



PUBLICATION OF FINANCIAL STATEMENTS IN ACCORDANCE WITH SECTION 29 (2) OF FINANCE BUSINESS ACT NO. 42 OF 2011

INCOME STATEMENT	GROUP		COMPANY	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
For the year ended 31st March				
Income	23,994,266	25,758,685	19,406,200	22,064,136
Interest income	16,604,313	20,116,816	16,546,553	20,038,336
Less: Interest expenses	6,150,191	6,769,027	6,194,811	6,825,241
Net interest income	10,454,122	13,347,789	10,351,742	13,213,095
Net income from financial instruments at FVTPL	1,094,480	216,267	1,030,158	201,326
Net other revenue	1,228,227	1,056,586	-	-
Operating lease income	1,015,166	1,030,459	1,019,196	1,033,916
Other income	652,279	641,985	810,293	790,558
Total operating income	14,444,274	16,293,086	13,211,389	15,238,895
Less: Impairments and other credit losses	3,270,465	4,785,758	3,256,083	4,775,343
Net Operating Income	11,173,809	11,507,328	9,955,306	10,463,552
Less: Operating expenses				
Personnel expenses	2,267,499	2,571,991	1,947,029	2,259,167
Premises, equipment, establishment and other expenses	2,307,864	2,682,749	2,129,852	2,507,623
	4,575,363	5,254,740	4,076,881	4,766,790
Operating profit before share of profit of equity accounted investees	6,598,446	6,252,588	5,878,425	5,696,762
Share of profit of equity accounted investees, net of tax	1,069,144	859,924	-	-
Operating profit before taxes on financial services	7,667,590	7,112,512	5,878,425	5,696,762
Less: taxes on financial services	863,462	1,275,328	863,462	1,275,328
Profit before tax	6,804,128	5,837,184	5,014,963	4,421,434
Less: Income tax expense	1,024,160	1,727,880	878,992	1,526,240
Profit for the year	5,779,968	4,109,304	4,135,971	2,895,194
Profit attributable to :				
Equity holders of the parent	5,544,132	3,990,148	4,135,971	2,895,194
Non-controlling interest	235,836	119,156	-	-
Profit for the year	5,779,968	4,109,304	4,135,971	2,895,194
Basic and diluted earnings per share - Rs.	24.75	17.81		
Dividend per share	3.50	2.36		

SELECTED KEY PERFORMANCE INDICATORS	As at 31.03.2021		As at 31.03.2020	
	Actual	Required	Actual	Required
Regulatory Capital Adequacy (%)				
Tier 1 Capital Adequacy Ratio	32.42%	7%	27.73%	7%
Total Capital Adequacy Ratio	32.88%	11%	27.68%	11%
Capital funds to deposit liabilities ratio	68.79%	10%	61.85%	10%
Quality of loan Portfolio (%)				
Gross non-performing loans ratio	13.57%		9.28%	
Net non-performing loans ratio	4.53%		2.89%	
Net non-performing loans to core capital ratio	9.02%		7.58%	
Provision coverage ratio	55.71%		58.14%	
Profitability (%)				
Net interest margin	12.90%		15.20%	
Return on assets	4.80%		4.24%	
Return on equity	10.94%		8.40%	
Cost to income ratio	30.86%		31.28%	
Liquidity (%)				
Available liquid assets to required liquid assets (Minimum 100%)	183.71%		228.17%	
Liquid assets to external funds	10.71%		11.57%	
Memorandum information				
Number of branches	103		103	
External credit rating	A+(/ka) by Fitch Ratings Lanka Ltd.		A+(/ka) by Fitch Ratings Lanka Ltd.	
Regulatory penalties imposed last 6 months				
Amount (Rs.Mn)	None		None	
Regulatory deposit restrictions				
Cap on total deposits (Rs.Mn)	None		None	
Downsizing of deposits - per month/quarter/year (Rs.Mn)	None		None	
Freezing of deposits	None		None	
Regulatory borrowing restrictions				
Cap on total borrowings (Rs.Mn)	None		None	
Downsizing of borrowings - per month/quarter/year (Rs.Mn)	None		None	
Freezing of borrowings (Rs.Mn)	None		None	
Regulatory lending restrictions				
Cap on total lending portfolio (Rs.Mn)	None		None	
Downsizing of lending portfolio - per month/quarter/year (Rs.Mn)	None		None	
Restrictions on granting new credit facilities and/or extending the terms of existing credit facilities	None		None	
Any other regulatory restrictions	None		None	

Independent Auditors' Report



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TO THE SHAREHOLDERS OF CENTRAL FINANCE COMPANY PLC REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of Central Finance Company 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 31st March 2021, and the income statement, 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 as set out on pages 108 to 232 of this Annual Report.

