	105,075
Impairment expenses for loans and advances and other losses	(54,118)	(144)
Net operating income	67,190	104,931
Personnel cost	(53,454)	(50,905)
Depreciation and amortization	(5,465)	(6,904)
Other expenses	(37,168)	(31,446)
Operating profit/(loss) before Value Added Tax (VAT) on financial services	(28,897)	15,676
Value Added Tax (VAT) on financial services	(2,866)	(6,679)
Operating profit/(loss) after VAT on financial services	(31,763)	8,997
Share of profits of associates and joint ventures		
Profit / (loss) for the year	(31,763)	8,997
Tax expenses	9,238	(4,252)
Profit/(loss) for the Year	(22,525)	4,745
Earning / (loss) per share for the year	(0.48)	0.10

(Figures in brackets indicate deductions)

Statement of Comprehensive Income (Audited)

As at 31st March

	2018 Rs. '000	2017 Rs. '000 (Restated)
Profit/(Loss) for the Period	(22,525)	4,745
Other comprehensive income, net of tax		
Actuarial gains on defined benefit obligation	(635)	133
Deferred tax on actuarial gain	178	(37)
Total comprehensive income for the year	(22,982)	4,841

Statement of Financial Position (Audited)

As at 31st March

	2018 Rs. '000	2017 Rs. '000 (Restated)	2016 Rs. '000 (Restated)
Assets			
Cash and cash equivalents	33,074	16,557	19,507
Placements with Banks and Financial Institutions	207,706	207,706	207,706
Securities purchased under repurchase agreements	26,809	31,536	51,888
Asset held for sale	-	696	1,722
Financial assets at fair value through profit or loss	1,568	1,343	1,908
Loans and receivables-Leases	224,446	301,129	263,724
Loans and receivables-Hire purchase	15,210	47,535	105,797
Loans and receivables-Other	611,282	778,722	547,168
Financial investments - Available-for-sale	346	346	346
Financial investments - Held to Maturity	60,468	43,534	40,137
Property, plant and equipment	27,677	30,462	32,609
Intangible assets	6,335	7,904	8,478
Other assets	26,427	16,876	22,072
Deferred tax assets	19,455	6,949	9,055
Total assets	1,260,603	1,283,589	1,104,411
Liabilities			
Bank overdraft	-	254,143	25,658
Due to customers	830,565	577,661	617,229
Retirement Benefit Obligations	6,797	4,380	3,289
Other liabilities	13,225	14,407	30,077
Total liabilities	850,587	850,591	676,253
Capital and Reserves			
Stated capital	309,889	309,889	309,889
Statutory reserve fund	11,361	11,361	11,123
Retained earnings	28,767	51,749	47,146
Other reserves	60,000	60,000	60,000
Total equity	410,016	432,998	428,158
Total equity and liabilities	1,260,603	1,283,589	1,104,411

Note: Amounts stated are in net of impairment and depreciation

Selected Performance Indicators

ITEM	As at 31.03.2018	As at 31.03.2017
Regulatory Capital Adequacy		
Core Capital (Tier 1 Capital) Rs.'000	410,016	432,999
Total Capital Base Rs.'000	410,016	432,999
Risk Weighted Assets, Rs.'000	960,750	1,179,651
Core Capital Adequacy Ratio (As a % of Risk Weighted Assets - Minimum requirement - 5%)	42.68%	36.71%
Total Capital Adequacy Ratio (As a % of Risk Weighted Assets - Minimum requirement - 10%)	42.68%	36.71%
Capital Funds to Deposit Liabilities Ratio (Minimum requirement, 10%)	49.37%	74.96%
Asset Quality (Quality of Loan Portfolio)		
Gross Non Performing Accommodations, Rs.'000	137,065	72,860
Gross Non Performing Accommodations Ratio %	14.07%	6.09%
Net Non Performing Accommodations Ratio %	1.74%	0.55%
Profitability		
Interest Margin, %	8.74%	8.12%
Return on Assets (Before Tax), %	-2.50%	0.75%
Return on Equity (Before Tax), %	-5.49%	1.10%
Regulatory Liquidity (Rs.'000)		
Required minimum amount of Liquid Assets	83,056	83,025
Available amount of Liquid Assets	118,156	89,658
Required minimum amount of Government Securities	51,990	59,057
Available amount of Government Securities	85,082	73,101
Memorandum Information		
Number of Employees	39	40
Number of Branches	02	02

Certification:

We, the undersigned, being the Director/Chief Executive Officer and Manager Finance of Colombo Trust 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 Licensed Finance Company.

