

Commercial Leasing & Finance PLC

FINANCIAL STATEMENTS



For The Year Ended 31st March 2019

INCOME STATEMENT

	Group		Company	
	For the year ended 31 st March		For the year ended 31 st March	
	2018 Rs. '000	2019 Rs. '000	2018 Rs. '000	2019 Rs. '000
Interest income	13,320,336	14,126,491	13,347,778	13,347,778
Interest expense	(6,994,795)	(6,696,838)	(6,994,795)	(6,994,795)
Net interest income	6,325,541	7,429,653	6,352,983	6,352,983
Other operating income	2,234,424	1,750,398	2,477,072	2,477,072
Total operating income	8,559,965	9,180,051	8,830,055	8,830,055
Impairment for loans and other losses				
Individual impairment	(855,169)	(1,100,544)	(855,169)	(855,169)
Collective impairment	(200,823)	(785,007)	(200,823)	(200,823)
Net operating income	7,503,973	7,294,500	7,774,063	7,774,063
Personnel expenses	(1,387,268)	(1,515,142)	(1,387,268)	(1,387,268)
Depreciation and amortization	(113,661)	(130,407)	(113,661)	(113,661)
Other expenses	(2,910,412)	(2,859,151)	(2,910,412)	(2,910,412)
Operating profit before Value Added Tax (VAT) NBT and DRL	3,092,632	2,789,800	3,362,722	3,362,722
VAT on financial services, NBT and DRL	(610,955)	(693,417)	(610,955)	(610,955)
Operating profit after VAT, NBT and DRL	2,481,677	2,096,383	2,751,767	2,751,767
Share of profits of associates	153,268	(54,968)	153,268	153,268
Profit before tax	2,634,945	2,041,415	2,905,035	2,905,035
Tax expenses	(760,712)	(843,318)	(760,712)	(760,712)
Profit for the period from Continuing operations	1,874,233	1,198,097	2,144,323	2,144,323
Discontinued Operations				
Profit/(loss) for the period from discontinued operations	(81,495)	-	-	-
Profit for the Period	1,792,738	1,198,097	2,144,323	2,144,323
Attributable to:				
Equity holders of the Company	1,792,638	1,198,097	2,144,323	2,144,323
Non-controlling interests	100	-	-	-
Profit for the Period	1,792,738	1,198,097	2,144,323	2,144,323
Basic/Diluted earnings per ordinary share (Rs.)	0.28	0.19	0.34	0.34

Figures in brackets indicate deductions

STATEMENT OF COMPREHENSIVE INCOME

	Group		Company	
	For the year ended 31 st March		For the year ended 31 st March	
	2018 Rs. '000	2019 Rs. '000	2018 Rs. '000	2019 Rs. '000
Profit for the period	1,792,738	1,198,097	2,144,323	2,144,323
Other comprehensive income, net of tax				
Revaluation of property, plant and equipment	77,009	-	77,009	77,009
Actuarial gains and losses on defined benefit plans	(6,094)	(8,158)	(6,094)	(6,094)
Net Change in fair value of available for sale finance assets	150,432	(3,701)	149,781	149,781
Effective portion of changes in fair value of cash flow hedges	(114,213)	7,459	(114,213)	(114,213)
Share of Other Comprehensive Income from Equity accounted investee	11,933	(5,856)	11,933	11,933
Income tax recognised in other comprehensive income	67,751	(46,311)	67,751	67,751
Other comprehensive income for the period, net of taxes	186,818	(56,567)	186,167	186,167
Total comprehensive income for the period	1,979,556	1,141,530	2,330,490	2,330,490
Attributable to:				
Equity holders of the Company	1,979,454	1,141,530	2,330,490	2,330,490
Non-controlling interests	102	-	-	-
Total comprehensive income for the period	1,979,556	1,141,530	2,330,490	2,330,490