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 31st March 2021, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

KEY AUDIT MATTERS IN THE AUDIT OF THE GROUP

IMPAIRMENT OF LOANS AND RECEIVABLES FROM CUSTOMERS AND NET INVESTMENT IN LEASES AND HIRE PURCHASE

Refer to Note 3 (Significant accounting judgments, estimates and assumptions), Note 17 (Impairments and other credit losses), Note 30 (Financial assets at amortised cost- Loans and receivables from customers) and Note 31 (Financial assets at amortised cost - Net investment in leases and hire purchase) to these financial statements.

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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 Auditors' 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") that are relevant to our audit of the financial statements, 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 Company's financial statements and the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the Company's financial statements and the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	GROUP		COMPANY	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
For the year ended 31st March				
Profit for the year	5,779,968	4,109,304	4,135,971	2,895,194
Other comprehensive income to be reclassified to income statement				
Fair value changes in debt securities at fair value through other comprehensive income				
Share of equity accounted investees, net of tax	(84,229)	93,774	-	-
Total other comprehensive income to be reclassified to income statement	(84,229)	93,774	-	-
Other comprehensive income not to be reclassified to income statement				
Actuarial gains / (losses) on defined benefit plans	(15,303)	(177,388)	(6,350)	(172,737)
Tax effect	3,305	49,580	1,524	48,366
	(11,998)	(127,808)	(4,826)	(124,371)
Share of equity accounted investees, net of tax	(9,462)	(10,018)	-	-
Revaluation of land & buildings				
Gain on revaluation of land & buildings				
Share of equity accounted investees, net of tax	5,283	86,032	-	-
Deferred tax impact on revaluation reserve due to change of income tax rate	328,748	-	186,792	-
Total other comprehensive income not to be reclassified to income statement	312,571	(51,794)	181,966	(124,371)
Other comprehensive income for the year (net of tax)	228,342	41,980	181,966	(124,371)
Total comprehensive income for the year	6,008,310	4,151,284	4,317,937	2,770,823
Total comprehensive income Attributable to:				
Equity holders of the parent	5,726,520	4,031,948	4,317,937	2,770,823
Non-controlling interests	281,790	119,336	-	-
Total comprehensive income for the year	6,008,310	4,151,284	4,317,937	2,770,823

STATEMENT OF FINANCIAL POSITION	GROUP		COMPANY	
	31/03/2021 Rs.'000	31/03/2020 Rs.'000	31/03/2021 Rs.'000	31/03/2020 Rs.'000
As at				
ASSETS				
Cash and cash equivalents	988,137	773,312	930,383	671,117
Fair value through profit or loss financial assets	15,669,893	5,599,847	14,299,981	5,320,028
Securities bought under repurchase agreements	4,378,520	4,440,427	4,378,520	4,440,427
Financial assets at amortised cost - Debt and other financial instruments	4,473,794	5,019,765	4,226,850	4,425,119
Financial assets at amortised cost - Loans and receivables from customers	3,405,974	4,167,030	3,413,453	4,167,893
Financial assets at amortised cost - Net investment in leases and hire purchase	61,108,561	74,343,334	61,108,561	74,343,334
Trade receivables	1,077,716	822,365	-	-
Investments in subsidiaries	-	-	306,481	289,063
Investments in equity accounted investees	8,276,910	7,430,736	1,454,646	1,454,646
Inventories and other stocks	1,380,216	997,014	48,724	81,520
Investment properties	303,800	303,800	303,800	303,800
Property, plant and equipment	12,308,748	12,605,679	10,056,995	10,358,739
Right of use assets	439,173	443,545	574,707	612,968
Intangible assets	100,774	132,421	100,280	131,751
Current tax assets	2,420	1,616	-	-
Deferred tax asset	18,406	18,439	-	-
Other assets	453,759	676,998	379,998	566,309
Real estates held for sale	10,697	18,339	10,697	18,339
Total assets	114,397,498	117,794,667	101,594,076	107,185,053
LIABILITIES				
Bank overdrafts	1,455,291	1,241,075	1,444,603	1,224,972
Financial liabilities at amortised cost - Deposits	52,096,938	52,912,500	52,531,512	53,390,977
Financial liabilities at amortised cost - Interest bearing borrowings	1,673,965	8,132,977	1,091,332	7,798,612
Debt securities issued	-	1,791,038	-	1,791,038
Lease liabilities	390,449	353,415	537,314	522,842
Employee benefit obligations	1,959,247	1,746,130	1,803,815	1,612,038
Current tax liabilities	1,380,518	836,968	1,253,375	752,572
Deferred tax liability	2,201,544	3,960,035	1,872,272	3,459,432
Other liabilities	1,734,097	1,297,648	1,109,197	999,517
Total liabilities	62,892,049	72,271,786	61,643,420	71,552,000
EQUITY				
Stated capital	1,961,597	1,696,898	1,961,597	1,696,898
Statutory reserve fund	2,371,000	2,213,000	2,371,000	2,213,000
Revaluation reserve	5,102,431	4,823,863	3,747,729	3,567,167
Fair value reserve	27,538	111,767	-	-
Loan loss reserve	920,000	920,000	920,000	920,000
General reserve	23,402,957	23,402,957	23,391,776	23,391,776
Retained earnings	16,266,493	11,157,205	7,558,554	3,844,212
Total equity, excluding non-controlling interest	50,052,016	44,325,690	39,950,656	35,633,053
Non-controlling interests	1,453,433	1,197,191	-	-
Total equity	51,505,449	45,522,881	39,950,656	35,633,053
Total liabilities and equity	114,397,498	117,794,667	101,594,076	107,185,053
Net asset value per share - Rs.	223.42	197.86	178.33	159.06

