Since 1956

Alliance Finance Co. PLC

Built on Trust. Powered by Innovation.

Weaving Prosperity

INTEGRATED ANNUAL REPORT 2017-18

Every acclaimed, work of woven art necessitates the entwining of individual diverse elements. Every element being an integral part in it, to help reach its fullest potential; something extraordinary. Holding together the process through leadership and hard work, we are working our way towards a strong future.

Our customers, the community and the environment we operate in, form the very fibre of our legacy of unprecedented growth since 1956. We are set apart by our threefold interwoven philosophy of People, Planet, Profit; aggressively focusing on the very fabric of society, and the bountiful fauna and flora in Sri Lanka.

Ours is a story of prosperity founded on the vision we share with our discerning stakeholders, in order to sustainably bolster growth; not for one, but for all. We believe in teamwork and that each one of us at Alliance Finance is an integral element of our tapestry of success.

Core Values

1. People Centric

People includes all our stakeholders with a special emphasis on customers and staff. We consider customers as our first priority and provide what they need, ensuring their utmost satisfaction. Staff is our greatest asset and we value the voice of our staff and maintain an open door policy in the office premises to encourage dialogue.

2. Integrity

We maintain the highest standards of integrity and accountability in all we say and do. We also strive to uphold customer trust earned throughout the period of our stand, by being committed to the highest levels of transparency. In addition to this, aligning to international standards of social performance management with close monitoring of our impact created though Microfinance, we continue to be a Company accountable in providing responsible finance solutions to all our clients.

3. Innovation

We strive to keep our forward march steady in the current turbulent industry environment by positively undertaking various innovations to drive us ahead, whilst strengthening research and development to make innovation a continuous process.

4. Serve People & Conserve Nature

Whilst adhering to the concept of triple bottom line, we as a Company place high priority on social and environmental sustainability, with which the long term goals of the Company are strongly entwined.

5. Dynamic

The business environment today is subject to rapid changes and is therefore very turbulent. Being dynamic is about keeping pace in the ever changing landscape and taking responsive action in order to meet challenges and surge ahead of the competition.

6. Unity

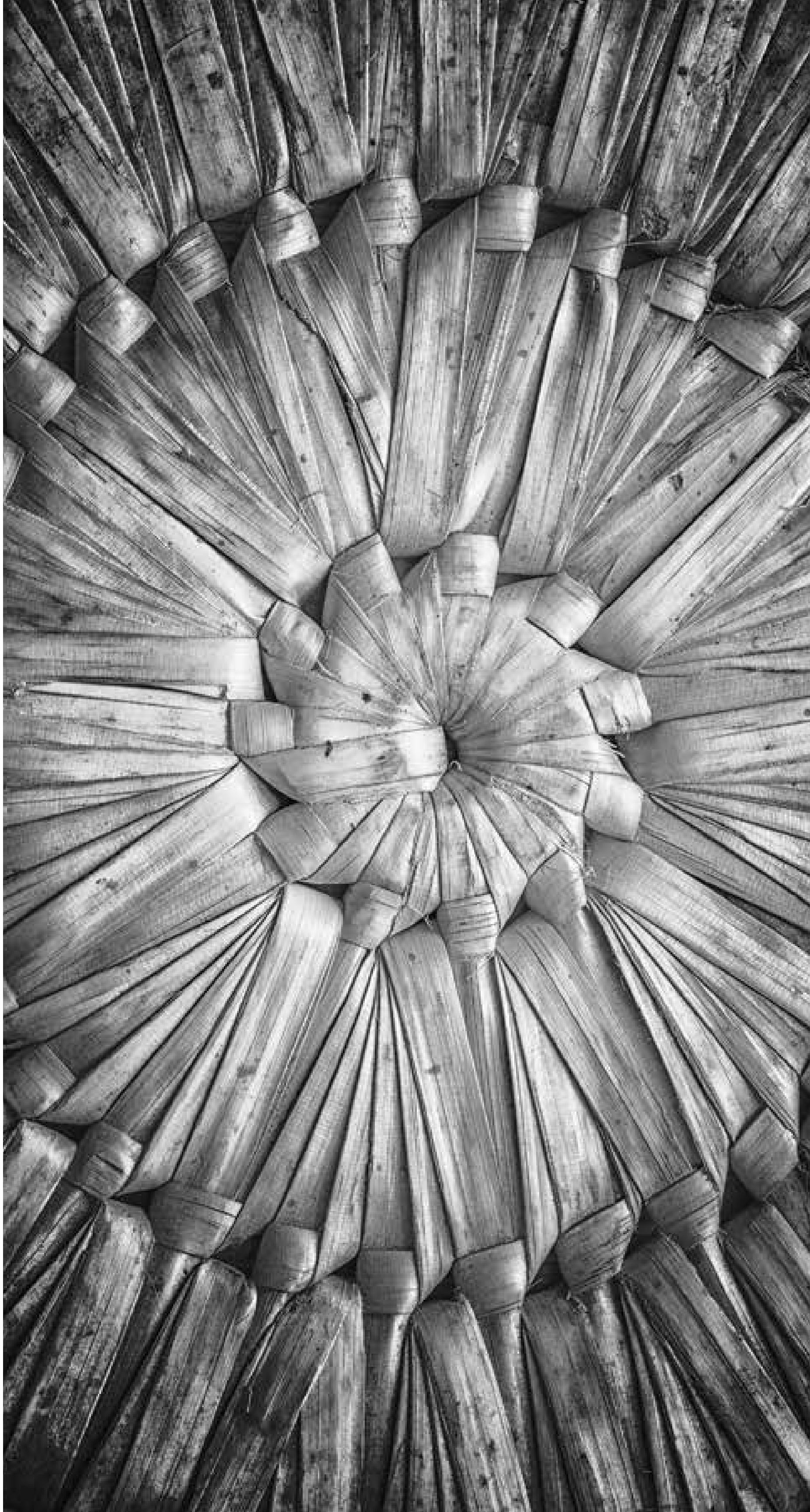
We take pride in the cohesion of the workforce in the Company working towards a common goal and it is a value that can only be created not infused. “All for one and one for all” philosophy has always been a key driving force of the Company’s success and we strive to maintain its consistency throughout.

Vision

To be the most respected Licensed Finance Company in Sri Lanka, delivering superior stakeholder returns whilst supporting financial inclusion and social and environmental sustainability.

Mission

To uphold the highest standards of social and environmental sustainability by delivering inclusive and innovative financial solutions to uplift the lives of people, whilst ensuring a superior experience for all our stakeholders.



Content

Overview

Management Discussion and Analysis

About our Integrated Report

Alliance Finance Company PLC is committed to the principles of Integrated Reporting. Our long-term strategy is directed in a way that balances business and sustainability objectives, and adoption of the <IR> Framework has allowed us to give readers a balanced and comprehensive assessment of our strategy, performance and outlook.

Scope and Boundary of Reporting

The Report covers the operations of Alliance Finance Company PLC ("AFC") for the period from 1st April 2017 to 31st March 2018. Any material events after this date and up to approval by the Board of Directors on 04th June 2018 have also been included for completeness. The financial and non-financial information disclosed in this Report pertains only to the parent entity (unless otherwise mentioned). There were no significant changes to the Company's size, structure, shareholding or supply chain during the year under review. The Company follows an annual reporting cycle and this Report follows the most recent report for the financial year ended 31st of March 2018. There were no significant restatements of previously reported economic, social or environmental information.

Reporting Principles

This Report has been prepared based on the principles of the <IR> Framework, published by the International Integrated Reporting Council (IIRC). The financial statements presented on page 57 of this Report have been prepared in accordance with the Sri Lanka Financial Reporting Standards and the requirements of the Companies Act No.7 of 2007. External Assurance on the financial statements has been provided by Baker Tilly Edirisinghe & Co. Chartered Accountants. For sustainability reporting, we adopted the Global Reporting Initiative (GRI) Standards and are reporting under the In 'Accordance-Core' option. The narrative on Corporate Governance (pages 15 to 20) complies with the Central Bank of Sri Lanka's stipulations applicable to Registered Finance Company; listing Requirements of the CSE and Code of Bests Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka and the Banking Act Direction No.11 of 2007.

About our Integrated Report Contd.

Key Concepts

Materiality: We have applied the principle of materiality in determining the content to be included in our Integrated Report. The relevant material matters have been selected using a structured process as detailed on pages 41 to 43 of this Report and represent stakeholder interests, risks and opportunities and any other factors that could materially impact AFC's ability to create value.

Capitals: The six forms of capital available to us are interrelated and fundamental to the long-term sustainability of our business. These capital inputs and how they are used to deliver value to our stakeholders is graphically demonstrated on pages 30 to 31. Our definitions of the capital inputs as represented in this Report are given below;

Financial Shareholders' funds, funding from internal, lending agencies, borrowings and public deposits which are utilized in our value creation processes	**Social and Relationship** The relationships we have nurtured with our stakeholders including the communities we operate in and the strength of our brand
Manufactured Physical infrastructure including our branch network, digital infrastructure and IT systems which facilitate our day to day operations	**Intellectual** Our tacit knowledge, the organisational culture and the products and services we develop to meet customer needs
Human The skills, experience and work ethics of our employees who drive our strategic ambitions	**Natural** The natural resources we use and our impacts on the natural environment through our operations and business activity

Navigating our Report

This Integrated Report is complemented by a suit of publications which cater to the diverse information requirements of our stakeholders.

Integrated Annual Report	Corporate Governance and Risk Management Report	Sustainability Report	Annual Financial Statements
Provides a concise overview of our strategy, performance and outlook in relation to financial, social and environmental objectives. In keeping the IR concise and relevant, this Report will relate primarily to developments which occurred during the year under review.	Provides a detailed review on the Company's governance and risk management practices	An analysis of the economic, social and environmental issues material to our stakeholders	Consolidated annual financial statements
Targeted readers	Targeted readers	Targeted readers	Targeted readers
Primarily the providers of financial capital, but contains material information relevant to other stakeholders	Providers of financial capital and regulators	Our diverse stakeholders including customers, employees, business partners and regulators	Providers of financial capital, regulators and other stakeholders
Standards and principles	Standards and principles	Standards and principles	Standards and principles
• Integrated Reporting Framework of the International Integrated Reporting Council	• Central Bank of Sri Lanka's regulations and directives to the Licensed Finance Companies • Listing requirements of the Colombo Stock Exchange • Code of best practice on corporate governance issued by the SEC and CA Sri Lanka	• GRI Standards issued by the Global Reporting Initiative ("Core")	• Sri Lanka Financial Reporting Standards • Finance Leasing Act No. 56 of 2000 • Finance Business Act No. 42 of 2011 • Companies Act No. 7 of 2007 • Listing requirements of the Colombo Stock Exchange
Assurance	Assurance	Assurance	Assurance
Contains information obtained from the Audited Annual Financial Statements which have been assured by Baker Tilly Edirisinghe & Co. Chartered Accountants	Only the corporate governance section has been reviewed by Baker Tilly Edirisinghe & Co. Chartered Accountants	N/A	Baker Tilly Edirisinghe & Co. Chartered Accountants

About our Integrated Report Contd.

The following navigation icons have been used throughout the reports to enhance the readability and connectivity of information.

Capital		Strategic Priorities	
	Financial Capital		Growth
	Manufactured Capital		Profitability
	Human Capital		Social Sustainability
	Social and Relationship Capital		Environmental Sustainability
	Intellectual Capital		
	Natural Capital		

Feedback

We welcome suggestions, feedback and queries on our Report as we seek to continually enhance the quality and meaningfulness of information presented. Please contact,

The Chief Financial Officer
Alliance Finance Company PLC
84, Ward Place, Colombo, Sri Lanka
Email: info@alliancefinance.lk

About Alliance Finance

Highlights of the year

"The Company demonstrated resilience in a challenging year to deliver gross income growth of 28% and profit growth of 9% reflecting our commitment to deliver sustainable Shareholder value."

		Unit	2017/18	2016/17	YoY change (%)
Profit	FINANCIAL CAPITAL				
	Performance				
	Net interest income	Rs. Mn	3,272	2,521	30
	Profit after tax	Rs. Mn	709	649	9
	Total assets	Rs. Mn	31,779	30,022	6
	Return on average assets (post tax)	%	2.30	2.33	-1
	Return on equity	%	17.10	19.14	-11
	Cost to income ratio	%	56	63	-10
	Gross NPL ratio	%	4.34%	2.11%	106
	Earnings per share	Rs.	21.05	19.85	6
	Net asset value per share	Rs.	125.53	120.63	4
	Dividend per share	Rs.	6.40	5.90	8
	Market price per share	Rs.	65.70	55.00	19
	MANUFACTURED CAPITAL				
	Property, Plant and Equipment	Rs. Mn	2,168	2,123	2
	Capital expenditure	Rs. Mn	194	65	198
People	HUMAN CAPITAL				
	Employees	Number	1,222	1,222	0
	Investment in training and development	Rs. Mn	6.53	2.29	185
	Training hours	Hours	8,501	3,570	138
	SOCIAL AND RELATIONSHIP CAPITAL				
	Customers	Number	140,857	117,534	20
	Customer touch points	Number	93	89	4
	Investment in Enterprise Development Service	Rs. Mn	1.30	1.22	7
	Investment in community engagement	Rs. Mn	9.22	7.51	23
	Beneficiaries of EDS	No.	2,788	2,665	5
Planet	NATURAL CAPITAL				
	Energy consumption (H/O)	kWh	355,168	374,526	-5
	Water consumption (H/O)	Cubic Meters	8,099	7,068	15
	Paper consumption	T	14.8	9.7	53

Snapshot of AFC

AFC is a licensed finance company registered with the Central Bank of Sri Lanka. The Company provides leasing facilities, term loans, microfinancing solutions and other credit products while mobilizing public deposits. It serves a customer base of 140,857, comprising of individuals, micro entrepreneurs and small and medium enterprises through a network of 93 contact points across Sri Lanka. As the country's third-oldest finance company, AFC has an established track record of over 6 decades and has nurtured relationships with over four generations of customers. The Company's competitive edge is centred on a value proposition which is underpinned on stability, trust and relationship-driven-customer service. The Company has embraced the principles of sustainability, as embodied in its People-Planet-Profit approach towards long-term value creation. AFC was the 1st NBFI to commit to the Karlsruhe Resolution in July 2017, demonstrating commitment to the Sustainable Development Goals and the Paris Climate Agreement.

For the year ended 31st March	2018		2017	
	Rs.	%	Rs.	%
VALUE ADDED				
Income	6,710,146,602		5,331,343,713	
Interest expense	(3,206,900,561)		(2,462,431,850)	
Cost of external services	(1,394,059,798)		(818,322,665)	
	2,109,186,243		2,050,589,198	
DISTRIBUTION OF VALUE ADDED				
To employees				
Salaries & other benefits	800,789,586	38	739,979,466	36
To Government				
Taxes	490,624,582	23	527,537,408	26
To providers of capital				
Dividend	215,654,400	10	198,806,400	10
To expansion & growth				
Depreciation	108,860,544	5	110,301,757	5
Reserves	493,257,130	24	473,964,167	23
	602,117,674	29	584,265,924	28
	2,109,186,243	100	2,050,589,198	100

Total Assets

Rs.31,779Mn

Shareholders' Funds

Rs.4,230 Mn

Market Capitalisation

Rs. 2,214 Mn

Profit-After-Tax

Rs.709Mn

Employees

1,222

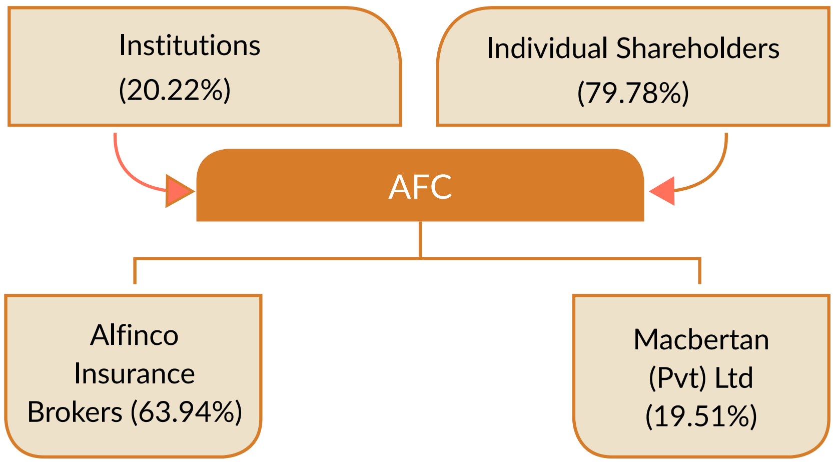
Customer Touch Points

93

Portfolio Outside Western Province

63%

Ownership and Organisational Structure



Products and Services

	Products/Services Offered	Customer Profile	Highlights
Regional Financial Services	• Leasing facilities for vehicles and equipment • Pledge loans • Mortgage loans • Speed cash	Retail, SME and corporate sectors	Portfolio: Rs. 22,663 Mn Customers: 46,495
Microfinance	• Micro credit facilities for entrepreneurs • Micro leasing • Personal loans • Plantation loans	Micro entrepreneurs, primarily female borrowers from impoverished communities	Portfolio: Rs. 2,382 Mn Customers: 72,086
Gold Loans	• Short-term advances collateralised against gold	Primarily individual borrowers	Portfolio: Rs. 1,183 Mn Customers: 12,587
Commercial Division	• Trading vehicles • Rental service • Service centre	Individuals, SMEs and corporates	Vehicle fleet : 45
Deposits	• Fixed deposits • Savings deposits including special products for senior citizens and minors	Primarily individuals	Deposit base: Rs. 13,257 Mn Customers: 80,682

Our Excellence

	Awarding body	Awarded for	Awarded/Accolade Received	Category	Year
1	ICASL	Annual Report	Certificate of Compliance	Non-Bank and Financial Sector	2017
2	DNV. GL	Quality Management System	ISO 9001 : 2015	Not Applicable	2016
3	Labour Department of SL	Social Dialog and Work Place Cooperation	Merit Award	Service Sector Large Scale Category	2016
4	Employer Branding Institute	Best Employer with outstanding employee culture	Certificate of Recognition	Human Resources	2016
5	CMO Asia Awards for Excellence in Branding and Marketing	AFC Motor bike Show - 2016	Excellence for "Marketing Campaign of the year 2016"	Marketing	2016
6	ICASL	Annual Report	Certificate of Compliance	Non-Bank and Financial Sector	2016
7	DNV	Business Continuity Management System	ISO 22301 : 2012	Not Applicable	2015
8	ICASL	Annual Report	Certificate of Recognition	Non-Bank and Financial Sector	2015
9	EA	Asia Responsible Entrepreneurship	Winner	Green Leadership	2014
10	EOSD	Ezy Taxi	Merit Certificate	Best Innovation in Sustainable Financial Products and Services	2013
11	ICASL	Annual Report	Certificate of Recognition	Non-Bank and Financial Sector	2013
12	NCCSL	NBEA	Gold - Joint winner	Non-Bank and Financial Sector	2012
13	NCCSL	NBEA	Silver Performance	Management Practices- Overall	2012
14	ICASL	Annual Report	Certificate of Recognition	Non-Bank and Financial Sector	2012
15	BSI	BCMS	BS25999	Not Applicable	2012
16	NCCSL	NBEA	Silver Specialised	Banking and Finance Sector	2011
17	ICASL	Annual Report	Certificate of Recognition	Non-Bank and Financial Sector	2011

BSI - British Standards Institution
DNV.GL - Det Norske Veritas / Germanischer Lloyd
ICASL - Institute of Chartered Accountants of Sri Lanka

EA - Enterprise Asia
EOSD - European Organisation for Sustainable Development
NCC - National Chamber of Commerce of Sri Lanka

Our Journey Thus Far

Year 1956
AFC was incorporated on 18th July 1956

Year 1959
Quoted in the Colombo Brokers Association (prior to the formation of Colombo Stock Exchange)

Year 1981
Commemorated AFC Silver Jubilee

Year 1995
Introduced the concept of Collaboration Finance, customized financial packages for entrepreneurs

Year 1998
Subscriber to the formation of "Alfinco Insurance Brokers"

Year 2000
Became the first Financial Institution to be awarded the prestigious ISO 9001:1994 status by DNV (later upgraded into ISO 9001: 2015)

Year 2003
Opened the first Collection Centre in Kurunegala

Launch of Quick Cash Loan plan for depositors

Year 2005
First Finance Company to introduce Savings Accounts

Year 2008
Entered in to the Gold Loan market

Year 2012

Formal adoption of the Triple Bottom Line philosophy (People, ,Planet, Profit) across the Group

Year 2013

Launch of Microfinance Division

Year 2015

Obtained AFC's inaugural strategic foreign funding line from Triple Bottom Line based prestigious DFI, Triodos Bank of Netherlands

Year 2016

Organised the "AFC Motorbike Show 2016", the first ever two - wheeler exhibition and stunt show conducted by a Finance Company in Sri Lanka

Celebrated the 60th Anniversary of the Company

Year 2017

Secured an investment grade credit rating of [SL] BBB- with a stable outlook from ICRA Lanka Limited.

AFC obtained the first USD subordinated debt from Triple Bottom Line DFI, Triodos Bank of Netherlands.

First time in CSE history, AFC has managed three issues respectively covering subdivision of shares, capitalisation of reserves and rights issue of shares.

Year 2018

USD 3.5 Mn of foreign debt was approved by DWM (Developing World Markets)

Chairman's Review

" The Company's philosophy has always been about driving meaningful change through socio-economic empowerment and therefore it is necessary to look at our performance beyond financial indicators."

Sunil Karunanayake
Chairman
25th May 2018
Colombo

Dear Shareholder,
It is my pleasure to present to you the Annual Report and Financial Statements of Alliance Finance Company PLC, for the financial year ended 31st March 2018 and on behalf of the Board, I welcome you to the sixty second (62nd) Annual General Meeting of the Company.

The Company demonstrated resilience in a challenging year, recording a 9% increase in profit after tax to Rs. 709 Mn. Portfolio growth was 10% during the year, which supported a net interest income growth of nearly 30% due to the higher interest rate scenario which prevailed during the year and changes to the product mix, Portfolio quality was pressured during the year, partly due to the moderating economic conditions. Resultantly, the gross non-performing loans ratio increased to 4.34% from 2.11% the year before. The Company's deposit base grew by 31% during the year, attesting to the strength of our deposit proposition and the trust we have nurtured with customers. We have continued to pursue foreign funding to drive our growth aspirations and hope to further strengthen our funding position through accessing additional credit lines.

The Company's performance should be set out in the context of the prevalent operating environment; the country's economic growth slowed to 3.1% in 2017, reflecting a relatively tight fiscal and monetary policy stance and a weak agriculture sector which continued to feel the implications of climate change. The CBSL raised the standard deposit facility rate to 7.25% in September 2017 compared to 7% in 2016 and the standard lending rate increased to 8.75% in September 2017 compared to 8.5% in 2016. This resulted in a gradual increase in market interest rates for most part of the year. Inflation also increased gradually during the year reflecting VAT revisions in 2016, rising international commodity prices and supply constraints of agricultural produce.

Meanwhile the NBFI sector's performance was affected by the rising cost of funding as well as the decline in demand for leasing following restrictions on the Loan to Value Ratio. Accordingly, the Sector's credit growth moderated to 9% YoY during the period from April to December 2017, compared to 12% the year before. Growth in both leasing and loan portfolios decelerated during the period while NBFIs increased exposure to microfinancing and Gold Loan facilities. Most players witnessed a deterioration in credit quality, with the gross NPA ratio increasing to 5.94% in December 2017, from 4.89% in March 2017 due to inclement weather conditions and rising inflation that impacted performance of several economic sectors. The moderation in asset growth coupled with the weakening credit quality and pressure on funding costs resulted in the sector's profit after tax declining by 13% during the year.

The Company's philosophy has always been about driving meaningful change through socio-economic empowerment and therefore it is necessary to look at our performance beyond financial indicators. We made significant progress towards achieving our sustainability agenda, with the ongoing implementation of a comprehensive Sustainability Performance Management System (SPMS); this system is expected to transform the way we view credit, nurturing a culture of social and environmental consciousness. Meanwhile, AFC was also the first NBFI in the country to pledge its commitment to the Karlsruhe Resolution at the Global Sustainable Finance Conference held in Germany; the resolution highlights the role that the financial services sector can play in achieving the Sustainable Development Goals and the Paris Climate Agreement.

We continue to work with micro entrepreneurs and small businesses, driving socio-economic empowerment across the island through financial inclusion. It is noteworthy that around 66% of our customers are females, demonstrating our commitment to driving meaningful change in impoverished communities. Furthermore, 63% of the Company's lending is to areas outside the Western province, while funding sources are primarily from Colombo, showcasing the role we play in facilitating the distribution of wealth. In micro financing our approach has centred on long-term value creation and we have continued to invest in strengthening our holistic value proposition to these customers by providing access to skill development opportunities and financial literacy programs

The weakening of our credit quality compelled us to strengthen our risk management processes and during the year we deployed additional resources to the Risk Unit. Meanwhile credit approval authority limits were revised and a centralised credit approval mechanism was set up to strengthen credit appraisal.

We have exciting plans for next year as we seek to deliver consistent stakeholder value. In 2017/18 we re-launched the Commercial Division as a business vertical that engages in vehicle trading and car renting; We hope to leverage on the synergies presented by the Company's leasing business and are confident that we can capitalise on the emerging opportunities in this segment. We hope to achieve further integration between our commercial and sustainability objectives through enhancing our EDS programs, expanding the green financing portfolio and supporting SME customers through access to market linkages and technology.

I wish to take this opportunity to place on record my appreciation for the commitment and hard work done by the Alliance Finance team, under the able leadership of the Managing Director Mr. Romani de Silva. I thank my colleagues on the Board for their valuable counsel and contribution. I also thank our Shareholders and other stakeholders for the continued trust and confidence placed in me.

Deputy Chairman / Managing Director's Review

" Our future plans centre around the potential of sustainable finance to make meaningful change, reducing inequalities while promoting climate action. We are inspired by the confidence placed in us by our customers who choose to grow with us through investments and finance, supporting their socioeconomic progress."

Romani de Silva
Deputy Chairman /Managing Director
04th June 2018
Colombo

Dear Shareholders,

Alliance Finance Company PLC delivered a commendable performance recording a gross income growth of 28% and profit growth of 9% maintaining our commitment to deliver sustainable Shareholder value in a challenging year. Capital adequacy strengthened during the year as both the Core Capital Ratio and the Risk Weighted Capital Adequacy Ratio improved from 10.38% to 11.60% and 12.09% to 14.09% respectively. I am pleased to present our 62nd Annual Report for the financial year ending 31st March 2018 which presents a balanced review of our performance.

Prudent Growth

Macroeconomic conditions necessitated a prudent growth strategy which was reinforced by the Government lowering the loan to value ratio on leases and the increase in policy interest rates. Consequently, portfolio growth was restrained to 10%, in par with the industry growth rate of 10%. We disbursed Rs. 16,595 Mn during the year resulting in a 7% drop compared to the previous year reflecting reduced investments in certain high risk segments. The Leasing portfolio which accounts for 68% of the total portfolio grew by 12% as this product is popular with customers and the demand for three wheel and two wheel vehicles remained steady. We expanded the Gold Loan portfolio from Rs. 468 Mn to Rs. 1,183 Mn in view of its importance in provincial economic activity and relative stability in gold prices. The Microfinance group loan portfolio also grew by 21% to Rs. 2,170 Mn, accounting for 8% of the total portfolio. Growth in this portfolio, reflects our learnings from the previous year as stresses in the portfolio necessitated swift and broad based remedial action which strengthened our processes. The remaining loan portfolio declined by 8% to Rs. 4,904 Mn as we strengthened credit approval processes to counter enhanced risks associated with slow economic growth and adverse impact of the weather.

Portfolio growth was funded mainly through deposits which grew by 31% to Rs. 13,257 Mn during the year, accounting for 42% of equity and liabilities at the close of the year. Growth in deposits is a barometer of customer confidence and we are extremely appreciative of the growth achieved without costly advertising campaigns and attribute it to our loyal customer base built over 6 decades and now counting four generations.

Dues to banks (bank borrowings) decreased by 6% to Rs. 11,042 Mn accounting for 35% of total liabilities and equity, due to healthy deposit growth.

Delivering Performance

Operating Income grew by 22% to Rs. 3,503 Mn strongly supported by increased Net Interest Income (NII), which accounted for 93% of operating income. Net interest margins improved from 9.0% to 10.6% as earnings in the leasing portfolio improved

Top line growth

28%

Bottom line growth

9%

Net Interest Margin

↑ 10.6%

Total Portfolio

Rs. 26,232 Mn
↑ 10%

Deposits

Rs. 13,257 Mn
↑ 31%

Rating

[SL] BBB-
with a stable outlook

in contrast to the industry which witnessed a decrease in Net Interest Margins. The changes made to the product mix coupled with growth in the deposit portfolio supported stability in margins.

Impairment charges increased sharply from Rs. 74 Mn in the previous year to Rs. 513 Mn in the reporting year due to stressed portfolios, stemming from the prevailing economic conditions and some voluntary provisions made as a measure of prudence. AFC has adopted a stricter portfolio at risk (PAR) classification of 30 days for the Microfinance group loan portfolio as opposed to the regulatory classification of 180 days. The gross NPL ratio increased from 2.11% to 4.34 % during the reporting period comparing well with the industry NPL ratio of 5.94%, reflecting industry wide impacts. We have further enhanced our risk management processes which are expected to stabilize recovery ratios moving forward.

Personnel and operating expenses increased by 8% and 13% respectively due to inflationary factors and amortization of brokerage expenses to be in line with the revenue recognition. Additionally, our current Microfinance model requires high levels of customer engagement and has room for significant cost efficiencies, which we are exploring at present in order to identify areas for improvement while carefully balancing recovery and operational costs. Value added tax on financial services increased as the rate increased from 12% to 15% during the year resulting in 23% increase in the cost. Ownership in our associate company Macbertan, diluted to 19.51% from 24.71% as AFC had not taken up its entitlements of the rights issue and this has resulted in a loss of Rs. 11.04 Mn. Due to the urgent need to infuse capital, the aforesaid investment by way of a rights issue was taken up by Alfinco Insurance Brokers, thereby maintaining the ownership at group level. In addition, AFC's share of loss from Macbertan during the year was Rs. 0.36 Mn. The Company's funding position has strengthened, following the receipt of foreign funding, providing a strong platform for portfolio expansion. Our Triple Bottom Line approach and deep commitment towards sustainability has allowed us to attract like-minded investors such as Triodos and Symbiotics, who pursue tangible economic, social and environmental benefits through their lending. During the year, the Company also had productive engagements with ACTIAM Microfinance Fund and Blue Orchard Finance (MIFA).

During the year, we also revamped the Company's Commercial Division with the objective of capitalizing on synergies with the leasing operations. The Commercial Unit will offer vehicle trading, rental service (Ezy drive) and a fully-fledged vehicle service centre. We recruited an industry veteran with over 18 years' of experience in vehicle trading to spearhead this operation and he is ably supported by a dedicated team of 18 employees. The Unit has already partnered with several leading brand new automobile agents to facilitate vehicle exchange programs and we are optimistic that this venture would further enhance our customer value proposition while strengthening Shareholder returns.

The Company delivered Rs. 709 Mn as profit after tax recording a 9% growth over the previous year. Earnings per share has marginally improved during the year from Rs.20 to Rs. 21.

Strong Foundations

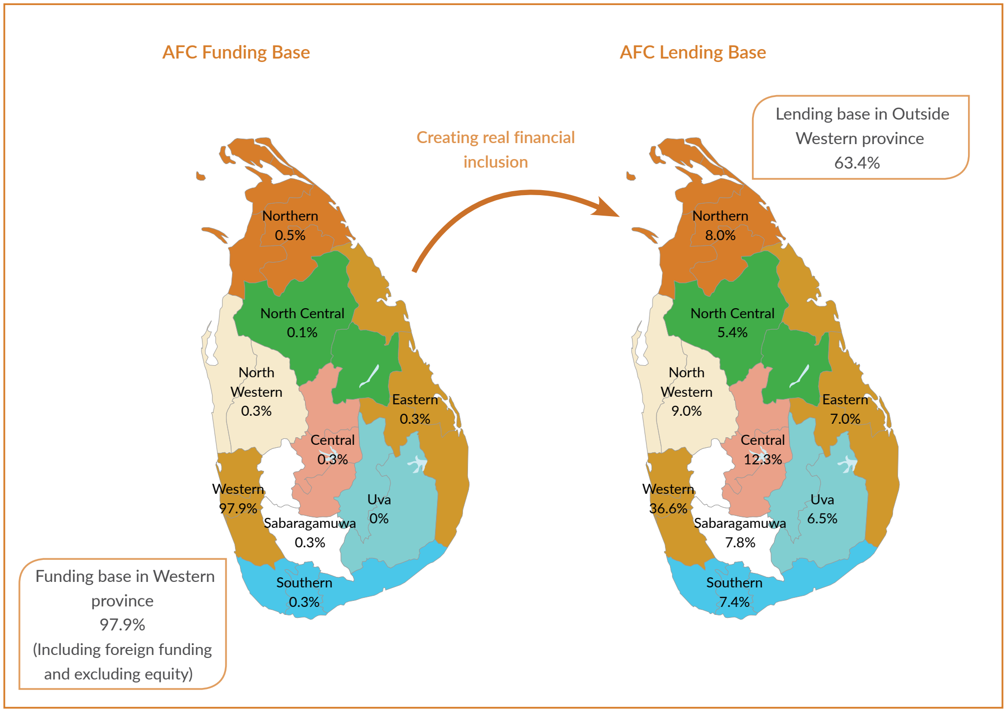
Achievement of total asset growth of 6% from Rs. 30,022 Mn to Rs. 31,779 Mn was largely attributable to portfolio growth of 10%. Total assets growth was funded by strong deposit growth of 31% while, borrowings including dues to banks and debt instruments issued, decreased by Rs. 1,578 Mn. The equity position of the Company strengthened recording a 4% growth to Rs. 4,230 Mn due to strong retained earnings as we carefully balanced risk and reward to deliver sustainable and profitable growth. Net Asset Value per share increased from Rs. 121 to Rs. 126 and as a result, reflecting the strength of the statement of financial position.

The Rating Review issued by ICRA Lanka Limited assigned an investment grade rating of [SL] BBB- with a stable outlook. The Capital Adequacy Ratios have improved affirming the strengthening of our funding structure.

Sustainable Financing

Alliance Finance is one of the few financial institutions that raises funds in the provinces with higher per capita income and distributes it to the other provinces to support their socio economic progress. It is also distributed in small ticket sizes, providing access to finance for the country's SME sector and micro entrepreneurs and empowering their growth within the country's formal financial sector. This has been our business model and we have renewed our commitment by further refining it with the signing of the Karlsruhe Resolution, which was a joint undertaking of the European Organization for Sustainable Development (EOSD), the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP), the Association of African Development Finance Institutions (AADFI) and the City of Karlsruhe in Germany. The resolution stresses the important role of the global financial services industry in achieving the aspirations of Agenda 2030 such as financing and investing in the implementation of the SDGs and COP21 projects in their respective countries and working to create policy frameworks that promote investments in innovation that will contribute in creating a green, inclusive and sustainable economy and calling for a collective global action to ensure a level-playing field for all financial sector players.

Our Microfinance portfolio provides financial access to 72,086 beneficiaries of whom 99% are women. Despite the higher cost to income ratio on this product, we are adopting a controlled and a conservative growth strategy as we have seen the difference it makes in uplifting livelihoods and will continue to review and refine the model. We are also pursuing technical evaluations of our Tika Tika Gedora concept to make housing more affordable through new construction technologies.



We also initiated an organization wide sustainability awareness initiative commencing with a "train the trainers" workshop which was then rolled out to our staff by the hand picked sustainability champions, embedding a sustainability mindset into our culture. We are counting on our staff to carry the message to their customers and homes, taking positive action that can bring about the change required in our business and society.

