

# COMMERCIAL CREDIT AND FINANCE PLC

## Audited Financial Statements For The Year Ended 31 March 2018

(PUBLISHED IN ACCORDANCE WITH SECTION 29 (2) OF THE FINANCE BUSINESS ACT NO. 42 OF 2011)

### STATEMENT OF FINANCIAL POSITION

As at 31st March 2018

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
<b>Assets</b>				
Cash and bank balances	1,695,964,449	1,851,852,880	1,746,910,928	1,947,456,919
Reverse repurchase agreements	2,210,648,881	2,061,144,916	2,302,257,521	2,061,144,916
Placements with financial institution	2,284,987,693	1,507,448,249	2,014,315,126	1,518,067,107
Financial investments - held for trading	2,646,859,663	2,225,869,939	2,646,859,663	2,225,869,939
Loans and receivables	35,198,129,656	38,058,297,680	35,720,435,557	38,198,687,882
Lease Rentals Receivable & Stocks out on hire	31,707,315,784	30,183,916,298	38,310,314,585	33,481,539,491
Financial investments - Available for sale	182,510,479	309,504,682	245,706,559	406,336,986
Other financial assets	712,714,972	762,642,327	712,714,972	762,642,327
Inventories	128,327,562	173,987,309	128,327,562	173,987,309
Other assets	242,503,478	230,831,551	299,480,931	253,807,280
Investments in subsidiary	1,599,288,321	1,599,788,796	-	-
Investment property	1,983,431,494	1,461,413,125	1,983,431,494	1,461,413,125
Property, plant and equipment	1,765,510,672	1,538,296,861	1,812,095,231	1,574,347,455
Intangible assets & goodwill	166,427,661	136,510,053	923,466,305	894,864,980
Prepaid rent	8,187,907	8,310,712	8,187,907	8,310,712
Deferred tax asset	1,260,138,949	744,697,789	1,264,497,849	752,893,603
<b>Total Assets</b>	<b>83,792,947,621</b>	<b>82,854,513,167</b>	<b>90,119,002,790</b>	<b>85,721,370,031</b>
<b>Liabilities</b>				
Due to banks	8,581,999,107	10,792,365,766	11,874,786,015	11,956,248,752
Due to customers	54,224,084,983	53,737,080,785	55,858,727,085	54,637,126,334
Debt instruments issued	2,972,221,709	3,481,991,842	2,972,221,709	3,481,991,842
Other financial liabilities	2,399,558,467	2,298,361,860	3,039,836,657	2,593,753,131
Other liabilities	520,322,162	443,910,349	533,896,429	461,104,753
Current tax liabilities	2,675,490,555	1,754,124,717	2,769,337,136	1,785,229,566
Post-employment benefit obligations	155,833,660	98,863,353	166,395,524	110,022,141
<b>Total Liabilities</b>	<b>71,529,510,638</b>	<b>72,606,698,672</b>	<b>77,215,197,555</b>	<b>75,025,476,519</b>
<b>Shareholders' Funds</b>				
Stated capital	2,150,640,315	2,150,640,315	2,150,640,315	2,150,640,315
Retained earnings	7,284,658,283	5,749,765,773	7,859,293,595	6,154,648,604
Reserves	2,828,138,385	2,347,408,407	2,888,463,815	2,386,424,298
<b>Total equity attributable to equity holders of the company</b>	<b>12,263,436,983</b>	<b>10,247,814,495</b>	<b>12,898,397,725</b>	<b>10,691,713,215</b>
Non Controlling Interests	-	-	5,407,510	4,180,295
<b>Total Equity</b>	<b>12,263,436,983</b>	<b>10,247,814,495</b>	<b>12,903,805,235</b>	<b>10,695,893,512</b>
<b>Total Liabilities and Shareholders' Funds</b>	<b>83,792,947,621</b>	<b>82,854,513,167</b>	<b>90,119,002,790</b>	<b>85,721,370,031</b>
Commitments and Contingencies	1,561,499,590	1,562,450,853	1,561,499,590	1,562,450,853

I certify that these financial statements are in compliance with the requirements of the companies Act No. 07 of 2007.

Chief Financial Officer

The board of directors is responsible for these financial statements.

Chairman

07 June 2018  
Colombo

Director/Chief Executive Officer

### INDEPENDENT AUDITOR'S REPORT

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TO THE SHAREHOLDERS OF COMMERCIAL CREDIT AND FINANCE PLC  
Report on the audit of the financial statements

#### Opinion

We have audited the financial statements of Commercial Credit and Finance PLC ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the statement of financial position as at 31 March 2018, statement of profit or loss, 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 of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 March 2018, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### Basic 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 Group 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. 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 matters common to both Group and Company

##### Key audit matter

As at 31 March 2018, loans, advances and receivables under lease & hire purchase (net of impairment) amounted to Rs. 35,720,435,557; and Rs. 38,310,314,585; respectively. These collectively contributed 82 % to the Group's total assets.

