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Making the world a better place through sustainable finance

ALLIANCE FINANCE COMPANY PLC

Key Financial Data for the Year Ended 31st March (Audited)

In Rupees Million	31/03/2022 From 01/04/2021 to 31/03/2022	31/03/2021 From 01/04/2020 to 31/03/2021
Interest Income	7,853	7,173
Interest Expenses	(2,651)	(2,913)
Net Interest Income	**5,201**	**4,260**
Gains/(Losses) from Trading Activities	28	17
Other Income	568	340
Operating Expenses (Excluding Impairment)	(2,776)	(2,261)
Impairment	(103)	(752)
Profit / (Loss) Before Tax	**2,918**	**1,604**
Value Added Tax on Financial Services and Income Tax	(1,455)	(1,043)
Profit / (Loss) After Tax	**1,463**	**561**

Key Financial Data as at 31st March (Audited)

In Rupees Million	As at 31/03/2022	As at 31/03/2021
Assets		
Cash and Bank Balance	795	587
Government Securities	1,752	1,578
Due from Related Parties	-	-
Lease and Loan Receivable (Excluding Related Parties)	40,302	26,614
Investments in Equity	185	204
Investment Properties and Real Estate	170	596
Property, Plant and Equipment	2,502	2,378
Other Assets	2,433	2,166
Total Assets	**48,140**	**34,122**
Liabilities		
Due to Banks	23,426	13,214
Due to Related Parties - Deposits	46	42
Deposits from Customers	14,635	12,877
Other Liabilities	3,352	2,173
Total Liabilities	**41,459**	**28,306**
Equity		
Stated Capital	614	614
Statutory Reserve Fund	977	904
Retained Earnings	3,500	2,296
Other Reserves	1,589	2,002
Total Equity	**6,681**	**5,816**
Total Equity and Liabilities	**48,140**	**34,122**
Net Assets Value Per Share (Rs)	**198**	**173**

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

CERTIFICATION:

We, the undersigned, being the Deputy Chairman & Managing Director, Assistant General Manager (AGM) - Finance and the Compliance Officer of Alliance Finance Company 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 (CBSL);

(b) the information contained in these statements have been extracted from the audited financial statements of the Company.

R.K.E.P. de Silva
Deputy Chairman & Managing Director

Dimuthu Tillakaratne
AGM - Finance

Thamara Rathnayake
Compliance Officer

ISO 9001 REGISTERED
MGMT.SYS. RvA C024
DNV
DNV Certification B.V., The Netherlands

The first Company in the Banking and Non-banking sector of Sri Lanka to be certified with ISO 9001:2015 Quality Management system and ISO 22301:2012 for Business Continuity Management Systems.

ICRA Lanka assigns issuer rating of [SL]BBB-

Selected Key Performance Indicators

Item	As at 31/03/2022		As at 31/03/2021	
Regulatory Capital Adequacy (%)	**Actual**	**Required**	**Actual**	**Required**
Tier 1 Capital Adequacy Ratio	11.67%	7.00%	11.38%	6.50%
Total Capital Adequacy Ratio	15.07%	11.00%	14.00%	10.50%
Capital Funds to Deposit Liabilities Ratio	38.85%	10.00%	38.02%	10.00%
Quality of Loan Portfolio) (%)				
Gross Non-Performing Loans Ratio	3.64%		8.43%	
Net-Non-Performing Loans Ratio	0.94%		1.44%	
Net-Non-Performing Loans to Core Capital Ratio	10.08%		33.74%	
Provision Coverage Ratio	111.42%		84.13%	
Profitability (%)				
Net Interest Margin (Net interest income as a percentage of average interest earning assets)	13.61%		13.41%	
Return on Assets (Profit before tax as a percentage of avearge assets)	5.75%		3.81%	
Return on Equity	37.83%		24.85%	
Cost to Income Ratio	47.93%		48.99%	
Liquidity (%)				
Available Liquid Assets to Required Liquid Assets (Minimum 100%)	224%		253%	
Liquid Assets to External Funds	4.84%		7.98%	
Memorandum information				
Number of Branches and other centers	94		91	
External Credit Rating (ICRA LANKA)	(SL)BBB- (Negative)		(SL)BBB- (Negative)	

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF ALLIANCE FINANCE COMPANY PLC
Report on the Audit of the Financial Statements

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Opinion

We have audited the financial statements of Alliance Finance Company PLC (the "Company") and the Consolidated financial statements of the Company and its subsidiary (the "Group"), which comprise the Statements of financial position as at 31 March, 2022 and the Statements of profit or loss, Statements of other comprehensive income, Statements of changes in equity and Statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 March, 2022 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.

For each matter below, we have provided a description of how our audit procedures addressed the matter in that context.

