

COMMERCIAL CREDIT FINANCE PLC

Audited Financial Statements For the Year Ended 31st March 2021

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

STATEMENT OF FINANCIAL POSITION

As at 31 March 2021

	Company		*Group
In Rupees Thousand	As at 31/03/21 *Amalgamated	As at 31/03/20	As at 31/03/20
Assets			
Cash and bank balances	2,239,713	854,570	1,208,462
Reverse repurchase agreements	1,476,872	3,004,280	3,141,543
Placements with banks	4,487,754	3,812,280	3,826,996
Financial assets recognised through profit or (loss)- measured at fair value	5,494,634	2,072,292	2,228,855
Financial assets at amortised cost	18,601,016	18,219,942	18,277,266
Loans and receivables	49,966,120	43,395,382	52,689,500
Debt & rentals receivable & stocks out on hire	255,258	119,825	114,823
Lease and other instruments	-	-	-
Financial assets at fair value through other comprehensive income	2,554	4,311	67,224
Other financial assets	644,132	743,286	725,286
Inventories	71,610	65,910	65,910
Other assets	794,384	173,200	257,987
Investments in subsidiary	340,823	1,599,288	-
Investments in associates	1,478,919	1,698,461	364,203
Investment property	3,457,055	3,051,877	3,126,826
Property, plant and equipment	1,42,836	649,826	672,159
Right of use assets	940,838	199,320	959,881
Intangible assets & goodwill	467,355	-	-
Deferred tax assets	-	311,262	339,796
Current tax assets	-	-	-
Total Assets	91,129,873	80,360,309	89,862,177
Liabilities			
Due to banks	22,593,203	12,661,617	19,214,209
Due to customers	47,989,537	47,394,522	48,948,642
Debt instruments issued	1,295,845	3,349,895	3,349,895
Other financial liabilities	1,658,937	1,698,461	1,783,799
Other liabilities	1,518,374	1,319,578	1,462,995
Deferred tax liabilities	-	265,361	80,761
Post employment benefit obligations	395,652	298,692	321,699
Current tax liabilities	281,970	-	-
Total Liabilities	75,733,517	67,043,651	75,366,000
Shareholders' Funds			
Stated capital	2,150,640	2,150,640	2,150,640
Retained earnings	9,048,914	7,570,421	8,636,374
Reserves	4,196,801	3,595,597	3,701,973
Total equity attributable to equity holders of the company	15,396,356	13,316,658	14,488,987
Non Controlling Interests	-	-	7,190
Total Equity	15,396,356	13,316,658	14,496,177
Total Liabilities and Shareholders' Funds	91,129,873	80,360,309	89,862,177
Commitments and Contingencies	746,629	297,435	297,435

Note: Amounts stated are in net of impairment and depreciation.

*The primary statements of the group are presented only for the year ended 31st March 2020 as no group existed as at 31st March 2021. Company amalgamated with Trade Finance and Investments PLC with effect from 31st December 2020.

INCOME STATEMENT

For the period ended 31 March 2021

	Company		*Group
In Rupees Thousand	From 01/04/20 to 31/03/21 *Amalgamated	From 01/04/19 to 31/03/20	From 01/04/19 to 31/03/20
Gross Income	18,191,763	19,885,682	22,958,818
Interest income	16,086,956	17,966,128	17,835,015
Interest expenses	(7,051,868)	(8,593,147)	(9,922,873)
Net interest income	9,035,088	9,372,982	10,912,143
Fee and commission income	1,072,791	1,267,297	1,319,143
Net income from Real estate sales	5,901	6,930	6,930
Net (loss)/gain from trading	28,156	(10,350)	(10,350)
Other operating income	780,744	600,849	753,252
Change in fair value of investment property	217,316	54,828	54,828
Total operating income	11,139,895	11,292,535	13,035,945
Impairment Charges of financial assets	(1,690,341)	(2,713,981)	(3,404,582)
Net fair value gains/(losses) from financial instruments at fair value through profit or loss	67,436	-	17,896
Net operating income	9,516,991	8,578,554	9,649,259
Operating expenses			
Personnel expenses	(2,454,694)	(2,511,369)	(2,705,526)
Depreciation & amortization	(586,687)	(541,158)	(580,608)
Other operating expenses	(2,421,659)	(2,865,049)	(3,180,842)
Operating profit before Tax on financial services	4,053,951	2,660,979	3,182,282
Value Added Tax	(812,380)	(594,028)	(676,610)
Debt repayment levy	-	(269,464)	(304,892)
Operating profit after Value Added Tax on financial services	3,241,570	1,797,487	2,200,780
Share of loss of associates	(49,177)	-	(15,711)
Profit before Taxation	3,192,393	1,797,487	2,185,069
Income Taxation	(857,637)	(133,588)	(178,453)
Profit for the year	2,334,756	1,663,899	2,006,616
Profit attributable to:			
Equity holders of the company	2,334,756	1,663,899	753,905
Non - controlling interests	-	-	1,252,711
	2,334,756	1,663,899	2,006,616
Basic Earnings Per Share	7.34	5.23	6.30
Diluted Earnings Per Share	7.34	5.23	6.30
Dividend Per Share	-	1.00	-