These financial statements have been prepared in compliance with the requirements of the Companies Act No.07 of 2007.

K. Kandeepan Ihsan
Chief Financial Officer

The Board of directors is responsible for the preparation and presentation of these financial statements. Approved and signed for and on behalf of the board.

E.H. Wijenaikie
Managing Director

G.S.N. Peiris
Director (Finance)

18th May 2021
Colombo

RISK DESCRIPTION	OUR RESPONSES
As disclosed in Notes 30 and 31 to these financial statements, the Company has recorded financial assets at amortised cost against loans and receivables from customers and net investment in leases and hire purchase of Rs. 4,381 Mn and Rs. 66,462 Mn respectively as at 31st March 2021.	Our audit procedures to assess impairment of loans and advances to customers included the following: Testing of key controls in relation to: ★ Reconciliation of the data used in the ECL calculation process to gross balances recorded in the general ledger with source systems;

RISK DESCRIPTION	OUR RESPONSES
High degree of complexity and judgment are involved in estimating Expected Credit Loss (ECL) of Rs. 968 Mn and Rs. 5,353 Mn against loans and receivables from customers and net investment in leases and hire purchase as at the reporting date respectively. Allowance for expected credit losses is a key audit matter due to the significance of the loans and receivables and net investment in leases and hire purchase balances to these financial statements and the inherent complexity of the Company's ECL models used to measure ECL allowances. These models are reliant on data and a number of estimates including the impact of multiple economic scenarios and other assumptions such as defining a significant increase in credit risk (SICR). SLFRS 9 Financial Instruments requires the Company to measure ECLs on a forward-looking basis reflecting a range of economic conditions. Post-model adjustments are made by the Company to address known ECL model limitations or emerging trends in the loans and lease portfolios. We exercise significant judgement when evaluating the economic scenarios used and the judgmental post model adjustments the Company applies to the ECL results. The Company's criteria selected to identify a SICR are key areas of judgement within the ECL methodology as these criteria determine if a forward-looking 12 month or lifetime allowance is recorded.	★ Key IT system controls which record loans and leases days past due, and non-performing loan and lease classification. Assessing the adequacy of collectively assessed provisions We tested key controls of the Company in relation to: ★ The ECL model governance and validation processes which involved assessment of model performance; ★ The assessment and approval of the forward-looking macroeconomic assessment and scenario weightings, trends in credit risk concentration of specific portfolios and our understanding of economic conditions. As part of this work we assessed the reasonableness of the Company's considerations of the economic uncertainty relating to COVID-19. In addition to controls testing, our procedures included the followings; ★ Assessing the ongoing effectiveness of the SICR criteria and independently calculated the staging of loans and leases. In addition, we assessed the reasonableness of the Company's treatment of COVID-19 payment relief customers (moratorium/ debt concessionary) from a SICR perspective. ★ Evaluating key assumptions in the components of the Company's post-model adjustments to the ECL allowance balance. This included assessing the requirement for additional allowances considering the Company's ECL model and data limitations identified by the Company's ECL model validation processes, particularly in light of the extreme volatility in economic scenarios caused by the current COVID-19 pandemic and Government responses;