Figures in brackets indicate deductions

STATEMENT OF FINANCIAL POSITION

	Company	
	As at 31.03.2019 Rs. '000	As at 31.03.2018 Rs. '000
	Assets	
Cash and cash equivalents	2,550,274	2,377,558
Financial assets recognised through profit or loss (FVTPL)		
Financial assets held for trading	2,826,494	153,997
Investment Securities/Other investments	6,686,283	6,505,214
Derivative financial instruments	311,352	-
Financial assets at amortised cost/Rental receivable on leases and hire purchase	13,917,881	14,983,512
Financial assets at amortised cost/Loans, Advances and Factoring receivables	39,575,068	44,793,716
Value Added Tax (VAT) recoverable	52,572	94,646
Property, plant and equipment	1,205,048	1,227,576
Intangible assets	1,891	3,910
Investment properties	2,100,080	1,632,000
Equity accounted investees	1,440,865	1,506,850
Other assets	188,541	229,467
Total assets	70,856,349	73,508,445
Liabilities		
Due to banks	390,070	1,353,451
Derivative financial instruments	179,561	271,625
Financial liabilities at amortised cost/Due to customers	24,316,106	23,485,109
Other borrowings	25,960,108	28,932,662
Current tax liabilities	427,502	519,857
Deferred tax liabilities	597,568	477,339
Amounts due to related companies	114,051	158,748
Retirement benefit obligations	114,985	89,326
Other liabilities	1,297,865	1,714,303
Total liabilities	53,397,816	57,002,421
Equity		
Stated capital	1,425,947	1,425,947
Statutory reserve fund	796,040	736,136
Retained earnings	14,015,472	13,084,306
Other reserves	1,221,074	1,259,635
Equity attributable to shareholders of the Company	17,458,533	16,506,024
Total equity and liabilities	70,856,349	73,508,445
Net assets value per ordinary share (Rs.)	2.74	2.59



KPMG
(Chartered Accountants)
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Colombo 00300, Sri Lanka.

INDEPENDENT AUDITORS' REPORT To the Shareholders of Commercial Leasing & Finance PLC Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of Commercial Leasing & Finance PLC ("the Company"), which comprise the statement of financial position as at 31st March 2019, 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.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31st March 2019, 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 (SLAuS). Our responsibilities under those standards are further described in the Auditors' 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.

Impairment of rental receivables on leases and hire purchases, loans and advances and factoring receivables and transition impact with the adoption of SLFRS 9 - "Financial Instruments"
(Refer to significant accounting policies and explanatory Note 19 and 20 to the financial statements).

Risk Description
As disclosed in Note 19 and 20 to the financial statements, the Company has recorded impairment provision of Rs. 2,202,910,600/- relating to rental receivable on leases and hire purchases, loans and advances and factoring receivables of Rs. 55,695,859,269/- as at 31st March 2019. As permitted by the transitional provision of SLFRS 9, the impact of adopting SLFRS 9 is considered as an adjustment to equity as at 1st April 2018, without restating the comparative information. The Note 46 to these financial statements provides the impact on transition to SLFRS 9 - "Financial Instruments" on retained earnings as at 1st April 2018 of Rs. 461,475,889/-.

SLFRS 9 - "Financial Instruments" introduces an ECL model which takes into account judgments in setting the assumptions such as forward looking probability of default (PD), loss given default (LGD), macroeconomic scenarios including their weighting and judgments over the use of data inputs required. The Company has applied new accounting policies, including transition option practical expedients with the application of new significant judgments and estimates which are subject to estimation uncertainty and management bias.

Impairment of rental receivables on leases and hire purchases, loans and advances and factoring receivables and transition impact are considered to be a key audit matter owing to the significance of rental receivables on leases and hire purchases, loans and advances and factoring receivables, degree of complexity and judgments used by the management.

Our audit procedures included:

- Evaluating the appropriateness of the accounting policies and methodology applied based on the requirements of SLFRS 9 with our business understanding and industry practices.
- Challenging the criteria used to allocate assets to stage 1, 2 or 3 in accordance with SLFRS 9 and assessing the appropriateness of model design and formulas used and recalculating the Probability of Default, Loss Given Default and Exposure at Default for selected sample of models.
- Evaluating the appropriateness and testing the mathematical accuracy of the estimation of provision for impairment.
- Evaluating the completeness, accuracy and relevance of data used for the calculation of impairment provision and transition adjustments.
- Assessing the disclosures in the financial statements with reference to the requirements of SLFRS 9 including transition disclosures.

Valuation of Investment Property
(Refer to significant accounting policies and explanatory Note 27 to the financial statements).

Risk Description
As disclosed in Note 27 to the financial statements, fair value of Investment property of the Company is Rs. 2,100,080,280/- and fair value gain derived from investment property for the year ended 31st March 2019 is Rs. 114,657,720/-.

Management's assessment of fair value of investment properties is based on valuations performed by qualified independent property valuers in accordance with industry standards.

We identified valuation of investment property as a key audit matter because the determination of the fair values involves significant judgments and estimation, particularly determining the appropriate valuation methodology to be used, and in estimating the underlying assumptions to be applied. These key assumptions include market comparables used, taking into consideration the differences such as location and size. A change in the key assumptions will have a significant impact on the fair value of investment property.

Our audit procedures included:

- Assessing the objectivity, independence, competency and qualifications of the external valuers engaged by the Company.
- Evaluating the appropriateness of the valuation techniques used by the external valuers, taking into account the profile of investment properties.
- Assessment of key assumptions applied by the external valuers in deriving the fair value of properties and comparing the same with evidence of current market values.
- Assessing the adequacy of disclosures made in relation to the fair value of investment property in the financial statements, including the description and appropriateness of the inherent degree of subjectivity and key assumptions used in the estimates.