Key audit matter	How our audit procedures addressed the key audit matter
Impairment charges (expected credit losses/ ECLs) for loans and advances, lease and hire purchase rental receivables The accounting policy relating to the provisioning of impairment for loans and advances, lease rental receivables hire purchase rental receivables as described in note 4.5.7, the detail relating to impairment charges for the year ended 31 March 2022 is included in note 11, and details of provisions carried at 31 March 2022 are included in note 23, 24 and 25. The assessment of impairment requires significant judgment by the Company and Group and may have a significant impact on the financial statements. Given the subjectivity and reliance on estimates and judgments inherent in the determination of the provision for impairment and historical issues in relation to classifying loans as non-performing advances (NPAs), the significance of the loans and receivables, lease and hire purchases receivables balances to these financial statements, the inherent complexity of the Company's ECL models used to measure impairment allowances and the level of required disclosures set out by the requirements of SLFRS 7 financial instruments: Disclosures, we determined this to be a matter of most significance to our audit. Impairment allowances represent management's best estimate of the losses incurred within the loan portfolios at the reporting date. They are calculated on a collective basis for portfolios of loans of a similar nature (the collective impairment model) and on an individual basis for significant loans (individual impairment model). Both models used by the company utilize arrears as the primary impairment trigger; however, there is a risk that other impairment triggers are not identified on a timely basis. For the collective impairment model (ECL model), impairment is calculated on a modeled basis for portfolios of loans and advances. This is because loans and advances considered under this model comprise large numbers of accounts with relatively small individual balances. The key assumptions and judgments made by the Company underlie the calculation of impairment. A high degree of complexity and judgment is involved in estimating impairment. There are also several key assumptions made by the Company in applying the requirements of SLFRS 9 to the ECL model including the identification of the loss stage, probability of default (PD), loss given default (LGD), macroeconomic scenarios including their weighting and judgments over the use of data inputs required. The prevailing uncertain and volatile macro-economic environment, continued disruption to economic activities caused by lack of power supply/fuel, union actions, and lack of availability of critical resources including raw materials for production have meant that assumptions regarding the economic outlook are more uncertain which, combined with varying government responses, increases the level of judgment required by the Company and the Group in estimating impairment allowances.	We assessed whether the Company and the Group's impairment computations and underlying methodology align with the requirements of SLFRS 9 with consideration of worsened economic condition COVID-19 impacts and related responses from industry, the regulator, and CA Sri Lanka based on the best available information up to the date of our report. Our audit procedure was designed to obtain sufficient and appropriate audit evidence, including amongst others the following. • Evaluated design, implementation, and operating effectiveness of controls over estimation of impairment of loans and receivables, which included assessing the level of oversight, review, and approval of impairment policies by the Board of Directors. • We checked the completeness and accuracy of underlying data used in the computations. In addition to the above, the following procedures were performed. **For individual impairment** • We tested control over the timely identification of potentially impaired loans and receivables. • We tested the sample of loans and receivables to ascertain whether the loss event (the point at which impairment is recognized) had been identified in a timely manner. • Selected a sample of large customers based on quantitative thresholds where individually identified by management due to; a significant increase in credit risks, having signs of deterioration, or in areas of emerging risk (assessed against external market conditions and in particular considering prevailing uncertain and volatile macro-economic environment and the impacts of COVID-19. • We assessed the reasonableness of management's estimated future recoveries including the expected future cash flows, discount rate, and the valuation of collateral held. We also compared the actual recoveries against previously estimated amounts of future recoveries. • Evaluated the associated reasonability of the provisions made with particular focus on the prevailing uncertain and volatile macro-economic environment and the impacts of COVID-19) on high-risk industries, strategic responsive actions are taken, collateral values, and the value and timing of recoveries. **For collective impairment** • Assessed the completeness of the underlying information in loans and advances used in the impairment calculations by agreeing with details to the Company and Group's sources of documents and information as well as re-performing the calculation of impairment allowance using computer-assisted audit techniques. • Assessed the reasonableness of macro-economic and other factors used by management in their judgmental overlays. We evaluated the different macro-economic scenarios considered by management, the reasonableness of the scenario chosen, and the weightages applied. • Assessed the reasonability of the basis for and data used by Management to determine overlays in consideration of the scenarios used. • Recalculated the ECL on sample basis, by using the key assumptions used in the models, such as PD and LGD. • We assessed the adequacy of the related financial statement disclosures set out in notes 2.12.3, 4.5.7, 11, 23, 24, 25, and 54.

Other information

Directors are 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 the Directors and Those Charged with Governance for the Financial Statements

The Directors are 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 the Directors 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, the Directors are 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 the Directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibility for the Audit of the Financial Statements

The Directors and those charged with governance are responsible for overseeing the Group's financial reporting process.

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 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 Group's internal control.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

• Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

• Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 3337.

Edirisinghe & Co.,
Chartered Accountants
Colombo
08- June -2022