Central Finance Company PLC

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

INCOME STATEMENT

For the year ended 31st March	GROUP 2018 Rs.'000	GROUP 2017 (Restated) Rs.'000	COMPANY 2018 Rs.'000	COMPANY 2017 (Restated) Rs.'000
Income	**20,463,761**	18,145,869	**17,756,834**	15,391,657
Interest income	**16,114,759**	14,104,260	**16,040,778**	14,044,836
Less: Interest expenses	**5,203,545**	4,245,527	**5,226,197**	4,264,866
Net interest income	**10,911,214**	9,858,733	**10,814,581**	9,779,970
Other revenue	**2,786,351**	2,823,108	**-**	-
Less: cost of sales	**1,970,053**	1,981,548	**-**	-
Gross profit	**816,298**	841,560	**-**	-
Other operating income	**807,240**	497,619	**809,304**	497,657
Other income	**755,411**	720,882	**906,752**	849,164
	13,290,163	11,918,794	**12,530,637**	11,126,791
Less: Operating expenses				
Personnel expenses	**1,890,142**	1,716,163	**1,633,544**	1,465,188
Premises, equipment and establishment expenses	**1,872,832**	1,680,458	**1,809,139**	1,601,524
Employee retirement benefit expenses	**199,061**	177,611	**176,227**	157,406
Other expenses	**839,284**	1,079,658	**740,430**	994,114
	4,801,319	4,653,890	**4,359,340**	4,218,232
Profit before impairment on loans and other credit losses	**8,488,844**	7,264,904	**8,171,297**	6,908,559
Less : Impairment on loans and other credit losses	**395,312**	302,794	**394,047**	303,402
	8,093,532	6,962,110	**7,777,250**	6,605,157
Share of profit of associates	**1,245,739**	952,427	**-**	-
Profit before VAT on financial services, NBT and income tax	**9,339,271**	7,914,537	**7,777,250**	6,605,157
Less: VAT on financial services and NBT	**1,116,079**	815,686	**1,116,079**	814,275
Profit before income tax	**8,223,192**	7,098,851	**6,661,171**	5,790,882
Less: Income tax expense	**2,754,795**	2,343,822	**2,184,880**	1,878,010
Profit after income tax	**5,468,397**	4,755,029	**4,476,291**	3,912,872
Attributable to equity holders of the parent	**5,402,198**	4,665,195	**4,476,291**	3,912,872
Attributable to non-controlling interest	**66,199**	89,834	**-**	-
Net profit for the year	**5,468,397**	4,755,029	**4,476,291**	3,912,872
Basic and diluted earnings per share - Rs.	**24.92**	21.52		
Dividend per share - Rs.				
Paid	**2.40**	2.35		
Proposed (Scrip & Cash)	**1.60**			

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st March	GROUP 2018 Rs.'000	GROUP 2017 (Restated) Rs.'000	COMPANY 2018 Rs.'000	COMPANY 2017 (Restated) Rs.'000
Profit for the year	**5,468,397**	4,755,029	**4,476,291**	3,912,872
Other Comprehensive income to be reclassified to income statement				
Fair value changes in available for sale investments				
Equity securities - quoted	**32,971**	13,746	**32,971**	13,746
	32,971	13,746	**32,971**	13,746
Add/(less):share of other comprehensive income of associates	**78,695**	23,904	**-**	-
Tax effect	**(22,035)**	(6,693)	**-**	-
	56,660	17,211	**-**	-
Total other comprehensive income to be reclassified to income statement	**89,631**	30,957	**32,971**	13,746
Other Comprehensive income not to be reclassified to income statement				
Actuarial gains/(losses) on defined benefit plans	**(74,693)**	57,714	**(70,912)**	55,253
Tax effect	**36,264**	(16,017)	**35,326**	(15,471)
	(38,429)	41,697	**(35,586)**	39,782
Add/(less):share of other comprehensive income/(losses) of associates	**(9,896)**	19,189	**-**	-
Tax effect	**2,770**	(3,850)	**-**	-
	(7,126)	15,339	**-**	-
Revaluation gain on land reclassified as investment properties	**179,816**	-	**179,816**	-
	179,816	-	**179,816**	-
Tax effect on revaluation surplus of land	**(617,197)**	-	**(508,275)**	-
	(617,197)	-	**(508,275)**	-
Revaluation of land & buildings				
Add/(less):share of other comprehensive income/(losses) of associates	**273,953**	-	**-**	-
Tax effect	**(72,824)**	-	**-**	-
	201,129	-	**-**	-
Total other comprehensive income not to be reclassified to income statement	**(281,807)**	57,036	**(364,045)**	39,782
Other comprehensive income for the year (net of tax)	**(192,176)**	87,993	**(331,074)**	53,528
Total comprehensive income for the year	**5,276,221**	4,843,022	**4,145,217**	3,966,400
Attributable to equity holders of the parent	**5,249,057**	4,754,927	**4,145,217**	3,966,400
Attributable to non-controlling interest	**27,164**	88,095	**-**	-
Total comprehensive income for the year	**5,276,221**	4,843,022	**4,145,217**	3,966,400