The allowance for impairment (both individual and collective) of these financial assets is estimated by management. The estimation involves a complex calculation. Assumptions used by management in this calculation are inherently judgmental.

Individually significant exposures are evaluated for risk of being impaired based on the existence of objective evidence of incurred loss and assessed based on historical payment patterns and collateral. Note 9.2 and 10.4 to the financial statements fully describes the assumptions to which the collective impairment estimate is most sensitive.

We considered the estimation of allowance for impairment as a Key Audit Matter due to sensitivity of reported results (on financial performance) to this allowance and the inherent uncertainty involved in its estimation.

##### How our audit addressed the key audit matter

To assess the reasonableness of the allowance for impairment, our audit procedures (among others) included the following:

- We understood and evaluated the key internal controls over estimation of the allowance for impairment including those over identifying occurrence of loss events and non-performing loans;
- We checked the underlying calculations and data used in such calculations on a sample basis in addition to the above; focused procedures were performed as follows:
  - Specific allowance for impairment:
    - For a sample of non-performing loans & leases and hire purchase, management's forecasts of cash flows were tested - checked to historical patterns of customer repayment. Among other procedures, forecast cash flows arising from collateral (or other sources of expected recovery) were verified to source documents;
  - Collective allowance for impairment:
    - For loss rates used by management, we assessed the appropriateness by comparing those with historical loss experience
  - We assessed the adequacy of the related financial statement disclosures as set out in notes) 3, 5.4.9 (i), 9, 10, 35 and 45.2.

##### Other information included in The 2018 Annual Report

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

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 and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, 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 the 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and the Group'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 internal controls of the Company and the Group.
- 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 Group'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 Group 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 the 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.

In 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 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 2440.

### STATEMENT OF PROFIT OR LOSS

Year ended 31st March 2018

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
<b>Income</b>	22,410,629,644	20,924,522,112	23,872,880,610	21,758,539,464
Interest income	20,141,562,070	19,048,827,751	21,724,831,839	19,927,371,419
Interest expenses	(9,306,955,840)	(7,811,619,440)	(9,773,137,444)	(7,996,668,474)
<b>Net interest income</b>	<b>10,834,606,230</b>	<b>11,237,208,311</b>	<b>11,951,694,395</b>	<b>11,930,702,945</b>
Fee and commission income	1,133,700,659	809,052,723	1,209,328,198	860,220,186
Net income from Real estate sales	25,971,410	58,362,612	25,971,410	58,362,612
Net gain from trading	64,676,565	65,181,220	64,676,565	65,181,220
Other operating income	798,366,289	699,707,680	601,719,947	604,013,900
Change in fair value of Investment property	246,352,651	243,390,125	246,352,651	243,390,125
<b>Total operating income</b>	<b>13,103,673,804</b>	<b>13,112,902,671</b>	<b>14,099,743,166</b>	<b>13,761,870,988</b>
Impairment Charges of loans and advances, lease, hire purchase and other financial assets	(3,198,672,986)	(2,873,575,818)	(3,271,060,494)	(2,897,660,265)
Pawning auction losses	(84,062)	(34,887,364)	(84,062)	(34,887,364)
Losses from disposal of repossessed vehicles	-	-	(47,220,618)	(7,504,063)
<b>Net operating income</b>	<b>9,904,916,756</b>	<b>10,204,439,489</b>	<b>10,781,377,992</b>	<b>10,821,819,296</b>
<b>Operating expenses</b>				
Personnel expenses	(3,148,087,712)	(3,289,111,028)	(3,296,213,032)	(3,388,023,818)
Depreciation of Property, Plant and Equipment	(298,600,411)	(222,117,407)	(320,611,266)	(239,763,754)
Other operating expenses	(2,090,464,231)	(2,018,434,052)	(2,284,271,227)	(2,128,393,143)
<b>Operating profit before Value Added Tax on financial services</b>	<b>4,367,764,402</b>	<b>4,674,777,002</b>	<b>4,880,282,467</b>	<b>5,065,638,581</b>
Value Added Tax on financial services	(887,945,671)	(764,214,576)	(1,010,997,042)	(831,330,977)
<b>Operating profit after Value Added Tax on financial services</b>	<b>3,479,818,731</b>	<b>3,910,562,426</b>	<b>3,869,285,425</b>	<b>4,234,307,604</b>
Share of loss of associates	-	-	-	(231,794)
<b>Profit before Taxation</b>	<b>3,479,818,729</b>	<b>3,910,562,426</b>	<b>3,869,285,425</b>	<b>4,234,075,810</b>
Income Taxation	(1,129,125,218)	(1,007,584,456)	(1,327,227,317)	(1,117,562,829)
<b>Profit for the year</b>	<b>2,350,693,513</b>	<b>2,902,977,970</b>	<b>2,542,058,108</b>	<b>3,116,512,981</b>
<b>Profit attributable to:</b>				
Equity holders of the company	2,350,693,513	2,902,977,970	2,540,571,760	3,115,473,964
Non - controlling interests	-	-	1,486,348	1,039,017
	<b>2,350,693,513</b>	<b>2,902,977,970</b>	<b>2,542,058,108</b>	<b>3,116,512,981</b>
Basic Earnings Per Share	7.39	9.13	7.99	9.79
Diluted Earnings Per Share	7.39	9.13	7.99	9.79
Dividend Per Share	1.00	1.5	-	-