We are also privileged to partner with the Ath Pavura business forum, a first of its kind platform dedicated to supporting the ventures of aspiring social entrepreneurs. The Company, has provided funding for three projects which entail economic, social and environmental benefits, mirroring our own Triple Bottom Line approach. There are currently over 10 other projects in the pipeline and we hope to support these entrepreneurs in meeting both our commercial and social aspirations.

We remain steadfast in our commitment towards reducing our carbon footprint; during the year we planted over 8,530 trees at an investment of around Rs. 0.57 Mn. We have also pledged to plant 50 trees for every four wheel motor lease facility that is disbursed, with the objective of achieving our medium term target of planting 600,000 trees in and around the city of Colombo.

Looking Ahead

Our future plans centre around the potential of sustainable finance to make meaningful change, reducing inequalities while promoting climate action. We are inspired by the confidence placed in us by our customers who choose to grow with us through investments and finance, supporting their socioeconomic progress. Enhancing financial literacy will play an important role in moving forward as it is key to maintaining asset quality, preventing over- indebtedness and supporting their growth.

The operating environment is likely to remain challenging during the year as increasing fuel prices drives up the trade deficit, budget deficit and inflation. Interest rates are also expected to remain at current levels dampening portfolio growth. In view of the above, we will be selective about how we grow and how much we grow while upholding principles of sustainable finance. Sound risk management processes set in place, a strong financial position and a team that understands our business philosophy of sustainable and profitable growth will drive our performance as we look to maintain our track record of delivering holistic Shareholder value.

Appreciations

I wish to take this opportunity to place on record our appreciation to our late chairman, Mr Sunil Karunanayake, who passed away unexpectedly. Mr Karunanayake provided a great leadership to the Board and played an important role in strengthening the governance framework of the Company. We will continue to be guided by his wisdom and advice.

To the Alliance team, I extend my sincere appreciation for the support given by them as passionate champions of the work we do as set out in this Annual Report. I count on their continued commitment to steer the Company through the year that has commenced. I also wish to thank the Board for their guidance and diligent oversight which has enabled us to deliver a robust performance. Our business partners play a key role in our journey and I thank them for their continued support. I also wish to thank the officials of the Central Bank of Sri Lanka who have provided guidance and valuable insights to strengthen our operations. In conclusion, I thank our Shareholders who have placed their trust in us and look forward to creating value for them in the future.

Board of Directors

Mr. Sunil Karunanayake

Chairman

Mr. Romani de Silva

Deputy Chairman/ Managing Director

Mrs. R.N. Ponnambalam

Non-Executive Director

Lt. Col. (Retd) A.R. Samarasinghe

Independent Non-Executive Senior Director

Mr. Mahinda Gunasekera

Executive Director - Sustainability

Dr. L.A.P. Medis

Consultant Marketing Director

Mr. Kusal Jayawardana

Executive Director - Finance and Operations

Board of Directors Contd.

Mr. S. Karunanayake

Chairman (Deceased 27th May 2018)

Appointed to the Board in January 2012 and appointed as Chairman in June 2013.
(Audit Committee Chairman and member of three Committees)

Skills and experience: He counts over 30 years' experience in a leading multi-national organisation. He is a Fellow Member of the Institute of Chartered Accountants (FCA), The Chartered Institute of Management Accountants (FCMA) and holds an MBA from the Postgraduate Institute of Management, University of Sri Jayewardenepura.

Other appointments: He is a Non-Executive Director of Ceylon Grain Elevators PLC and Three Acre Farms PLC.

Mr. R.K.E.P. de Silva

Deputy Chairman/ Managing Director

Appointed to the Board on 9th March 1990
(Member of one Committee)

Skills and experience: Mr. de Silva holds almost 30 years of experience in the finance industry. He is the pioneer of Collaboration Financing, a unique financing concept designed to provide finance for entrepreneurs to expand businesses. He was also awarded two bronze awards for this innovation at Provincial and National Level at the 'Sri Lanka Entrepreneur of the Year 2001' Awards Ceremony. A Fellow Member of the Institute of Credit Management, Sri Lanka.

Other appointments: He is a Life Member of the Sri Lanka Institute of Directors, the Chamber of Young Lanka Entrepreneurs and he is the Treasurer of the Sri Lanka Institute of Credit Management (Sri Lanka)

Lt. Col (Retd). A.R. Samarasinghe

Independent Non-Executive Senior Director

Appointed to the Board in 2011
(Member of four Committees)

Skills and experience: A retired Army Officer, having served for 20 years, he has had the opportunity of commanding two Reinforcement Battalions in the Infantry role and two Signals Regiments in its classic role of the Signals Corps and functions as an Enterprise Resource Strategist. He holds a Bachelor's Degree in Information Technology from the University of Colombo and an MSc in Computer Science (Security) from the University of Moratuwa.

Other appointments: N/A

Mrs. R.N. Ponnambalam

Non-Executive Director

Appointed to the Board in 2011
(Member of two Committees)

Skills and experience: She has held several senior management positions in large private sector entities and has served in key roles in international negotiations for securing and development of business opportunities for local enterprises. She holds a Diploma in Directorship from the Singapore Management University.

Other appointments: Managing Director of Macbertan (Pvt) Ltd, Non-Executive Director of Hotel Services (Ceylon) PLC and Amaya Leisure PLC.

Mr. J.M. Gunasekera

Executive Director-Sustainability

Appointed to the Board in June 2015 (Member of one Committee)

Skills and experience: An industry expert in rural financing, he counts over 30 years of experience in Microfinance, SME financing, livelihood development and agribusiness in Sri Lanka, Afghanistan, Bangladesh and Nepal. He has also served in multi-lateral agencies such as US Agency for International Development and undertaken special assignments with the World Bank/ IFC, the ADB and US based INGOs/ PVOs in many markets such as Philippines, Thailand, Japan and the United States. He holds an MBA, BSc in Agriculture and Microfinance training from the University of Colorado. He has previously functioned as Managing Director/CEO of 3 MFIs, one in Afghanistan and two in Sri Lanka.

Dr. L.A.P. Medis

Consultant Director-Marketing

Appointed to the Board in August 2016 (Member of no Committees)

Skills and experience: He has considerable experience in the fields of marketing and sales and has served in different capacities in the NBFI sector. He holds a doctorate in Strategy from the Management and Science University, Malaysia, MBA from the University of Sri Jayewardenepura, Bachelor of Commerce (Special) Honours Degree from the University of Kelaniya and a Postgraduate Diploma in Marketing from CIM (UK). He is also a Certified Management Accountant of Australia.

Other appointments: Currently attached to the academia of the University of Kelaniya.

Mr. W.P.K. Jayawardana

Executive Director- Finance & Operations

Appointed to the Board in April 2017 (Member of one Committee)

Skills and experience: He brings over 20 years of experience in investment banking, corporate finance, credit and operations. He involved in and has led teams in launching several innovative products in Sri Lanka and Bangladesh, including securitisation structures, convertible securities and derivatives and has executed several landmark capital market transactions. He played a key role in setting up NDB Capital Limited, Bangladesh and Emerald Sri Lanka Fund, being the first private equity country fund set up in Sri Lanka.

He is a Chartered Financial Analyst, an Associate Member of The Chartered Institute of Management Accountants and the Chartered Global Management Accountants. He was also an Associate Member of the Association of Chartered Certified Accountants- UK. He holds an MBA from the Open University of Sri Lanka in collaboration with Commonwealth of Learning, Canada.

Other appointments: His previous appointments include, Managing Director/ CEO of NDB Capital Limited, Bangladesh and COO of NDB Capital Holdings Limited. He has held Board positions in several listed and private entities including Resus Energy PLC, Panasian Power PLC, Lanka Communication Services Limited and NDB Capital Limited.

Management Team

Corporate Management

Mr. E.C.S.R. Muttupulle

Chief Operating Officer

Michael Benedict

Chief Risk Officer

Chamindra De Silva

Chief Financial Officer

Andrew Samuel

Chief Continuous Improvement Officer

Suneth Sudasinghe

Chief Commercial Officer

Aruna Rodrigo

Chief Credit Officer

Prabhath Rangajeewa

Head of Gold Loan

Sujith Fernando

Deputy Financial Controller – Corporate Planning / Business Support

Chathura Prasanna

Assistant General Manager - Internal Audit

Champa Nakandala

Assistant General Manager Deposit

Sanjaya Seneviratne

Assistant General Manager - Treasury

Roshan Rathnayaka

Assistant General Manager - RFS

Sujan Cooray

Assistant General Manager - RFS

Hilary Calistus

Assistant General Manager - Recoveries

Suresh Motha

Head of Risk Team

Senior Management

Prasad Sanjeewa

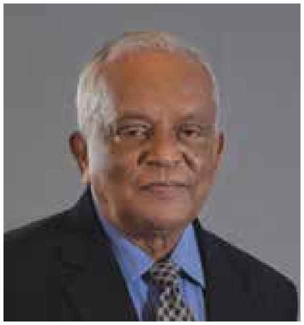
Regional Manager

Viduppriya Fernando

Regional Manager

S.S.Sathiyadaran

IT Consultant



Anton Perera

Consultant Head of Human Resources

Chatura Senarathne

Acting Head of Administration

Ranil Perera

Manager - Branch Operations & Performance

Lolita Papalie

Manager - Deposits

Achala Wanniarachchi

Manager - Legal

Ganeshalingam Mathieswarann

Manager - MIS

Lakmal Maniksagara

Manager - QM & BCMS

Arunthathy Edward Pulle

Manager - HR

Udaya Suranjith

Regional Manager

Management Team Contd.

Senior Management

Saman Medagoda
Regional Manager

Chamara Asela
Regional Manager

Isanka Gayan
Regional Manager

Wasantha Maldeniya
Regional Manager

Sujith Udara
Regional Manager

Thamara Rathnayaka
Senior Manager Finance

Thanubaalasingam Kumarathas
Regional Manager

Nohan Krishantha
Regional Manager

Mallika Jayathilaka
Regional Manager

Asoki Ferdinands
Senior Manager

Chrishanthi Wavita
Senior Manager - Deposit

Dillon Thajudeen
Senior Manager - Marketing

Manoj Siriwardana

Senior Manager - Business Channel Development

Duminda Neranjan

Acting Senior Operations Manager

Dharshana de Silva

Acting Senior Operations Manager

Daniel Saththiyendra

Regional Manager

Kapila Bandara

Acting Regional Manager

Prasad Gunarathne

Regional Manager - Channel Development

Selvarathnam Nishanthan

Regional Manager

Tiran Abeysekara

Operations Manager

Creating Value through our Strategy

CAPITAL INPUTS

Financial Capital
Shareholders' funds: Rs 4,230 Mn
Debt: Rs. 12,688 Mn
Deposits: Rs. 13,257 Mn
(Pages 57 to 61)

Manufactured Capital
Customer contact points: 93
(Pages 62 to 63)

Human Capital
Skills, attitudes and values of our 1,222 employees
(Pages 64 to 66)

Social and Relationship Capital
Customer relationships: 140,857
Supplier relationships: 342
Relationships with our communities
Strength of our brand

Intellectual Capital
Tacit knowledge and organisational capital
(Pages 70 to 71)

Natural Capital
Water use: 8,099 m^3
Energy consumption: 355,168 kWh

VALUE CREATING ACTIVITIES

Driving our four strategic objectives

- Enhance and Sustain Profitability
- Portfolio Growth
- Environmental Sustainability
- Social Sustainability

Through our key business lines

Regional Financial Services (Pages 48 to 49)	Group based Microfinance (Pages 50 to 52)	Gold Loans (Pages 53 to 54)	Deposits (Page 55)	Commercial Division (Page 56)

While managing risks

Credit risk, Market risk, Liquidity risk, Strategic and Reputation risk, Operational risk, Compliance risk, Legal risk, Environmental risk
(More information in Risk Report)

Strong Corporate Governance
(Governance report)

Stakeholder Engagement
(Pages 34 to 37 -Our key relationships)

OUTPUTS/OUTCOMES

Deposits

+ 31% to Rs. 13,257 Mn

Borrowings

-11% to Rs. 12,688 Mn

Share capital

+0% to Rs. 614 Mn

Supported

Advances growth of

+10% to Rs. 26,232 Mn

Which generated

Net interest income

+30% to Rs. 3,272 Mn

Other income

-34% to Rs. 232 Mn

Less

Impairment losses

+596% to Rs.513 Mn

Operating expenses

+10% to Rs. 1,970 Mn

Taxation

-57% to Rs. 79 Mn

Resulting in

Profit after tax

+9% to Rs. 709 Mn

(More information on pages 57 and 59 -Financial Performance)

TRIPLE BOTTOM LINE VALUE CREATION AND IMPACT

People

People

Paid Rs. 801 Mn to employees as salaries and benefits

Created 449 employment opportunities

Invested Rs. 6.5 Mn (or 8,501 hours) in training

Invested Rs. 1.3 Mn in empowering 2,788 individuals through customer education and

Invested Rs. 9.2 Mn in community initiatives.

Maintain transparent and relevant investor communications

Profit

Profit

Profit generated increased by 9% to Rs. 709 Mn

Earnings per share of Rs. 21.05 to Shareholders

Total dividend payment of Rs. 216 Mn translating to a dividend per share of Rs. 6.40

Share price increased from Rs. 55.00 to Rs. 65.70

Planet

Planet

Planted 8,530 trees at an investment of Rs. 0.6 Mn

Presently Rs. 1,429 Mn green portfolio by financing 673 hybrid and electric vehicles

Energy consumption of 355,168 kWh

Total water consumption of 8,099 m^3

Regulatory compliance

(Page 05 and Risk report)

Ongoing monitoring of trends in the operating landscape

(Pages 38 to 40 and Risk report)

Our Capitals Scorecard

Financial Capital	2018	2017
Performance Indicators		
Profit after tax (Rs. Mn)	709	649
Earnings per share (Rs.)	21.05	19.85
Net interest margin (%)	10.59	9.02
Return on equity (%)	17.10	19.14
Dividend per share (Rs.)	6.40	5.90
Overall RWCAR (%)	14.09	12.09

Key activities during the year

NIM improved to 10.59% due to change in product mix. Overall capital adequacy ratio enhanced to 14.09% from 12.09%

Capital trade-offs

Financial capital is utilised in driving our strategic objectives and achieving our growth aspirations. During the year, financial capital was used to strengthen human capital, social and relationship capital, intellectual and manufactured capital.

Human Capital	2018	2017
Performance Indicators		
Employees (No.)	1,222	1,222
New employment opportunities (No.)	449	473
Total payments (Rs. Mn)	801	740
Investment in training (Rs. Mn)	6.5	2.3
Training hours	8,501	3,570
Retention rate (%)	65%	63%

Key activities during the year

Increased the investment on talent development

Enhanced compensation and benefit scheme

Capital trade-offs

During the year, total employee base remained same and we have retained our top talent at a higher level mainly by investing in training and development.

Manufactured Capital	2018	2017
Performance Indicators		
Customer touch points	93	89
PPE (Rs. Mn)	2,168	2,123
Capital expenditure (Rs. Mn)	194	65

Key activities during the year

4 new Microfinance branches added

Optimizing and consolidating branch network

Capital trade-offs

By way of employing manufactured capital, we have increased our outreached and strengthen our resources to facilitate the anticipated business growth.

Social and Relationship Capital	2018	2017
Performance Indicators		
Customers (No.)	140,857	117,534
Investment on customer education/EDS (Rs. Mn)	1.3	1.2
Investment in CSR (Rs. Mn)	7.9	6.3

Key activities during the year

Customer base crossed 140,000 mark

Capital trade-offs

Investment in CSR includes commitments made to "Ath Pavura"

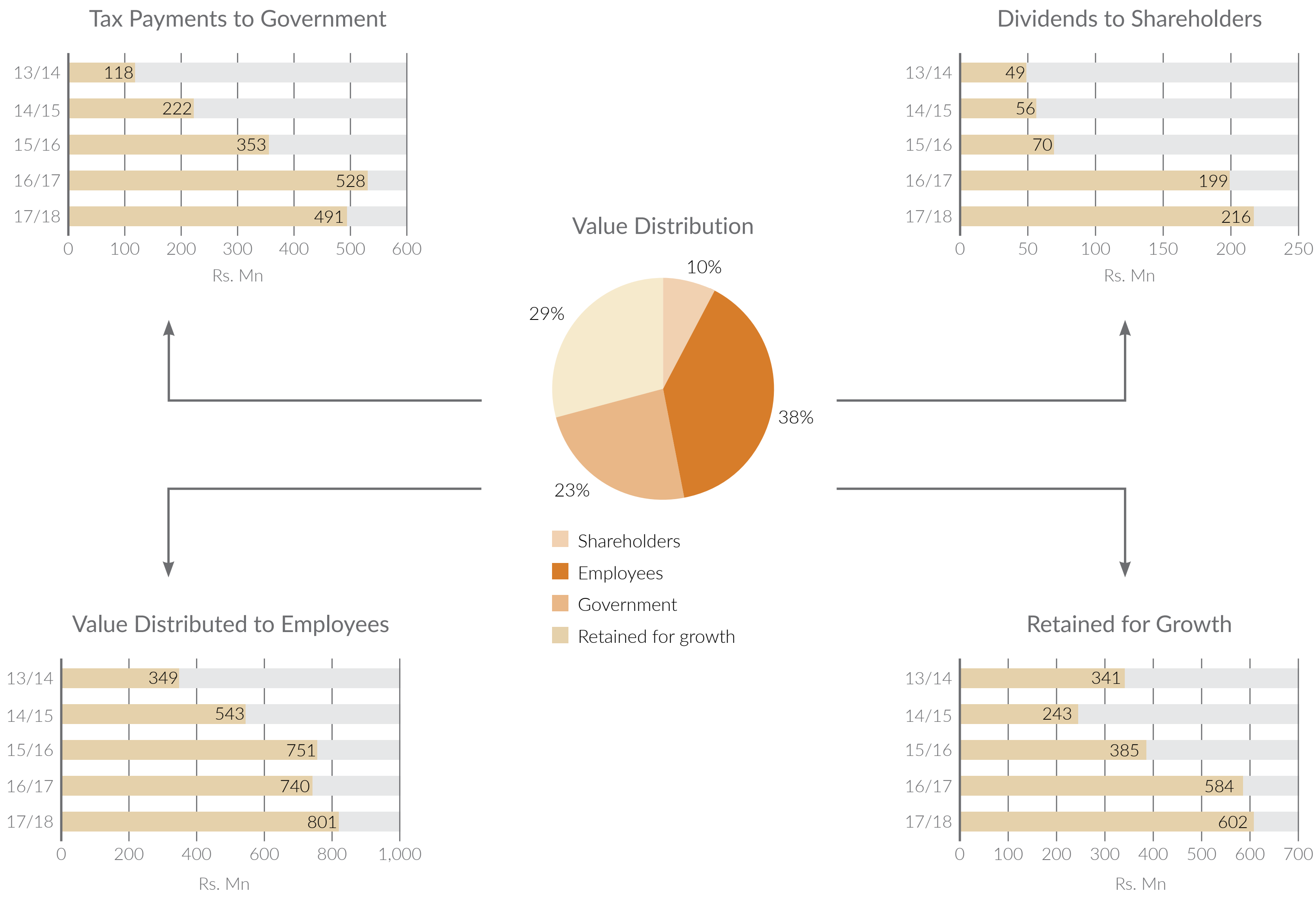
Intellectual Capital	2018	2017
Performance Indicators Estimated Brand value (Rs. Mn)	889	816
Key activities during the year Signed Agenda 2030 for sustainability Trained internal pool of staff for sustainability		
Capital trade-offs During the year, we have given focus to add value to our sustainability mandate. In line with this we have committed for Agenda 2030 which endorses our contribution towards sustainability development goals. The Company exclusively allocated resources to support and further strengthen our initiatives.		

Natural Capital	2018	2017
Performance Indicators Hybrid and Electric portfolio (Rs. Mn)	1,429	1,518
Key activities during the year Provided training on the planned SPMS Entered in to partnerships for tree planting initiatives		
Capital trade-offs Our day to day business activities may negatively impact on natural capital through the use of non-renewable resources, waste generation and carbon emissions. This could have parallel negative impacts on our social and relationship capital. We strive to minimise this negative impact		

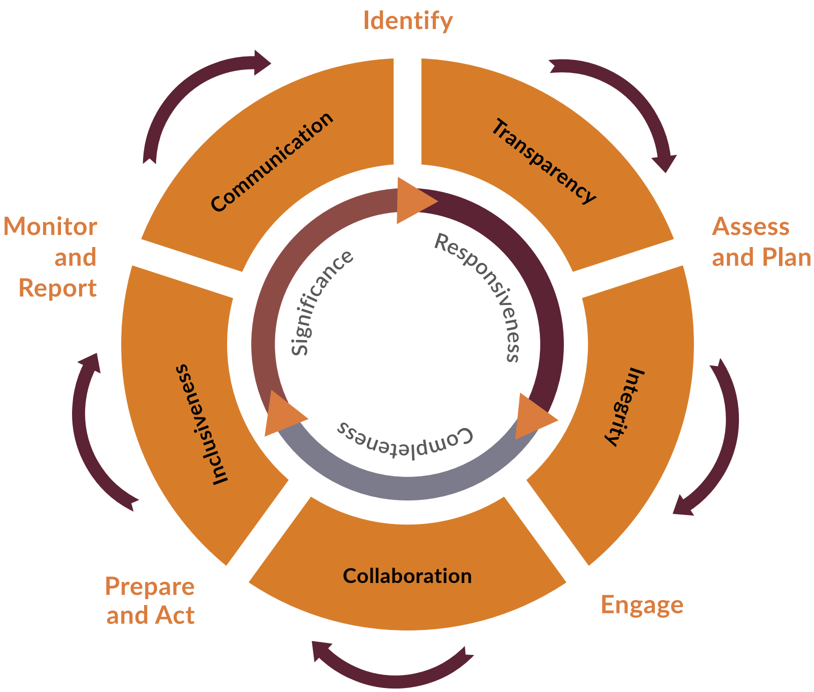
Stakeholder Relationships

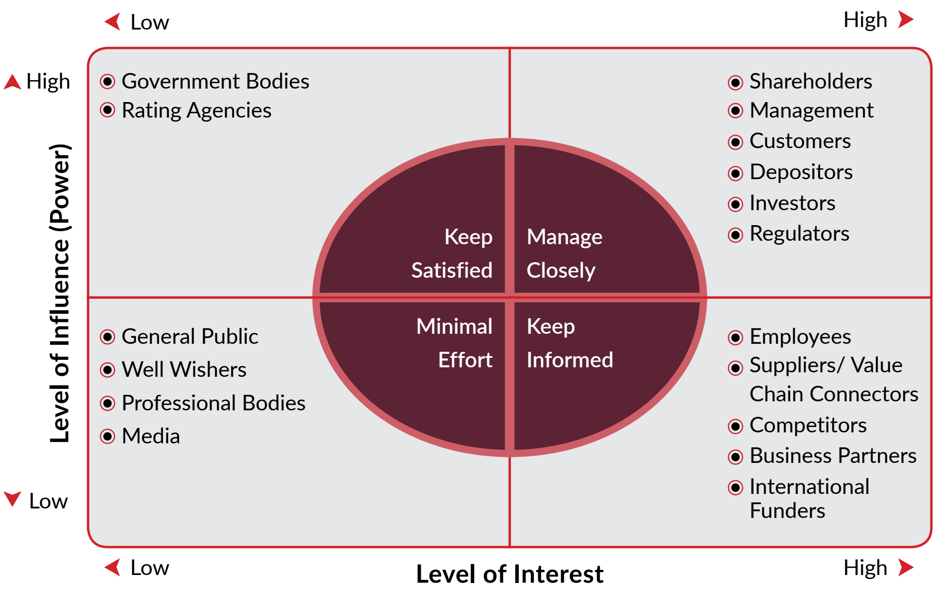
We understand that our ability to generate sustainable value is dependent on the relationships we have nurtured with our diverse stakeholders. We appreciate the role of our stakeholders and we are committed to ensuring that we meet their expectations and address their concerns to deliver mutual benefits.

AFC's approach to stakeholder engagement is governed by a comprehensive engagement framework, which embodies the three key



principles of Significance, Completeness and Responsiveness as illustrated below. The subsequent pages provide an overview of how we engaged with and delivered value to our stakeholders in 2017/18.





Stakeholder Relationships Contd.

Stakeholder	How we engage	Areas of interest/Expectations in 2017/18	Stakeholder management approach and response
Shareholders 1,205 Shareholders, comprising 29 institutional Shareholders and 1,176 individual investors	• AGM and Annual Report (annually) • Interim financial statements (quarterly) • Corporate website (continuous basis) • Announcements to the CSE (continuous basis) • Press releases (continuous basis)	• Sustainable growth • Adequate risk return balance • Corporate governance and risk management framework • Corporate reputation and brand • Transparency and credibility of disclosures	Our strategy is directed towards creating sustainable, long-term value to Shareholders. We also provide our Shareholders with timely, relevant and complete information to facilitate effective and informed decision making **Relevance to strategy: Growth, Profitability, Environmental sustainability, Social sustainability**
Customers We serve approximately 140,857 credit and deposit customers across the island	• Customer satisfaction survey (bi-annually/quarterly) • Customer relationship management function (continuous) • Customer exit surveys in Microfinance (annual) • Customer hotline (continuous) • Customer education programmes (continuous) • Online and social media platforms (continuous)	• Value for money • Convenience and accessibility • Innovative product offerings • Security of deposits • Ease of transacting • Quality of service	Our customer value proposition is based on personalised service, innovative products and trust. **Relevance to strategy: Growth, Social sustainability**
Employees Our team comprises 1,222 individuals recruited from across the island	• Employee feedback survey (annual) • Performance appraisal (annual) • Multi-level staff meetings (continuous) • Open door policy (continuous) • Training need assessment (annual) • Social media platforms (continuous) • Work-life balance initiatives (continuous)	• Competitive remuneration • Equal opportunity • Opportunities for skill development and career progression • Work-Life balance	We seek to provide ongoing opportunities for skill and career development in a dynamic and challenging work environment **Relevance to strategy:** Growth, Profitability, Social sustainability

Stakeholder	How we engage	Areas of interest/Expectations in 2017/18	Stakeholder management approach and response
Business partners and suppliers We have partnered over 342 suppliers who are an integral part of our business.	• Direct dialogue (continuous) • Service quality survey (annual) • Stakeholder feedback survey (annual)	• Ease of transactions • Business expansion • Capacity building and financial support • Equitable and on-time payments	We strive to nurture long-term partnerships with our diverse supplier base and propagate sustainable business practices along our supply chain **Relevance to strategy: Growth, Profitability, Social sustainability**
Regulators/ Government Our main regulators are the Central Bank of Sri Lanka, the SEC and CSE.	• Regulatory reporting (continuous) • CBSL audits (annual) • Special meetings for regulatory clarifications (need basis) • Press releases and CSE publications (continuous)	• Good governance and compliance • Sustainable business practices • Ethical business	We engage in a productive and constructive dialogue with the regulators and the government to ensure a conducive industry environment. **Relevance to strategy: Growth, Profitability, Environmental sustainability, Social sustainability**
Community We maintain proactive and mutually beneficial relations with the communities in which we operate in.	• CSR initiatives (periodic) • Press releases and publications (continuous) • Engagement through branches (continuous)	• Employment generation • Livelihood and community development • Commitment towards preserving the environment	We maintain cordial and mutually respectful relationships with the communities in which we operate in. **Relevance to strategy: Environmental sustainability, Social sustainability**

The Operating Environment

Economic landscape

Economic Growth: Sri Lanka's economic growth moderated in 2017, reflecting a weaker agriculture sector and a tighter fiscal and monetary policy stance. Erratic weather conditions resulted in a contraction in the agriculture sector, which had cascading effects on other sectors of the economy. The country's GDP growth slowed to 3.1% in 2017 compared to 4.3% in 2016) supported by moderate growth in the Industry Sector (+3.9%) and Services Sector (+3.2%).

Interest rates: The Government adopted a relatively tight monetary policy stance, with a view to curbing inflationary pressures. The Standard deposit facility rate increased to 7.25% in September 2017 compared to 7% in 2016 and standard lending rate increased to 8.75% in September 2017 compared to 8.5% in 2016. The increase in policy rates resulted in a gradual upward trend of market interest rates. The Government also pursued fiscal consolidation, resulting in an increase in tax rates which led to a slowdown in private consumption expenditure. Meanwhile, progress was made on the policy front, with economic reforms targeted towards fiscal consolidation, stabilising macro-economic fundamentals and increasing foreign investment inflows expected to bear fruits over the medium-to-long term.

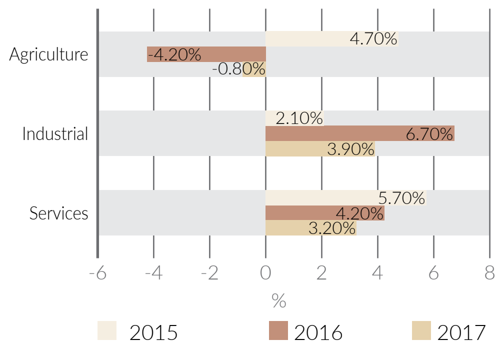
Inflation: Inflationary pressures increased in 2017 resulting from VAT revisions in 2016, rising international commodity prices and supply constraints of agricultural produce. Volatilities in food inflation were reflected in the Headline National Consumers' Price Index (NCPI) which fluctuated between 6.3% and 8.8% (YoY) during the year. The CBSL's plans to move towards a flexible inflation targeting regime over the medium term is anticipated to support macro-economic stability, allowing sustained low inflation underpinned by improvements in monetary and fiscal policy.

Outlook: Over the short-term, headline growth is likely to be affected by government attempts to achieve fiscal consolidation, a relatively tighter monetary policy stance and implications of the recently concluded local council elections. However, the government's policy reforms and improving international relations are expected to lay a firm foundation for long-term economic development. Long term growth prospects are more promising, underpinned by broad-based reforms targeted towards fiscal consolidation, development of a cohesive export strategy and a renewed drive to attract foreign investments.

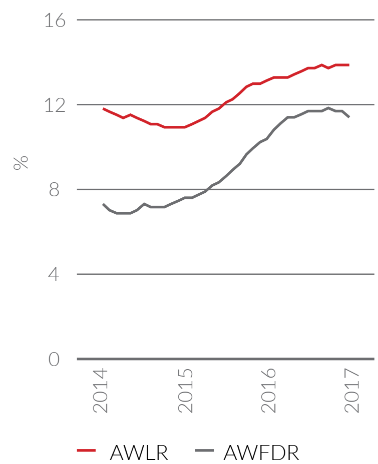
Regulatory Developments

Increasing regulatory and compliance requirements have increased the complexity of doing business and resulted in higher compliance costs. During the year, a 'Financial Customer Protection Framework' was introduced for all LFCs and SLCs to ensure the protection of rights and interests of financial customers. The framework includes specific guidelines on

Economic Growth



Interest Rates



Disclosure and Transparency, Customer Education and Awareness, Responsible business conduct, Complaint handling and Customer privacy among others. In addition, the regulator intends to implement a new capital adequacy framework encompassing a more risk sensitive focus on covering credit and operational risk under the basic approach of the BASEL accord. This is expected to encourage a natural consolidation drive, pushing weaker institutions to merge with larger players. Further regulations are expected on corporate governance, risk management, liquidity and loan loss provisioning regulations. Additionally, financial institutions are required to adopt to Sri Lanka Financial Reporting Standard – 9, Financial Instruments (SLFRS 9) in January 2018, requiring a change in recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. The new Inland Revenue Act No. 24 of 2017 also came into effect on the 1st of April 2018.

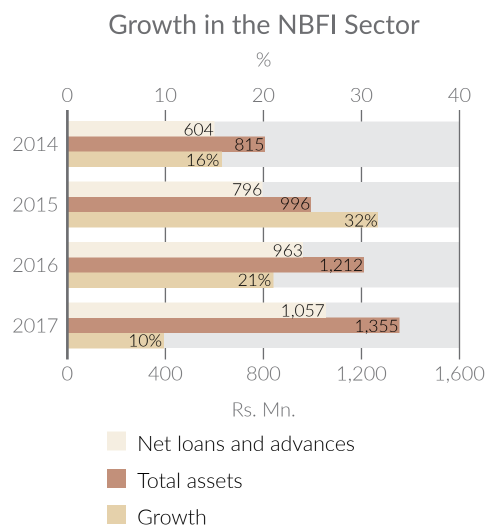
Competitive landscape

Industry competition has intensified in the NBFI sector, with players seeking deeper penetration in the same customer segment. Given the challenges in the leasing sector, LFCs have increasingly directed focus towards the microfinancing segment, leading to increased saturation and even over indebtedness in certain geographies. Smaller players have also faced difficulties in mobilising deposits amidst the intense competition.

Sector Performance

The non-bank financial sector comprises of forty-five (45) licensed finance companies (LFCs) and six specialized leasing companies (SLCs). With a total branch network of 1344 branches, NBFs continue to play a prominent role in catering to the financial requirements of the relatively risky customer segment, which is often overlooked by the banking sector.

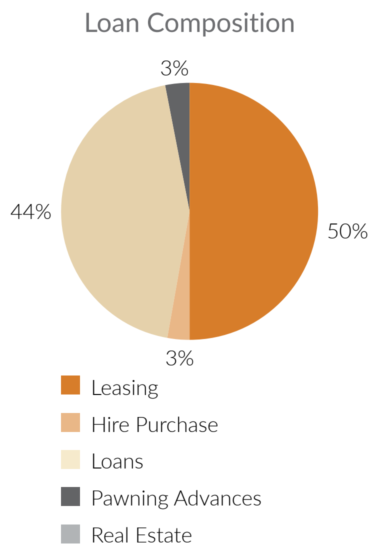
Asset growth was subdued during the period March to December 2017, moderating to 9% YoY compared to 12% in the previous year as core lending portfolio was impacted by the macroprudential measures of the government such as loan to value ratios for vehicle leasing and increasing statutory interest rates implemented in January and March 2017. Growth in both leasing and loan portfolios decelerated during the period from March to December 2017 to 10% YoY (15% YoY in the corresponding period of 2016) and 6% YoY (24% YoY in March to December 2017). As a prudent measure, LFCs have increasingly directed focus towards other lending areas such as microfinancing and gold loans. Pawning advances increased by 23% YoY during the 9 months ending December 2017 as gold prices rebounded. Currently pawning accounts for 3% of lending portfolio. Other loans such as real estate and hire purchases declined during the year.

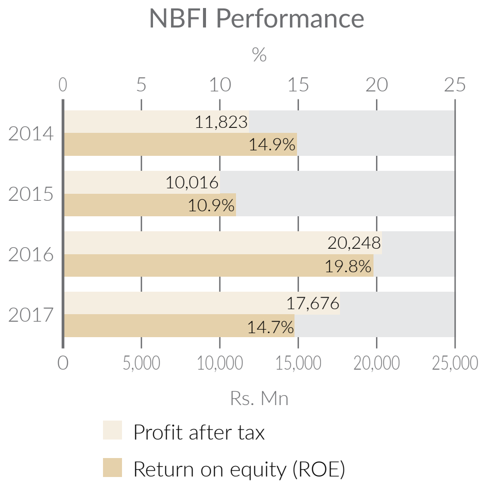


Impact on NBFIs

- **Demand for loans and vehicle leasing declined.**
- **Cost of funding increased.**
- **Credit recovery was challenged due to the moderating economic conditions and weaker agriculture sector performance**

The Operating Environment Contd.





Asset quality: Most players witnessed a deterioration in credit quality, with the gross NPA ratio increasing to 5.94% in December 2017, from 4.89% in March due to inclement weather conditions and rising inflation that impacted performance of several economic sectors. Agriculture Sector customers also faced repayment pressure, resulting in higher delinquencies from the segment. Loan loss provisions increased by 25% YoY from March to December 2017 reflective of loan growth as the provision coverage ratio was maintained at 64%.