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STATEMENT OF COMPREHENSIVE INCOME

For the period ended 31 March 2021

	Company		*Group
In Rupees Thousand	From 01/04/20 to 31/03/21 *Amalgamated	From 01/04/19 to 31/03/20	From 01/04/19 to 31/03/20
Profit for the year	2,334,756	1,663,899	2,006,616
Net gains/(losses) on re-measuring financial assets at fair value through other comprehensive income	(3,738)	-	119
Total other comprehensive income to be reclassified to Statement of profit or loss	(3,738)	-	119
Net (losses) on re-measuring financial assets at fair value through other comprehensive income	-	-	112
Total other comprehensive income to be reclassified to Statement of profit or loss	-	-	112
Revaluation gain on land and buildings	181,567	53,535	53,535
Deferred tax charge relating to revaluation gain on buildings	(43,576)	(14,990)	(14,990)
	137,991	38,545	38,545
Actuarial gains/(losses) on defined benefit plans	(6,843)	(75,984)	(79,041)
Deferred tax charge/(reversal) relating to actuarial gain on defined benefit plans	1,642	21,276	22,131
	(5,201)	(54,708)	(56,910)
Total other comprehensive income not to be reclassified to Statement of profit or loss	132,790	(16,164)	(18,364)
Other Comprehensive Income for the year, net of taxes	129,052	(16,164)	(18,133)
Total Comprehensive Income for the Year	2,463,809	1,647,735	1,988,483
Total Comprehensive income attributable to:			
Equity holders of the company	2,463,809	1,647,735	1,987,237
Non - controlling interests	-	-	1,246
Total Comprehensive Income for the year	2,463,809	1,647,735	1,988,483

*The primary statements of the group are presented only for the year ended 31st March 2020 as no group existed as at 31st March 2021. Company amalgamated with Trade Finance and Investments PLC with effect from 31st December 2020.