SELECTED PERFORMANCE INDICATORS

Item	As at 31/03/2018	As at 31/03/2017
Regulatory Capital Adequacy		
Core Capital (Tier 1 Capital), Rs.'000	**25,727,326**	22,823,325
Total Capital Base, Rs.'000	**25,101,137**	23,299,402
Core Capital Adequacy Ratio as % of Risk Weighted Assets (Minimum requirement, 5%)	**32.89%**	32.28%
Total Capital Adequacy Ratio as % of Risk Weighted Assets (Minimum requirement,10%)	**32.09%**	32.95%
Capital Funds to Deposit Liabilities Ratio (Minimum requirement,10%)	**63.02%**	63.85%
Asset Quality (Quality of Loan Portfolio)		
Gross Non-Performing Accommodations, Rs.'000	**2,724,754**	2,452,367
Gross Non-Performing Accommodations Ratio,%	**3.65%**	3.52%
Net Non-Performing Accommodations Ratio,%	**0.42%**	0.31%
Profitability (%)		
Interest Margin (net interest income as a % of interest earning assets)	**15.11%**	15.89%
Return on Assets (before Tax)	**8.15%**	7.78%
Return on Equity (after Tax)	**16.32%**	16.24%
Regulatory Liquidity (Rs. '000)		
Required minimum amount of Liquid Assets	**4,282,465**	3,807,232
Available amount of Liquid Assets	**4,898,966**	4,218,105
Required minimum amount of Government Securities	**2,778,641**	2,716,144
Available amount of Government Securities	**3,099,174**	2,949,728
Memorandum information		
Number of employees	**1,790**	1,666
Number of branches	**97**	95
Number of service centres	**12**	12
Number of pawning centres	**Nil**	Nil
Number of other centres	**05**	05