Funding Mix: Deposits continued to account for a significant 50% of the funding mix. With increasing market interest rates, deposits increased by 23% during the 9 months ending December 2017. Borrowings account for 29% of funding and declined by 9%.

Capital base: Improved by 11% YoY to Ra. 170 Bn primarily driven by growth in retained profits. Total regulatory capital base amounted to Rs. 145 Bn and increased by 21% in the 9 months to December 2017 supporting an improvement in capital adequacy ratios. Tier 1 capital base forming 95% of the regulatory capital base benefited from the growth in retained profits. Core Capital adequacy ratios marginally improved to 12.41% in December 2017 compared to 11.31% in March 2017. Total capital adequacy ratios improved to 13.13% by December 2017 compared to 11.82% in March 2017 and continued to remain above regulatory thresholds.

Liquidity: Liquid asset to total assets improved to 9% in December 2017 compared to 8% in March 2017. Companies used borrowings to fund day to day activities and retained its liquid assets.

Earnings: Total interest income increased by 22% YoY in the 9 months ending December 2017 supported by credit growth. However, net interest margins were impacted by higher cost of funding as rising market interest rates resulted in interest expenses increasing by 31% YoY during the 9 months ending December 2017. Total costs increased by 15% YoY in 9M2017 further pressurising cost to income ratios that deterred performance. Profitability weakened due to increasing costs and profit after tax declined by (13%) YoY to Rs. 17.7 Bn. Return on equity (ROE) declined to 14.7% in 9M 2017 compared to 19.8% in 9M2016.

Material Topics

Material topics reflect issues which could have a significant impact on our ability to create and share value. The Company conducts a material analysis on an annual basis and topics listed below reflect the feedback obtained from our stakeholder engagement mechanisms, market dynamics as well as the Group's strategic priorities for the year. Our material topics for the year are listed below.

FINANCIAL AND ECONOMIC PERFORMANCE **Corresponding GRI topic: Economic Performance**			
Impact on value	**Topic boundary**	**Management approach**	**Strategic relevance**
The Company's ability to generate consistent returns to its Shareholders and create value for the communities it operates in is dependent on its financial performance	The Company's financial and economic performance has implications for both its internal stakeholders and external stakeholders.	A cohesive strategic plan, which gives due consideration to growth, profitability and sustainability considerations are in place to drive financial/economic performance	Growth Profitability
PRODUCT DEVELOPMENT AND DIVERSIFICATION **Corresponding GRI topics: -**			
Impact on value	**Topic boundary**	**Management approach**	**Strategic relevance**
Intensifying competitive pressures in several lending areas such as leasing and micro finance has compelled the Company to seek new product development and market diversification outside its traditional areas of focus.	The impacts of new product development and diversification will impact our financial capital as well as our social and relationship capital through extending our customer base.	We maintain a high level of customer engagement to understand their evolving needs and persistently monitoring the operating and competitive landscape to identify new growth opportunities.	Growth
EMPLOYEE VALUE PROPOSITION **Corresponding GRI topics: Employment, Training and education, Labour management relations, Equal remuneration for men and women, Labour practices and decent work**			
Impact on value	**Topic boundary**	**Management approach**	**Strategic relevance**
Our strategic agenda and value creation process is driven by our employees, who also play a vital role in facilitating the customer experience.	A strong employee value proposition will have impacts on the Company's overall performance as well as enhance customer retention and market share.	Our employee proposition is characterized by attractive remuneration, a high level of employee engagement and opportunities for career and skill development	Growth
BRAND AWARENESS **Corresponding GRI topics:**			
Impact on value	**Topic boundary**	**Management approach**	**Strategic relevance**
The strength and attributes of our brand reputation plays a vital role in attracting and retaining new customers.	Brand awareness extends beyond our internal stakeholders to external stakeholders.	We adopt a strategic approach to marketing, promotional activities and brand building initiatives focusing on customer centricity, trust and stability.	Growth Social Sustainability

Material Topics Contd.

OPERATIONAL EFFICIENCY
Corresponding GRI topics:

Impact on value	Topic boundary	Management approach	Strategic relevance
Ongoing focus on process and operational efficiencies contribute towards healthier profitability margins and stronger financial performance	Relates to internal efficiencies and processes within the organisation.	The Company's cost-to-income ratio is relatively high, and focus has been placed on driving efficiencies through technology and employee productivity.	Profitability

EMPLOYEE PRODUCTIVITY
Corresponding GRI topics: -

Impact on value	Topic boundary	Management approach	Strategic relevance
Attracting and retaining employees has become increasingly challenging in the current operating landscape. This has underscored the vital importance of driving employee productivity.	The impacts of productivity are primarily internal to the organisation.	The Company's approach is underpinned by optimising staff allocation across branches, eliminating unproductive processes and conducting a work-study.	Profitability

PORTFOLIO QUALITY
Corresponding GRI topics: -

Impact on value	Topic boundary	Management approach	Strategic relevance
As a financial institution, ability to sustain a good quality portfolio is essential to driving growth in profitability.	Relates to internal portfolio quality management.	Stringent credit appraisals, ongoing monitoring of portfolio limits and exposures as well as strong recovery mechanisms are in place to ensure portfolio quality.	Profitability

MINIMISING OUR ENVIRONMENTAL FOOTPRINT
Corresponding GRI topics: Energy, Water, Raw materials, Waste and effluents, Carbon footprint, Compliance (EN)

Impact on value	Topic boundary	Management approach	Strategic relevance
The implications of climate change have been felt increasingly across the globe and is now having direct impacts on our performance through the agricultural sector.	The topic boundary is limited to the environmental impacts of our own operations.	As a responsible corporate citizen, we strive to enhance the energy and water efficiency of our own operations, while increasing lending towards green operations.	Environmental sustainability

RESPONSIBLE LENDING

Corresponding GRI topic: Product and Service labelling, Marketing communications, Customer privacy, Socio-economic compliance

Impact on value	Topic boundary	Management approach	Strategic relevance
The Company's track record reflects its responsible approach towards lending, which has supported client acquisition and retention through the years.	The boundary extends to that of our customers and communities	We are cognizant of the economic vulnerabilities of the sector we cater to and ensure that our employees engage in responsible lending practices which support the socio-economic progress of our customers.	Social Sustainability

CUSTOMER EDUCATION

Corresponding GRI topic: -

Impact on value	Topic boundary	Management approach	Strategic relevance
Through developing entrepreneurial and business management skills of our customers, we ensure the fulfilment of our Company's economic and social objectives.	Our impacts extend to our customers, particularly in the microfinancing segment	We provide a holistic value proposition to our customers, particularly the micro-financing customers who are susceptible to economic and social vulnerabilities.	Social Sustainability

SUPPLIER RELATIONSHIPS

Corresponding GRI topic:

Impact on value	Topic boundary	Management approach	Strategic relevance
Our ability to nurture long-term, mutually beneficial relationships with our business partners and suppliers ensures smooth continuity of business and procurement of high-quality input materials.	The impacts extend beyond the organisation to include its business partners and suppliers.	The Group's holistic approach to managing suppliers comprises supplier selection, engagement and management.	Profitability Social Sustainability

COMMUNITY ENGAGEMENT

Corresponding GRI topic: Local communities

Impact on value	Topic boundary	Management approach	Strategic relevance
The Company's ability to nurture meaningful relationships within the communities it operates in ensures it has a social license to operate.	The boundary extends to the communities we operate in.	Our integrated approach towards CSR is designed to combine our business and sustainability strategy and allowed AFC to contribute to communities in a proactive manner.	Social Sustainability

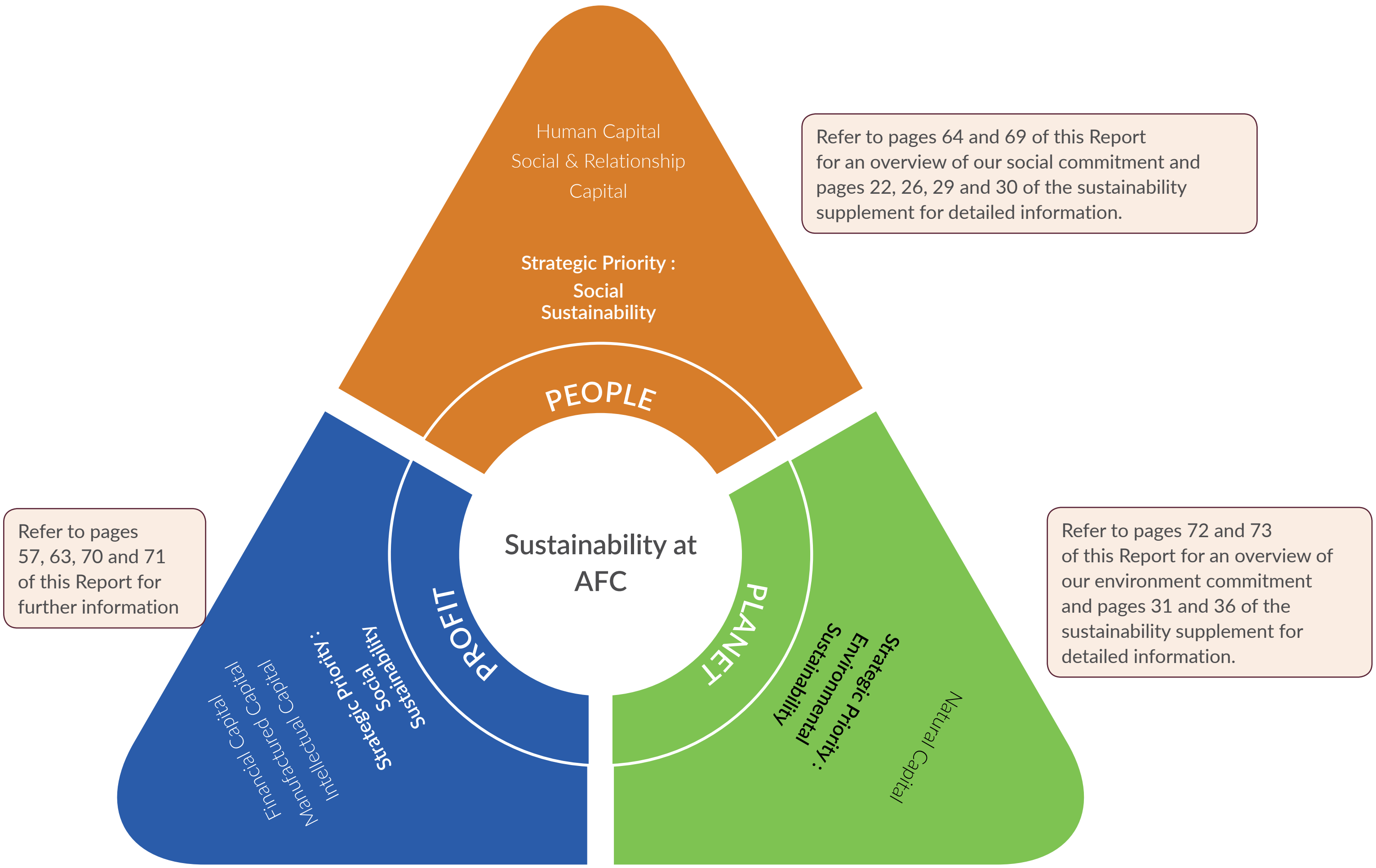
Our Strategy

Strategic pillars	Profitability				
Strategic drivers	Product diversification	Strengthen operational efficiency	NPL management	Consolidate the Microfinance portfolio	
Initiatives in 2017/18	• Re-launched vehicle trading • Strengthened focus on the vehicle renting service • Re-launched AFC Hapannu-minor savings account • Introduced leasing facilities to microfinancing sector • Launched of "Tika Tika Ge Dora" - affordable housing loan for low income segment	• Operations related training provided • Rationalisation and optimisation of branch network	• In microfinancing stronger focus was placed on client screening and a centralized approval mechanism was introduced during the year.	• The rising NPLs were a cause of concern and focus was placed on improving client screening. • Branch rationalisation. • Staff rationalisation.	
Key performance indicators	Deposit growth of 31%	32 training programs have been given.	The weakening of the agriculture sector impacted portfolio quality during the year. Resultantly, the overall gross NPL ratio increased to 4.34% from 2.11% the year before.	The Microfinance portfolio grew by 27% and amounted to 9% of the Company's total loans and advances. Staff base in the division was reduced by 63 during the year.	
Outlook	We see strong potential for growth in the vehicle trading segment, given Sri Lanka's expanding middle class and aspirations to own a vehicle. The Company intends to launch a fully-fledged auto showroom centre in the next financial year.	We are in process of streamlining the SLAs of shared services and linked to the individual KPI's to meet the respective service standards.		Will seek further consolidation of the portfolio with ongoing focus on staff rationalisation, maintaining portfolio quality and deepening existing customer relationships.	

	Growth			Environmental sustainability	Social sustainability
	Optimise geographical footprint	Build brand recognition	Develop human capital	Integrate to business consideration	Client protection
	• Opened 8 Gold Loan Centres within the RFS branches • Optimised microfinancing centres	• Two radio commercials were aired • Exclusive sponsorship on "Thuru" magazine • Introduced new name boards in the branches	• Strengthened employee engagement • Conducted a staff satisfaction survey • Enhanced the performance management system	• Ground for implementation of a comprehensive SPMS Lending towards green products including hybrid and electric cars • Partnered with the Forest Department for a tree planting initiative in Maduru Oya.	• Ground for implementation of a comprehensive SPMS • Continue our commitment on emission reduction through tree planting and green financing • Strengthening of sustainability team
	The Company's total customer contact centres are as follows; Fully fledged - 39 Microfinance - 25 Gold Loan -12 Collection centre - 17	• Placed 59th in Band Finance Magazine Rankings	• Employee retention: 65% • Promotions during the year: 107	• Employee training on SPMS system • Training hours of 8,501 with a total of 613 employees undergoing training	• 8,530 trees planted during the year • A team of 04 spearheaded by the Director Sustainability
		We will create a distinct brand image in vehicle trading business through ATL/BTL and BTL campaigns. Further, this will uplift overall AFC brand recognition as well.	We will place emphasis on attracting individuals with the right skills and attitudes and retaining them through strengthening employee value proposition.	Full implementation of the SPMS is expected to transform the Company's lending practices and achieve true integration between the Company's commercial and environmental aspirations. Plans to launch leasing facilities for gas three-wheelers.	We commit towards biodiversity conservation and take the initiative towards conservancy legislation and we will be planning to obtain and endorse global level sustainability certification standards. Further, obtain technical assistance from potential like-minded agencies for introducing products that promotes E&S sustainability

Sustainability at AFC

Social and environmental sustainability are two key pillars of the Company's strategic agenda and embodies the Group's commitment towards the Triple Bottom Line approach. In recent years, we have sought to increasingly embed sustainability considerations into our business operations, in order to effectively respond to emerging sustainability dynamics and minimise our social and environmental impacts. As a financial services organisation, we believe our most significant contribution towards environmental and social sustainability is through our lending practices. We are currently in the process of implementing an Integrated Sustainability Performance Management System (SPMS) which is expected to transform the way we do business, by introducing social and environmental KPIs and driving employee awareness on sustainability considerations.



Our Commitment to the Sustainable Development Goals (SDGs)

At the 7th Global Sustainable Finance Conference held in Germany in July 2017, delegates from over 30 countries entered into the Karlsruhe Resolution, demonstrating their commitment to the SDGs and the Paris Climate Agreement, collectively referred to as Agenda 2030. The Resolution stresses the role played by the financial service sector in the journey towards achieving Agenda 2030; This includes the financing and investing in the implementation of the SDGs, working with governments and regulatory institutions to create policy frameworks that promote a green, inclusive and sustainable economy. Alliance Finance was the first NBFI in the country to pledge its commitment to the Agenda 2030.

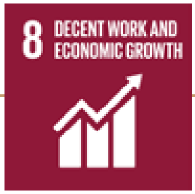
Through our micro financing and EDS programmes we contribute towards economic and social empowerment, thereby alleviating poverty through financial inclusion

We place ongoing focus on developing the skills of our employees through on the job training and opportunities for external training. Training hours during the year amounted to 8,501, at an investment of Rs. 7 Mn

We have a high female participation rate of 28% in our team. Through our microfinancing initiative we empower women, contributing to their socio-economic progress

An initiative under Ath Pavura, we have partnered and provided funding for an entrepreneur to commence the distribution of purified water to Chronic Kidney Disease (CKD) affected areas.

The Company is an industry pioneer in green three-wheeler financing and hope to further expand this product line, together with hybrid leasing facilities. We also engage employees in our energy conservation efforts.



We offer competitive remuneration and opportunities for skill and career development in a dynamic and challenging work environment for our employees.

We provide financial solutions, including Microfinance, promoting economic inclusion and empowerment there by contributing to reduce inequalities.

Through our leasing facilities, AFC contributes towards enhancing access to transportation across the island

In combating climate change we have entered into partnerships to,

Plant 50 trees/per motor car loan over the next 3 years

We are partnering with Dr. Andrew Kittle and Anjali Watson on a project aimed at restoring the ecosystem by conserving up country leopards, thereby preserving biodiversity

Delivering Value

Regional Financial Services

Performance Highlights

	2017/18	2016/17	% change (YoY)
Portfolio (Rs. Mn)	22,663	21,457	6
No. of customers	46,495	40,664	14
No. of Electric and hybrid vehicles in portfolio	673	618	9
Portfolio outside Western Province (%)	62	58	7

Product Map

Leasing	Other
Two-wheelers	Pledge loans
Three-wheelers	Mortgage loans
Four-wheelers	Personal loans
Equipment leasing	Speed cash
Customised solutions for the corporate sector	SME loans

"The Regional Financial Services (RFS) unit faced a year of unprecedented challenges in 2017/18, affected by policy instability in the leasing segment, a weaker agricultural sector and the overall moderation in economic growth. The Unit achieved a portfolio growth of 6% during the year, supported by increased focus on the two-wheel and three-wheel leasing segment.

Operating Environment

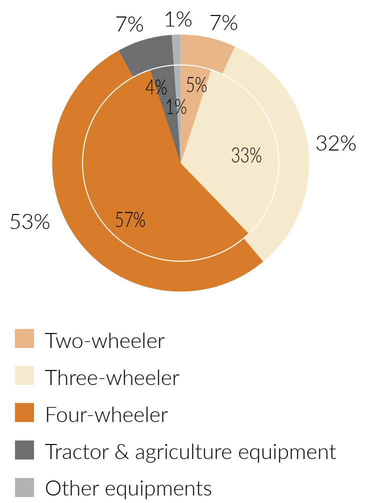
The leasing industry continued to be affected by several policy and market implications. Loan to Value ratios were decreased from 70% to 50% in January 2017, hampering the sector's growth opportunities while rising interest rates pressured customer affordability. Furthermore, revisions to the duty calculation methodology as well as the depreciation of the Sri Lankan Rupee resulted in the prices of motor vehicles escalating during the year. Meanwhile, the weakening of the country's agricultural sector also had adverse consequences on the leasing industry, as the repayment ability of agriculture sector was threatened.

Strategy and Performance

Portfolio composition: The RFS advances portfolio grew by 6% during the year, upheld by leasing (+11%) while Pledge and Term Loan facilities declined by 16% and 9% respectively in view of the moderating economic conditions. AFC is an industry pioneer in instalment credit, offering tailor-made lease and hire purchase solutions to both the retail and corporate sectors. Our product proposition includes registered and unregistered two-wheeler, three-wheeler and four-wheeler vehicles as well as consumer durables. Leasing continues to be the Company's mainstay accounting for 68% of the total portfolio, although continued efforts towards diversifying its lending exposures are expected to result in a reduction of this exposure. Within leasing, the Company adopted a strategy of shifting towards smaller ticket loans with the objective of increasing the granularity of the portfolio to mitigate risk; accordingly, the two-wheeler and three-wheeler leasing segments grew by 67% and 5% respectively during the year. Following the weakening of the agriculture sector during the year, we curtailed exposure to agricultural equipment and machinery to preserve portfolio quality.

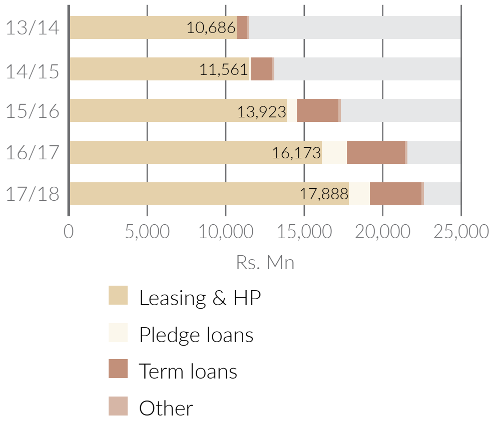
Pledge and Term Loans: Pledge loan facilities are aimed towards bridging the short-term working capital requirements of SME and corporate customers while Term Loans comprise primarily of Mortgage Loans,

Leasing Portfolio Composition



Personal Loans and soft collateral based Business Loans. Last year, we entered into new partnerships with vehicle importers to further strengthen this product line, and the weakening of the sector had a direct impact on our portfolio, with advances declining by 16% during the period. Term loans also fell by

Portfolio growth



Challenges in 2017/18

(1) Policy instability- Multiple revisions to the LTV ratios and vehicle import duty computation methodology

(2) Weakening agricultural sector

Way Forward

- Refine the product mix
- Focus on quality based lending
- Capture emerging market opportunities

9% as the rise in interest rates impacted the mortgage loan segment.

Portfolio quality: In view of the industry-wide deterioration of portfolio quality, we place emphasis on strengthening our monitoring and recovery mechanisms. The KPIs and targets for the recovery team continue to be refined and simplified, providing more clarity on the collection goals. Given the RFS unit's relatively significant exposure to the agriculture sector, the overall gross NPL ratio increased to 4.34%, compared to 2.11% the year before.

Responsible lending: We seek to propagate sustainable business practices among our customers through adopting social and environmental screening criteria when evaluating credit. The Company is currently in the process of implementing a comprehensive SPMS in consultation with Steward Redqueen, a leading global consultancy firm engaged in advising organisations on the impact on sustainability. The first of its kind to be implemented in Sri Lanka, the system provides detailed guidelines and action plans on incorporating environmental and social considerations into credit appraisals.

Refer to page 72 of this Report and page 28 of the Sustainability Report for further information on the SPMS system.

During the year, we conducted intensive training sessions to our branch employees on the implementation of the system. In addition, the Company has continued to place emphasis on lending towards environmentally friendly products and by end-March 2018 had financed 21 electric vehicles and 652 hybrid vehicles.

People perspective: Despite the challenging industry conditions, we continued to invest in developing the technical and soft skills of our employees. Training needs were identified through the annual performance appraisals and areas of focus included product knowledge, regulations, money laundering, leadership training and sustainability among others.

Refer to page 65 of this Report and pages 15 and 16 of the Sustainability Report for further information on training provided to employees.

Way Forward

Measures taken by the Company to strengthen its monitoring processes and refine its product mix are expected to bear fruit in 2018/19. In order to ensure profitable expansion of the portfolio, we will focus on quality-based lending and refine the product mix to capture emerging market opportunities. The anticipated tapering of lending rates and stabilizing macro-economic fundamentals are expected to enhance customer affordability although the outlook of the sector will be largely dependent on the regulatory direction and policy stability. With the implementation of the SPMS, we also hope to align our lending strategy with our sustainability aspirations, ensuring that social and environmental impacts of our lending are minimized.

Microfinance

Performance Highlights

	2017/18	2016/17	% change (Y0Y)
Portfolio (Rs. Mn)	2,382	1,873	27
No. of customers	72,086	60,314	20
Beneficiaries of EDS	2,788	2,665	5
Portfolio outside Western Province (%)	76	74	3
Clients per field officer	215	191	12

Product Map

Lending	Education
Micro group loans	General life skills
MSME loans	Livelihood skills
SME loans	
Micro leasing	

The Company's Microfinance business line faced a challenging year, as over-indebtedness in the target market, coupled with a weaker agriculture sector had a significant impact on repayment. The Company achieved a portfolio growth of 27% during the year, although profits were hampered due to higher funding costs.

Operating Environment

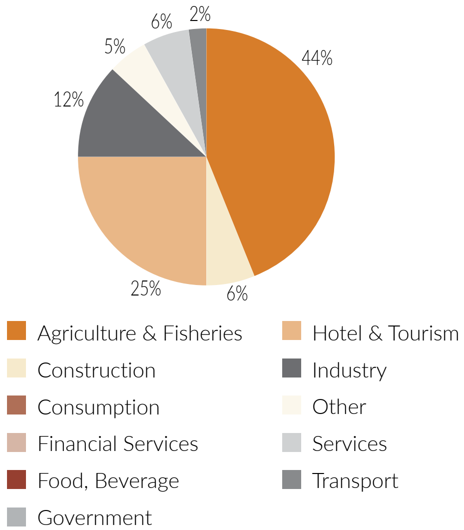
The microfinance market has seen rapid expansion in recent years, with numerous banks and NBFIs pursuing growth in this high-yielding segment. Intensifying competition among lenders and the absence of a formal mechanism to monitor customers' exposure to multiple borrowings has led to over-indebtedness, threatening the sustainability of the segment and defeating the financial inclusion objective of lenders. The rising interest rates and the weaker agriculture sector also adversely impacted the segment's performance during the year.

Strategy and Performance

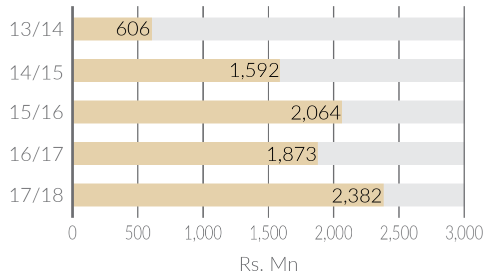
AFC entered the microfinancing segment in 2013 and has adopted a cautious approach towards growth in this relatively high-risk market segment. We clearly identified the stress signals, which were evident during the first part of 2017/18 and took proactive measures to curtail the influx of probable non-performing-loans. We adopted a strategy of branch rationalisation and staff downsizing, halting micro lending in weak locations. During the first half of the year, we placed emphasis on strengthening credit processes and refining our collection mechanisms. Growth was pursued in the second half of the year, resulting in the portfolio expanding by 27% YoY during 2017/18.

Preserving portfolio quality: The quality of the portfolio deteriorated during the first half of the year, impacted by industry conditions as well as rising interest rates and a subdued agriculture sector. Approximately 44% of the Company's micro lending is towards the agriculture and fisheries sector and erratic weather patterns of most part of the year had a sharp impact on the cash cycles of borrowers. Following the weakening of our portfolio, proactive measures were taken to strengthen credit appraisal and client screening; accordingly, we revised authority limits and adopted a centralized approval mechanism from September 2017 with independent verification via a 12-member Credit Review Committee.

Microfinance Portfolio



Microfinance Portfolio



Challenges in 2017/18

(1) Intense competition in the Microfinance market leading to over indebtedness

(2) Weakening of the agriculture sector

(3) Difficulty in retaining staff

Way Forward

- Cautious approach towards growth
- Continued focus on employee skill development and EDS

Product portfolio: Portfolio growth during the year was partly achieved by deepening relationships with existing customers through providing micro-leasing facilities. Accordingly, we offered motor bike and three-wheeler leasing through existing branch network, which accounted for 11% of the segment's portfolio growth in 2017/18.

Customer education: We continue to provide a holistic value proposition to our Microfinance customers through providing access to a wide array of skill development opportunities. Through our unique Entrepreneurial Development Services (EDS) program, we provide training aimed towards enhancing the general quality of life (such as raising HIV awareness, reproductive health and disease prevention) as well as technical training aimed towards enhancing entrepreneurial skills. These workshops are conducted islandwide, in partnership with the respective branches as well as external specialists and consultants. Each branch engages in a minimum of one such program every quarter, and during the year we conducted 119 such programs with a total beneficiary base of over 2,788.

For further information on our EDS services please refer pages 23 and 24 of the Sustainability Report.

EDS subject	No. of programs	No. of participants	Total investment Rs.
Agriculture	44	1,057	441,757
Apparel	12	265	123,956
Arts and Crafts	2	33	21,450
Common	2	126	24,645
Financial literacy	5	135	46,631
Fishery	1	20	23,100
Livestock	17	389	225,636
Manufacturing	24	543	269,221
Food and Beverages	8	120	70,770
Leather Products	4	100	48,953
Total	119	2,788	1,296,119


Training Program on Making LED Bulbs

Training Program on Making Organic Fertilizer

Facilitating market linkages:
Hansa Ceylon Coffee is a Sri Lankan specialty coffee processing/roasting/ exporting company which has gained a global reputation for flavour and quality. Roasted in the central highlands of Sri Lanka, Hansa engages closely with Sri Lankan farmers to empower them through providing a fair price for their coffee beans. The Company's social aspirations are aligned with AFC's sustainability agenda and through our association with Hansa, we provided an opportunity for our Microfinance customers to engage in coffee cultivation. In addition to the guaranteed buyback, Hansa provides quality planting materials and fertilizer. Technical knowledge on cultivation was provided by the Department of Export Agriculture through our EDS programmes; to date 910 coffee plants have been distributed to 78 customers in the Nuwara Eliya, Welimada and Wellawaya regions.

Developing our people: Given the relationship-driven nature of this business, we understand the vital role played by employees in ensuring the success and sustainability of microfinancing. We strengthened our Microfinance skill development proposition during the year and have introduced a 6-month mandatory training program for microfinance trainees. Employee retention is a persistent challenge and we hope to drive productivity improvements through employee upskilling and development.

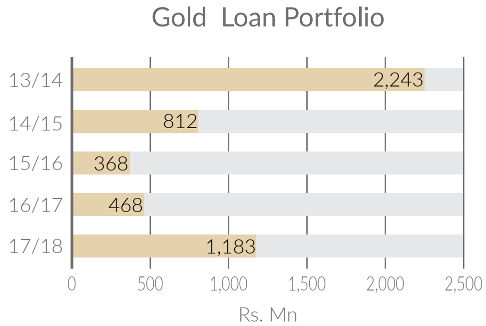
Way Forward

AFC intends to adopt a cautious approach towards microfinancing, given its inherent vulnerabilities to moderating economic conditions. Exposure to this segment will be limited to 8% of the Company's portfolio (currently 8 %), in balancing the Company's risk-return dynamics. Future growth of this SBU will be derived by micro leasing and MSME loans.

Gold Loans

Performance Highlights

	2017/18	2016/17	% change (YoY)
Portfolio (Rs. Mn)	1,183	468	153
No. of customers	12,587	7,143	76
Portfolio outside Western Province (%)	70	75	-6



The Gold loan business line posted recovery in 2017/18 achieving portfolio expansion of over 153% and returning to profitability for the first time since 2014/15. Growth was complemented by ongoing focus on performance management.

Way Forward

- Widening geographical reach with the addition of 10 Gold Loan centres
- Introduce new products to best fit customer needs
- Widening geographical reach with the addition of 10 Gold Loan centres
- Exposure to be maintained to 5% of the total portfolio.

Operating Environment

Global gold prices were on an upward trend for most part of 2017 and the first quarter of 2018, supported by the increase in commodity prices. Consequently, prices increased by around 6% during the year ending March 2018. Financial institutions which had previously curtailed exposure to pawning following the drastic drop in prices recommenced lending to this segment, which saw the NBFIs growing their pawning portfolios by 22%

Strategy and Performance

Portfolio growth was achieved primarily through optimising the geographical reach to capture opportunities in identified geographies. During the year, the Unit added 08 locations to its network and by end -March 2018, offered Gold Loan facilities in 38 locations, including 10 dedicated centres. Several mega promotional campaigns were carried out during the year to strengthen our presence in the segment, particularly in the North and East regions of the country. The Company also revised its pricing formula to sharpen its competitive edge. Portfolio growth of 153% was supported by an 76% increase in the active customer base. Redemption rates were healthy, averaging 95% during the year.

Celebrating 1Bn Portfolio after Recession

Portfolio monitoring: Several measures are in place to mitigate exposure to sudden drops in gold prices. For instance, the Company ensures that the Loan to Value ratio is maintained between 70%-75% while densimeters are used to assess the genuity of the article being pawned. Verifications are conducted by Internal Audit as well as gold inspection officers who visit centres/branches to verify the physical stock of gold. The required physical infrastructure is also in place which comprises alpha safes, access controls as well as key and number verifications. As a secondary measure the full portfolio is insured.

Our employees underwent thorough product and technical training on identifying dud articles, gauging customer behaviour and lending against stolen items. We also strengthened the performance management and rewards system for employees by introducing a KPI based framework to assess performance.

Way Forward

We will pursue further growth opportunities in this segment by widening our geographical reach, with 10 gold loan centres planned to be added to the network in 2018/19. Currently, gold loans contribute 5% to the total portfolio, and this is expected to be increased to a maximum of 10% within the next financial year.

Deposits

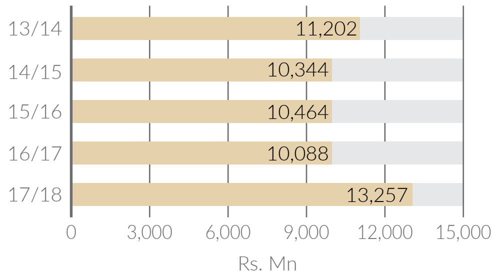
Performance Highlights

	2017/18	2016/17	% change (YoY)
Total deposit portfolio (Rs. Mn)	13,257	10,088	31
Deposit customers	80,682	69,339	16
Renewal rate (%)	80	81	-1
Average deposit rate (%)	14	13	8
Deposit base outside Western Province (%)	4	4	-

Way Forward

- Provide exceptional service by differentiate among the close competitors to retain the existing deposit holders.
- Strengthen branch network.

Deposit Base Growth



AFC's deposit base grew by 31% to a Rs. 13,257 Mn during the year under review, contributing 44% to Company's total funding base as at end-March 2018. Trust and stability associated with the Alliance brand is a key component of the Company's deposit proposition, enabling it to cater to four generations of customers and mobilise deposits comfortably as and when required to meet its funding requirements.

Strategy and Performance

We offer a range of investment solutions to our customers including fixed deposits, savings accounts as well as savings options for specific customer segments including senior citizens, minors. During the year, the Company relaunched its AFC Hapannu account, a minor savings product aimed at instilling the habit of saving among school children. Attractive interest rates, long-term customer relationship and its strong brand name enabled the Company to achieve a 31% growth in deposit base, compared to an industry growth of 23%. Fixed deposits were the largest contributor to the expansion, and savings deposits increased marginally. The fixed deposit renewal rate clocked in at 80%for the period under review.

Relaunch of AFC Hapannu Minor Savings Product

Delivering Value Contd.

Commercial Division

Divisional Highlights

Nos.	2017/18
Employees	18
Vehicle fleet	45

Way Forward

- Entering into Agri machinery market
- Increase the focus on vehicles with low engine capacity.
- Strengthening trusted dealer and agent network.

AFC launched the Commercial Division as a new business vertical during the year, with the objective of leveraging on the synergies presented by the Company's vehicle leasing business. With the necessary foundation now in place, we are well positioned to capture growth opportunities in this segment in which we see strong medium to long-term growth potential.

The division intends to focus on three main areas of operations; vehicle trading, rental service (Easy drive) and a fully-fledged automotive service centre. A growing middle class and social aspirations towards owning a vehicle is expected to drive demand growth, particularly in the below 1000CC vehicles which have relatively favourable tax structures. In order to drive this business, we have recruited an industry specialist with over 18 years' experience in vehicle trading, who is supported by a team of 18 dedicated employees. The division has also successfully partnered with several leading automobile retailers to facilitate vehicle exchange. We also hope to launch a fully-fledged vehicle service centre and showroom.