(Sgd.)
Udeshika Koswatta
Manager - Finance
Date : 25 June 2018

(Sgd.)
Asanga Priyadarshana
Director/Chief Executive Officer
Date : 25 June 2018

(Sgd.)
Priyan Edirisinghe
Director
Date : 25 June 2018

(Sgd.)
Supun Weerasinghe
Director
Date : 25 June 2018



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(Chartered Accountants)
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TO THE SHAREHOLDERS OF COLOMBO TRUST FINANCE PLC**Report on the Audit of the Financial Statements****Opinion**

We have audited the financial statements of Colombo Trust Finance PLC (the Company), which comprise the statement of financial position as at 31st March 2018, and the statement of profit or loss and other 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 and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31st 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of loans and advances

Key audit matter description
Refer to Note 4.2.1(V) (accounting policy), Note 20 (financial statements disclosures) to these financial statements.

As at 31st March 2018, the Company's gross loans and advances balance amounted to Rs. 850,937,026/- and the corresponding allowance for impairment losses was Rs. 123,177,544/-.

The Company's loans and advances portfolio represents 68% of the total assets of the Company as at the reporting date.

Risks

Description
The recoverability of loans and advances held at amortised cost may be materially misstated if impairment is not appropriately identified and estimated.

The individual provision model utilizes arrears as the primary impairment trigger. There is a risk that other impairment triggers are not identified on a timely basis. The other key assumptions used in the calculation of the individual provision include the quantum and timing of future cash flows on impaired loans. In the estimation of future cash flows, the Company considers past payment behavior, the expected collections approach, including net rental income from the receiver and the value of the collateral held by the Company.

For the purposes of the collective provision assessment, the Company calculates an emergence provision based on the previous losses. There is a risk that the overall provision is not reflective of the incurred losses at the end of the period, due to the assumed period of time taken for the incurred losses to emerge, changes in customer credit quality or other market factors which are not sufficiently incorporated into the model.

Due to materiality in the context of the financial statements as a whole and subjective nature of the management assumptions used for the estimate, this is considered to be an area which had the most significant effect on the financial statements.

Our responses

- Our audit procedures included:
 - Documenting and testing the design, implementation and operating effectiveness of the impairment computation processes and related key controls;
 - Challenging the methodology applied in the calculation of allowance for impairment losses by comparing it to the requirements of relevant Accounting Standard and testing the mathematical accuracy of management's model used to calculate impairment provision;
 - Challenging the management on key assumptions used to estimate probabilities of default (PD) and loss given to default (LGD); and
 - Assessing the adequacy of disclosures in the financial statements.

Revenue Recognition

Key audit matter description
Refer to Note 4.2 (accounting policy), Note 6 (financial statements disclosures) to these financial statements.

The Company generates revenue from its lending activities by charging fees (interest) from the customers. Management maintains Effective Interest Rate (EIR) models to determine revenue recognition in accordance with the requirements of relevant Accounting Standards. The Company's interest income for the year ended 31st March 2018, amounted to Rs. 204.8M.

Risks

Description
The EIR models are complex and heavily reliant on the quality of the underlying data flowing into the models. We have identified revenue recognition as a key audit matter as there is a risk of revenue being inaccurately recognized due to errors in integrity of the underlying data. The amount of revenue recognized in the financial year is dependent on the occurrence of the underlying loan transactions, accuracy of the loan portfolio and the appropriateness of the significant assumptions applied to the EIR models in relation to the expected maturity of each loan and the timing of expected future cash flows.

Our responses

Our audit procedures included:
Use of our own internal IT specialists to perform audit procedures to assess IT systems and controls over financial reporting, which included:

- Testing the design, implementation and operating effectiveness of key controls relating to the flow of data from source systems into the EIR models. This procedure included an assessment of the automated controls by our own IT specialists, to determine whether the input data within the EIR models was complete and accurate;
- Testing of the Company's control over the review and approval of calculation and the mathematical accuracy of the EIR models to assess whether they were working as intended and in compliance with the requirements of relevant Accounting Standards;
- Performing analytical review procedures to assess whether the recognized revenue was in line with the expected level; and
- Assessing the adequacy of the disclosures in the financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information 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 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.

If, based on the work performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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 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 ethical requirements in accordance with the Code of Ethics 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 3029.

Chartered Accountants
Colombo, Sri Lanka

25 June 2018

Licensed by the Monetary Board of the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011

Date of Incorporation - 25th November 1981.

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