RISK DESCRIPTION	OUR RESPONSES
The COVID-19 pandemic has meant that assumptions regarding the economic outlook are more uncertain which, combined with varying Government responses, increases the level of judgement required by the Company in calculating the ECL, and the associated audit risk. Additionally, allowances for individually significant loans and leases exceeding specific thresholds are individually assessed by the Company. These specific allowances are established based on the expected future cash repayments and estimated proceeds from the value of the collateral held by the Company in respect of the loans and lease receivables. The loan and lease receivables and ECL allowances are also significant to the Company/ Group due to the level of required disclosures set out by the requirements of SLFRS 7 Financial Instruments: Disclosures.	★ Working with KPMG Financial Risk Management Specialists, we assessed the reasonableness of the adjustments made by the Company to the forward looking macro-economic factors and assumptions used in the ECL model. ★ Assessing the completeness of additional allowance overlays by comparing the risks we identified in the loan and lease portfolios against the Company's assessment. ★ Assessing the appropriateness of the Company's disclosures in the financial statements using our understanding obtained from our testing and against the requirements of the Sri Lanka Accounting Standards. Assessing impairment for individually significant customers Selecting a sample (based on quantitative thresholds) of larger customers where impairment indicators have been identified by management and assessed as higher risk or impaired, and a sample of other loans and leases, focusing on larger exposures assessed by the Company as showing signs of deterioration, or in areas of emerging risk (assessed against external market conditions and in particular considering the impacts of COVID-19). Obtaining management's assessment of the recoverability of these exposures (including individual impairment calculations) and assessed whether individual impairment provisions, or lack of, were appropriate. This included the following procedures ★ Assessing the recoverability of the forecasted cash flows by comparing them to the historical performance of the customers and the expected future performance where applicable; ★ Assessing external collateral valuer's credentials and comparing external valuations to values used in management's impairment assessments For a sample of customer loans and leases which were not identified as displaying indicators of impairment by management, we reassessed the conclusions made by the management by reviewing the historical performance of the customers and from our own view whether any impairment indicators were present.

IT SYSTEMS AND CONTROLS OVER FINANCIAL REPORTING	
RISK DESCRIPTION	OUR RESPONSES
The Company utilises many, interdependent Information Technology (IT) systems to process and record a high volume of transactions. Controls over access and changes to IT systems are critical to the recording of financial information and the preparation of financial statements which provides a true and fair view of the Company's financial position and performance. The IT systems and controls, as they impact the financial recording and reporting of transactions, is a key audit matter as our audit approach could significantly differ depending on the effective operation of the Company's IT controls.	We worked with our KPMG IT specialists to perform audit procedures to test the technology control environment for key IT applications (systems) used in processing significant transactions and recording balances in the general ledger. Our further audit procedures included: General IT controls design, observation and operation ★ Assessing the governance and higher-level controls in place across the IT Environment, including the approach to Company policy design, review and awareness, and IT Risk Management practices. ★ Testing the sample of key controls operating over the information technology in relation to financial accounting and reporting systems, including system access and system change management, and computer operations. ★ Data integrity of critical system reporting used by us in our audit to select samples and analyse data used by management to generate Financial statements.

IT SYSTEMS AND CONTROLS OVER FINANCIAL REPORTING	
RISK DESCRIPTION	OUR RESPONSES
	Application controls ★ On sample basis, re-performed selected automated computations and compared our results with those from the system and the general Ledger; User access controls operation ★ Assessing the operating effectiveness of controls over granting, removal and appropriateness of access rights. ★ Assessing the management's evaluation of access rights granted to applicants relevant to financial accounting and reporting systems and tested resolution of a sample of exceptions.

OTHER MATTER

The financial statements of the Company and the Group for the year ended 31st March 2020 were audited by another auditor who had expressed an unmodified audit opinion on those financial statements on 24th July 2020.

OTHER INFORMATION

Management is responsible for the other information. The other information does not include the financial statements and the 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 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 auditors' 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 the 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 and the Group's internal control.

- ★ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- ★ Consider 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 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 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, 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 auditors' report is FCA 2294.


Chartered Accountants
Colombo, Sri Lanka
18th May 2021

M.R. Mihalar FCA
T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara ACA
G.A.U. Kanurathne FCA
R.H. Rajin FCA
A.M.R.P. Ashakoon ACA
Principals - S.R.L. Perera FCA(UK), LLB Attorney-at-Law, H.S. Goonewardene ACA
Ms. P.M.K. Sumanasekara FCA, W.A.A. Weerasekera FCA, ACMA, MRICS

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Ms. B.K.D.T.N. Rodrigo FCA
Ms. C.T.K.N. Perera ACA

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.

 **Central Finance Company PLC**
84, Raja Veediya, Kandy.

Licensed by Monetary Board of Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011. Established as a Limited Liability Company on 05th December 1957.

Rated A+(Ika) by Fitch Ratings Lanka Ltd.