Trade- In Partnership with Audi Colombo - Drive One Pvt Ltd

Trade- In Partnership with Unimo Enterprises Ltd

Financial Capital

Statement of Profit or Loss

For the year ended 31st March Company	2018 Rs. Mn	2017 Rs. Mn
Interest income	6,479	4,983
Interest expense	(3,207)	(2,462)
Net Interest Income	**3,272**	**2,521**
Net fee and commission income	41	148
Net gain/(loss) from trading	3	12
Other operating income	187	187
Total operating Income	**3,503**	**2,869**
Impairment (charges) / reversal for loans and other losses	(513)	(74)
Net operating income	**2,990**	**2,795**
Operating expenses		
Personnel expenses	(801)	(740)
Other operating expenses	(1,169)	(1,053)
Total operating expenses	**(1,970)**	**(1,793)**
Operating profit before VAT on financial services	**1,020**	**1,002**
Value Added Tax on financial services	(220)	(179)
Operating profit after Value Added Tax on financial services	**800**	**823**
Share of profit/(loss) from associates	(11)	11
Profit before taxation	**789**	**834**
Provision for income taxation	(79)	(185)
Profit for the year	**709**	**649**

Statement of Financial Position

As at 31st March Company	2018 Rs. Mn	2017 Rs. Mn
Assets		
Cash and cash equivalents	510	250
Repurchase agreements	639	176
Placements with banks & financial institutions	477	1,219
Financial investments - held for trading	751	1,252
Loans and advances	7,877	7,478
Lease rentals receivable & stock out on hire	17,554	15,837
Hire purchase rentals receivable & stock out on hire	62	168
Financial investments - available for sale	382	488
Investments in associates and subsidiaries	74	86
Property, plant & equipment	2,168	2,123
Other assets	1,284	945
Total assets	**31,779**	**30,022**
Liabilities		
Due to customers	13,257	10,088
Due to banks	11,042	11,718
Debt instruments issued and other borrowed funds	1,646	2,548
Other liabilities	1,604	1,603
Total liabilities	**27,549**	**25,957**
Shareholders' funds		
Stated capital	614	614
Retained earnings	1,500	1,147
Reserves	2,116	2,304
Total Shareholders' funds	**4,230**	**4,065**
Total liabilities and Shareholders' funds	**31,779**	**30,022**

Financial Capital Contd.

Shareholders' funds
Rs. 4,230 Mn

Customer deposits
Rs. 13,257 Mn

Borrowings
Rs. 12,688 Mn

Value Addition

- Portfolio growth of 10%
- Gross income growth of 28%
- NIM improved to 10.6%
- Profit growth of 9%

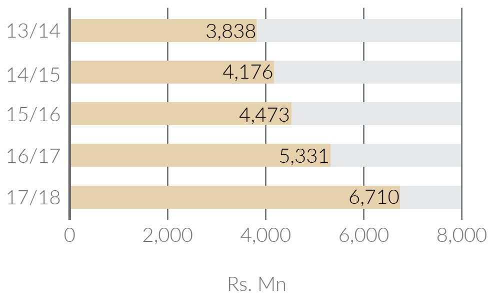
AFC performed commendably well in a challenging year and continued to deliver its commitments to Shareholders by achieving 30% increase in interest income and 9% increase in net profits. The key challenge for the year was the relatively low recoveries, which the Company has sought to address through proactive measures.

Financial Performance

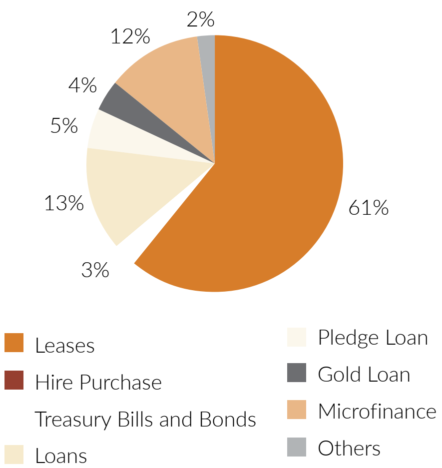
Net Interest Income

The Company's interest income increased by 30% to Rs. 6,479 Mn during the year, backed by a portfolio growth of 10%. Interest Income from Leases and Loans increased by 36% and 32% respectively, the largest contributors to the Company's interest income. Interest income from Gold Loans recorded robust growth, as the Company pursued strategic expansion in Gold Loans. Meanwhile interest expenses also increased by 30% to Rs. 3,207 Mn, driven by 31% increase in customer deposits and the higher funding costs arising from the upward trajectory of the interest rates. Resultantly, NII also grew up by a 30% to Rs. 3,272 Mn during the year, witnessing a commendable performance, given the moderating macro-economic conditions that prevailed during the year. Active management of the asset and liability maturity mismatches and strategic growth in high yielding product segments, enabled the Company to record a net interest margin (NIM) of 10.6% compared to 9.0% in the previous year.

Gross Income



Income Composition 2018



Non-Interest Income

The Company's non-interest income comprises of fee and commission income, gains from trading and other operating income. Non-interest income accounted for 6% of gross income and remained relatively unchanged at Rs. 393 Mn during the year. Net fee and commission income dropped considerably due to increase in charges capitalisation, which was done in order to be competitive in the market. Net gains from trading declined to Rs. 3.3 Mn (from Rs. 12 Mn in the previous year) arising from the loss on the sale of foreign currency during the year.

Impairment

Impairments on loans and advances increased substantially to Rs. 513 Mn (from Rs. 74 Mn the previous year). This Rs. 513 Mn includes Rs. 46 Mn voluntary provisions and Rs. 84 Mn charge due to changes in impairment policy. The balance Rs. 383 Mn increase reflects the moderating economic conditions and weaker performance of the agriculture

Strategic priorities in 2017/18

- Pursuing prudent portfolio growth
- Strengthening recovery mechanisms
- Develop strategic foreign funding relationship

Relevance to Value Creation

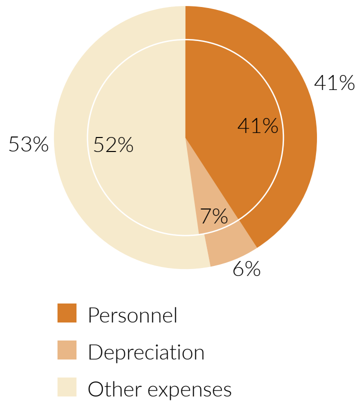
Financial capital is required for driving the Company's strategic agenda and effectively conducting its day to day operations. It is also required to nurture many of the other capital inputs and ultimately generated shared value to stakeholders.

sector which affected the repayment ability of both our leasing and microfinancing customers. Impairments from other loans (primarily from Microfinance and Pledge Loans) increased to Rs. 265 Mn (compared to a reversal of Rs. 20 Mn in the previous year) whilst leasing impairment increased to Rs. 158 Mn. Having seen the weakening trend in the performance of recoveries, the Company took proactive measures to strengthen credit risk appraisal and monitoring mechanisms, while curtailing further growth in relatively risky segments. During the year, the Company wrote-off bad debts amounting to Rs. 97 Mn.

Cost Management

Total operating expenses increased by 10%, driven by 8% growth in personnel expenses and 13% increase in other operating expenses. The increase in personnel costs reflects the addition of new talent to our team and the upward revisions of salaries. The increase in other expenses reflects the increased operational activity arising from our business growth and amortisation of capitalised brokerage to be in line with revenue recognition. The Company's Cost to Income ratio improved to 56% from 63% in 2017/18 and we are continuously pursuing avenues to generate process efficiencies and lean initiatives.

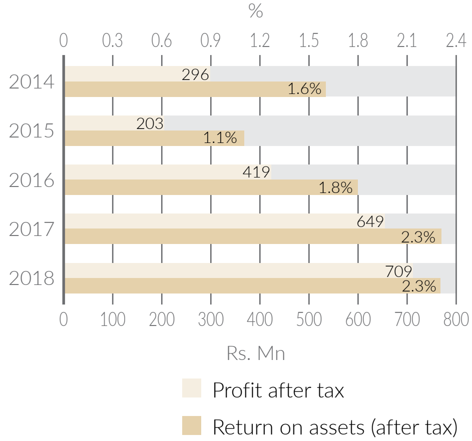
Cost Breakdown



Profitability

Value Added Tax on financial services increased by 23% to Rs. 220 Mn, due to the upward revisions of tax rates during the year. In 2017/18, AFC's shareholding of Macbertan (Pvt) Ltd., changed from 24.70% to 19.51%, due to the issuance of new shares to other investors; this led to a loss of Rs. 11 Mn for the year. Resultantly, the Company's pre-tax profit declined by 5% to Rs. 789 Mn, although the profit after tax recorded a growth of 9% to Rs. 709 Mn complementing a reversal of previous years tax over provision. The Company's Return on Assets and Return on Equity recorded 2.30% and 17.10% respectively against 2.33% and 19.14% of the year before.

Profitability



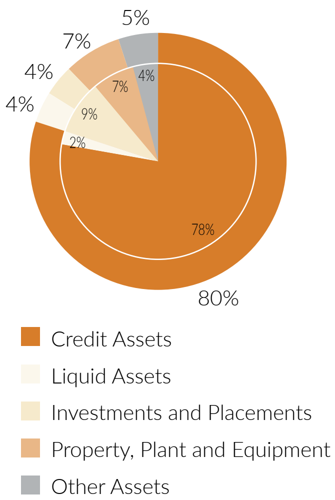
Financial Capital Contd.

Financial Position

Total Assets

The Company continued to grow its balance sheet, with total assets expanding by 6% to Rs. 31,779 Mn. Asset growth was driven primarily by credit assets (+10%), led by expansion of the leasing and other loan categories. The Company channelled its liquid assets to fund its credit growth, resulting in a decline in financial investments with banks and financial institutions. Treasury bill investments held for trading, nearly halved to Rs. 545 Mn , while investments with banks and financial institutions declined to Rs. 477 Mn, from Rs. 1,219 Mn the year before. Following the said loan growth, the Company's Balance Sheet tilted more towards credit assets which accounted for 80% of total assets as at end-March 2018. Despite the tilt towards credit assets, the liquidity position remained comfortable, with a statutory liquid asset ratio of 15% as at end-March 2018.

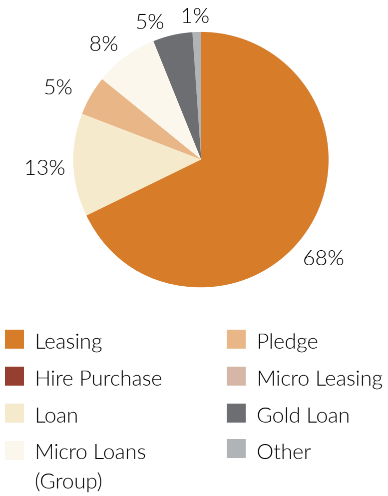
Asset Composition



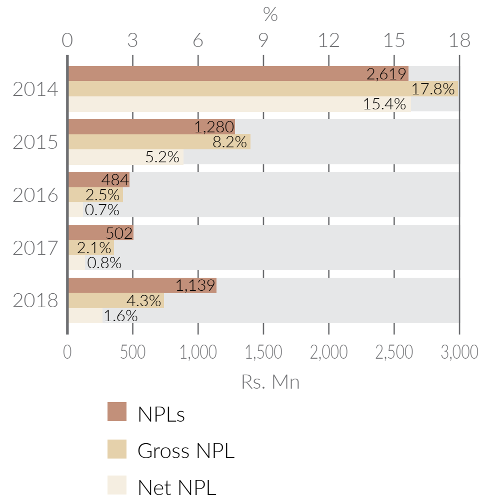
Portfolio Growth and Quality

The Company's credit growth was in par with the industry, as it continued to leverage on its branch network and long-term customer relationships to drive growth. Leasing continues to be the Company's mainstay and grew by 12% during the year, supported by a strategy of pursuing smaller ticket loans such as two-wheeler and three-wheeler facilities. This approach also enabled the Company to increase the granularity of its portfolio, thereby managing the credit risk exposure. Other loans and advances grew by 9% as a result of the strategic expansion of the Gold Loan portfolio (+153%); the Company deployed increased resources to this product segment and strengthened its presence in the North and Eastern regions of the Country, leading to deeper penetration. Microfinance growth was strong during the first half of the year, yet subsequently curtailed its exposure given rising delinquency.

Portfolio Composition



NPLs



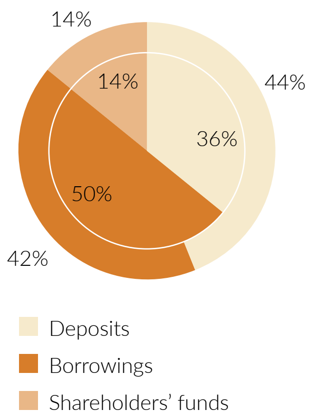
As discussed on page 49 of this Report, portfolio quality weakened during the year, mainly due to the moderation in economic conditions, rising inflationary pressures and a weaker agricultural sector. The Company had an influx of NPLs from the leasing and microfinancing segments, which led to an increase in overall gross NPL ratio to 4.34%, from 2.11% of year before. The Company has taken proactive measures to stop the deterioration of recovery performance, including strengthening of underwriting and monitoring standards amongst others.

Liabilities

Asset growth was funded primarily by customer deposits and borrowings which resulted in a 6% expansion in total liabilities. The Company's deposit base grew by 31% to Rs. 13,257 Mn, reflecting our strong deposit franchise and long-term customer relationship and trust.

The average cost of the Company's fixed deposit base is in line with the industry. The borrowings of Rs. 12,688 Mn comprise securitised borrowings, direct bank borrowings and foreign currency borrowings from funding partners and debentures from several institutions and public. Exposure to borrowings declined by 11% during the year, following the redemption of a portion of unsecured debentures. The Company's ability to form and nurture relationships with international funding agencies is a testament to the stability and sustainability of our business model and has enabled us to build a balanced and diversified funding base.

Funding Profile



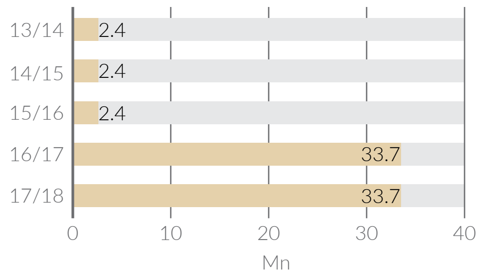
Capital Position

The Company's capital position strengthened during the year via profit generation; total Shareholders' funds increased by 4% to Rs. 4,230 Mn during the year, accounting for 14% of total funding. Meanwhile, the Tier 1 and overall risk weighted capital adequacy ratios remained well within the regulatory limits, clocking in at 11.60% and 14.09% respectively by the year-end.

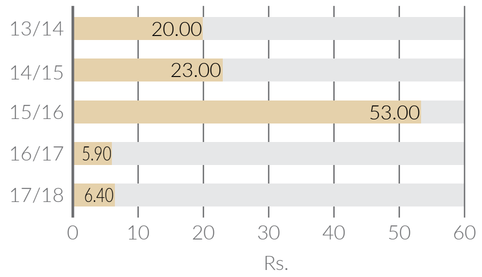
Shareholder Value Creation

We continued to deliver our commitment to Shareholders through proactive initiatives and a balanced risk appetite. Earnings per share increased by 6%, whilst Net Asset Value per share also increased by 4% during the year. AFC's share price performance was subdued during the year reflecting the broader market conditions. However, it is currently trading at a discount to its book value, thereby signalling its upside potential.

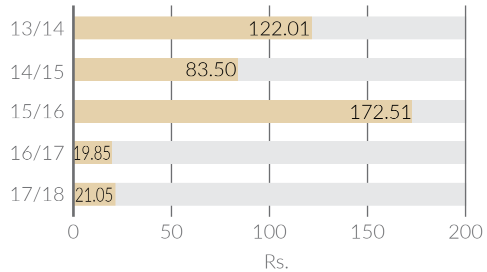
No of Shares



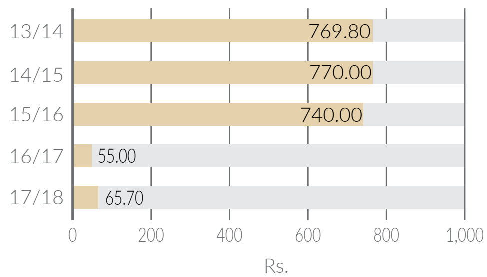
Dividend per Share



Earnings per Share



Market Price per Share



Manufactured Capital

39 Branches

25 Microfinance Centres

17 Collection Centres

12 Gold loan centres

Value Addition

- Four new Microfinance centres added
- Investment in PPE: Rs. 194 Mn
- Investment in digital infrastructure: Rs. 22 Mn

The Company's manufactured capital comprises tangible and intangible infrastructure which facilitates its value creation. This includes branches, Gold Loan centres, collection centres and micro financing centres as well as its information systems and other digital infrastructure.

Physical infrastructure

Our physical network is the key contact point for customer engagement, and we ensure that our physical network enhances customer experience while nurturing brand recognition. Leasing, Hire Purchase, Gold Loans, Micro Loans and Deposit product offerings are promoted to customers through the branch network facilitating both credit growth and deposit mobilization.

During the year we focused on consolidating and optimising the branch network to achieve deeper penetration. By end- March 2018 we operated a total of 93 branches across the island. Of these, 66 (or 71%) are located outside the Western Province. This includes 20 contact points in economically disadvantaged and impoverished localities, thereby demonstrating our commitment to driving financial inclusion among communities.

Digital Infrastructure

Digitalisation is an important strategic driver for the Company. Our medium-term digitalisation agenda is aimed towards several priorities as illustrated below;

Digitalisation objectives
Driving cost efficiencies
Strengthening customer proposition
Driving our sustainability agenda
Strengthen risk management

Driving Cost Efficiencies

Last year we made investments in upgrading our IT infrastructure to a blade centre thereby facilitating integration and virtualisation of the full system. As expected, this upgrade has generated process efficiencies, and supported more effective decision making through providing access to better and timely information.

Customer Engagement

The Company maintains a high level of customer engagement through its digital infrastructure. We have strengthened our customer proposition through engaging via online and social media platforms. The AFC website which was relaunched recently is available in trilingual form and features numerous user-friendly enhancements. The Company also has a strong social media presence in Facebook and Youtube. Over the medium term, we hope to further enhance our customer value proposition through the launch of online and mobile banking facilities.

Sustainability

The Company is currently in the process of implementing a comprehensive SPMS,

Strategic priorities in 2017/18
• Optimising and consolidation of branch network
• Ongoing implementation of an SPMS
• Retention

Relevance to Value Creation

	The branch network serves as the key customer contact point, facilitating the customer experience. Engagement through digital platforms have enhanced the customer value proposition
$	Consolidation of our branch network will enable deeper penetration in the geographies we operate in, supporting overall growth and profitability.

which will include sustainability risk assessments and performance monitoring across a range of social and environmental considerations. The system will feature online assessment forms for each category of lending and industry sector.

Refer page 72 of this Report for further information on the SPMS

We will engage in implementation of a core banking system, which will transform our operations through process efficiencies and strengthen our risk management practices. We have already identified the vendor and a customized solution will be developed based on the Company's specific requirements.

Information security: The Company's information security infrastructure is also robust and the transition to a common platform has facilitated stronger security and reliability. There have been no significant breakdowns or any threats on customer privacy during the year. AFC also operates a fully-fledged disaster recovery site in Rajagiriya and the transition to a blade server has enabled the real-time backup of data. AFC was the first Sri Lankan company in the non-banking finance sector to receive the ISO 22301 certification for its Business Continuity Management Systems and the first finance company in South Asia to obtain the BCMS 25999 accreditation.

Way Forward

- Implementation of a new microfinancing software, which will enable access to better information and more proactive collection and risk management efforts.
- Implementation of a core banking system.

Human Capital

1,222 employees across the island

61% below the age of 30

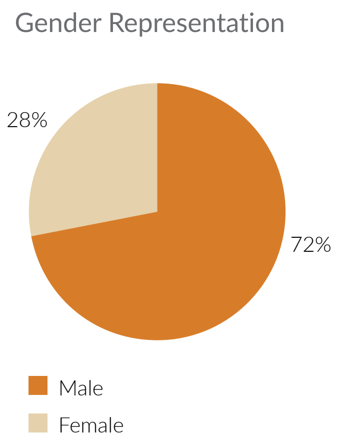
Female representation of 28% of the total workforce

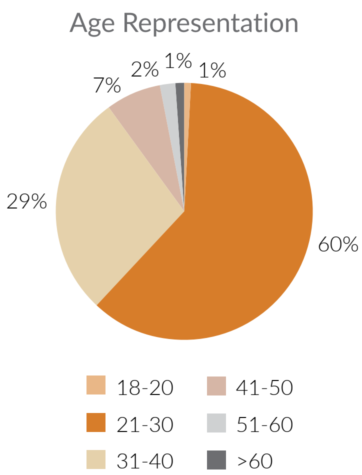
Value addition in 2017/18

- Sustainability related training to 247 employees
- Strengthening the performance management culture
- Ongoing employee engagement

Team Profile

AFC's customer experience and value creation are driven by a diverse team of 1,222 employees who are key to our continued success. Our workforce is relatively young, with 61% of employees below the age of 30 years, thereby contributing to the adaptability and agility of the organisation. The overall gender representation is skewed towards males, reflecting the Company's business model which requires a large base of field officers- a role typically preferred by males.





Operating Environment

Attraction and retention of high-performing employees has emerged as a key industry challenge, as competition for labour has intensified in recent years. This has led to an industry-wide shortage of labour, which could over the medium to long-term impact the industry's growth prospects. Meanwhile, different aspirations of the younger generation and reluctance to engage in target-oriented jobs has compounded the challenge, rendering retention extremely challenging at entry level.

HR Strategy in 2017/18

AFC's people approach during the year centred on addressing the above-mentioned industry challenges and upskilling the team to drive the Company's strategic ambitions. The Strategy for the year focused on the five main pillars of recruitment, engagement, development, compensation and retention.

Relevance to Value Creation

	Strategic priorities in 2017/18
	• Strengthening recruitment procedures
	• Talent development
	• Enhancing compensation and benefit schemes
	• Retention

	Financial Capital: Investments in training and development would negatively impact financial capital over the short-term; however a skilled and capable workforce can drive long-term value creation.
	Intellectual Capital: The organisational and tacit knowledge of employees, build up our intellectual capital
	Social and Relationship Capital: Our employees facilitate our customer experience and play a vital role maintaining long-standing relationships with customers.

Recruitment

During the year, several measures were taken to strengthen the Company's recruitment process and enhance its' image as a preferred employer in the market.

- Partnered with industry counterparts through the Finance House Association to set up a database of terminated/ resigned employees due to disciplinary grounds to ensure effective recruitment of employees with the correct attitudes and ethics.
- Widening the arena for recruitment by hiring from localities of branches
- During the year, we recruited 449 employees to our team, comprising primarily entry level field staff. Accordingly, 89% of our new recruits were less than 30 years of age.

Engagement

Employee engagement is facilitated through numerous formal and informal mechanisms, which ensures that we swiftly identify and respond to employee concerns. During the year, we also conducted an employee satisfaction survey to identify employee concerns enabling us to formulate strategy in a manner that addresses these concerns.

Development

Employee development is integral in nurturing a high performing team to drive our strategic ambitions. The scope of training programs expanded in 2017/18 to include specific training on the sustainability system implementation, as well as marketing and credit recovery. During the year, 24 internal and 64 external training programs were conducted. The highest number of training hours (61%) was invested in the Executive category to enhance the sales and marketing skills of employees and enable a shift to sales driven targets.

	2017/18	2016/17
No. of staff that participated in training programs	613	423
% of total staff	50%	35%
No. of training programs conducted	88	43
Total investment for the training programs (Rs. Mn)	6.5	2.3
Total training hours	8,501	3,570
Average training hours per employee	7.0	2.9

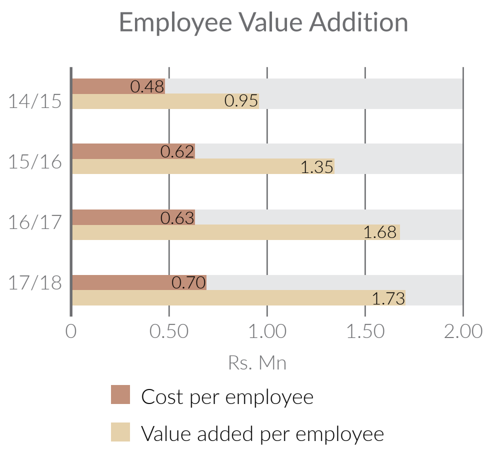
Compensation

The Company's rewards and remuneration policy aims to ensure that we attract and retain the industry's best talent. In recent years, we have sought to nurture a performance driven culture

Human Capital Contd.

with employee remuneration being linked to Key Performance Indicators (KPIs). During the year, we extended this framework to our back-office and support staff with the objective of fostering productivity improvements. Meanwhile, our remuneration schemes compare favourably with industry counterparts; for instance, the Company's retirement benefits are amongst the most attractive in the industry, with AFC and the employee contributing a respective 20% and 10% to the Employees' Provident Fund. We also increased the personal accident benefit insurance cover for field staff during the year.

Retention



Retention of labour is an industry wide challenge as employees increasingly prefer desk jobs to target oriented jobs. Turnover rate was higher within the age group of 20-30 years age, representing 73% of resignations during the year. Given the inherent challenges, we focused on addressing employee concerns promptly whilst seeking measures to reduce high turnover rate witnessed within the Junior Executive level. These measures included,

1. Streamlined the recruitment process to ensure that suitable employees were recruited with requisite education and experience.

- Extending career progression opportunities.
- Recognition of performance: Staff of well performing branches were provided with opportunities such as foreign visits to gain exposure and award ceremonies were held to recognise the best performers.
- Identified skill gaps and provided training opportunities to enhance skills especially among the Junior Executive staff.
- In 2017/18, total staff exits amounted to 439 which translated to a turnover ratio of 37%. The highest turnover stemmed from the entry- level category.

Productivity

The Company's focus on nurturing a performance driven culture, better remuneration schemes and continued investments in training and development have translated to improved productivity. Accordingly, Revenue per Employee and Value Added per Employee increased by a respective 28% and 3% in the year under review.

Way Forward

- Identifying skills gaps and developing a training agenda to address these gaps
- Further enhance the Company's performance management framework to nurture a performance-driven culture

Social and Relationship Capital

- Long standing relationships with over 140,857 customers
- Suppliers, business partners and industry networks
- Meaningful relationships with the communities we operate in

Value addition in 2017/18

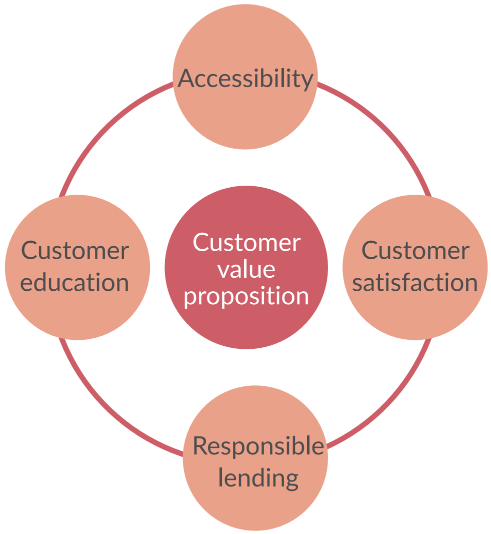
- 119 customer education programmes to over 2700 customers
- Ongoing community engagement initiatives

Our Social and Relationship Capital

Our Social and Relationship Capital represents the relationships we have nurtured with our customers, business partners, suppliers and the communities in which we operate. These relationships are vital in maintaining our social license to operate and ensure that we drive meaningful change through our operations.

Customers

The Company's competitive edge lies in its long-standing relationships, which we have nurtured over the past six decades. Our customer base of 140,857, comprise of individuals, SMEs and micro enterprises. A unique value proposition characterised by trust, innovation and stability has enabled the Company to nurture engaged and loyal customer base who have been with us for over six decades.



Access and Financial Inclusion

We operate an island-wide network of 93 contact points, comprising fully fledged branches, collection centres, micro finance centres and gold loan centres. Our financial inclusion agenda is driven through our branch network with 66 of our contact points located outside the Western Province, out of which 20 are in rural and impoverished localities. In terms of geographical representation, 63% of our lending is outside the Western Province while 98% of our funding originates from the Western Province. These dynamics demonstrate how the Company contributes

Refer to page 22 of the Sustainability Report for further information on our financial inclusion agenda.

Customer Education

The Company's micro financing initiative is both a financial and social sustainability initiative and we offer a holistic value proposition which extends beyond mere financial support. The Entrepreneurial Development Services comprise of training programs which are conducted as ongoing sessions throughout the island. During the year under review, we invested Rs. 1.30 Mn in 119 such programs, which

Social Relationship Capital Contd.

Strategic priorities in 2017/18

- Propagating our sustainability agenda through the implementation of an SPMS system

Relevance to Value Creation

	Our employees' ability to maintain strong relationships with stakeholders has resulted in the creation of Intellectual Capital
	While investments in community engagement and customer education adversely impacts financial capital in the short-term, over the long-term it supports the Company's social and commercial sustainability
	Social and Relationship Capital: Our employees facilitate customer experience and play a vital role maintaining long-standing relationships with customers.

General life skills	Entrepreneurial skills
This comprises training programmes aimed towards uplifting the general quality of life, such as financial literacy, health and hygiene, reproductive health and medical camps among others	Aimed at introducing and developing knowledge on potential micro enterprises and ventures particularly cottage industries. During the year we conducted numerous programmes on beauty culture, production of sweets, sewing, manufacturing bags, mushroom cultivation, manufacturing slippers, vegetable farming etc.

were carried out across the island with a total beneficiary base of over 2700. The programs are conducted under two formats;

Responsible Lending

As a micro-finance practitioner, we are committed to ensuring client protection and safeguarding customer interests. Accordingly, we comply with the International Client Protection principles published by the Smart Campaign, which is also a prerequisite for obtaining an M-Cril rating for Microfinance.

Our lending practices truly embody our Triple Bottom Line approach and is reflected in several unique practices listed below;

- Upon death of a micro-financing customer a payment of Rs. 10,000 is made to the family
- Upon the permanent disability/death of the borrower/spouse the outstanding loan balance is written-off
- Excess funds obtained through redeeming Gold Loan items are returned to the customer
- Depending on the circumstances the future interest component is written off on sympathetic grounds

Industry networks

As one of Sri Lanka's oldest and most respected LFCs, we are cognisant of the role we have to play in supporting the development of a profitable, sustainable and conducive industry environment. As such, AFC is an active participant in numerous industry forums, with several members of the senior management team holding positions in industry associations. The Company pioneered a platform for effective engagement among Microfinance lenders, there by facilitating the formulation of a voluntary code of ethics among Microfinance institutions and the introduction of best practices to ensure client protection and principle-based lending.

Community Engagement

Our strategic and proactive approach to community engagement is formally documented in a structured CSR Strategy which provides direction on the specific community needs the Company wishes to address. The policy also specifies that 3% of the Company's profits should be directed to social and environmental sustainability initiatives every year; accordingly, our total investment in community engagement (CSR) amounted to Rs. 9.22 Mn during the year.

The Company's key CSR initiatives during 2017/18 are summarized below;

Initiative	Investment (Rs. Mn)
Flood donations	0.97
Sponsorships	1.36
Village/community development	0.63
Religious/cultural activities	0.30
Donations for charity Associations	0.08
Donations for Foundations and Societies	0.03
Tree planting initiatives	0.55
EDS	1.30
Eardley de Silva Memorial Foundation- Ath Pavura	4.00
TOTAL	9.22

Key CSR activities during the year included the following;

- For the second consecutive year, AFC partnered with the Embassy of Japan in Sri Lanka, to conduct an "All Island inter school essay competition"(AIISEC 2017) for GCE O/L and GCE A/L students throughout the island.
- Tree planting initiative: AFC has pledged to plant fifty trees for each four-wheeler lease to offset customer carbon footprint. During the year AFC donated more than more than 8,500 plants at a total investment of Rs. 0.57 Mn.
- A first-of-its-kind initiative in Sri Lanka, Ath Pavura aims to create opportunities for Lankan social entrepreneurs to obtain venture capital for their socially responsible business ideas through a reality television programme. AFC has partnered this initiative and has already funded 3 social ventures.

Refer to pages 25 and 26 of the Sustainability Review for further information on our CSR activities

Intellectual Capital

- Core Values
- Systems, processes and procedures
- Brand

Value Addition in 2017/18
• Employee training on the implementation of the SPMS
• Signing agenda 2030 for sustainability
• Trained internal pool for sustainability

AFC's intellectual capital is represented by its organisational capital and knowledge-based intangibles, which underpin employee behaviour, corporate culture and approach to value creation.

Core Values

The Company's six core values represent the principles and philosophy that underpin employees' conduct with both internal and external stakeholders. These values are a core element of the Company's identity and plays an important role in shaping its culture and business conduct. All employees are introduced to the core values during induction and these learnings are reinforced through subsequent training initiatives and engagement mechanisms.

Please refer to page 02 on this Report for further information

- People Centric
- Integrity
- Innovation
- Serve People and Conserve Nature
- Dynamic
- Unity

Systems and Processes

AFC has formulated and implemented a comprehensive suite of policies, structures, systems and processes which clearly define principles and approach to guide decision making. Refined over several decades of operations, these are continuously reviewed and updated to reflect changes in the Company's internal environment, as well as regulatory and external operating landscape. Clearly defined governance structures also ensure judicious empowerment and appropriate balance of power, as discussed in the Corporate Governance Review.

AFC was the first Sri Lankan Company in the non-banking finance sector to receive the ISO 22301 certification for its business continuity management systems and the first finance company in South Asia to obtain the BS 25999 accreditation. Also AFC was the first finance company in the country to obtain the ISO 9001: 2000 Quality Management Certification.

Strategic priorities in 2017/18
• Reinforcing employee retention plan to retain top talent
• Introduced top talent management program
• Implemented succession planning program

Relevance to Value Creation

	Human Capital: The tacit knowledge base of our employees enhances the value of our human capital and sharpens our competitive edge.
	Financial capital: Strong intellectual capital defines the organisations conduct and can support long-term financial capital growth through differentiation and customer retention.

The Company's policy framework covers the following key areas of operations;

People management	• Staff professional development policy • Professional membership reimbursement policy • Code of conduct on sexual harassment • Policy on internal communication
Credit	• AFC Credit risk management strategy and policy manual • Credit operations manual • Microfinance credit policy • Microfinance operations manual
Other	• Customer care policy • Business Continuity Management System policy • Quality management policy • Vehicle Trade - in policy

Brand

Its excellent track record together with the valuable relationships it has built with its stakeholders over six decades has enabled the Company to nurture strong brand recognition. This has allowed the Company to remain resilient and maintain its market share despite increasing competitive pressures in the industry. In 2018, the Company is ranked 59th in Brand Finance with an estimated brand value of Rs. 889 Mn and was also ranked amongst the country's most respected entities in 2017 (LMD)

Natural Capital

- Environmental screening on our lending facilities
- Green lending
- Managing our natural inputs and impacts

Value Addition in 2017/18
• Planted 8,500 plus trees
• Committed for wild life conservation

Our approach

AFC's approach towards stakeholder value creation has always been anchored by achieving a balance between commercial and sustainability aspirations. As a responsible corporate citizen, we embarked on an ambitious journey to propagate our sustainability philosophy among our customers through a comprehensive, purpose-built Sustainability Performance Management System. This is expected to transform our operations and nurture a culture of environmental and social consciousness among other customers.