IT systems and controls over financial reporting
The Company's key financial accounting and reporting processes are highly dependent on the automated controls over the Company's information systems. Automated accounting procedures and IT environment controls which include IT governance, controls over programme development and changes, access to programmes and data and IT operations, are required to be designed and to operate effectively to ensure accurate financial reporting.

Systems calculations including interest calculations and interfaces between business management systems and accounting systems are the significant areas which could result in the financial records being materially misstated.

We identified IT systems and controls over financial reporting as a key audit matter because the Company's financial accounting and reporting systems are fundamentally reliant on complex IT systems and control processes which are driven by significant transaction volumes caused by the size of the customer base.

We used our own IT specialists to perform audit procedures to assess IT systems and controls over financial reporting, which included:

KPMG, a Sri Lankan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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• assessing the design, implementation and operating effectiveness of key internal controls over the continued integrity of all major IT systems fundamental to dealing with the financial data, particularly financial reporting.
• examining the framework of governance over the Company's IT organisation and the controls over programme development and changes, access to programmes and data and IT operations, including compensating controls where required.
• evaluating the design, implementation and operating effectiveness of the significant accounts related IT process controls by assessing the operating effectiveness of IT application controls, assessing the operating effectiveness of certain automated controls and system calculations which are relevant to the Company's compliance activities.
• assessing the availability and stability of key operating systems, taking into consideration the rapid development of businesses types and transactions volumes as well as IT projects that have a significant impact on business continuity.
• testing the access rights given to staff by checking them to approved records, and inspecting the reports over the granting and removal of access rights.
• testing preventative controls designed to enforce segregation of duties between users within particular systems.

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 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.

Auditors' 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 SLAuS 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 SLAuS, 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 auditors' 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 auditors' 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 auditors' 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.

KPMG Chartered Accountants
Colombo, Sri Lanka
27th Jan 2019

M.R. Mular FCA, I.L.S. Rajakar FCA, Ms. S.M.B. Jayasinghe ACA, G.A.U. Kanarasinghe FCA, R.N. Rajan FCA, P.Y.S. Perera FCA, W.W.J.C. Perera FCA, W.K.D.C. Abeyathne FCA, R.M.D.B. Rajapaksa FCA, M.M.M. Shemud ACA, C.P. Jayatilake FCA, Ms. S. Joseph FCA, S.D.L. Perera FCA, Ms. B.K.D.T.N. Rodrigo FCA, Ms. C.T.K.N. Perera ACA

Principals - S.R.J. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Coorneratne ACA

SELECTED PERFORMANCE INDICATORS

Item	As at 31.03.2019	As at 31.03.2018
Regulatory Capital Adequacy		
Core Capital (Tier 1 Capital), RS.'000	15,425,359	15,316,840
Total Capital Base, RS.'000	14,679,688	14,050,852
Core Capital Adequacy Ratio, as % of Risk Weighted Assets (Minimum requirement, 6%)	20.51%	23.69%
Total Capital Adequacy Ratio, as % of Risk Weighted Assets (Minimum requirement, 10%)	19.52%	21.74%
Capital Funds to Deposit Liabilities Ratio (Minimum requirement, 10%)	63.44%	65.22%
Assets Quality (Quality of Loan Portfolio)		
Gross Non-Performing Accommodations, Rs.'000	2,730,576	1,591,683
Gross Non-Performing Accommodations Ratio, %	4.90%	2.62%
Net-non performing Accommodations Ratio, %	0.99%	1.00%
Profitability(%)		
Interest Margin	13.12%	11.17%
Return on Assets (before tax)	2.83%	3.84%
Return on Equity (after Tax)	7.05%	13.98%
Regulatory Liquidity (Rs. '000)		
Required minimum amount of Liquid Assets	3,070,780	3,259,174
Available amount of Liquid Assets	8,715,118	6,483,992
Required minimum amount of Government Securities	3,961,635	5,094,017
Available amount of Government Securities	6,164,844	5,487,532
Memorandum information		
Number of employees	1,348	1,327
Number of branches	59	57
Number of service centers	6	6

We, the undersigned, being the Chief Executive Officer and Head of finance of COMMERCIAL LEASING & 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)
Mr. D.M.D.K Thilakarathne
Director/Chief Executive Officer

(sgd)
Mrs. N.P. Kariyawasam
Head of Finance

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Credit Rating : [SL]A Stable Outlook : ICRA Lanka

27 June 2019
Colombo.