STATEMENT OF FINANCIAL POSITION

As at	GROUP 31/03/2018 Rs.'000	GROUP 31/03/2017 (Restated) Rs.'000	GROUP 31/03/2016 (Restated) Rs.'000	COMPANY 31/03/2018 Rs.'000	COMPANY 31/03/2017 (Restated) Rs.'000	COMPANY 31/03/2016 (Restated) Rs.'000
ASSETS						
Cash and cash equivalents	**580,010**	516,267	536,914	**533,774**	459,940	479,696
Fair value through profit or loss financial assets	**275,304**	106,143	39,992	**251,746**	96,125	33,760
Trade and other receivables	**1,140,508**	982,218	1,111,758	**442,168**	309,749	361,917
Tax receivables	**950**	1,775	1,774	**-**	-	-
Available for sale investments	**279,723**	246,773	234,820	**272,847**	240,443	228,326
Inventories and other stocks	**1,452,708**	1,275,049	1,191,974	**881,873**	679,714	706,605
Securities bought under repurchase agreements	**3,099,174**	2,949,728	2,787,948	**3,099,174**	2,949,728	2,787,948
Loans and receivables from banks	**1,233,057**	911,394	828,114	**1,226,999**	905,818	822,952
Loans and receivables from others	**694,776**	1,063,880	968,679	**63,949**	398,326	465,932
Loans and receivables from customers	**7,718,635**	6,968,950	4,400,698	**7,709,324**	7,067,199	4,562,610
Net investment in leases and hire purchase	**62,515,312**	57,165,731	55,335,269	**62,515,312**	57,165,731	55,321,442
Investments in real estate	**44,834**	65,051	37,549	**44,834**	65,051	30,874
Investment properties	**313,663**	-	41,250	**313,663**	-	-
Investments in associates	**5,973,550**	4,075,059	3,537,114	**1,330,862**	523,458	523,458
Investments in subsidiaries	**-**	-	-	**306,456**	306,456	620,964
Deferred tax asset	**14,574**	11,920	11,789	**-**	-	-
Property, plant and equipment	**8,395,647**	7,134,854	5,925,833	**7,100,198**	5,921,176	4,620,447
Intangible assets	**103,276**	100,366	106,099	**102,245**	99,963	105,392
Total assets	**93,835,701**	83,575,158	77,097,574	**86,195,424**	77,188,877	71,672,323
LIABILITIES						
Bank overdrafts	**765,037**	1,059,332	670,937	**750,569**	1,047,908	666,082
Tax payables	**905,751**	889,101	902,654	**864,753**	834,693	818,267
Trade and other payables	**1,852,206**	1,642,932	1,553,875	**1,457,585**	1,292,203	1,195,719
Amounts due to subsidiaries	**-**	-	-	**204,333**	187,987	172,922
Derivative financial instruments	**-**	-	61	**-**	-	61
Short term borrowings	**1,753,653**	1,845,352	1,194,407	**1,557,586**	1,699,196	1,194,407
Deposits	**40,570,199**	35,527,936	34,299,143	**40,766,497**	35,707,147	34,483,812
Long term borrowings	**4,875**	5,425	-	**-**	-	-
Debentures	**5,643,712**	6,140,818	6,638,981	**5,643,712**	6,140,818	6,638,981
Employee benefit obligations	**1,188,609**	995,545	927,335	**1,069,518**	875,120	818,566
Deferred tax liability	**4,912,249**	3,755,583	3,276,382	**4,726,368**	3,690,053	3,210,747
Total liabilities	**57,596,291**	51,862,024	49,463,775	**57,040,921**	51,475,125	49,199,564
SHAREHOLDERS' FUNDS						
Stated capital	**1,337,564**	1,337,564	568,420	**1,337,564**	1,337,564	568,420
Capital reserves	**2,291,952**	2,510,631	2,509,879	**1,571,945**	1,919,787	1,930,651
Reserve fund	**1,824,000**	1,599,000	1,396,000	**1,824,000**	1,599,000	1,396,000
Available for sale reserve	**119,379**	29,748	91	**99,742**	66,771	54,325
Loan loss reserve	**920,000**	-	-	**920,000**	-	-
Revenue reserves	**28,881,432**	25,352,251	22,303,590	**23,401,252**	20,790,630	18,523,363
Funds attributable to equity holders of the parent	**35,374,327**	30,829,194	26,777,980	**29,154,503**	25,713,752	22,472,759
Non-controlling interest	**865,083**	883,940	855,819	**-**	-	-
	36,239,410	31,713,134	27,633,799	**29,154,503**	25,713,752	22,472,759
Total liabilities, shareholders' funds and non-controlling interest	**93,835,701**	83,575,158	77,097,574	**86,195,424**	77,188,877	71,672,323
Net asset value per share - Rs.	**163.20**	142.23	123.54	**134.50**	118.63	103.68

I certify that the financial statements comply with the requirements of the Companies Act No. 07 of 2007.