INDEPENDENT AUDITOR'S REPORT



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TO THE SHAREHOLDERS OF COMMERCIAL CREDIT AND FINANCE PLC

We have audited the financial statements of Commercial Credit and Finance PLC ("the Company"), which comprise the statement of financial position as at 31 March 2021, and the statement of profit or loss and 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 and financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLASUs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. The responsibilities 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 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 and are described in our report, together with how we addressed them. 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 KAM
Impairment allowance on loans & leases: As at 31 March 2021, loans & advances and receivables from lease & hire purchase (net of impairment) amounted to Rs. 18.6 bn (Note 10) and Rs. 49.9 bn (Note 11) respectively net of total allowance for impairment of LKR 6 Bn (Note 10.1 and 11.1). This collectively contributed 75% to the Company's total assets. As described in Note 5.5.3., impairment allowance on such financial assets carried at amortised cost is determined in accordance with Sri Lanka Accounting Standard – SLFRS 9 Financial Instruments (SLFRS 9). This was a key audit matter due to: -materiality of the reported impairment allowance which involved complex spread sheet calculations; and -the degree of assumptions, judgements and estimation uncertainty associated with the calculations. Key areas of significant judgements, estimates and assumptions used in the assessment of the impairment allowance included the following: -the probable impacts of COVID-19 and related industry responses (e.g. government stimulus packages and debt moratorium relief measures granted by the company); and -the forward-looking macroeconomic factors, including developing and incorporating macroeconomic scenarios, given the wide range of potential economic outcomes and probable impacts from COVID-19 that may impact future expected credit losses. IT systems and controls relevant to financial reporting The Company uses multiple IT systems in its operations. We selected IT systems and controls relevant to financial reporting as a key audit matter due to: -The Company's financial reporting process being heavily dependent on information derived from its IT system and -Key financial statement disclosures involving the use of multiple system – generated reports and calculations there on -A changed working environment of increased remote access Impact of moratoriums and other relief measures on recognition of interest income Moratoriums and other relief measures were granted by the Company to customers affected by the COVID -19 Pandemic. Impact of moratoriums and other relief measures on the recognition of interest revenue on loans & receivables and lease rentals receivable & stock out on hire was a key audit matter due to: -significant judgements that were applied in determining whether such moratoriums and other relief measures have resulted in substantial modifications or not, to contracts with customers and -Use of spread sheet-based calculations by management to quantify the impacts of such moratoriums and other relief measures on the amount of revenue recognized for the period Valuation of Investment Properties As at 31 March 2021, land and buildings carried at fair value classified as Investment Property amounts to LKR 3,479 Mn. The fair value of such property was determined by external valuers engaged by the Company. This was a key audit matter due to: -materiality of reported fair value for such property -degree of assumptions and judgements associated with the valuation, amplified by the impact of COVID -19 pandemic. The valuation contained higher estimation uncertainties due to fewer comparable market transactions, which are generally considered a strong source of evidence regarding fair value Key areas of significant judgement and assumptions included estimate of price per perch and land price per square foot of building as disclosed in note 19	<p>How our audit addressed the KAM</p> <p>We assessed the alignment of the company's impairment computations and underlying methodology with the requirements of SLFRS 9 with consideration of COVID-19 impacts and related industry responses based on the best available information up to the date of our report. Our audit procedures included among others the following: • We evaluated the design, implementation and operating effectiveness of controls where relevant over estimation of impairment of loans and advances, which included assessing the level of oversight, review and approval of impairment policies by the Board Audit Committee and management. • We checked the completeness and accuracy of the underlying data used in the computations by agreeing significant details to source documents and accounting records of the company. • We tested the underlying calculations. • In addition to the above, following focused procedures were performed: We assessed the alignment of the company's impairment computations and underlying methodology with the requirements of SLFRS 9 with consideration of COVID-19 impacts and related industry responses based on the best available information up to the date of our report. Our audit procedures included among others the following: • For a sample of loans and advances individually assessed for impairment: Assessing the appropriateness of the criteria used by the management to determine whether there are any indicators of impairment; and Evaluating the reasonableness of the provisions made with particular focus on the impact of COVID-19 on elevated risk industries, strategic responsive actions taken, collateral values, and the value and timing of future cashflows. For loans and advances collectively assessed for impairment: • We checked the reasonableness of assumptions and estimates used by management including the reasonableness of forward-looking information and scenarios; and • We assessed the adequacy of the related financial statement disclosures as set out in Note (10) and 11. Our audit procedures included the following: • Understanding the security monitoring procedures over IT systems relevant to financial reporting, given the increase in remote access • Understanding and evaluating the design and operating effectiveness of key automated, IT dependent and manual controls implemented by management over generation of multiple system reports and gathering of required information in calculating the significant information for financial statements disclosures • Checking the source data of the reports used to generate significant disclosures for accuracy and completeness • Assessing the reasonability of management's general ledger reconciliation procedures which includes cross checking to system reports and source data where relevant</p> <p>Our audit procedures (among others) included the following: • We gained an understanding of the process adopted by the Company to grant, record and account for moratoriums and other relief measures provided to customers • We assessed the reasonableness of judgements applied by management in determining whether moratoriums and other relief measures have resulted in substantial modifications or not, to customer contracts, on a sample basis. This included evaluating whether interest income on modified contracts have been recognized in line with its accounting policy for interest revenue recognition • We tested the accuracy of underlying spread sheet-based calculations. Our procedures included testing the completeness and accuracy of the data used in such spread sheet-based calculations, by agreeing to source documents and moratorium customer returns, on a sample basis</p> <p>Our audit procedures included (among others) the following procedures: • We evaluated the competence, capabilities and objectivity of the external valuer engaged by the Company • We read the valuation reports to obtain an understanding of the key estimates made and valuation techniques used by the external valuer in the valuation of land and buildings • We engaged our internal specialized resources to assist us in evaluating the appropriateness of the valuation techniques used by the external valuer and assessing the reasonableness of the significant judgements and assumptions, such as price per perch of land and price per square foot of building.</p> <p>In addition, we evaluated the adequacy of the related financial statement disclosures in notes 19.</p>

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 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 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 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 SLASUs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, 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 SLASUs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:
1. 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, misstatements, or the override of internal control.
2. 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 controls.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. 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.
5. 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 2159.

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