### SELECTED PERFORMANCE INDICATORS

Year ended 31st March 2018

	As at 31/03/2018 LKR'000	As at 31/03/2017 LKR'000
<b>Regulatory Capital Adequacy</b>		
Core Capital (Tier I Capital)	10,964,840	9,198,335
Total Capital Base	11,194,655	10,108,536
"Core Capital Adequacy Ratio, as % of Risk Weighted Assets (Minimum Requirement, 5%)"	16.09%	12.98%
"Total Capital Adequacy Ratio, as % of Risk Weighted Assets (Minimum Requirement, 10%)"	16.42%	14.26%
"Capital Funds to Deposit Liabilities Ratio (Minimum Requirement, 10%)"	22.62%	19.07%
<b>Assets Quality (Quality of Loan Portfolio)</b>		
Gross Non - Performing Accommodations	4,895,468	3,387,580
Gross Non - Performing Accommodations Ratio %	6.97%	4.38%
Net Non - Performing Accommodations Ratio %	1.54%	0.37%
<b>Profitability (%)</b>		
Interest Margin	14.54%	16.04%
Return on Assets (before Tax)	4.18%	5.09%
Return on Equity (after Tax)	20.88%	32.20%
<b>Regulatory Liquidity</b>		
Required minimum amount of Liquid Assets	5,777,750	5,551,616
Available amount of Liquid Assets	8,181,268	5,689,709
Required minimum amount of Government Securities	4,420,704	3,617,092
Available amount of Government Securities	4,700,649	3,709,003
<b>Memorandum information</b>		
Number of employees	3,364	3,301
Number of branches	62	62
Number of service centers	55	59
Number of pawning centers	1	1

### STATEMENT OF COMPREHENSIVE INCOME

Year ended 31st March 2018

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
<b>Profit for the year</b>	<b>2,350,693,513</b>	<b>2,902,977,970</b>	<b>2,542,058,108</b>	<b>3,116,512,981</b>
Net gains on remeasuring Available-for-sale financial assets	21,166,200	8,731,787	21,223,028	10,073,137
Deferred tax charges relating to available for sale financial assets	-	-	(10,901)	-
Net gains on Available-for-sale financial assets reclassified to profit or loss	-	13,272,625	-	13,487,850
<b>Total other comprehensive income to be reclassified to Statement of profit or loss</b>	<b>21,166,200</b>	<b>22,004,412</b>	<b>21,212,127</b>	<b>23,560,987</b>
Revaluation gain on land and buildings	10,284,000	10,100,000	10,284,000	10,100,000
Deferred tax charge relating to revaluation gain on buildings	(20,858,925)	-	(20,858,925)	-
<b>Actuarial gains (Losses) on defined benefit plans</b>	<b>(10,574,925)</b>	<b>10,100,000</b>	<b>(10,574,925)</b>	<b>10,100,000</b>
Deferred tax charge relating to actuarial gain on defined benefit plans	(38,316,577)	11,065,207	(36,860,171)	11,992,345
<b>Total other comprehensive income not to be reclassified to Statement of profit or loss</b>	<b>(38,162,860)</b>	<b>18,066,949</b>	<b>(37,114,248)</b>	<b>18,734,488</b>
<b>Other Comprehensive Income for the year, net of taxes</b>	<b>(16,996,660)</b>	<b>40,071,361</b>	<b>(15,902,121)</b>	<b>42,295,475</b>
<b>Total Comprehensive Income for the Year</b>	<b>2,333,696,853</b>	<b>2,943,049,331</b>	<b>2,526,155,987</b>	<b>3,158,808,456</b>
<b>Total Comprehensive income attributable to:</b>				
Equity holders of the company	2,333,696,853	2,943,049,331	2,524,565,776	3,157,762,322
Non - controlling interests	-	-	1,490,211	1,046,133
<b>Total Comprehensive Income for the year</b>	<b>2,333,696,853</b>	<b>2,943,049,331</b>	<b>2,526,155,987</b>	<b>3,158,808,456</b>