U.B. Elangasinha
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. Wijenaike
Managing Director

G.S.N. Peiris
Director (Finance)

25th May 2018

Deloitte.

SJMS Associates
Chartered Accountants
No.11, Castle Lane
Colombo 04
Sri Lanka

Tel: +94 11 2580409, 5444400
Fax: +94 11 2582452
www.deloitte.com

INDEPENDENT AUDITOR'S REPORT
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 2018, and the 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 31st March 2018, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

BASIS FOR OPINION
We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the 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.

KEY AUDIT MATTER IN THE AUDIT OF THE GROUP
Impairment of leases and hire purchases and loans and receivables

As at 31st March 2018, as disclosed in Notes 32 and 33, the group's "loans and receivables from customers" and "net investment in leases and hire purchases", gross balances amounted to Rs. 7,870 million and Rs. 63,842 million respectively.

The group's net investment in leases and hire purchases and loans and receivables are measured at amortized cost using the effective interest method. The impairment of "net investment in lease and hire purchase" and "loans and receivables from customers" amounted to Rs. 1,326 million and Rs. 151.5 million respectively as at 31st March 2018. Further, as explained in notes 2.1 and 54, adjustments amounting to Rs. 710 million and Rs. 142 million were made to the retained earnings as at 1st April 2016 and 'Impairment on loans and other credit losses' for the year ended 31st March 2017 respectively on account of lower impairment provisions for lease receivables.

Impairment in respect of "net investment in lease and hire purchase" and "loans and receivables" represent the management's best estimate of the impairment losses incurred within the loan portfolio as at the reporting date. The group's loan portfolio consists of lease receivables, hire purchase receivables, term loans, loans against fixed deposits, micro finance loans, loans to employees and other medium term credit products.

As disclosed in note 3.3, impairment is calculated for individual leases and loans or for a homogeneous group of leases and loans with similar credit risk characteristics by an individual or collective assessment of impairment using statistical methods and historical collection trends. Collectively calculated impairment, also includes impairment losses which have not yet been identified on leases, hire purchase and loans which are subject to individual assessments. The calculation of the collective impairment is inherently judgmental. We have identified impairment as a key audit matter as the calculation of impairment is a complex area and requires the management to make significant assumptions on the customer payment behaviour and other relevant risk characteristics when assessing the group's statistics of historical information and estimating the level and timing of the expected future cash flows.

HOW OUR AUDIT ADDRESSED THE KEY ISSUES
Our audit focused on assessing the appropriateness of the management's judgement and estimates used in the impairment analysis through the following procedures:-

- We discussed with the audit committee as to whether there were any significant changes made to the inputs or models impacting the collective impairment as well as changes in the control environment. These included key assumptions over the impairment model.
- We tested the operating effectiveness of key controls relating to the calculation of impairment. This included using our IT specialists to test the data flows from source systems to spreadsheet-based models to test their completeness and accuracy.
- We tested the methodology applied in the impairment calculation by comparing it to the requirements of LKAS 39, Financial instruments: recognition and measurement, and we tested the mathematical accuracy of the management's model used to calculate impairment.
- We tested the key underlying assumptions by evaluating the process by which these were drawn up.
- We understood and critically assessed the models used for impairment. Since modelling assumptions and parameters are based on historic data, we assessedwhether historic experience was representative of current circumstances and of the recent impairment incurred within the portfolios.
- We compared on a sample basis the estimated future cash flowsof loans and receivables against the impaired loan portfolios to corroborate the reliability of the management's estimates.

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 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 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit.
We also:

⊙ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions,misrepresentations, or the override of internal control.

⊙ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company 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.

⊙ 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 and 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 orconditions may cause the Company and 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 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 2347.

SJMS Associates
Chartered Accountants

25th May 2018

P. E. A. Jayewickreme, M. B. Ismail, Ms. S. L. Jayasuriya, G. J. David, Ms. F. M. Marikkar, Ms. M. S. J. Henry, R. H. M. Minfaz, Ms. S. Y. Kodagoda