Environmental and Social Screening

The ongoing implementation of the Company's SPMS will enable the structured assessment and monitoring of the sustainability performance of our leasing, SME and micro finance clientele. Comprehensive fact sheets, checklists, sustainability pledges and commitments will be introduced to ensure that the Company's sustainability agenda is propagated effectively among our customers. The lending portfolio has been classified into 32 sectors and key environmental risks such as air pollution, deforestation, water pollution and soil depletion are considered during assessment. Marketing officers are also being trained on identifying and analysing potential environmental issues stemming from customers' operations and recommending solutions to such problems.

Green Lending

The long-term relationships and trust we have nurtured with our customers affords us a strong position in increasing the environmental awareness of our customers through lending towards green products and initiatives. During 2017, we continued to lease environmentally friendly vehicles such as electric cars and hybrid cars that account for 8% of vehicle leasing portfolio.

Rs. Mn	2017/18	2016/17
Hybrid & Electric vehicles	1,429	1,518

Combating Climate Change

Over the years, AFC has been engaged in several tree planting initiatives in partnership with several government and non-governmental institutions. This is part of the Company's integrated strategy on delivering responsible growth, by counteracting the negative environmental impacts stemming from leased vehicles.

Memorandum of understanding between AFC and Lions Club International 306B 1 to plant 600,000 trees

Memorandum of understanding with the Forest Department

Strategic priorities in 2017/18
• Providing training on the planned SPMS system
• Entering into partnerships for tree planting initiatives

Relevance to Value Creation

	Social and Relationship Capital: We believe our strongest environmental contribution would be through our lending operations, and have taken initiatives to propagate our sustainability agenda among our customers.
$	Financial Capital: Investments in propagating our sustainable agenda would negatively impact the Company's financial capital in the short-term

MOU with Lions Club International 306B1

Consumption of Natural Resources

As a financial services provider, our direct consumption of natural resources includes energy, water and paper. We monitor the usage of these resources on an ongoing basis and have implemented organisation-wide initiatives to improve the efficiency of our natural resources.

Energy

Energy consumption is primarily in the form of purchased electricity and fuel used in Company owned vehicles. Information on energy consumption is monitored on a monthly basis. Initiatives to drive reduction in energy consumption include the use of energy efficient lighting and cooling solutions, cut-off times for air conditioners and increasing employee awareness.

Fuel consumption stems from client visits, traveling between branches and training visits which are part of our normal business operations. During the year, fuel consumption of the head office reduced by (22%) YoY as we focused on increasing the use of digital platforms for engaging with customers as well as for branch engagement.

	2017/18	2016/17
Units (kWh)	355,168	374,526
Intensity (Units/Employees)	1,335	1,105
Cost (Rs.)	9,073,088	9,482,551
Intensity (Cost/Employees)	34,109	27,972

Managing Our Outputs

Main forms of waste are paper waste, e-waste and effluents from our vehicle service centre located in Rajagiriya. During 2017, we continued our initiatives in shifting to a 'paperless office' by encouraging usage of digital channels such as e-mail for client interactions and scanning of documents. Employees are also encouraged to reduce paper consumption through engaging in double -sided printing, usage of one colour envelopes and reducing paper size among others.

Going Forward

Successful implementation of the SPMS will be a key priority for next year, and training programs covering 100% of the relevant personnel are currently ongoing. This is expected to transform the Company's operations and drive our sustainability commitment among our extensive customer base. We will continue to expand our tree planting initiatives across the country through partnering with suitable organisations.

Glossary

A

Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by a company in preparing and presenting Financial Statements

Accounting

The profit or loss for a period before deducting tax expense

Accrual Basis of Accounting

The effects of transactions and other events are recognised when they are occurred (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

Amortisation (Depreciation)

The systematic allocation of the depreciable amount of an asset over its useful life

C

Carrying Amount

The amount at which an asset is recognized in balance sheet after deducting any accumulated depreciation (amortisation) and accumulated impairment losses

Cash Equivalents

Short-term, highly-liquid investments that is readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value

Contingencies

Conditions or situation at the balance sheet date and the financial effects of which are to be determined by the future events that may or may not occur

Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability of owners and others.

Cost to Income Ratio

Personal and Other Non-Interest Expenses divided by the Net Interest Income & Non-Interest Income

Current Tax

The amount of tax payable in respect of taxable income for the period

D

Dealing Securities

Marketable securities that are acquired and held with the intention of reselling them in the short-term

Deferred tax liabilities

The amounts of income tax payable in future periods in respect of taxable temporary differences

Defined Benefit Plans

Retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' remuneration and completed years of service

Disbursements

Another term for investments

Discretionary Provision

This includes provision for bonuses and incentives

Dividends

Distribution of profits to holders of equity investments, in proportion to their holdings of a particular class of capital

Dividend Cover

Profit after tax divided by gross dividend. The ratio measures the number of times dividend is covered by current years' distributable profits

Dividend per share (DPS)

Gross dividend divided by the number of shares in issues

E

Earnings per Share (EPS)

Profit for the period attributable to ordinary shareholders(the numerator) divided by the weighted average number of ordinary shares in issue during the period (the denominator)

Efficiency Ratio

The Non-Interest Expenses divided by total net income

G

General Reserves

Reserves set aside for future

Gross NPA (NPL) Ratio

Total non-performing accommodations (loans) after deducting for initial rentals received, unearned income, and interest in suspense, divided by gross accommodations (loans) after deducting for initial rentals received, unearned income and interest in suspense.

Gross Dividend

The portion of profits distributed to the shareholders including the tax withheld

I

Impairment

This occurs when recoverable amount of asset declines below its carrying amount

Investments

Value of facilities granted during a specific period

Investments Securities

Securities acquired and held for yield or capital growth purposes; usually held to maturity

L

Liquidity

The availability of sufficient funds to meet deposit withdrawals and other financial commitments as they fall due

Liquid Assets

Cash and cash equivalents, repurchase agreements,placements in banks and other financial institutions and treasury bills

Liquid Assets Ratio

Liquid assets as a percentage of total deposits

M

Materiality

Information is material if its non-disclosure could influence the economic decisions of users taken on the Financial Statements

Market Value per Share

Market capitalization divided by the number of ordinary shares in issue

N

Non – Banking Financial Institutions (NBFI)

An institution that does not have the full banking license and undertakes banking services permitted by the license.

Non-Performing Loans (NPL)

Loans and advances which are 180 days or more in arrears of due principal and/or interest payments

Net Assets Value per Share

Shareholders' funds excluding preference shares if any,divided by the weighted average number of ordinary shares in issue

Net NPA Ratio

Total non-performing accommodations excluding initial rentals received, unearned income, interest in suspense and provision for loan losses, divided by gross loans after deducting for initial rentals received, unearned income,interest in suspense and provision for loan losses

Net Interest Income

The difference between income earned from interest bearing assets and cost incurred on financial instrument/ facilities used for funding the interest bearing assets

Net Interest Margin

Net interest income divided by total average assets

O

Off Balance Sheet Transactions

Transactions that are not recognized as assets or liabilities in the balance sheet but which may give rise to contingencies and commitments

P

Portfolio

Total rentals and other receivables on loans and advances after deducting for unearned interest in suspense and initial rentals paid

Price Earning (P/E) Ratio

The market price of an ordinary share divided by the Earnings per Share

Glossary Contd.

Provision for loan losses

Amounts set aside against possible losses on net receivable of facilities granted to customer as a result of them becoming party or wholly uncollectible

R

Return on Assets (ROA)

Profit after tax expressed as a percentage of average total assets; used along with ROE as a measure of profitability and as a basis of intra-industry performance comparison

Return on Shareholders' Fund/Equity (ROE)

Profit after tax expressed as a percentage of average total assets; used as a measure of profitability and as a basis of intra-industry performance comparison

Revaluation

Restatement of assets and liabilities

Rate of Dividend

Gross dividend as a percentage of total par value of shares

S

SBU

Strategic Business Unit

Segment Revenue

Revenue reported in the Company's income statement that is directly attributable to a segment and the relevant portion of the Company's revenue that can be allocated on a reasonable basis to a segment

Shareholders' Funds

Shareholders' Funds consist of issued and fully-paid ordinary share capital plus capital and revenue reserves

Social Performance Management System (SPMS)

SPMS is a set of policies, procedures, tools and internal capacity to identify and manage the institution's exposure to the environmental and social risks of its clients/ investees and the impact of the institution on society and environment.

Sustainability Development Goals

A collection of 17 global goals set by the United Nations that covers a broad range of social and economic development issues. These include poverty, hunger, health, education, climate change, gender equality, water, sanitation, energy, urbanization, environment and social justice.

T

Taxable Profit/(Tax Loss)

The profit (loss) for a period, determined in accordance with the rules established by the taxation authorities, upon which the income tax is payable/ (recoverable)

'Tier 1' Capital

Core capital representing permanent shareholders' equity and reserves created or increased by appropriation of retained earnings or other surplus

'Tier 2' Capital

Supplementary capital representing revaluation reserve,general provisions and other capital instruments which combine certain characteristics of equity debt such as hybrid capital instruments and subordinated term debts

V

Value Added

Value Added is the wealth created by providing services less cost of providing such services. The value added is allocated amongst the employees, the providers of capital and to the Government by way of taxes and retained for expansion and growth

Since 1956

Alliance Finance Co. PLC

Built on Trust. Powered by Innovation.

Weaving Prosperity

Working Towards a Stronger Future

SUSTAINABILITY REPORT 2017-18

Contents

About this Report

This Sustainability Review offers a detailed look at Alliance Finance Company PLC's holistic sustainability initiatives, commitments and achievements over the past financial year. It augments the Company's Integrated Report and should be read in conjunction with the Integrated Report and Governance and Risk Review. Our Sustainability reporting complies with the new GRI Standards of the Global Reporting Initiative and we are reporting under the 'In Accordance-Core' option

This Report demonstrates how the Company's Triple Bottom Line approach to value creation shaped its financial, social and environmental performance during the year. As a responsible financier, we are striving towards leveraging the Company's power to build a more inclusive and sustainability society. Accordingly, our approach aims to achieve a balance between our commercial and sustainability considerations through driving responsible behaviour among our customers, collaborations and partnerships and managing our direct environmental impacts.

The Report is structured as follows;

Navigating Our Report

Integrated Annual Report	Corporate Governance and Risk Management Report	Sustainability Report	Annual Financial Statements
Provides a concise overview of our strategy, performance and outlook in relation to financial, social and environmental objectives. In keeping the IR concise and relevant, this Report will relate primarily to developments which occurred during the year under review.	Provides a detailed review on the Company's governance and risk management practices	An analysis of the economic, social and environmental issues material to our stakeholders	Consolidated annual financial statements
Targeted readers	Targeted readers	Targeted readers	Targeted readers
Primarily the providers of financial capital, but contains material information relevant to other stakeholders.	Providers of financial capital and regulators	Our diverse stakeholders including customers, employees, business partners and regulators	Providers of financial capital, regulators and other stakeholders
Standards and principles	Standards and principles	Standards and principles	Standards and principles
• Integrated Reporting Framework of the International Integrated Reporting Council	• Central Bank of Sri Lanka's regulations and directives to the Licensed Finance Companies • Listing requirements of the Colombo Stock Exchange • Code of best practice on corporate governance issued by the SEC and CA Sri Lanka	• GRI Standards issued by the Global Reporting Initiative ("Core")	• Sri Lanka Financial Reporting Standards • Finance Leasing Act No. 56 of 2000 • Finance Business Act No. 42 of 2011 • Companies Act No. 7 of 2007 • Listing requirements of the Colombo Stock Exchange
Assurance	Assurance	Assurance	Assurance
Contains information obtained from the Audited Annual Financial Statements which have been assured by Baker Tilly Edirisinghe & Co. Chartered Accountants	Only the corporate governance section has been reviewed by Baker Tilly Edirisinghe & Co. Chartered Accountants	N/A	Baker Tilly Edirisinghe & Co. Chartered Accountants

Sustainability Highlights 2017/18

		Unit	2017/18	2016/17	YoY change (%)
People	**HUMAN CAPITAL**				
	Employees	Number	1,222	1,222	0
	New recruits	Number	449	473	-5
	Female representation rate	%	28	24	17
	Investment in training and development	Rs. Mn	6.5	2.3	183
	Training hours	Hours	8,501	3,570	138
	Employee retention	%	65	63	3
	SOCIAL AND RELATIONSHIP CAPITAL				
	Customers	Number	140,857	117,534	20
	Customer touch points	Number	93	89	4
	Investment in Entrepreneur Development Service (EDS)	Rs. Mn	1.30	1.22	7
	Beneficiaries of EDS	No.	2,788	2,665	5
	Investment in community engagement	Rs. Mn	9.2	7.5	23
Profit	**FINANCIAL CAPITAL**				
	Lending towards green products	Rs. Mn	569	729	-22
	Portfolio outside the Western Province	%	63	60	5
	Customer touch points outside the Western Province	No.	66	62	6
Planet	**NATURAL CAPITAL**				
	Energy consumption	kWh	355,168	374,526	-5
	Water consumption	Cubic meters	8,099	7,068	15
	Paper consumption	T	14.8	9.7	53

Sustainability Context

The world currently faces numerous economic, social and environmental challenges ranging from implications of climate change, income inequality, food and water security and geopolitical tensions. These challenges are also prevalent in the local context in varying degrees; erratic weather conditions over the past few years have resulted in subdued economic growth while energy security, national waste management and air pollution have emerged as national issues.

In response to the global need for collaborative action to promote sustainable development, 117 nations adopted the United Nations Sustainable Development Goals (SDG) in 2015. These define global priorities in tackling climate change, ending poverty and fighting inequalities. Alliance Finance Company PLC is committed to this sustainable development agenda. In 2017, we signed the Karlsruhe Resolution on Sustainable Finance in Germany, which emphasized the role played by the financial service sector in the journey towards achieving the SDGs and the Paris Climate Agreement. Alliance Finance was the first NBFI in the country to pledge its commitment to the Agenda.

Triple Bottom Line Approach

Our Approach	People	Planet	Profit
Our Contribution	• Driving financial inclusion and empowerment • Creating a dynamic and rewarding work environment for our employees • Collaboration to drive sustainability aspirations	• Tackling climate change through a tree planting initiative • Minimizing our environmental impacts • Green lending operations	• Socially and environmentally conscious products • Customer screening for social and environmental risks

SDGs

- 8 DECENT WORK AND ECONOMIC GROWTH
- 1 NO POVERTY
- 10 REDUCED INEQUALITIES
- 5 GENDER EQUALITY
- 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
- 17 PARTNERSHIPS FOR THE GOALS
- 13 CLIMATE ACTION
- 7 AFFORDABLE AND CLEAN ENERGY

Material Topics

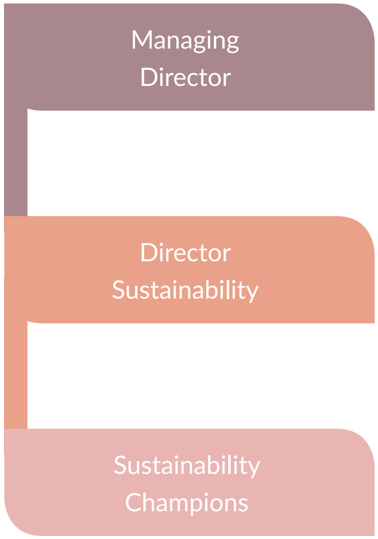
Material topics reflect issues which could have a significant impact on our ability to create and share values. The Company conducts a material analysis on an annual basis and topics listed below reflect the feedback obtained from our stakeholder engagement mechanisms, market dynamics as well as the Company's strategic priorities for the year. Our material topics for the year are listed below.

SR - Sustainability Report   IR - Integrated Report   FS - Financial Statements

Material topic	Relevant GRI topic	Page reference for further information
Financial and economic performance	Economic Performance	FS, IR - Pg 57 - 61
Product development and diversification		IR - Pg 11
Employee value proposition	Employment, Training and education, Labour management relations, Diversity and Equal opportunity	SR - Pg 09 - 19
Brand awareness		SR - Pg 30
Operational efficiency		IR - Pg 09
Employee productivity		SR - Pg 13
Portfolio quality		IR - Pg 60
Minimizing our environmental footprint	Energy, Water, Raw materials, Waste and effluents, Carbon footprint, Compliance (EN)	SR - Pg 34,35,36
Responsible lending	Marketing and labelling, Marketing communications, Customer privacy, Socio-economic compliance	SR - Pg 29,30
Customer education		SR - Pg 23,24
Supplier relationships		SR - Pg 24
Community engagement	Local communities	SR - Pg 25,26

Sustainability Governance

The Company's sustainability framework features clearly defined governance structures and robust policy frameworks which ensure that sustainability objectives are communicated across the entire organisation. The Director of Sustainability, oversee the sustainability function while sustainability champions have been appointed at regional level to drive our thinking and agenda across the Company's branch network.



AFC is an industry pioneer in sustainability thinking and was the 1st NBFI to commit to the Karlsruhe Resolution in July 2013, demonstrating commitment to the Sustainable Development Goals and the Paris Climate agreement. The Resolution stresses the role played by the financial service sector in the journey towards achieving Agenda 2030; this includes the financing and investing in the implementation of the SDGs, working with governments and regulatory institutions to create policy frameworks that promote a green, inclusive and sustainable economy. Meanwhile, as a practice, 3% of the Company's net profit is dedicated to CSR activities every year, demonstrating our commitment to community engagement and empowerment.

People

Our people

Our team at a glance

A Diverse team

A workforce that is diverse in demographic profile, skills, attitudes and experience

28% Female

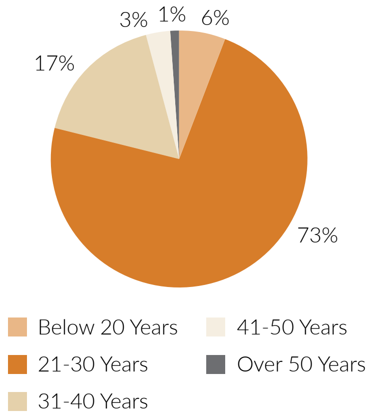
72% Male

11% Female representation in managerial roles.

New recruitments:
65% male and 35% Female

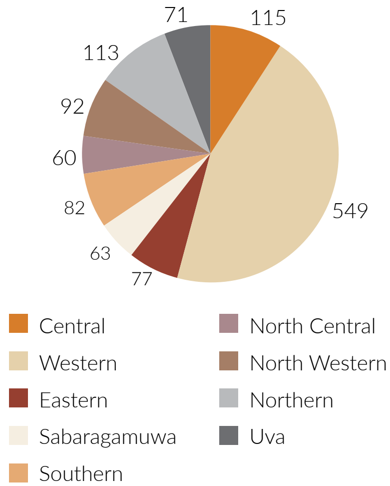
Training :
70% male and 30% female

Turnover Composition - By age category

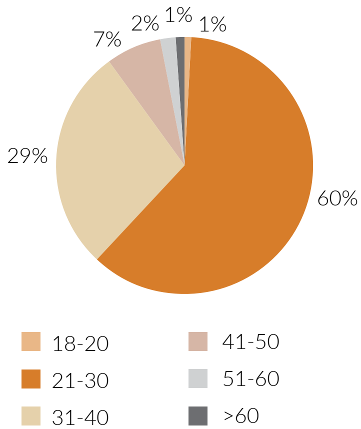


Employee turnover: Labour turnover is relatively high in the field staff category, an industry-wide phenomenon. However, retention is strong at managerial levels, resulting in an overall retention rate of 65%.

Workforce by location

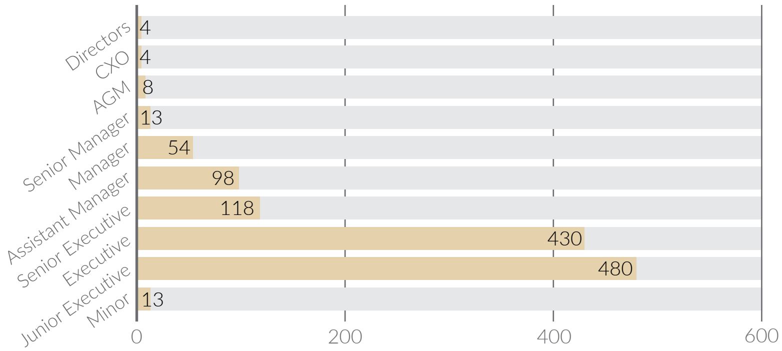


Employees - Age wise



Our team is agile and young with 61% of our employees below 30 years.

Employee composition by grade



People Contd.

Human Capital Strategy in 2017/18

In view of the people-related challenges presented by the environment, in 2017/18 we focused on several initiatives to develop an effective and efficient team, geared to face the dynamism and challenges of the operating environment. The key pillars of our HR strategy for the year included engagement, talent development, performance management and recruitment, the developments of which are discussed in subsequent sections of this Report. While the industry continues to grapple with labour shortages at field staff level, the Company's strong track record and reputation continues to serve it well in attracting sufficient manpower at any given time. Meanwhile, different aspirations of the younger generation and reluctance to engage in target-oriented jobs has compounded the challenge, rendering retention extremely challenging at entry level.

Strategic focus areas of 2017/18				
Recruitment	**Engagement**	**Performance Management**	**Talent Development**	**Retention**

STRATEGIC ACTION

- Conducted an industry wide salary survey to understand our relative position.
- Expanded the KPI framework to include support staff, with the objective of generating process efficiencies and increasing productivity. This will also enable the Company to effectively identify and evaluate low performing branches.
- Emphasis on training, with focus on field staff and sustainability training in line with the implementation of the SPMS framework.
- Reviews and updated HR policies, particularly in benefits and health and safety.
- Increased stringency of disciplinary action.

Human Resource Governance

The Remuneration Committee (REM) is a sub-committee of the Board and is responsible for providing guidance and expertise in recruitment and remuneration of Executive Directors and Senior Management in addition to reviewing the overall remuneration processes of the organization. A sound and structured HR governance system is in place with clearly defined roles, responsibilities and reporting lines. Implementation of the HR framework is the responsibility of the HR Department which reports to the MD and to the Remuneration Committee on matters assigned to them by the Board.

The HR policy framework forms a core part of governance, ensuring ethical work practices and clearly defining procedures including, recruitment, rewards and recognition, health and safety and grievance handling. The policies are reviewed and updated regularly to reflect changing best practices, industry dynamics and keeping pace with material concerns of the organization. During the year, the compensation and benefits policy was revised including changes to personal insurance schemes and increasing death benefits to the field staff.

Recruitment

The Company's recruitment policy is based on providing equal opportunities, with no bias towards any gender, ethnic group or religion in both recruitment and retention. In respond to the industry-wide challenge of persistent labour shortages in target-oriented roles, the Company took measures to strengthen its recruitment position to enhance the Company's image as a preferred employer in the market;

- Partnered with industry counterparts through the Finance Houses Association to set up a database of terminated/resigned employees to ensure effective recruitment of employees with the correct attitudes and ethics.
- Conducted an industry-wide salary survey
- Widening the arena for recruitment by hiring from localities of branches. During the year, 332 employees were hired outside the western province. In addition, senior managers of branches were hired from the local communities.
- Promoting the brand as an equal opportunity employer: There was no discrimination in gender, age or race on recruitment nor any grievances reported to date on the grounds of discrimination. Additionally, fair salary and equitable remuneration ratio of 1:1 (Male:Female) was maintained.
- Completed an employee satisfaction survey.

During the year, we added 449 employees to our team, comprising primarily of entry level field staff.

Our approach to people management is backed by sound HR Policies, well-defined governance structures and two-way communication.

Key deliverables

- Employee satisfaction score of 55% in 2017/18.

Grievance handling

- Formal and structured grievance procedures and open-door policy ensured that no incidents of discrimination and no grievances filed on human rights during the review period.

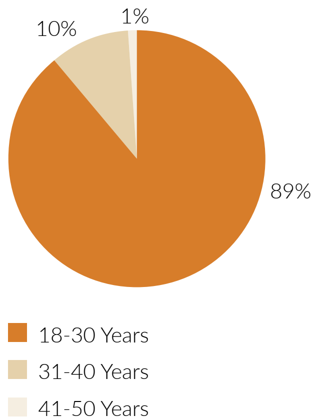
Health and safety

- Monitored significant incidents during the year.
- One death was reported during work compared to one in the previous year.
- No employees were involved in high risk work areas.

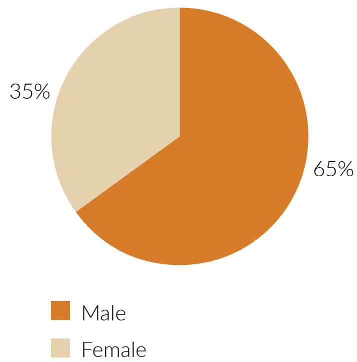
People Contd.

Employment Type	Ratio - M :F
Director	4:0
CXO	4:0
Assistant General Manager	7:1
Senior Manager	10:3
Manager	47:7
Assistant Manager	89:9
Senior Executive	94:24
Executive	347:83
Junior Executive	270:210
Minor	11:2
Grand Total	883:339

Recruitment Composition age wise



Recruitment Composition

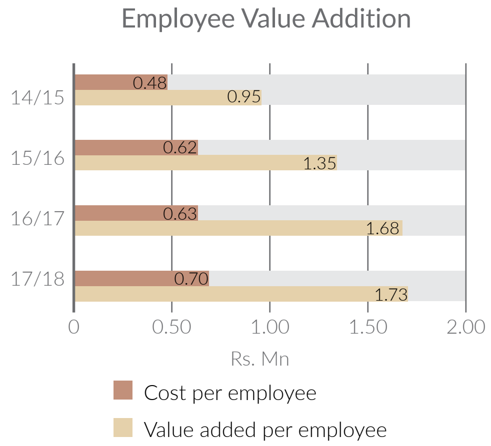


Rewards and Recognition

The Company's rewards and remuneration policy aims to ensure that we attract and retain the industry's best talent. In recent years, we have sought to nurture a performance driven culture with employee remuneration being linked to Key Performance Indicators (KPIs). We have also increased the personal accident benefit insurance cover for field staff during the year. Basic salary levels continued to be maintained above both regulatory requirements and industry levels. The Company's retirement benefits are among the most attractive in the industry, with AFC and the employee contributing a respective 20% and 10% to the Employees' Provident Fund. Additionally, the employee benefits offered include:

- Performance-based bonuses
- Annual increments
- Travelling/Fuel allowances
- Mobile allowances
- Gratuity
- In-house medical insurance scheme
- Personal accident benefit scheme for employees who travel frequently
- Festival advances
- Subscriptions for professional associations
- Educational expenses reimbursement
- Staff loans
- Maternity leave: 8 employees were on maternity leave in 2017/18 with 5 employees returning to work after maternity leave.

Reflective of the soundness of our HR strategy during the year, we achieved improved efficiency and effectiveness of the workforce as measured by value added per employee which increased by 3% YoY in 2017/18.



Health and Safety

We strive to ensure a hazard-free work environment for all our employees. The Health and Safety Committee consist of 14 employees and focuses on occupational health and safety programs. The programs conducted during the year include first aid training and a fire incident management training. There were no workers involved in high incidence or high-risk operations in the Company and no incidents of work-place injuries recorded during the year.

Fire Safety training at head office

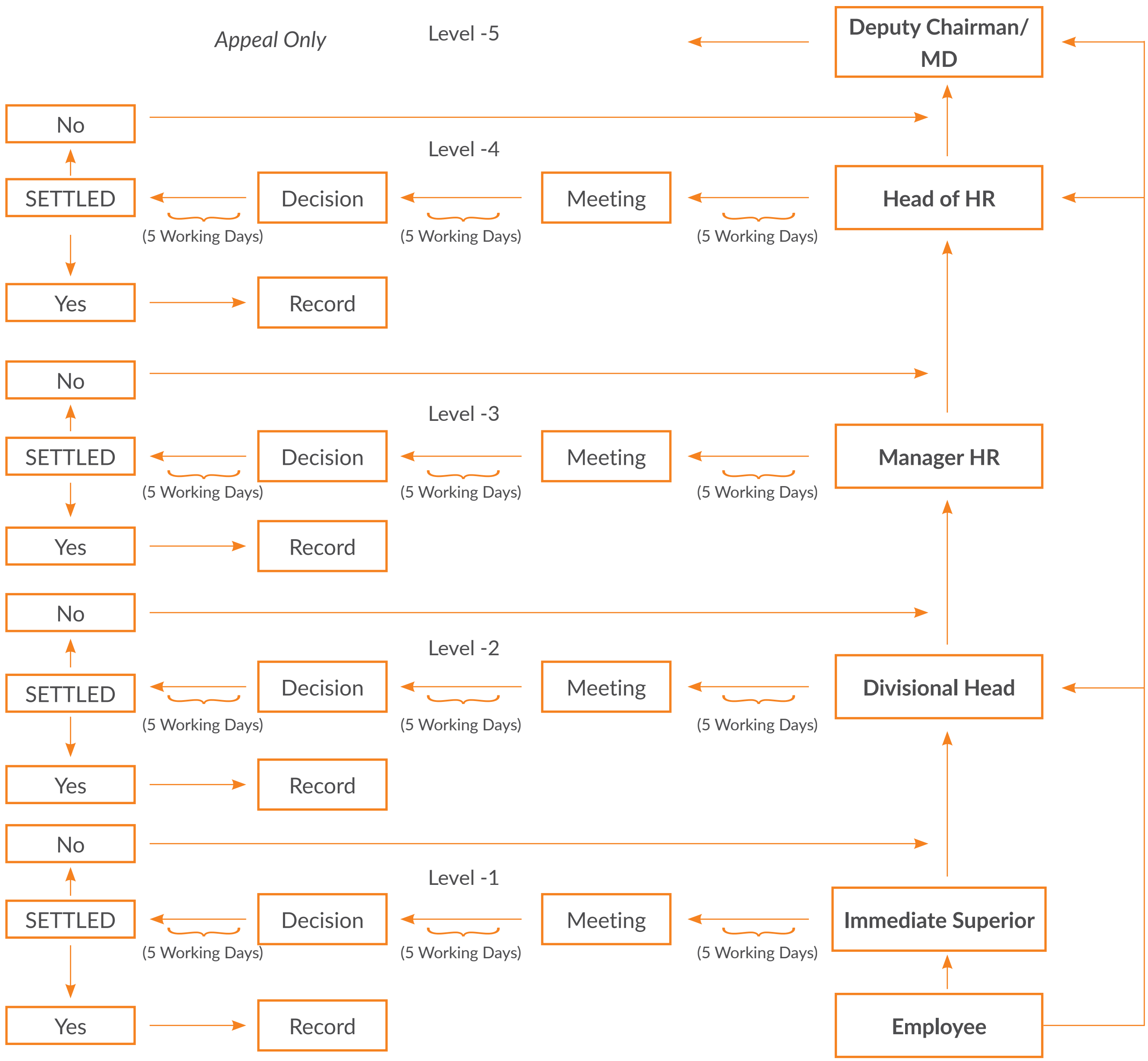
Fire Safety training at head office

People Contd.

Grievance handling

There is a separate grievance handling procedure followed by the Company. The process is as illustrated below

GRIEVANCE HANDLING PROCEDURE CHART



Developing Our Team

Employee development is integral in nurturing a high performing team to drive our strategic ambitions. We have continued to invest in providing opportunities for skill development through training as well as opportunities for career progression.

Talent Development

Talent development policies ensure all employees have opportunity for talent development with no discrimination on any ground of sex, age, race or religion. Employees for training programs are selected purely on a need basis reflective of the skill gaps identified at performance appraisals. Continuous training serves as an effective platform in nurturing a learning culture and developing an agile and responsive team. Skill gaps are identified through a comprehensive and systematic performance management system that is underpinned on a pre-defined set of key performance indicators and skill requirements. On average, 82% of our employees received regular performance appraisals.

The scope of training programs expanded in 2017/18 to include specific training on the sustainability system implementation, as well as marketing and credit recovery. During the year, 24 internal and 64 external training programs were conducted. The highest number of training hours were invested in the executives' category to enhance the sales and marketing skills of employees and enable a shift to sales driven targets. Executive categories accounted for 61% of the total training hours in 2017/18.

In line with our Triple Bottom Line strategy, sustainability continues to be a strategic priority for AFC. During the year, we focused on facilitating the launch of Sustainability Performance Management System (SPMS) by conducting training programs to enhance sustainability awareness among employees. All of our regional managers underwent training on social and environmental sustainability, in line with the system implementation. Subsequently, regional and branch managers conducted internal training programs to team

Talent Development

183% YoY increase in training expenditure

Average training hours per employee was 7.0 (2.9 in 2016/17). Total training hours increased by 138%.

Employee Progression

- Promoted 107 employees, 9% of the workforce.
- 82% of the workforce is eligible for performance appraisals.

People Contd.

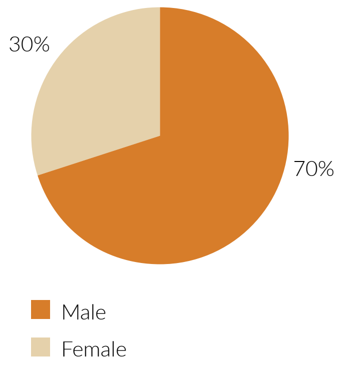
employees enhancing awareness on key performance indicators of sustainability.

	Internal	External	2017/18	2016/17
No. of staff that participated in training programs*	638	448	613	423
% of total staff*	52%	37%	50%	35%
No. of training programs conducted	24	64	88	43
Total Investment for the training programs (Rs. Mn)	1.6	4.9	6.5	2.3
Total training hours	4,455	4,046	8,501	3,570
Average training hours per employee	3.6	3.3	7.0	2.9

**Note: The same employee may have participated in multiple trainings, both internal and external.*

Employment Type	Training Hours	Hours per Employee per Year
Director	65	16.3
CXO	81	20.3
Assistant General Manager	155	19.4
Senior Manager	275	21.2
Manager	1,328	24.6
Assistant Manager	1,383	14.1
Senior Executive	821	7.0
Executive	2,506	5.8
Junior Executive	1,874	5.4
Minor	15	1.2
Grand Total	**8,501**	**7.0**

Training Details by Employee Gender

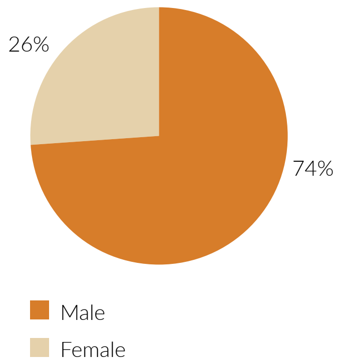


Career Progression

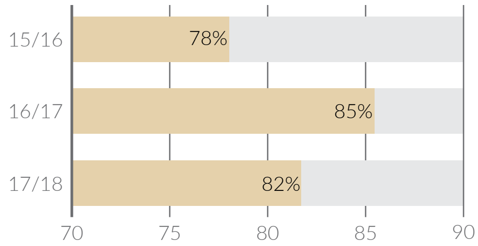
Identification of high-performing employees and an effective succession plan have ensured that we develop a strong talent pipeline. Current employees are given the opportunity to apply for vacancies prior to it being advertised externally. During the year, 107 employees were promoted.

Grade wise Eligible Cadre	No	%	No. of Employees Promoted
Director	4	0.25%	-
CXO	4	0.33%	-
Assistant General Manager	7	0.57%	-
Senior Manager	9	0.74%	-
Manager	50	4.09%	-
Assistant Manager	91	7.45%	7
Senior Executive	114	9.33%	10
Executive	407	33.31%	39
Junior Executive	305	24.96%	50
Minor	11	0.90%	1
Grand Total	1,001	81.91%	107

Gender wise Eligible Cadre



Eligible for Annual Appraisal



People Contd.

Engagement

Employee engagement is facilitated through numerous formal and informal mechanisms, which ensure that we swiftly identify and respond to employee concerns. We continued to use several channels to frequently engage with employees for which monthly management meetings and target evaluation meetings, performance appraisals, frequent short meetings and feedback sessions played a prominent role in periodically evaluating the key performance indicators.

Engagement	Frequency
Monitoring performance	
Management meetings and target evaluation meetings	Monthly
Performance appraisals	Annually
Corporate planning	Annually
Branch/division level short meetings	Periodically
Individual/small group feedback sessions	Regularly
Talent development	
External Training programs	Periodically
Internal training	Periodically
Employee communication	
Intranet	Regularly
E-mails and memos	Regularly
Employee welfare	
Networking events	Periodically
Intranet	Regularly
Evaluating employee grievances	
Employee satisfaction survey	Annually
Employee exit interviews	As required
Open door policy	All the time

The employee networking events conducted during the year include:

1. Mercantile Cricket Tournament & FHA Tournament.
2. AFC inter-regional Cricket Tournament.
3. Sustainability program organized by Mahiyanganaya Microfinance branch with HR.
4. Microfinance 4th year Anniversary celebration get-together at 80 club.
5. Sustainability Training of Trainers session and fellowship event at Berjaya Hotel.
6. AFC Sinhala New Year celebration.

Employee Engagement

Ensured continuous engagement with employees through various platforms including management meetings, training sessions, welfare events and online platforms such as Intranet. This serves the foundation for monitoring employee performance and ensuring prompt action on employee concerns.

AFC inter-regional Cricket Tournament

Sustainability Training of Trainers session and fellowship event at Berjaya Hotel

AFC Sinhala New Year celebration

Mercantile Cricket Tournament & FHA Tournament

Microfinance 4th year Anniversary celebration get-together at 80 clubs

Employee Retention

Retention of labour is an industry wide challenge as employees increasingly prefer desk jobs to target oriented jobs. During the year, a total of 449 employees left the Company. Turnover rate was higher within the age group of 21-30 years age, representing 73% of resignations during the year. The turnover was high in male staff (39%) while the female staff turnover was 29% during the year under purview. Given the inherent challenges, we focused on addressing employee concerns promptly whilst seeking measures to reduce high turnover rate witnessed within the Junior Executive level. The main reasons for resignations were availability of a wider range of competitive job prospects, needs to pursue higher studies, limited career progression opportunities in the firm with employees remaining in their respective positions for a longer time.

Initiatives undertaken to address the high staff turnover includes,

1. Streamlined recruitment process to ensure that suitable employees were recruited with requisite education and experience.
2. Extending career progression opportunities – Internal vacancies were filled internally.
3. Recognition of performance: Staff of well performing branches were provided with opportunities such as foreign visits to gain exposure.
4. Award ceremonies to recognise the best performers.
5. Identified skill gaps and provided training opportunities to enhance skills especially among the Junior Executive staff.

Our Customers

Customer Profile

The Company's competitive edge lies in its long-standing relationships, which we have nurtured over the past six decades. Our customers comprise of 140,857 individuals, SMEs and micro enterprises. We serve our customers through a wide array of lending and deposit products which are often customized to satisfy the specific requirements of clients. A unique value proposition characterised by trust, innovation and stability has enabled the Company to nurture and engage and loyal customers, with over 66% of our deposit customer base having been with us for at least 5 years. We maintain a high level of engagement with our customers facilitated through face to face interaction, customer satisfaction surveys, social media platforms and a dedicated customer relationship management function

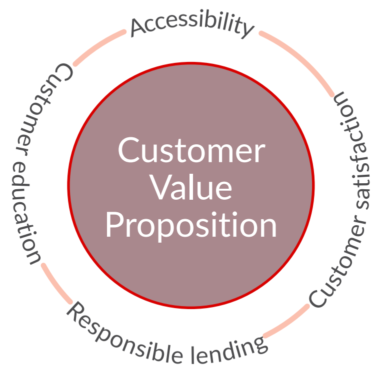
Quick View

- 140,587 customers (+20% YoY growth)
- Four generations of customers served
- 66% of depositors been with us for at least 5 years

	2017/18	2016/17	% YoY
Deposit customers	9,689	9,413	3
RFS and other lending customers	59,082	47,807	24
Microfinance	72,086	60,314	20
TOTAL	140,857	117,534	20

Value Proposition

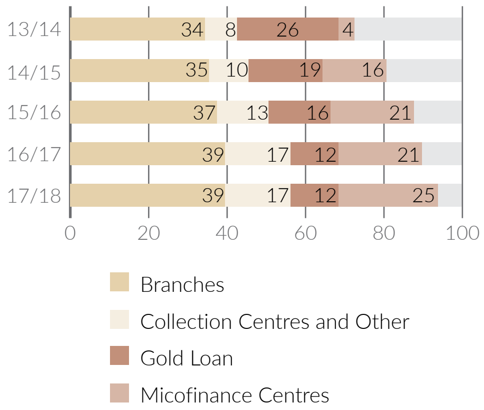
Our unique customer value proposition is built on the principles of trust and stability and is characterised by four key strengths which has enabled us to retain our customer base and attract new customers despite increasing competitive intensity in the industry. It is graphically demonstrated in the infogram alongside.

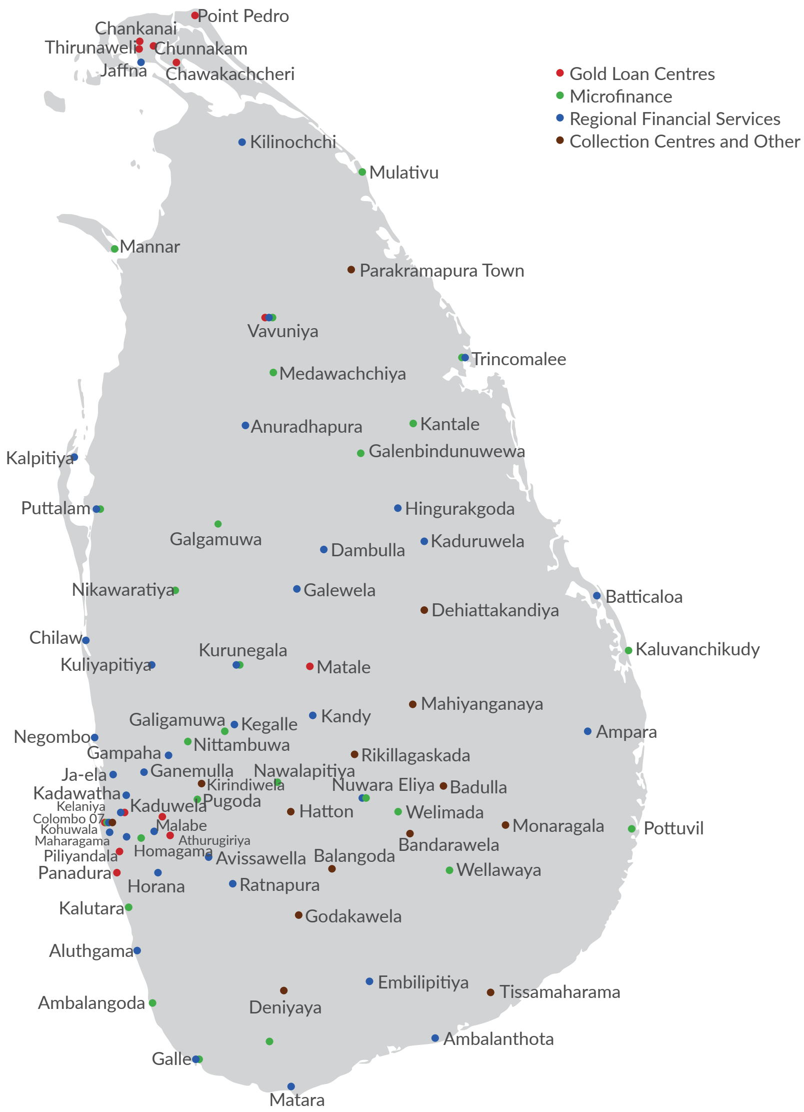


Access and Financial Inclusion

We operate an island-wide network of 93 contact points, comprising Fully Fledged Branches, Collection Centres, Microfinance Centres and Gold Loan Centres. These contact points are designed and located strategically to optimise the Company's geographical reach to attract relevant customer segments. Our financial inclusion agenda is driven through our branch network with 66 of our contact points located outside the Western Province, out of which 20 are in rural and impoverished localities.

Geographical Reach





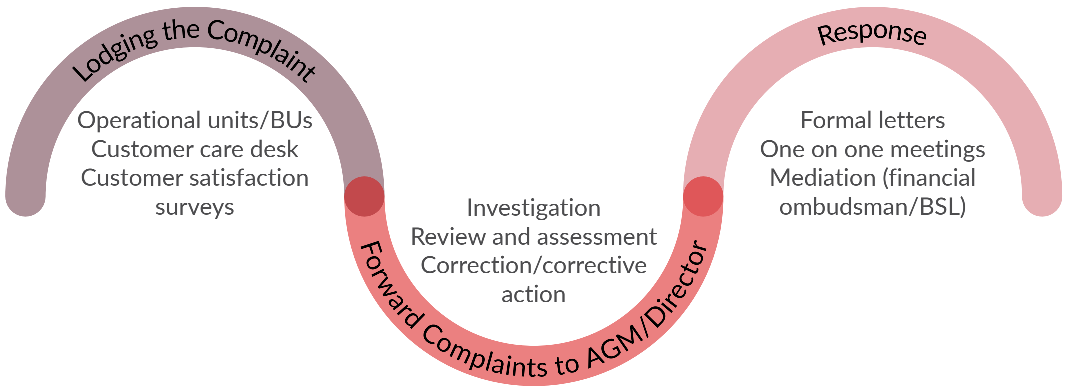
People Contd.

Customer Satisfaction

Ensuring the highest levels of customer service and satisfaction is a key focus in our customer value proposition. Multiple platforms are in place to facilitate the measurement of customer satisfaction. These are,

- Structured customer satisfaction surveys are carried out periodically by the RFS and Deposit business lines, while Microfinance carries out exit surveys
- Grievances presented via the customer hotline
- Mystery shopper initiative to gauge customer satisfaction in the branches

Our formalized customer grievance handling process is illustrated below;



Customer Education

The Company's microfinancing initiative is both a financial and social sustainability initiative and we offer a holistic value proposition which extends beyond mere financial support. Accordingly, we offer comprehensive customer education services aimed at nurturing financial discipline and social empowerment. The customer education services are conducted through a structured Entrepreneur Development Service, which operates within the microfinancing business line.

Entrepreneur Development Services

The training programs are conducted as ongoing sessions throughout the island with every branch being required to conduct at least 1 training session per quarter. The sessions are coordinated through the respective branches and engage the services of external consultants and professionals when necessary. During the year under review we invested Rs. 1.3 Mn in 119 such programs which were carried out across the island with a total beneficiary base of over 2,700.

The format of the training sessions are two-fold;

General Life Skills

- This comprises training programmes aimed towards uplifting the general quality of life, such as financial literacy, health and hygiene, reproductive health and medical camps.

Entrepreneurial Skills

- Aimed at introducing and developing knowledge on potential micro enterprises and ventures, particularly cottage industries.
- During the year we conducted numerous programmes on beauty culture, production of sweets, sewing, manufacturing bags, mushroom cultivation, manufacturing slippers, vegetable farming, etc.

Making Organic Fertilizer at Kuliyapitiya

LED Bulb Production Training at Balangoda

Nursary Management at Hingurakgoda

Batik Training at Jaela

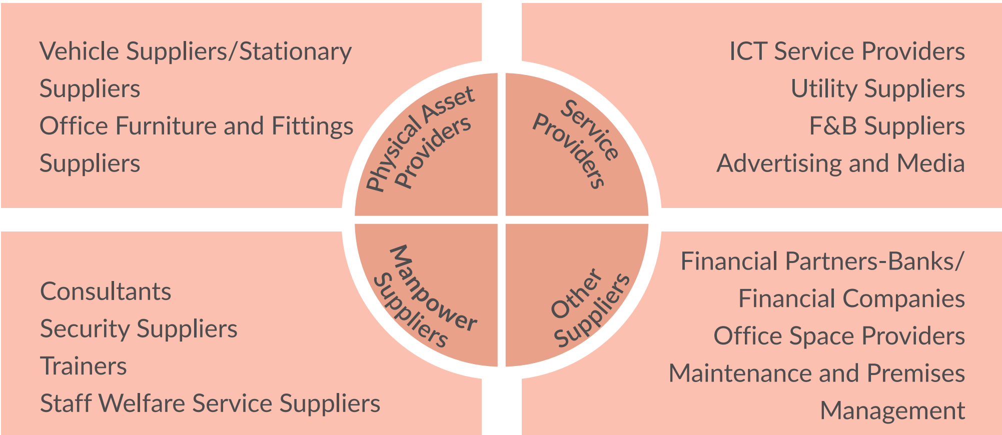
People Contd.

A summary of the EDS activities carried out during the year are given below;

Topic	No. of Programs	No. of Beneficiaries	Investment (Rs.)
Agriculture	44	1,057	441,757
Apparels	12	265	123,956
Arts and crafts	2	33	21,450
Financial literacy	5	135	46,631
Fisheries	1	20	23,100
Livestock	17	389	225,636
Manufacturing	24	543	269,221
Food and Beverages	8	120	70,770
Leather products	4	100	48,953
Common training	2	126	24,645
Total	**119**	**2,788**	**1,296,119**

Business Partners/Suppliers

Supplier Profile



Approach to Supplier Management

Suppliers are selected based on a range of criteria including ethical and responsible business practices, previous engagements with AFC, credibility, cost, quality of service and timeliness. We maintain a high level of engagement with suppliers, facilitated through platforms such as open ended questionnaires (as a part of our stakeholder engagement mechanisms), meetings, supplier events and site visits. At the point of registration, suppliers are required to sign a Supplier Consent Form which includes provisions on responsible business practices, compliance and other several areas as listed alongside.

Industry Networks

As one of Sri Lanka's oldest and most respected LFCs, we are cognisant of the role we have to play in supporting the development of a profitable, sustainable and conducive industry environment. As such, AFC is an active participant in numerous industry forums, with several members of the senior management team holding positions in industry associations. The Company pioneered a platform for effective engagement among Microfinance lenders, thereby facilitating the formulation of a voluntary code of ethics among Microfinance institutions and the introduction of best practices to ensure client protection and principle-based lending.

Industry Associations in Which AFC Holds Memberships

Leasing Association of Sri Lanka

National Chamber of Commerce

Finance Houses Association of Sri Lanka

Community Engagement (Corporate Social Responsibility)

Our Triple Bottom Line approach embodies the integration of social and financial sustainability pillars and accordingly we have sought to integrate our community engagement into our overall business strategy. This has enabled AFC to contribute to communities proactively and in a strategic manner to communities rather than on an ad hoc basis. This approach is formally documented in a structured CSR Strategy which provides direction on the specific community needs, the Company wishes to address. The policy also specifies that 3% of the Company's profits should be directed to social and environmental sustainability initiatives every year including community engagement (CSR). Accordingly, our total investment in CSR amounted to Rs. 9.22 Mn during the year.

The Company's key CSR initiatives during 2017/18 are summarized below;

Initiative	Investment (Rs. Mn)
Flood donations	0.97
Sponsorships	1.36
Village/community development	0.63
Religious/cultural activities	0.30
Donations for charity associations	0.08
Donations for foundations and societies	0.03
Tree planting initiatives	0.55
EDS	1.30
Eardley de Silva Foundation - Ath Pavura Investments	4.00
Total	**9.22**

People Contd.

- For the second consecutive year, AFC partnered the Embassy of Japan in Sri Lanka, to conduct an "All Island inter school essay competition"(AIISEC 2017) for GCE O/L and GCE A/L students throughout the island. The Company was the main sponsor at this event, the award ceremony of which was held on the 15th of January 2018 at the Sasakawa Hall in the presence of the Japanese Ambassador.

Tree Planting Initiatives

Conducted as an ongoing commitment to plant 50 trees per Motor Car lease given, during the year AFC donated more than 8,500 plants at a total investment of Rs. 0.57Mn. During the year we also partnered with the Lions Club International 306B1 to engage in national tree planting initiative with plans to plant 600,000 trees in the areas of Colombo, Wattala, Negombo, Chilaw, Puttalam, Kilinochchi and Jaffna, including upkeep and maintenance of 3 years.

	FY 2017/18
Total No. of Plants Donated	8,530
Forest Plants	5,730
Fruit Plants	1,180
Agricultural Plants	1,620
Investment (Rs.)	574,635

AFC Hapannu relaunch

Mahiyanganaya - Girandurukotte central college

Ath Pavura

A first-of-its-kind initiative in Sri Lanka, Ath Pavura aims to create opportunities for Sri Lankan social entrepreneurs to obtain venture capital for their socially responsible business ideas through a reality television programme. AFC has partnered this initiative and has already committed to funding several social ventures including the following;

Pinidiya Bindu:

A socially and financially sustainable idea presented by Ms. Anoma Nayanakumari of Kurunegala, this project involves the distribution of purified water from ground sources to neighbouring communities, at a relatively cost effective price. The idea is anticipated to provide a long-term solution to the water scarcity in the relevant community.

Organic Aloe-vera:

The project involves the cultivation of organic Aloe-vera and production of a range of products using these crops including beverages and cosmetics. This venture was initiated by Mr. Susantha Kumara who has sought assistance from his neighbours in the project, thereby providing a sustainable source of income for them.

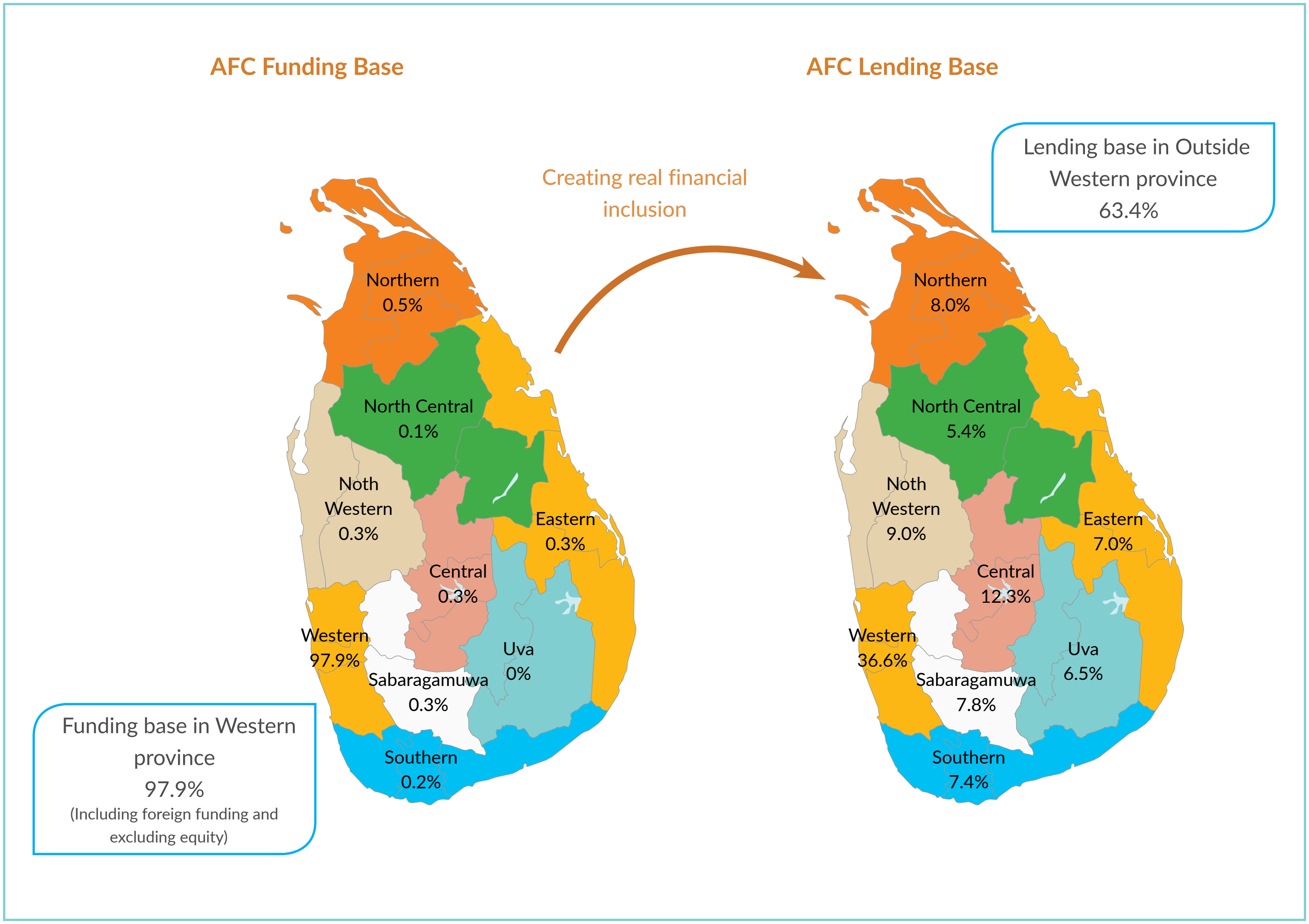
Ecofeel foods:

The project involves the manufacture and distribution of dried organic additives of fruits, vegetables, spices and tea for the local and export market. A venture of Mr. Ravinath Samaraweera of Kandy, the project has provided direct employment opportunities for 8 impoverished women while contributing to the economic empowerment of numerous suppliers and business partners.

Profit

Driving Financial Inclusion and Access to Finance

We are committed towards driving socio economic empowerment through financial inclusion; it is noteworthy that 69% of the Company's borrowing customers are females, attesting to our commitment to empower economically underprivileged persons. In terms of geographical representation, 63% of our lending is outside the Western Province while 98% of our funding originates from the Western Province. These dynamics demonstrate how the Company contributes to the distribution of wealth in the country.



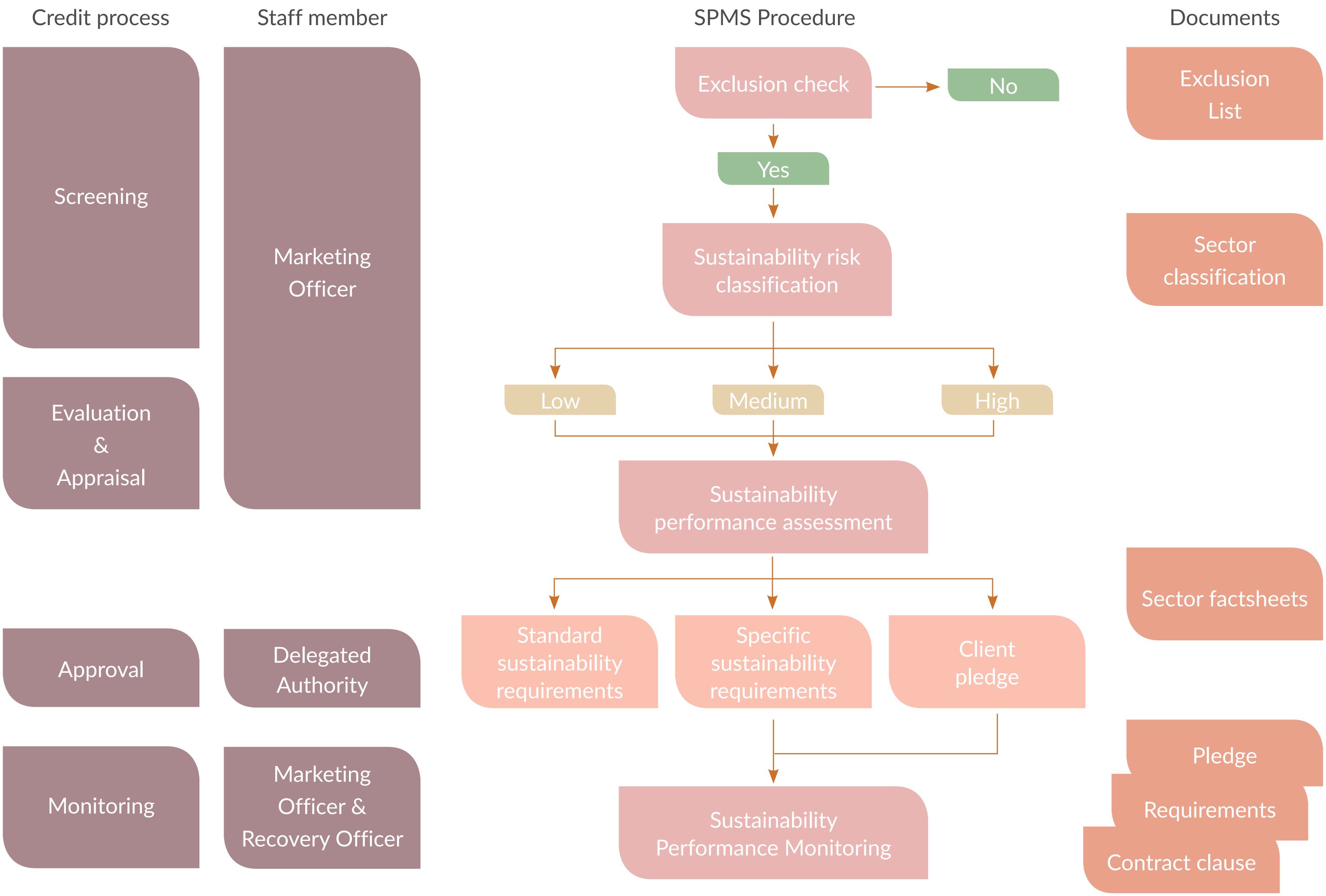
Profit Contd.

Responsible Lending Practices

Sustainability Performance Management System (SPMS)

The ongoing implementation of the Company's SPMS framework will enable the structured assessment and monitoring of the sustainability performance of our Leasing, SME and Microfinance clientele. Comprehensive fact sheets, check lists, sustainability pledges and commitments will be introduced to ensure that the Company's sustainability agenda is propagated effectively among our customers. The lending portfolio has been classified into 32 sectors and key environmental risks such as air pollution, deforestation, water pollution and soil depletion are considered during assessment. Marketing officers are also being trained on identifying and analysing potential environmental issues stemming from customers' operations and recommending solutions to such problems.

The relevant procedure for SME/Microfinance assessment is illustrated graphically below;



Client Protection

As a Microfinance practitioner, we are committed to ensure client protection and safeguard customer interests. Accordingly, we comply with the International Client Protection principles published by the Smart Campaign, which is also a prerequisite for obtaining the Smart Campaign Certification and M-Cril rating for Microfinance. The Standards specify 7 Client Protection Principles (listed below) and 25 standards of care.

Client Protection Principles

Customer Privacy

As a financial services organisation, we understand the obligation we have towards preserving the financial and personal information of our customers. During the year, there were no substantiated complaints pertaining to the breach of customer privacy or loss of customer data.

Profit Contd.

Responsible Marketing

We practice responsible marketing communications and all information relevant to products, including interest rates on deposits, loans and exchange rates are clearly communicated to customers. During the year under review, there were no instances of non-compliance to any relevant product and service related regulations or other guidelines. AFC's marketing communications are designed to ensure compliance to all relevant regulatory requirements, ethics and branding guidelines. During the year there were no incidents of non-compliance to any regulations, voluntary codes or other guidelines pertaining to marketing communications.

AFC "Hapannu" Child savings launch


Three - wheeler promotion at Kurunegala


Two - wheeler promotion at Dambulla

Lending Practices

Our lending practices truly embody our Triple Bottom Line approach and is reflected in several unique practices listed below;

- Upon death of a Microfinance customer, a payment of Rs. 10,000 is made to the family
- Upon the permanent disability/death of the borrower/spouse, the outstanding loan balance is written-off
- Excess funds obtained through redeeming pawning items are refunded to the customer
- Depending on the circumstances, the future interest component is written off on sympathetic grounds

Planet

Our business and sustainability aspirations are bridged through a Triple Bottom Line approach focusing on People, Planet and Profit. Implications of climate change are increasingly affecting Sri Lanka's economic growth, necessitating individuals and organisations to partner the Government in its commitment towards the global sustainability development goals of addressing climate change and providing affordable and clean energy. As a responsible corporate citizen, we embarked on an ambitious journey to propagate our sustainability philosophy among our customers through a comprehensive, purpose-built Sustainability Performance Management System. This is expected to transform our operations and nurture a culture with environmental and social consciousness among other customers.

Responsible Products

- Green Financing
- Hybrid cars and electric cars portfolio: 8% of the leasing portfolio

Reduce consumption and waste

- Water
- Energy
- Materials
- Waste management

Create an environmentally conscious clientele

- Minimize sustainability risks of clients
- Enhance sustainability performance of clients
- Motivate and monitor sustainability initiatives of clients.
- 100% of leasing, Microfinance and SME clients are screened for environment risks and monitored.

Tree planting programs

- Undertaken by branches
- Jointly with local institutions.
- Planted 8,530 trees during the year.

13 CLIMATE ACTION

7 AFFORDABLE AND CLEAN ENERGY

Our Pledge

"Greener, and a cleaner planet"

How we define sustainability

"Creating an economic system that provides for quality of life of beneficiaries while protecting the environment and its resources."

Planet Contd.

Our Approach to Environmental Sustainability

Sustainability Performance Management System (SPMS) plays an integral role in connecting our strategic priorities of people, planet and profit. While the growth in our business lines and clientele is critical to sustainable value creation for our shareholders, AFC has always remained focused on delivering responsible growth, hence correlating our business growth with sustainability initiatives. We ensure that our business activities are carried out in a way that it avoids, reduces or compensates for any damage to the nature or society which is of paramount importance to AFC.

Focus areas of SPMS are:

1. Environmental and Social Screening
2. Collaborating with government, local institutions and international organizations in reducing risks of climate action and achieving global sustainability goals.
3. Propagating our sustainability agenda among a wider base of the population.

Environmental and Social Screening

The ongoing implementation of the Company's SPMS framework will enable the structured assessment and monitoring of the sustainability performance of our leasing, SME and Microfinance clientele. Comprehensive fact sheets, check lists, sustainability pledges and commitments will be introduced to ensure that the Company's sustainability agenda is propagated effectively among our customers.

Credit process		Leasing	Microfinance
Screening	Exclusion list (Based on IFC exclusion list)	Ensure that AFC doesn't fund any unethical/illegal businesses.	
	Sustainability risk assessment based on predefined sector classification document.	Marketing officers assess the inherent sustainability risk of the client business.	
Evaluation and Appraisal	Sustainability performance assessments.	Marketing officers complete a checklist for each client.	Sector fact sheets include three areas namely standard sustainability requirements, specific sustainability requirements and client pledge.
	Motivate clients to decide on a pledge, deliverables and time lines.	Sustainability contract clause.	Sustainability pledge and contract clause.
Approval and Monitoring	Sustainability performance monitoring	Done by both Marketing Officers and Recovery Officers.	

The lending portfolio has been classified into 32 sectors and key environmental risks such as air pollution, deforestation, water pollution and soil depletion are considered during assessment. Marketing officers are also being trained on identifying and analysing potential environmental issues stemming from customers' operations and recommending solutions to such problems.

Green Lending

Being a financial intermediary, we play a prominent role in the business of our customers enabling growth and development. Our customer base reached 140,857 including Microfinance, SME businesses and individuals by way of vehicle leases, corporate loans and pawning of which vehicle leasing contributes to 61% of total interest income. The long-term relationships and trust we have nurtured with our customers affords us a strong position in increasing the environmental awareness of our customers through lending towards green products and initiatives. During 2017, we continued to lease environmentally friendly vehicles such as electric cars and hybrid cars that account for 8% of vehicle leasing portfolio.

Year	Hybrid and Electric cars	
	No.	Portfolio Rs. Mn
2016/17	618	1,518
2017/18	673	1,429

The Company has also tested low emission gas kits for three wheelers and is currently awaiting regulatory approval. The preliminary testing has revealed encouraging results, with an estimated 23% reduction in hazardous emissions.

Combating Climate Change

Implications of Climate Change:

Sri Lanka has increasingly seen the implications of climate change, with erratic weather conditions impacting the agricultural sector for the 8th consecutive quarter. This has had a direct impact on the repayment ability of our agriculture sector clientele, threatening their ability to sustain debt repayments. The Company is yet to quantify the impact of climate change on its operations.

Management Approach:

Over the years, AFC has been engaged in several tree planting initiatives in partnership with several government and non-governmental institutions. This is part of the Company's integrated strategy on delivering responsible growth, by counteracting the negative environmental impacts stemming from vehicle leasing activities.

Planet Contd.

- **Memorandum of Understanding between AFC and Lions Club International 306B 1**

Launched a national scale project to plant 600,000 trees in the areas of Colombo, Wattala, Negombo, Chilaw, Puttalam, Kilinochchi and Jaffna and ensure proper maintenance of plants for a minimum of three years from the date of planting.

- **Memorandum of Understanding with the Forest Department**

The Company intends to sign a Memorandum of Understanding with the Forest Department to plant and maintain trees in an extent of 32 acres in the lower catchment area of Maduru Oya.

Consumption of Natural Resources

As a financial services provider, our direct consumption of natural resources includes energy, water and paper. We monitor the usage of these resources on an ongoing basis and have implemented organisation-wide initiatives to improve the efficiency of our natural resource usage.

Energy

Energy consumption is primarily in the form of purchased electricity and fuel used in Company owned vehicles. Information on energy consumption is monitored on a monthly basis. Initiatives to drive reduction in energy consumption include the use of energy efficient lighting and cooling solutions, cut-off times for air conditioners and increasing employee awareness. Overall, the Company's electricity consumption reduced by 5% during the year.

Fuel consumption stems from client visits, traveling between branches and training visits which are part of our normal business operations. During the year, fuel consumption of the head office reduced by (22%) YoY as we focused on increasing the use of digital platforms for engaging with customers as well as for branch engagement.

Head Office	2016/17	2017/18	% Change
Electricity			
Units (kWh)	374,526	355,168	-5
Units (kWh)/Employee	1,105	1,335	21
Cost (Rs.)	9,482,557	9,073,088	-4
Intensity: Cost/Employee	27,972	34,109	-22
Fuel			
Cost (Rs.)	1,617,916	1,270,144	-21
Units	13,850	11,023	-20
Total vehicle fleet used	6	6	0

Water

During the year, we have measured and monitored the usage of Head Office only.

Head office	2016/17	2017/18
Cubic Meters	7,068	8,099
Costs (Rs. Mn)	1.35	1.43

Managing our Outputs

Main forms of waste are paper waste, e-waste and effluents from our vehicle service centre located in Rajagiriya for Company vehicles. During 2017, we continued our initiatives in shifting to a 'paperless office' by encouraging usage of digital channels such as e-mail for client interactions and scanning of documents. Reducing paper consumption through engaging in double-sided printing, one colour envelopes and reducing paper size were among other initiatives that employees were encouraged to follow.

Planet Contd.

Paper recycling is one of our measures to reduce the impact of paper waste. In addition, the oil discharge from repairs of vehicle in the service centre is sold to industries such as wood painting.

Head office	2016/17	2017/18
Paper consumption (kg)	9,681	14,783
Paper recycled (kg)	1,576	N/A

Compliance

There we no instances of non-compliance pertaining to environmental regulations during the year.

Going Forward

Successful implementation of the SPMS system will be a key priority for next year, and training programs covering 100% of the relevant personnel are currently ongoing. This is expected to transform the Company's operations and drive our sustainability commitment among our extensive customer base. We will continue to expand our tree planting initiatives across the country through partnering with suitable organizations.

GRI Context Index

SR - Sustainability Report   IR - Integrated Report   FS - Financial Statements

GRI Standard	Disclosure	Page number	Omission
GRI 101: Foundation 2016 (does not include any disclosures)			
General Disclosures			
GRI 102: General Disclosures 2016	102-1 Name of Organisation	SR - Pg 02	
	102-2 Activities, brands, products and services	IR - Pg 11	
	102-3 Location of headquarters	Inner Back Cover	
	102-4 Location of operations	Inner Back Cover	
	102-5 Ownership and legal form	Inner Back Cover	
	102-6 Markets served	SR - Pg 20,21	
	102-7 Scale of the organisation	SR - Pg 21	
	102-8 Information on employees and other workers	SR - Pg 94	
	102-9 Supply chain	SR - Pg 24	
	102-10 Significant changes to the organisation and supply chain	SR - Pg 24	
	102-11 Precautionary principle	SR - Pg 28,29	
	102-12 External initiatives	SR - Pg 2	
	102-13 Membership of associations	SR - Pg 25	
	102-14 Statement from senior decision maker	IR - Pg 18-22	
	102-16 Values, principles, norms and standards of behaviour	IR - Pg 02	
	102-18 Governance Structure	SR - Pg 23-29	
	102-40 List of stakeholder groups	SR - Pg 35-37	
	102-41 Collective bargaining agreements	Not Applicable	
	102-42 Identifying and selecting stakeholders	IR - Pg 35	
	102-43 Approach to stakeholder engagement	IR - Pg 36-37	
	102-44 Key topics and concerns raised	IR - Pg 36-37	
	102-45 Entities included in the consolidated financial statements	IR - Pg 11	
	102-46 Defining report content and topic boundary	IR - Pg 05	
	102-47 Material topics	SR - Pg 07/ IR - Pg 41, 43	
	102-48 Restatement of information	IR - Pg 05	
	102-49 Changes in reporting	IR - Pg 05	
	102-50 Reporting period	IR - Pg 05	
	102-51 Date of most recent report	IR - Pg 05	

GRI Context Index Contd.

GRI Standard	Disclosure	Page number	Omission
	102-52 Reporting cycle	IR - Pg 05	
	102-53 Contact point for questions regarding Report	IR - Pg 08	
	102-54 Claims of reporting in accordance with GRI Standards	SR - Pg 02 / IR - Pg 05	
	102-55 GRI context index	SR - Pg 37-41	
	102-56 External assurance	SR - Pg 03	
Material topics			
Economic Performance			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	SR - Pg 07 / IR - Pg 41-43	
	103-2 The Management Approach and its components	SR - Pg 02 / IR - Pg 06	
	103-2 Evaluation of the Management Approach		
GRI 201: Economic Performance 2016	201-1- Direct economic value generated and distributed	IR - Pg 34	
	201-3 Defined benefit plan obligations and other retirement plans	FS - Pg 16, 76	
Materials			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	SR - Pg 04, 35 / IR - Pg 73	
	103-2 The Management Approach and its components	SR - Pg 04, 35 / IR - Pg 73	
	103-2 Evaluation of the Management Approach	SR - Pg 04, 35 / IR - Pg 73	
GRI 301: Materials 2016	301-1 Materials used by weight or volume	SR - Pg 04, 35 / IR - Pg 73	
Energy			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	SR - Pg 34-35 / IR - Pg 73	
	103-2 The Management Approach and its components	SR - Pg 34-35 / IR - Pg 73	
	103-2 Evaluation of the Management Approach	SR - Pg 34-35 / IR - Pg 73	
GRI 302: Energy 2016	302-1 Energy consumption within the organization	SR - Pg 35	
Water			

GRI Standard	Disclosure	Page number	Omission
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	SR - Pg 35	
	103-2 The Management Approach and its components	SR - Pg 35	
	103-2 Evaluation of the Management Approach	SR - Pg 35	
GRI 303: Water 2016	303-1 Water withdrawal by source	SR - Pg 35	
Environmental Compliance			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	SR - Pg 36	
	103-2 The Management Approach and its components	SR - Pg 36	
	103-2 Evaluation of the Management Approach	SR - Pg 36	
GRI 307: Environmental Compliance	307-1 Non-compliance with environmental laws and regulations	SR - Pg 36	
Employment			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	SR - Pg 11, 19 / IR - Pg 32, 65, 66	
	103-2 The Management Approach and its components	SR - Pg 11, 19 / IR - Pg 32, 65, 66	
	103-2 Evaluation of the Management Approach	SR - Pg 11, 19 / IR - Pg 32, 65, 66	
GRI 401: Employment 2016	401-1 Employee hires and turnover	SR - Pg 11, 19 / IR - Pg 32, 65, 66	
Training and education			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	SR - Pg 15, 16 / IR - Pg 32, 65	
	103-2 The Management Approach and its components	SR - Pg 15, 16 / IR - Pg 32, 65	
	103-2 Evaluation of the Management Approach	SR - Pg 15, 16 / IR - Pg 32, 65	
GRI 404: Training and education	404-1 Average hours of training per year per employee	SR - Pg 16	

GRI Context Index Contd.

GRI Standard	Disclosure	Page number	Omission
	404-2 Programs for upgrading skills and transition assistance programmes	SR - Pg 15 / IR - Pg 65	
	404-3 Percentage of employees receiving regular performance and career development reviews	SR - Pg 17	
Diversity and Equal Opportunity			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	SR - Pg 9,12 / IR - Pg 64	
	103-2 The Management Approach and its components	SR - Pg 9,12 / IR - Pg 64	
	103-2 Evaluation of the Management Approach	SR - Pg 9,12 / IR - Pg 64	
GRI 405: Diversity and Equal Opportunity	405-1 Ratio of basic salary and remuneration of women to men	SR - Pg 11	
Local Communities			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	SR - Pg 23-26 / IR - Pg 69	
	103-2 The Management Approach and its components	SR - Pg 23-26 / IR - Pg 69	
	103-2 Evaluation of the Management Approach	SR - Pg 23-26 / IR - Pg 69	
GRI 413: Local communities 2016	413-1 Operations with local community engagement, impact assessments and development programmes	SR - Pg 23-26 / IR - Pg 69	
Marketing and labelling			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	SR - Pg 30	
	103-2 The Management Approach and its components	SR - Pg 30	
	103-2 Evaluation of the Management Approach	SR - Pg 30	
GRI 417: Marketing and labelling	417-1 Requirements for product and service labelling	SR - Pg 30	
	417-2 Incidents of non-compliance concerning product and service information and labelling	SR - Pg 30	
	417-3 Incidents of non-compliance concerning marketing communications	SR - Pg 30	

GRI Standard	Disclosure	Page number	Omission
Customer Privacy			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	SR - Pg 29	
	103-2 The Management Approach and its components	SR - Pg 29	
	103-2 Evaluation of the Management Approach	SR - Pg 29	
GRI 418: Customer Privacy 2016	418-1 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	SR - Pg 29	
G4-Financial services sector disclosures			
FS-6	Percentage of the portfolio for business lines by specific region, size and by sector	IR - Pg 48-56	
F3-13	Access points in low-populated or economically disadvantaged areas by type	IR - Pg 62	
FS-14	Initiatives to improve access to financial services for disadvantaged people	SR - Pg 20,27,28,29 / IR - Pg 67,68	

Glossary

A

Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by a company in preparing and presenting Financial Statements

Accounting

The profit or loss for a period before deducting tax expense

Accrual Basis of Accounting

The effects of transactions and other events are recognised when they are occurred (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

Amortisation (Depreciation)

The systematic allocation of the depreciable amount of an asset over its useful life

C

Carrying Amount

The amount at which an asset is recognized in balance sheet after deducting any accumulated depreciation (amortisation) and accumulated impairment losses

Cash Equivalents

Short-term, highly-liquid investments that is readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value

Contingencies

Conditions or situation at the balance sheet date and the financial effects of which are to be determined by the future events that may or may not occur

Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability of owners and others.

Cost to Income Ratio

Personal and Other Non-Interest Expenses divided by the Net Interest Income & Non-Interest Income

Current Tax

The amount of tax payable in respect of taxable income for the period

D

Dealing Securities

Marketable securities that are acquired and held with the intention of reselling them in the short-term

Deferred tax liabilities

The amounts of income tax payable in future periods in respect of taxable temporary differences

Defined Benefit Plans

Retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' remuneration and completed years of service

Disbursements

Another term for investments

Discretionary Provision

This includes provision for bonuses and incentives

Dividends

Distribution of profits to holders of equity investments, in proportion to their holdings of a particular class of capital

Dividend Cover

Profit after tax divided by gross dividend. The ratio measures the number of times dividend is covered by current years' distributable profits

Dividend per share (DPS)

Gross dividend divided by the number of shares in issues

E

Earnings per Share (EPS)

Profit for the period attributable to ordinary shareholders(the numerator) divided by the weighted average number of ordinary shares in issue during the period (the denominator)

Efficiency Ratio

The Non-Interest Expenses divided by total net income

G

General Reserves

Reserves set aside for future

Gross NPA (NPL) Ratio

Total non-performing accommodations (loans) after deducting for initial rentals received, unearned income, and interest in suspense, divided by gross accommodations (loans) after deducting for initial rentals received, unearned income and interest in suspense.

Gross Dividend

The portion of profits distributed to the shareholders including the tax withheld

I

Impairment

This occurs when recoverable amount of asset declines below its carrying amount

Investments

Value of facilities granted during a specific period

Investments Securities

Securities acquired and held for yield or capital growth purposes; usually held to maturity

L

Liquidity

The availability of sufficient funds to meet deposit withdrawals and other financial commitments as they fall due

Liquid Assets

Cash and cash equivalents, repurchase agreements,placements in banks and other financial institutions and treasury bills

Liquid Assets Ratio

Liquid assets as a percentage of total deposits

M

Materiality

Information is material if its non-disclosure could influence the economic decisions of users taken on the Financial Statements

Market Value per Share

Market capitalization divided by the number of ordinary shares in issue

N

Non – Banking Financial Institutions (NBFI)

An institution that does not have the full banking license and undertakes banking services permitted by the license.

Non-Performing Loans (NPL)

Loans and advances which are 180 days or more in arrears of due principal and/or interest payments

Net Assets Value per Share

Shareholders' funds excluding preference shares if any,divided by the weighted average number of ordinary shares in issue

Net NPA Ratio

Total non-performing accommodations excluding initial rentals received, unearned income, interest in suspense and provision for loan losses, divided by gross loans after deducting for initial rentals received, unearned income,interest in suspense and provision for loan losses

Net Interest Income

The difference between income earned from interest bearing assets and cost incurred on financial instrument/ facilities used for funding the interest bearing assets

Net Interest Margin

Net interest income divided by total average assets

O

Off Balance Sheet Transactions

Transactions that are not recognized as assets or liabilities in the balance sheet but which may give rise to contingencies and commitments

P

Portfolio

Total rentals and other receivables on loans and advances after deducting for unearned interest in suspense and initial rentals paid

Price Earning (P/E) Ratio

The market price of an ordinary share divided by the Earnings per Share

Glossary Contd.

Provision for loan losses

Amounts set aside against possible losses on net receivable of facilities granted to customer as a result of them becoming party or wholly uncollectible

R

Return on Assets (ROA)

Profit after tax expressed as a percentage of average total assets; used along with ROE as a measure of profitability and as a basis of intra-industry performance comparison

Return on Shareholders' Fund/Equity (ROE)

Profit after tax expressed as a percentage of average total assets; used as a measure of profitability and as a basis of intra-industry performance comparison

Revaluation

Restatement of assets and liabilities

Rate of Dividend

Gross dividend as a percentage of total par value of shares

S

SBU

Strategic Business Unit

Segment Revenue

Revenue reported in the Company's income statement that is directly attributable to a segment and the relevant portion of the Company's revenue that can be allocated on a reasonable basis to a segment

Shareholders' Funds

Shareholders' Funds consist of issued and fully-paid ordinary share capital plus capital and revenue reserves

Social Performance Management System (SPMS)

SPMS is a set of policies, procedures, tools and internal capacity to identify and manage the institution's exposure to the environmental and social risks of its clients/ investees and the impact of the institution on society and environment.

Sustainability Development Goals

A collection of 17 global goals set by the United Nations that covers a broad range of social and economic development issues. These include poverty, hunger, health, education, climate change, gender equality, water, sanitation, energy, urbanization, environment and social justice.

T

Taxable Profit/(Tax Loss)

The profit (loss) for a period, determined in accordance with the rules established by the taxation authorities, upon which the income tax is payable/ (recoverable)

'Tier 1' Capital

Core capital representing permanent shareholders' equity and reserves created or increased by appropriation of retained earnings or other surplus

'Tier 2' Capital

Supplementary capital representing revaluation reserve,general provisions and other capital instruments which combine certain characteristics of equity debt such as hybrid capital instruments and subordinated term debts

V

Value Added

Value Added is the wealth created by providing services less cost of providing such services. The value added is allocated amongst the employees, the providers of capital and to the Government by way of taxes and retained for expansion and growth

Since 1956

Alliance Finance Co. PLC

Built on Trust. Powered by Innovation.

Weaving Prosperity

Leadership & Precision at Work

CORPORATE GOVERNANCE AND RISK MANAGEMENT REPORT 2017-18

Contents

Our Reporting

AFC provides a comprehensive suite of reports which supplement our Integrated Annual Report; this enables our readers to easily locate information required by them, drilling down to more detailed information which is discussed in summary form and/or signposted throughout our Integrated Annual Report.

Integrated Annual Report	Corporate Governance and Risk Management Report	Sustainability Report	Annual Financial Statements
Provides a concise overview of our strategy, performance and outlook in relation to financial, social and environmental objectives. In keeping the IR concise and relevant, this Report will relate primarily to developments which occurred during the year under review.	Provides a detailed review on the Company's governance and risk management practices	An analysis of the economic, social and environmental issues material to our stakeholders	Consolidated annual financial statements
Targeted readers	Targeted readers	Targeted readers	Targeted readers
Primarily the providers of financial capital, but contains material information relevant to other stakeholders	Providers of financial capital and regulators	Our diverse stakeholders including customers, employees, business partners and regulators	Providers of financial capital, regulators and other stakeholders
Standards and principles	Standards and principles	Standards and principles	Standards and principles
• Integrated Reporting Framework of the International Integrated Reporting Council	• Central Bank of Sri Lanka's regulations and directives to the Licensed Finance Companies • Listing requirements of the Colombo Stock Exchange • Code of best practice on corporate governance issued by the SEC and CA Sri Lanka	• GRI Standards issued by the Global Reporting Initiative ("Core")	• Sri Lanka Financial Reporting Standards • Finance Leasing Act No.56 of 2000 • Finance Business Act No.42 of 2011 • Companies Act No. 7 of 2007 • Listing requirements of the Colombo Stock Exchange
Assurance	Assurance	Assurance	Assurance
Contains information obtained from the Audited Annual Financial Statements which have been assured by Baker Tilly Edirisinghe & Co. Chartered Accountants	Only the corporate governance section has been reviewed by Baker Tilly Edirisinghe & Co. Chartered Accountants	N/A	Baker Tilly Edirisinghe & Co. Chartered Accountants

Committed to Good Governance

Message from the Chairman

The Board of Directors of AFC is committed in maintaining sound corporate governance practices, which has over the years underpinned the Company's prudent growth and sustainable value creation. Our commitment to uphold the highest standards of transparency, integrity and accountability, has enhanced stakeholder trust and confidence in the organisation, enabling us to remain resilient during periods of economic and industry stress.

The Company's corporate governance framework is characterized by clearly defined governance structures, comprehensive policy frameworks and procedures and embodies strong business ethics. The framework has been designed to comply with all regulatory and statutory requirements of the Central Bank of Sri Lanka, the Colombo Stock Exchange and the Securities and Exchange Commission. The Company has also embraced industry best practices in setting up its governance framework. Structures and processes are regularly reviewed to ensure continued compliance to all relevant regulations and guidelines.

During the year under review, Mr. Kusal Jayawardana who functioned as a Consultant Director Finance and Operations, was appointed as an Executive Director-Finance and Operations. Mr. Jayawardana's appointment has enhanced the diversity of skills of the Board and sharpened its acumen. In 2017/18, the Board placed emphasis on formulating business strategy, enhancing the Company's risk management framework and strengthening the employee value proposition to counter high staff turnover at junior levels.

The revised Code of Best Practice on Corporate Governance, issued by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission was published in December 2017. We will review its impact on the Company's governance structures and policies and ensure that the new requirements are incorporated to our framework.

The following report describes the Company's corporate governance practices and compliance status to all relevant regulations including the Finance Business Act No.42 of 2011 (and subsequent amendments thereto) and the CBSL's Corporate Governance Direction No.3 of 2008 and its amendment. As required by the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka, I hereby confirm that I am not aware of any material violations of any of the provisions of the Company's Code of Conduct or the Code of Ethics.

Chairman
Mr. Sunil Karunanayake
25th May 2018

Mr. S. Karunanayake

Chairman (Deceased 27th May 2018)

Appointed to the Board in January 2012 and appointed as Chairman in June 2013.
(Audit Committee Chairman and member of three Committees)

Skills and experience: He counts over 30 years' experience in a leading multi-national organisation. He is a Fellow Member of the Institute of Chartered Accountants (FCA), The Chartered Institute of Management Accountants (FCMA) and holds an MBA from the Postgraduate Institute of Management, University of Sri Jayewardenepura.

Other appointments: He is a Non-Executive Director of Ceylon Grain Elevators PLC and Three Acre Farms PLC.

Mr. R.K.E.P. de Silva

Deputy Chairman/ Managing Director

Appointed to the Board on 9th March 1990
(Member of one Committee)

Skills and experience: Mr. de Silva holds almost 30 years of experience in the finance industry. He is the pioneer of Collaboration Financing, a unique financing concept designed to provide finance for entrepreneurs to expand businesses. He was also awarded two bronze awards for this innovation at Provincial and National Level at the 'Sri Lanka Entrepreneur of the Year 2001' Awards Ceremony. A Fellow Member of the Institute of Credit Management, Sri Lanka.

Other appointments: He is a Life Member of the Sri Lanka Institute of Directors, the Chamber of Young Lanka Entrepreneurs and he is the Treasurer of the Sri Lanka Institute of Credit Management (Sri Lanka)

Lt. Col (Retd). A.R. Samarasinghe

Independent Non-Executive Senior Director

Appointed to the Board in 2011
(Member of four Committees)

Skills and experience: A retired Army Officer, having served for 20 years, he has had the opportunity of commanding two Reinforcement Battalions in the Infantry role and two Signals Regiments in its classic role of the Signals Corps and functions as an Enterprise Resource Strategist. He holds a Bachelor's Degree in Information Technology from the University of Colombo and an MSc in Computer Science (Security) from the University of Moratuwa.

Mrs. R.N. Ponnambalam

Non-Executive Director

Appointed to the Board in 2011
(Member of two Committees)

Skills and experience: She has held several senior management positions in large private sector entities and has served in key roles in international negotiations for securing and development of business opportunities for local enterprises. She holds a Diploma in Directorship from the Singapore Management University.

Other appointments: Managing Director of Macbertan (Pvt) Ltd, Non-Executive Director of Hotel Services (Ceylon) PLC and Amaya Leisure PLC.

Mr. J.M. Gunasekera

Executive Director-Sustainability

Appointed to the Board in June 2015
(Member of one Committee)

Skills and experience: An industry expert in rural financing, he counts over 30 years of experience in Microfinance, SME financing, livelihood development and agribusiness in Sri Lanka, Afghanistan, Bangladesh and Nepal. He has also served in multi-lateral agencies such as US Agency for International Development and undertaken special assignments with the World Bank/ IFC, the ADB and US based INGOs/ PVOs in many markets such as Philippines, Thailand, Japan and the United States. He holds an MBA, BSc in Agriculture and Microfinance training from the University of Colorado. He has previously functioned as Managing Director/CEO of 3 MFIs, one in Afghanistan and two in Sri Lanka.

Dr. L.A.P. Medis

Consultant Director-Marketing

Appointed to the Board in August 2016
(Member of no Committees)

Skills and experience: He has considerable experience in the fields of marketing and sales and has served in different capacities in the NBFI sector. He holds a doctorate in Strategy from the Management and Science University, Malaysia, MBA from the University of Sri Jayewardenepura, Bachelor of Commerce (Special) Honours Degree from the University of Kelaniya and a Postgraduate Diploma in Marketing from CIM (UK). He is also a Certified Management Accountant of Australia.

Other appointments: Currently attached to the academia of the University of Kelaniya.

Mr. W.P.K. Jayawardana

Executive Director- Finance & Operations

Appointed to the Board in April 2017
(Member of one Committee)

Skills and experience: He brings over 20 years of experience in investment banking, corporate finance, credit and operations. He involved in and has led teams in launching several innovative products in Sri Lanka and Bangladesh, including securitisation structures, convertible securities and derivatives and has executed several landmark capital market transactions. He played a key role in setting up NDB Capital Limited, Bangladesh and Emerald Sri Lanka Fund, being the first private equity country fund set up in Sri Lanka.

He is a Chartered Financial Analyst, an Associate Member of The Chartered Institute of Management Accountants and the Chartered Global Management Accountants. He was also an Associate Member of the Association of Chartered Certified Accountants- UK. He holds an MBA from the Open University of Sri Lanka in collaboration with Commonwealth of Learning, Canada.

Other appointments: His previous appointments include, Managing Director/ CEO of NDB Capital Limited, Bangladesh and COO of NDB Capital Holdings Limited. He has held Board positions in several listed and private entities including Resus Energy PLC, Panasian Power PLC, Lanka Communication Services Limited and NDB Capital Limited.

Committed to Good Governance Contd.

Governance Framework

External steering instruments

- Companies Act No.7 of 2007
- Finance Business Act No. 42 of 2011
- Finance Leasing Act No.56 of 2000
- All directions for licensed finance companies issued by the CBSL including the Corporate Governance Direction No. 3 of 2008 and amendments
- Continuing listing requirements of the CSE
- Mortgage Act No.6 of 1949
- Code of Best Practice on Corporate Governance issued by the ICASL and SEC

Internal steering instruments

- Articles of Association
- Board and Sub-Committees Charters
- Integrated Risk Management Framework
- Board approved policy framework

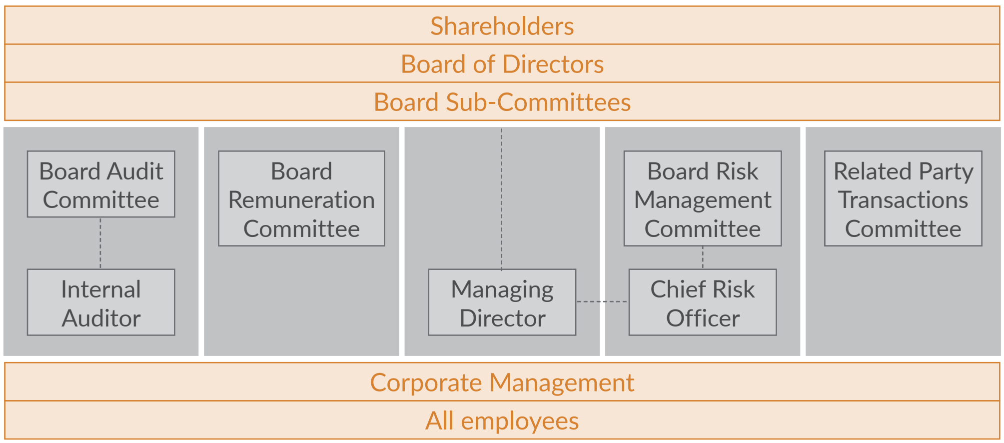
Governance Framework

Robust governance practices are fundamental to the sustainable creation of value and AFC is committed to upholding the highest standards of integrity, transparency and corporate conduct. The Board of Directors hold apex responsibility for implementing a sound governance structure and formulating comprehensive policy frameworks to guide employee behaviour and day to day operations. Governance practices are reviewed and updated regularly to reflect internal changes, emerging risks and opportunities and regulatory changes, to ensure that the framework remains relevant and resilient in a regulated and competitive industry. The Company's governance framework has been developed in compliance with several external and internal steering instruments as listed on the sidebar.

Governance Structure

The Board of Directors provide leadership and strategic vision to safeguard shareholder value creation within a framework of effective controls. Accordingly, the Board holds ultimate accountability and responsibility for the affairs of the Company. The Board is led by an Independent Non-Executive Chairman.

The Board is supported by four sub-committees, which are tasked with providing oversight and in-depth focus on specific areas. This enables the Board to allocate sufficient time and focus on broader issues within its scope, such as the execution of strategy, thereby enhancing the overall effectiveness. The sub-committees report to the Board, through their respective Chairman. The Company's subsidiary, Alfinco Insurance Brokers, functions with its own Board of Directors. Oversight from the parent entity is ensured through the presence of one common Director and two senior officials from AFC nominated to the Board of Alfinco.



Board Sub-Committees

Committee	Composition	Mandate
Board Audit Committee	Mr. S Karunanayake - Chairman (deceased 27/05/2018) Mr. A.R Samarasinghe - Member	Stipulated in the Terms of Reference
Board Remuneration Committee	Mr. A.R Samarasinghe - Chairman Mr. S Karunanayake - Member (deceased 27/05/2018) Mrs. R.N Ponnambalam - Member	Stipulated in the Terms of Reference
Board Risk Management Committee	Mr. A.R Samarasinghe - Chairman Mr. S Karunanayake - Member (deceased 27/05/2018) Mrs. R.N Ponnamabalam - Member	Stipulated in the Terms of Reference
Related Party Transactions Review Committee	Mr. A.R Samarasinghe - Chairman Mr. S Karunanayake - Member (deceased 27/05/2018) Mrs. R.N Ponnambalam - Member	Related Party Transaction Policy

An Effective Board

Board Composition

Executive Directors	(3)
Non-Executive Directors	(4)
Independent Directors	(2)

Board Composition

The Board comprises seven (7) Directors, of whom three (3) operate as Executive Directors; of the remaining four (4) Non-Executive Directors, two (2) function in an independent capacity. The balance between Executive and Non-Executive Directors ensure that matters set before the Board by the management are debated constructively. Two Non-Executive Directors, including the Chairman, are deemed independent based on the provisions of the Finance Business Act and Colombo Stock Exchange. Directors submit annual declarations of independence to this effect.

Board Mandate

The mandate of the Board of Directors, is clearly defined in the Board Charter and includes the following;

(1) Setting the Company's strategic agenda and ensuring that the strategic objectives are communicated throughout the organisation

(2) Defining the Company's risk appetite and ensuring that the risk measurement and mitigation tools in place are adequate

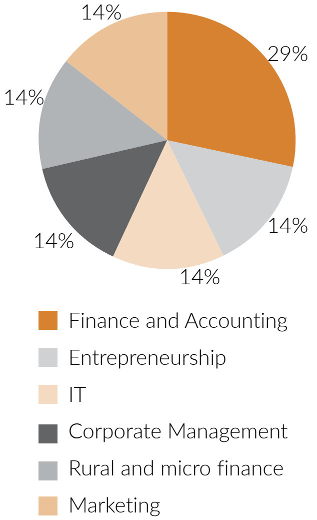
(3) Reviewing the adequacy and integrity of the Company's internal controls

(4) Ensuring the Key Management Personnel (KMP) have the required skills to execute strategy

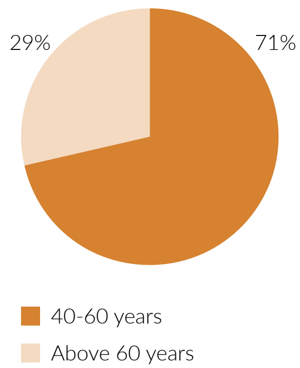
(5) Exercise due diligence in the hiring and oversight of External Auditors

Committed to Good Governance Contd.

Diversity of Skills



Age representation



Diversity of Skills

The Board is diverse in its industry insights, skills, experience and age and, is therefore able to assess matters from varying perspectives to facilitate the creation of shared value. Directors bring together academic, entrepreneurial and corporate perspectives, enhancing the depth of discussions and effectiveness of decision making. There is also sufficient financial acumen on the Board, with two (2) Directors (including the Chairman of the Audit Committee) holding membership in professional accountancy bodies and 4 Directors holding MBAs. Meanwhile, the Company's entry into new product/market segments such as microfinancing has been complemented by the addition of relevant skills to the Board.

Chairman and Managing Director

The roles of Chairman and Managing Director have been separated to ensure appropriate balance of power and authority. The Chairman is a Non-Executive Director, while the MD functions as an Executive Director. Among others, the Chairman is responsible for setting the Board's annual work plan and agenda, ensuring meetings are conducted effectively, with participation from all members and monitoring the overall effectiveness of the Board. The MD's responsibilities include, implementation of strategy, monitoring and reporting the Company's performance to the Board and ensuring that risk parameters are maintained within the defined risk appetite.

Board Appointment and Re-election

A formal and transparent procedure is in place for the appointment of new Directors to the Board. The candidate's other directorships and commitments are also considered to ensure that adequate time can be contributed. Appointments of new Directors are submitted to the Director of the Department of Supervision of Non-Bank Financial Institutions of the CBSL for assessment under the fit and proper criteria for Directors. Appointments are thereafter communicated to the CSE. These communications include a brief resume of the Director, disclosing relevant expertise, key appointments, shareholding and whether he/she is independent. In accordance with the Articles of Association, one of the Directors other than the Managing Director is required to retire annually, and if available and eligible, stand for re-election at the AGM.

Board Remuneration

Remuneration Policy: The Company's remuneration policy for the Board of Directors and KMP is designed to attract, motivate and retain high-performers. The Board Remuneration Committee is responsible for providing guidance to the Board on the remuneration of Executive Directors and senior management within agreed terms of reference and in accordance with the remuneration policies of the Company. The Remuneration

Committee comprises three (03) (Non-Executive Directors, of whom two (02) are independent.

Level and make-up of Remuneration:
The remuneration of Executive and Non-executive Directors is designed in accordance with the Company's remuneration policies, which aim to attract highly skilled professionals to the Board. Remuneration of Executive Directors and KMPs are made up of both fixed remuneration and variable remuneration, comprising an annual performance bonus and other remunerations. Remuneration for Non-executive Directors comprises of fixed fees. The aggregate of remuneration and expenditure of Directors is disclosed on note 49.1.1 of the financial statements.

Training and Access to Information

Directors have access to the Company's management team, who are invited for Board meetings for their input on relevant areas on the agenda. The management makes regular presentations to the Board to ensure that Directors are kept abreast of emerging changes in the operating landscape. Access to independent professional advice is also made available and coordinated through the Company Secretary. Directors attend seminars conducted by the Sri Lanka Institute of Directors, forums organized by the CBSL and other programs and seminars both locally and overseas.

Board Meetings

The Board convenes regularly and met twenty five times in 2017/18; please refer to page 11 for further information on Board attendance during the year. A calendar of all meetings is drawn up at the end of a calendar year, for the forthcoming year to ensure maximum participation at meetings and the notices of all Board meetings are given at least seven days prior to holding of the meeting, thereby ensuring adequate time for Members to prepare. Meeting agendas and Board papers are circulated to all Board Members prior to the meeting. Attendance at Board meetings is given on page 11 of this Annual Report. Directors are supplied with comprehensive and timely information, that is required to discharge their duties effectively. Quantitative and qualitative information which includes performance against objectives, stakeholder relationships, progress on achieving strategic objectives and risk indicators are furnished to all Directors prior to Board/Sub-Committee meetings.

Committed to Good Governance Contd.

Board Activities in 2017

Board Appointments

Mr. Kusal Jaywardana was appointed as Executive Director of Finance and Operations

- Business Strategy
- Risk Management
- Remuneration
- Sustainability

Key focus areas

Strategy and Business focus

- Formulated business strategy with due consideration to regulatory developments, competition and demand conditions
- Focus on consolidating the branch network and scaling up volumes in certain geographies to drive profitability
- Evaluating the product mix and re-shifting focus to segments in which AFC has developed core competencies

Risk Management

- Revision of exposure limits including reduced exposure to unsecured lending and certain agricultural products
- Gearing up for the risk-based annual audit approach as proposed by the CBSL

Remuneration

- Evaluated the findings of a salary survey and identified gaps in the employee value proposition
- Focus on developing a talent pipeline and revising the remuneration schemes to include a higher variable component

Sustainability

- Groundwork required for the implementation of the Company's comprehensive SPMS framework
- Sustainability initiatives to further the Company's social and environmental sustainability agenda

Attendance at Board Meetings

Directors' attendance at Board and Sub-Committee meetings is given below;

Director	Board Meeting	Audit Committee	Remuneration Committee	Board Risk Management Committee	Related Party Transactions Review Committee
Mr. S Karunanayake	25/25	13/13	5/5	4/4	4/4
Mr. R.K.E.P de Silva	25/25	13/13	-----	4/4	-----
Mrs. R.N Ponnambalam	23/25	13/13	5/5	-----	4/4
Lt. Col (Retd) A.R. Samarasinghe	25/25	13/13	5/5	4/4	4/4
Mr. J.M Gunasekera	25/25	13/13	-----	4/4	------
Dr. L.A.P Medis	24/25	13/13	----	-----	-------
Mr. W.P.K Jayawardana	25/25	13/13	-----	4/4	-------

Board Performance

The Board and individual Directors are assessed annually for their performance and effectiveness. Each Director carries out a self-assessment of his/her individual performance as well as the collective effectiveness of the Board. Areas of evaluation include Board composition, access to information, team dynamics and training opportunities among others. The results of the evaluation are presented to the Board for discussion, in identifying areas for further improvement.

Committed to Good Governance Contd.

Accountability and Audit

Risk Management and Internal Controls

The Board holds apex responsibility for formulating appropriate tools, processes and policies to ensure that the Company's risk profile is maintained within defined parameters. The Board Risk Management Committee assists the Board in the discharge of its duties related to risk management. The Company's risk management framework has been formulated to comply with the requirements of the Finance Business Act and relevant regulations and guidelines of the CBSL. Detailed disclosures on the Company's key risk exposures and how they were managed during the year are given on pages 27 to 33 of this Report.

The Board is also responsible for presenting a balanced and accurate assessment of the Company's financial position, performance and prospects. The Company's financial statements are prepared in accordance with the Sri Lanka Financial Reporting Standards laid down by the Institute of Chartered Accountants of Sri Lanka. Furthermore, the Company's Annual Report conforms to the GRI Standards on sustainability reporting, prescribed by the Global Reporting Initiative and the Integrated Reporting Framework published by the International Integrated Reporting Council. Directors' responsibility with regard to financial statements is given on page 06 of the Annual Financial Statements this year.

For further information the Company's risk management and internal controls refer to the Risk Management Review (pages 21 to 23), Director's Responsibility for Financial Reporting (page 06) and Report by the Board on Internal Controls (Page 05)

Internal Audit

The Company's Internal Audit unit reports directly to the Audit Committee and provides independent appraisal of all activities with the aim of improving operational efficiency, risk management and internal control systems. Key processes including cash and receipts, credit and recovery processes, micro financing and procurement are assessed through branch inspections, online monitoring and internal control assessments. Findings are presented to the Audit Committee on a monthly basis.

External Auditors

The Audit Committee makes recommendations to the Board regarding the appointment, service period, audit fee and engagement period of External Auditors. The Board has adopted a policy of rotating the partner of the External Auditors every five years. Auditors submit an annual statement to confirm independence as required by the Companies Act No. 7 of 2007. Non-audit services has not been provided by the External Auditors.

Stakeholder Communication

AFC is committed to maintaining timely and transparent communications with its diverse Stakeholders to ensure that they are kept duly informed of material matters. This approach has enabled us to nurture meaningful relationships with our stakeholders, underpinned on trust, openness and integrity.

Shareholders

The Annual General Meeting (AGM) is the primary platform for Shareholder engagement and is usually well attended. Notice of the AGM, the Annual Report, Audited Accounts and any other resolution together with the corresponding information that is to be set before the Shareholders at the AGM, are circulated to Shareholders fifteen (15) days prior to the AGM. Directors attend the AGM and are available to respond to any queries raised by Shareholders. Shareholders are encouraged to participate at the AGMs.

In addition to the Annual Report which is made available to all Shareholders through soft and on request in hard copy form. Interim performance reports are also circulated to Shareholders through the CSE within forty five (45) days from each quarter-end and within sixty (60) days from the last quarter and other price sensitive information is disclosed in accordance with the reporting requirements prescribed by the CSE and the CBSL. Meanwhile, the Company Secretary acts as the main contact point for Shareholder queries.

Employees

The Company maintains a high level of engagement with its employees, facilitated through numerous formal and informal platforms. These include performance appraisals, training initiatives, satisfaction surveys as well as year-round event calendar which encourages camaraderie and fosters team spirit. An open-door policy gives employees unrestricted access to the management to air their grievances and concerns.

For further information on the employee engagement refer the Human Capital section pages 64 and 66 of the Integrated Report and page 9 and 19 of Our People section of the Sustainability Review.

Customers

Customer engagement mechanisms include a customer hotline, interaction through Relationship Managers and customer satisfaction surveys among others. A formal grievance handling mechanism is also in place,

Committed to Good Governance Contd.

CSE Rule Ref.	Status of Adherence
7.10 (1)	
Non Executive Directors to be at least two (2) or one third (1/3) of the total number of Directors whichever is higher	Four Non Executive Directors on the Board, of the total Board of Directors of seven.
7.10 (2)	
Independent Directors to be at least two (2) or one third (1/3) of the total number of Non Executive Directors. Submission of Declaration	Two Directors are Independent of the four Non Executive Directors. The four Non Executive Directors have furnished the required declaration.
7.10(3) a	
Names of Independent Directors	Mr. Sunil Karunanayake (deceased 27/05/2018) Lt. Col. (Retd) A.R. Samarasinghe
7.10(3) b	
	The criteria of independence has been met by both Independent Directors and there are no qualifying statements. None of the Non Executive Directors has served on the Board for over 9 years.
7.10(3) c	
Publish a resume of each Director on the Board.	Refer page 4 to 5.
7.10(3) d	
Appointment of a new Director	A new Director was appointed on the Board and the necessary approvals were obtained and the required disclosures were made
7.10 (5)	
Remuneration Committee (a) Composition (b) Functions (c) Disclosures	Four Non Executive Directors of which two are independent. The Chairman is an Independent Non-Executive Director, makes recommendations to the Board, on proposed remuneration for Executive Directors. Makes recommendations to the Board on proposed remuneration for Executive Directors. Names of the Directors of the Remuneration Committee are set out on page 47 in the Annual Financial Statements. Refer pages 47 and 91 in the Annual Financial Statements for aggregate remuneration and related expenditure of the Directors and Key Management Personnel of the Company.

CSE Rule Ref.	Status of Adherence
7.10(6)	
Audit Committee	
(a) Composition	Comprises of two Independent Non-Executive Directors. The Chairman of the Committee is a member of ICASL.
(b) Functions	The Committee is assisted by Internal and External Auditors and the Company Secretaries function as the Secretary.
(c) Disclosures	Refer page 4 to 5 for the names of Directors. The Audit Committee Report appears on pages 7-8 in the Annual Financial Statements .

CBSL Corporate Governance Compliance

Description and paragraph reference	Ref code	Degree of compliance
Responsibilities of the Board - Paragraph 2		
Approving business strategy, strategic direction for three (3) years, risk policy and management with measurable goals for at least three years and communication thereof	2 (1) a & b	Complied
Identification and management of risk prudently.	2 (1) c	Complied
Approving a process of communication with all Stakeholders.	2 (1) d	Complied
Review adequacy and the integrity of internal control systems and MIS.	2 (1) e	Complied
Identification and designation of key management personnel.	2 (1) f	Complied
Defining areas of authority and key responsibilities for the Board and key management.	2 (1) g	Complied
Ensuring that key management personnel oversee the affairs appropriately.	2 (1) h	Complied
Assessing effectiveness of governance practices including nomination/ selection of Directors & key management personnel, managing conflict of interests, determining weaknesses and effecting changes.	2 (1) i	Complied
Periodically assessing the effectiveness of the governance practices ensuring that there is a succession plan for key management personnel.	2 (1) j	Complied
Meeting regularly with key management personnel to review policies, establish lines of communication and monitor progress.	2 (1) k	Complied
Understanding the regulatory environment.	2 (1) l	Complied
Exercising due diligence in hiring and oversight of External Auditors.	2 (1) m	Complied
Board shall define and approve the functions of Chairman and Chief Executive Officer (Managing Director functions as CEO)	2 (2)	Complied
Procedure to enable the Directors to seek independent professional advice upon reasonable request.	2 (3)	Complied
Director shall abstain from voting on any Board Resolution where he is interested.	2 (4)	Complied

Committed to Good Governance Contd.

Description and paragraph reference	Ref code	Degree of compliance
Board shall have a formal schedule of matters reserved to it and ensure that direction and control is under its authority.	2 (5)	Complied
Finance Company being unable to meet its obligations or is about to become insolvent, if applicable to make public disclosure.	2 (6)	Not Applicable
Board shall include in the Annual Report a Corporate Governance Report setting out compliance with the direction.	2 (7)	Complied
Board shall adopt a scheme of self-assessment to be undertaken by each Director annually and maintain such records.	2 (8)	Complied
Meetings of the Board - Paragraph 3		
Board shall meet twelve (12) times in a financial year.	3 (1)	Complied
Arrangements for the Directors to add agenda items pertaining to the promotion of business and the management of risks.	3 (2)	Complied. Agenda is circulated in advance permitting time for changes.
At least seven (7) days notice for the regular Board meetings and reasonable notice for other meetings.	3 (3)	Complied
A Director shall attend at least two third (2/3) of the meetings and shall cease to be a Director if he/she has not attended the immediately preceding three consecutive meetings.	3 (4)	Complied
Appointment of Company Secretary to handle statutory, regulatory and secretarial services.	3 (5)	Complied
Preparation of the agenda for a Board meeting by Company Secretary.	3 (6)	Complied
Directors' access to advice and services of the Company Secretary.	3 (7)	Complied
Maintenance of Minutes of Board meetings by the Company Secretary and make it available for inspection by any Director.	3 (8)	Complied
Recording of the Minutes of Board meetings with sufficient detail to gather whether the Board acted with due care and prudence in performing its duties.	3 (9)	Complied
Composition of the Board- Paragraph 4		
Directors on Board shall not be less than five (5) and not more than thirteen (13).	4 (1)	Complied
Period of service of a Director other than an Executive Director shall not exceed nine (9) years.	4 (2)	Complied
Number of Executive Directors shall not exceed one-half (1/2) of the number of Directors on the Board.	4 (3)	Complied. Of the seven members on the Board four are Non Executive Directors

Description and paragraph reference	Ref code	Degree of compliance
The Number of independent Non-Executive Directors of the Board shall be at least one fourth (1/4) of the total number of Directors.	4 (4)	Complied. Two Directors are Independent Non-Executive.
Alternate Director	4 (5)	There are no Alternate Directors
Non-Executive Directors shall have necessary skills and experience on strategy, performance and resources.	4 (6)	Complied
Quorums for Board meeting; one half (1/2) are Non Executive Directors.	4 (7)	Complied
The Independent Non-Executive Directors shall be expressly identified in all corporate communications and in the Annual Corporate Governance Report.	4 (8)	Complied
A formal and transparent procedure for the appointment of new Directors and for their orderly succession.	4 (9)	Complied
All Directors appointed during the year retire at the Annual General Meeting following the appointment.	4 (10)	Complied. One Director retires by rotation
If a Director resigns or is removed from office the Board shall announce to the Shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institutions.	4 (11)	Not Applicable
Criteria to assess the fitness and propriety of Directors - Paragraph 5		
A person over the age of 70 years shall not be a Director.	5 (1)	Complied
A Director shall not hold office as a Director or other equivalent position in more than 20 Companies/ Societies/ body corporate nor in 10 specified business entities.	5 (2)	Complied
Delegation of functions – Paragraph 6		
Board shall not delegate any matters to anyone so as to significantly hinder or reduce the ability of the Board to discharge its functions.	6 (1)	Complied
Board shall review the delegation process periodically	6 (2)	Complied
The Chairman and the Chief Executive Officer – Paragraph 7		
Separation of the roles of Chairman and Chief Executive Officer/ Managing Director	7 (1)	Complied
The Chairman shall be an independent Non-Executive Director.	7 (2)	Complied
Disclosures in the Annual Corporate Governance Report the relevant details of the Chairman and Chief Executive Officer (Managing Director)	7 (3)	Complied
Chairman shall provide leadership to the Board, ensure effective discharge of responsibilities and all issues are discussed in a timely manner.	7 (4)	Complied

Committed to Good Governance Contd.

Description and paragraph reference	Ref code	Degree of compliance
Responsibility of the Chairman for either the preparation or delegating the preparation of agenda to the Company Secretary.	7 (5)	Complied
The information to be disseminated to the Directors prior to the Board meetings	7 (6)	Complied
Chairman shall encourage Directors to make a full and active contribution and ensure that the Board acts in the best interest of the Company.	7 (7)	Complied
Chairman shall facilitate effective contribution by Non-Executive Directors and constructive relationships among Directors	7 (8)	Complied
Chairman shall not engage in direct supervision of key management personnel or any other executive duties.	7 (9)	Complied
Chairman shall ensure that appropriate steps are taken for the effective communication with Shareholders and the views of the Shareholders are communicated to the Board	7 (10)	Complied
The Chief Executive Officer (MD) shall function as the Apex Executive in charge of the Finance Company's day to day management of operations and business	7 (11)	Complied
Board Appointed Committees –Paragraph 8		
Company shall have at least two Board Committees (Audit & Risk) reporting directly to the Board	8 (1)	Complied
Audit Committee	8 (2)	Complied
Chairman shall be a Non-Executive Director with an accounting qualification	8 (2) a	Complied. Mr. Sunil Karunanayake - FCMA (UK), FCA
Members shall be Non- Executive Directors	8 (2) b	Complied
Shall make recommendations about the appointment of Auditors, service period, audit fee, period of an engagement of an audit partner and the application of accounting standards	8 (2) c	Complied
Review the effectiveness of audit process and monitor the External Auditors' independence and objectivity	8 (2) d	Complied. Management letter is directed to the Board.
Develop a policy for non audit work	8 (2) e	Complied. Non audit assignments were not given to External Auditors.
Shall have authority to set the scope for the annual audit and assess the compliance, preparation of the financials in accordance with accounting principles	8 (2) f	Complied
Review the financial statements of the Company and ensure integrity of the annual report and financials prepared focus on major judgemental areas, changes in accounting policies and practices, significant adjustments arising from audit, going concern assumption, compliance with relevant accounting and legal requirements	8 (2) g	Complied

Description and paragraph reference	Ref code	Degree of compliance
To discuss matters relating to the interim and annual audits	8 (2) h	Complied
Review the Management Letter	8 (2) i	Complied
Internal Audit Function	8 (2) j & o	Complied. Covered in a separate report
To meet with the External Auditors once in 6 months	8 (2) l	Complied
Annual Report to disclose activities of the Audit Committee, Audit Committee meetings and attendance of each individual member	8 (2) m & p	Complied
The Secretary shall record and keep detailed Minutes	8 (2) n	Complied
Review arrangements for employees to raise concerns in confidence about financial reporting and internal control and ensure fair and independent investigation and appropriate follow up action	8 (2) q	Complied
Risk Management Committee	8 (3)	
Consists of two Non-Executive Directors, MD and Key Management Personnel	8 (3) a	Complied
Assess all risks on a quarterly basis using risk indicators and MIS	8 (3) b	Complied
Review adequacy and effectiveness of all management committees and the management of risks	8 (3) c	Complied
The actions to mitigate the effects of specific risks if such risks are beyond the internal policy or regulatory limits	8 (3) d	Complied
Shall meet at least quarterly to assess risk management and BCP	8 (3) e	Complied
Submit risk assessment report within a week of each meeting for the Board's review and specific directions	8 (3) g	Complied
Establish compliance function with a Compliance Officer to report about compliance with laws, rules, regulations and directions etc.	8 (3) h	Complied
Related Party Transactions – Paragraph 9		
Board shall avoid any conflict of interest from any transaction with any person and particularly with persons considered as related parties	9 (2)	Complied
Board shall ensure that the Company does not engage in transactions which would grant a related party "more favourable treatment" than is accorded to other constituents	9 (4)	Complied
Disclosures - Paragraph 10		
A statement to the effect that Audited Financial Statements are prepared in line with applicable accounting standards and regulatory requirements	10 (2) a	Complied
A report by the Board that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability and the preparation of financial statements is in accordance with the relevant accounting standards and regulatory requirements	10 (2) b	Complied
External Auditor's Certification on the effectiveness of the Internal Control Statement	10 (2) c	Complied

Committed to Good Governance Contd.

Description and paragraph reference	Ref code	Degree of compliance
Details of the Directors including names, transactions with the Company	10 (2) d	Complied
Fees and remuneration paid by the Company to the Directors in aggregate	10 (2) e	Complied
Net accommodation outstanding in respect of each category of related parties and net accommodation outstanding as a percentage of the finance company's capital funds	10 (2) f	Complied
Aggregate values of remuneration paid and transactions with its key management set out by Broad categories such as remuneration paid, accommodation granted and deposits or investments	10 (2) g	Complied
A report setting out details of compliance with prudential requirements, regulation, laws, internal controls and measures to rectify non-compliances, if any	10 (2) h	Complied. Directors, Auditors, internal control, Audit and Risk Committees and governance reports form part of this requirement.
The External Auditors' Certification of Compliance with the Act, rules and directions issued by the Monetary Board	10 (2) j	Complied

Our External Auditors certify that the disclosures and related content in the Corporate Governance Report is consistent with the Corporate Governance Direction No. 3 of 2008 and amendment as issued by the Central Bank of Sri Lanka.

(Sgd.)
Alliance Management Services (Pvt) Ltd.
Secretaries
04th June, 2018

Risk Management

The proactive identification of risks is paramount in delivering sustainable value and achieving our strategic agenda. Effective risk management has enabled us to refine our strategies in line with changing risk landscapes enabling us to minimize vulnerability to both controllable and uncontrollable factors that could impact customer growth, cost management and operational efficiencies.

Risk Governance

We strive to nurture a culture of risk consciousness in the Company, enabling us to build a sound track record as a stable and sustainable organisation. Our risk framework has evolved over the years as we have placed focus on strengthening risk governance, refining and updating risk policies and deepening the understanding of our risk landscape to areas such as environmental and technological risk.

The Board of Directors holds apex responsibility for risk management within the Company. The Audit Committee, Risk Management Committee and an independent risk management division support the Board in setting the risk appetite, formulation of risk plans, implementation of risk mitigating strategies and assessing the adequacy of internal controls.

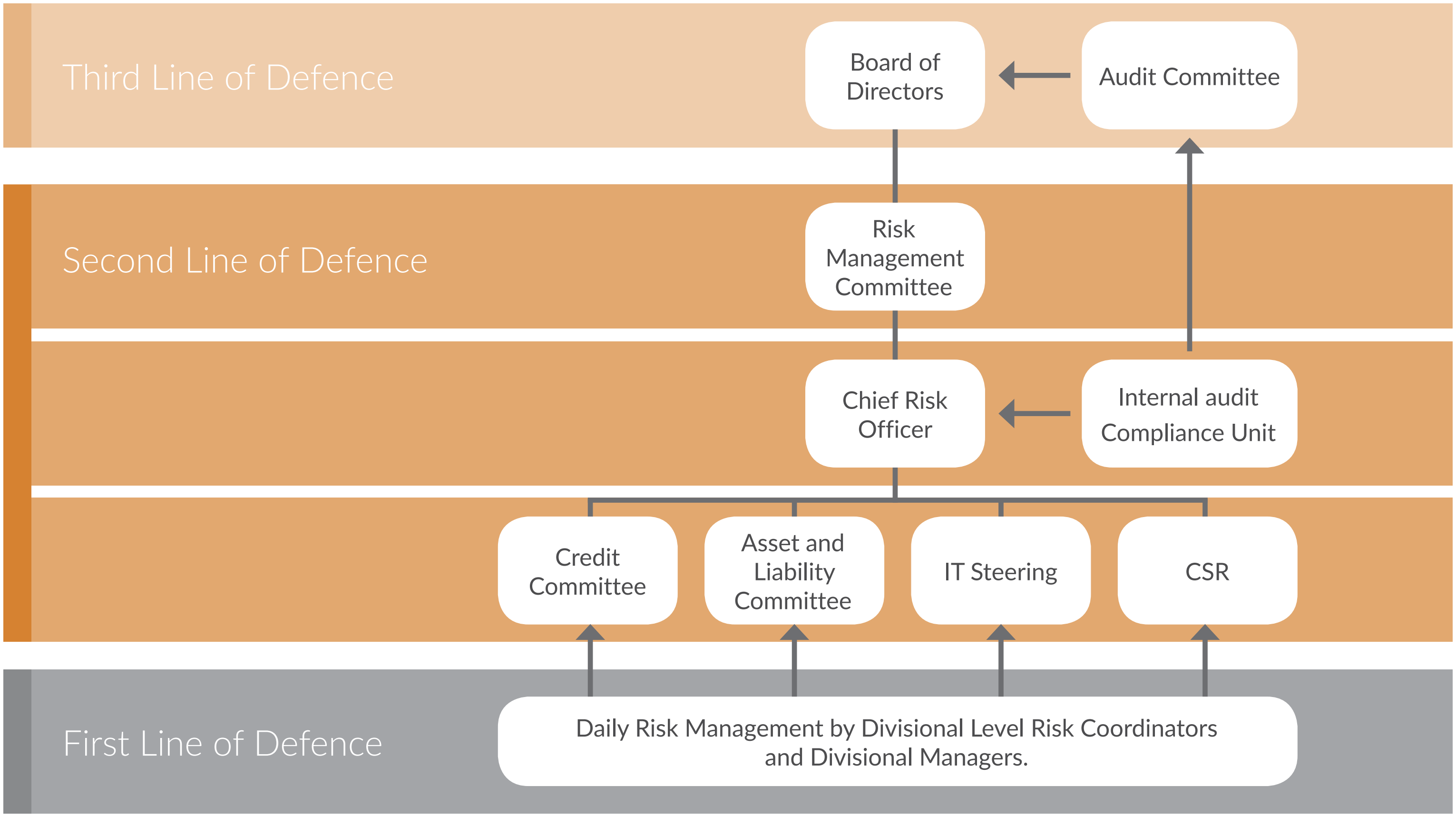
The Internal Audit function under the purview of the Audit Committee conducts an annual independent assessment of all divisions in the organisation with the findings being discussed with the Board of Directors, together with risk mitigation strategies. An annual risk based audit plan is formulated in consultation with the Audit Committee.

Executive responsibility of delivering the risk management strategies is delegated to the Board Risk Management Committee (RMC) and Risk Management Department. RMC is a hybrid committee headed by a Non Executive Director and comprising Chief Risk Officer (CRO), CFO, Chief Continuous Improvement Officer and divisional heads involved in the day to day activities of the organisation. RMC is primarily involved in assessing the risk profiles of each division, creating a risk awareness culture and formulating risk plans. The Risk Management Division headed by the Chief Risk Officer operates as an independent function involved in continuous risk monitoring by evaluating adequacy of risk mitigation strategies taking into consideration the changing risk landscape. The material risks of AFC are handled by sub committees under the purview of the Chief Risk Officer and include Credit, Asset and liability Management, IT steering and CSR committees.

Risk Management Contd.

Approach

AFC adopts the globally accepted Three Lines of Defence Model for risk management, which clearly defines responsibilities in identifying, assessing and managing risks. At the first line of defence, divisional heads and risk coordinators engage in risk identification, mitigation and monitoring of the day to day activities at the divisional level. Delegation of risk management responsibilities to business units ensure that prompt action is taken on any emerging risks in the day to day activities. The second line of defence refers to oversight by the Board Risk Committee and Chief Risk Officer. Third line of defence is the independent assessment of risk exposures and assurance of the effectiveness of risk management by the Board of Directors supported by Audit Committee, Internal Audit and External Audit Committee.



First line of defence	Risk identification	Risk mitigation	Risk evaluation
Divisional Managers Divisional Risk Co-ordinators	Engage with key Stakeholders such as customers, employees, regulators, etc. to identify any emerging risks. Risk sheets are prepared for monthly discussions and ad hoc meetings held with CRO on emerging risks.	Create a risk awareness culture by enhancing risk awareness Enhanced risk management skills with 208 employees participating in external risk training programs. Execute risk mitigation strategies.	Self risk assessments undertaken by each division. Weekly/monthly audits by Audit Officer Review key performance indicators every quarter and identify reasons for variance.
Second line of defence Oversight by RMC	Risk score cards and document risk minutes post quarterly / monthly meetings with risk co-ordinators.	Monitor implementation of risk mitigation strategies.	Quarterly risk assessments based on risk score cards and discussions with Divisional Managers.
Third line of defence Audit Committee and Internal Audit	Annual independent risk based assessments by the Internal Audit Department in line with regulatory frameworks for the formulation of risk audit plans.	Formulate and approve risk mitigation strategies. Fine tune corporate strategy with changing risk landscapes. Formulated action plans in the event of non-compliance.	Monthly and Quarterly risk meetings with RMC Annual meetings on the findings of internal audit function and audit plan drafted. Review risk management reports.

Risk Management Contd.

Top Five Global Risks for 2018 based on likelihood and impact.	Impact on banks and financial institutions in Sri Lanka
Economic	Changing macro-economic fundamentals in Sri Lanka continue to impact economic growth, consumer lifestyles and spending patterns, which are core drivers for growth in financial institutions.
Environmental such as extreme weather conditions, major natural disaster, etc.	Persistently erratic weather conditions over the last 2 years, has affected the performance of the agriculture sector, with a trickle-down effects felt across other industry sectors; This has impacted the repayment capabilities of customers.
Geopolitical such as large-scale terrorist attacks, etc.	Political instability could hamper the government's fiscal and monetary consolidation plans, currently may not pose a significant threat to Sri Lanka.
Societal such as water crisis and involuntary migration.	Currently, may not pose a significant threat to Sri Lanka.
Technological such as massive incidence of data fraud/theft	Cyber attacks, data fraud or theft could have a significant impact on business continuity and hamper brand image and reputation of a financial institution.

Risk Mitigation Strategies

Policies and procedures establish the rules of conduct that define the responsibilities of employees in an organisation. All policies are reviewed by the Board of Directors regularly and revised to reflect changes in operating conditions, as well as internal strategies. During the year, new policies were implemented and existing policies were revised to reflect changes in business environment. Procedure manuals are also updated every six months.

Robust internal controls are vital in ensuring operational efficiency and effectiveness, compliance with internal policies,laws and regulations, integrity of financial reporting and reduced risks of fraud. Internal controls can be both preventive or detective in nature and include several manual and automated activities. Some of the key internal controls of AFC include structured credit process with well defined and documented loan authorisation and approvals, system controls such as access restrictions and dual controls.

Risk appetite: The Board of Directors formulate the risk appetite in line with strategic objectives, clearly setting out the limits on defined risk parameters, including a limitation on the exposure to business segments in the form of sector caps. Risk appetites are reviewed periodically in line with changing risk landscapes. During the year,sector wise caps were revised.

Global Risk Landscape

The risk landscape of financial institutions has continued to evolve underpinned by global financial turmoil, policy instability and increased focus on sustainability considerations. The key global risks identified in the Global Risk Report of World Bank for 2017 include economic, environmental, geopolitical,societal and technological.

Global Risk Report by the World Bank (http://www3.weforum.org/docs/GRR17_Report_web.pdf)

Risk Landscape of AFC

The Company's risk exposures can broadly be classified as controllable risks, and risks outside our control but warrant continued monitoring given its significant impact on the business operations. With a view to approach the risk management more holistically, AFC has extended and structured its risk management perspectives under Economic,Operational,Strategic,Reputation, Compliance, Environmental, Societal and Technological Risks.

	Trend	Description of current trend	Likelihood (High/low)	Impact (High/Low)
Economic risks				
Credit Risk Impact on NPLs	▲	Severe weather conditions, together with moderating economic growth and a tighter monetary policy stance impacted the repayment capacity of customers, leading to an increase in default risk.	Moderate	High
Liquidity Risk	Unchanged	The Company's diverse funding base and access to funding lines mitigate its exposure to liquidity risks.	Low	High
Market Risk Impact on profitability and margins.	▲	Market risk increased with fluctuations in interest rates. Average deposit rates increased by 10% to 14.1% in 2017. Similarly, overheads also increased during the year.	High	Moderate
Government Macro Economic policies	▲	Government tightened both monetary and fiscal policies such as taxes to curb private consumption, excessive demand pressures and finance budget deficits.	High	High
Operational Risk				
Impact on resource availability and efficiency	Unchanged	People related risks continued to increase due to challenges in employee retention especially in target oriented jobs being an industry wide trend.	Low	Moderate
Strategic Risk				
Impact on performance and reputation	▲	Strategic risks for financial institutions have been increasing with changing regulations, fluctuations in market variables and fast paced growth in digitalization.. During the year, we continued to be impacted by the changing LTV ratios for vehicles requiring us to constantly re-align our product mix and strategies.	High	High

Risk Management Contd.

	Trend	Description of current trend	Likelihood (High/low)	Impact (High/Low)
Reputation Risk				
Impact on customer growth and confidence.	Unchanged	A strong track record in compliance, long-term relationships we have nurtured with our stakeholders and the Company' integrity and value system has resulted in relatively low reputational risks.	Low	Low
Compliance Risk				
Impact reputation	Unchanged	There are no significant instances of non compliance to regulation.	Low	Low
Environmental risks.				
Although our direct impact to carbon emissions is limited to the usage of own fleet of vehicles, we evaluate our indirect environmental impact of the vehicle leasing and trading business.	Unchanged	During the year, we financed 20,176 vehicles through our leasing arrangements.	High	High
Extreme weather events and natural disasters	▲	Sri Lanka faced severe weather conditions with drought in some areas and flooding in other areas, in 2017.	High	High
Societal risks				
Other social risks	▲	Change in employee expectations especially in target oriented jobs challenged employee retention.	High	High
Technological risks				
IT security/Business continuity	▼	No system failures reported to date. Upgraded systems and disaster recovery sites as measures to enhance system robustness.	Low	High
Cyber Risks	△	Considered as one of the top risks for financial institutions due to the sensitive financial data held. New technologies, usage of insecure third party services, increasing usage of mobile banking, etc. have led to a significant increase in cyber risk.	Low	High
Incidence of data theft/ fraud	▲	The increasing cyber risks increase the risk for data theft or manipulation and can negatively impact the data privacy and integrity of the Company.	High	High

Reporting What Matters : Our focus remains on those risks that are material to our business in terms of likelihood and impact.

Controllable Risks	Non-controllable risks
Credit risks	Regulation
Market risks	Government policies
Liquidity risks	Geopolitical events
Operational Risks such as cyber risks, people risks, property casualty.	Climate action
Strategic risks	
Reputation risks	

Risk Management Contd.

Credit Risk

Defined as potential losses to earnings or capital due to inability of customers to fulfil contractual obligations. Two main forms of credit risk are customer default risk and concentration risk.

Portfolio Subject to Risk

The Company's lending portfolio of Rs. 26,232 Mn accounts for 83% of total assets. During the year, lending portfolio increased by 10% driven by an expansion in Leasing, Microfinance and Gold Loans. Leasing accounts for 68% of the lending portfolio and increased by 12% YoY despite the increasing interest rates and Loan to value ratios. Microfinance group loans account for 8% of lending portfolio and increased by 21% driven by both agriculture and industrial sub sectors that formed a significant part of the micro loans. Gold Loans significantly increased as we revised our sector risk exposure caps alongside a recovery in global gold prices.

Risk mitigation

Governance	Policies and Procedures
Oversight by Credit Risk Committee headed by the Chief risk Officer.	Defined risk appetite and limits for concentration of risks by sector and products
Centralizing the recovery function and delegating responsibility to regional recovery officers.	

Internal controls

Stringent pre -credit sanctioning

Automated the loan approval process for sizeable loans above Rs. 3.5mn.
Screening of customers prior to loan approval
Formalised credit criteria

Post credit monitoring

Sending SMS reminders to customers on settlement dates .

Credit reviews

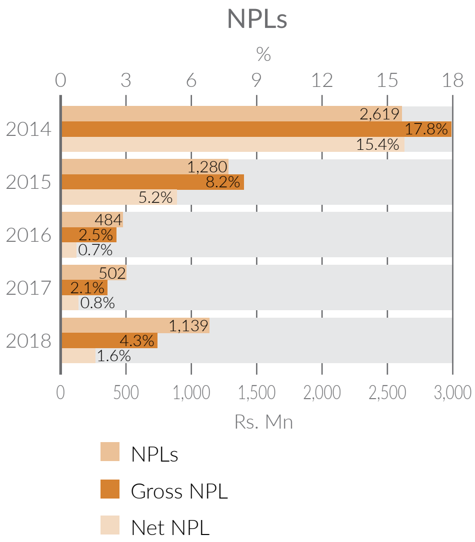
Continuous monitoring of NPLs at branches , regions,sectors and product exposures

New Initiatives in 2017/18

Strengthened the Credit Risk Committee.
Streamlined the recovery mechanisms
Revised sector wise caps for disbursements.
Strengthened credit appraisal and monitoring mechanisms for microfinancing loans.

Risk Landscape

Inclement weather conditions and tightened monetary policies impacted income generation during the year making it difficult for customers to meet debt obligations. Agricultural sector was the worst affected due to weather conditions as cultivation was severely impacted.



Our Performance

Default Risk Management

Asset quality which is measured by NPLs indicate the level of inherent credit risk in the portfolio. The Company's asset quality weakened during the year, reflecting the tough operating environment. Accordingly, the gross NPL ratio increased to 4.34% from 2.11% in 2016/17. Non-performing loans amounted to Rs. 1,139 Mn, a 127% increase compared to 2016/17. Microfinance and Pledge Loans were the main contributors to NPLs. The impact of adverse weather conditions on the agricultural sector had a sharp impact on Microfinance NPLs as agriculture and fishing account for 44% of Micro Loans.

Loan loss provisions: The Company's impairment charges increased from Rs. 74 Mn to Rs. 513 Mn during the year, stemming primarily from below expected recovery performance, voluntary provisions amounting to Rs. 46 Mn and additional provisions of Rs. 84 Mn due to changes in the impairment policy. Average provision coverage ratio was 65% (69% in 2016/17). As per our risk strategies, we continued to maintain a strict provisioning policy of 30 day par for high risk Microfinance and revised the sector caps to reduce exposure to the segment.

Concentration Risk Management

We maintain and revise exposure limits to ensure that, we maintain a diversified loan portfolio across sectors, segments and regions. During the year we revised sector caps to reduce exposure to high risk micro finance segments. Risk exposure limits are communicated to all divisional heads and monitored by the Credit Risk Committee.

Sectoral Diversification

Our lending portfolio is well diversified across sector with no single sector accounting for a significant proportion. The key sectors include agriculture, consumption, transport and industry that cumulatively account for 77% of lending portfolio with no single sector accounting for more than 25% of portfolio.

Product Diversification

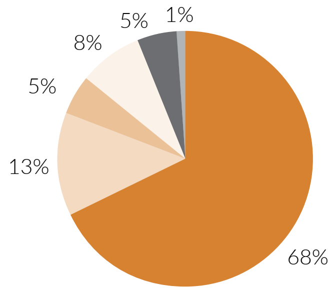
Leasing account for a significant 68% of our lending portfolio while Loans and Microfinance group loans account for 19% and 8% of the portfolio respectively. We increased our exposure limits to Gold Loans that enabled significant growth in Gold Loans that accounted for 5% of portfolio.

Regional Diversification

Given the widespread location of our branches, we reach a wider network of customers contributing towards an increasing customer base from the outskirts of the Western province. During the year, Western province accounted for 37% of lending portfolio compared to 40% in 2016/17.

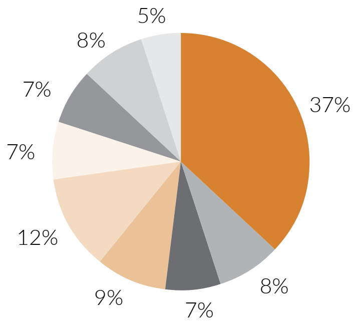
Risk Management Contd.

Portfolio Composition



Leasing
Hire Purchase
Loan
Micro Loans (Group)
Pledge
Micro Leasing
Gold Loan
Other

Portfolio breakdown by region



Western
Northern
Southern
North Western
Central
Eastern
Uva
Sabaragamuwa
North Central

Market Risk

Market risk is the potential losses to earnings and/or capital position and off balance sheet positions arising from movements in market variables such as interest rates, equity market, commodity market and exchange rates. Market risk impact the lending and investment portfolio that account for 91% of assets in 2017/18.

Risk Mitigation

Market risk management is undertaken by the Asset Liability Management Committee (ALCO) and Treasury Division. AFC monitors the impact of market risk on its financial performance by undertaking a sensitivity analysis as disclosed in the notes to financial statements.

Interest Rate Risks

During the year, the Central Bank increased statutory interest rates resulting in a corresponding increase in market interest rates. Interest rate risks primarily arise due to maturity mismatches between assets and liabilities and have a significant impact on several areas of our performance including net interest incomes, costs, net interest margins (NIMs) and returns

Gold Prices

With Gold Loans accounting for 5% of the lending portfolio, we continuously monitor gold prices being the determinant of our risk appetite for Gold Loans. Demand for Gold Loan continued to increase and gold prices continued its pace of recovery in 2017 having a favourable impact to the Gold Loan portfolio. However, we maintained a limit of 5% on the exposure for Gold Loans and loan to value ratios were maintained at 70%.

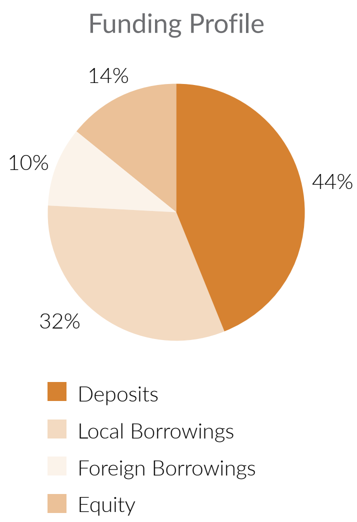
Exchange rate risks primarily impact foreign currency borrowings that account for 9.8% of assets. We continued to hedge any exchange rate risk arising from foreign currency borrowings by retaining the foreign funding received in a foreign currency deposit and obtaining local currency borrowings against this balance.

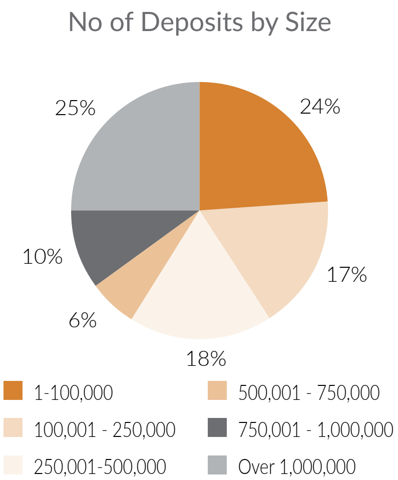
New initiatives undertaken in 2017/18

During the year, we revised the risk exposure limits in line with changing market variables. Loan to value ratios were revised in line with monthly gold price movements.

Maturity mismatches

	Up to 3 months	3-12 months	1-5 years	Over 5 years
Interest earning assets (Rs. Mn)	4,661	8,013	13,318	207
Interest bearing liabilities (Rs. Mn)	6,756	9,290	10,068	327
(Gap) /Excess (Rs. Mn)	(2,095)	(1,276)	3,250	(120)





Liquidity Risk

Liquidity risk is defined as the potential loss arising from the changes in the Company's ability to sell or dispose assets or liabilities in a timely manner. Liquidity risk arises due to maturity mismatches between assets and liabilities and is an inherent risk in the industry given the short-term nature of deposit liabilities. Nevertheless a consistently deposit renewal rate amounting over 80% largely mitigate this apparent mismatch. Given the severe long-term impact on the reputation and confidence on the organisation, liquidity risk is considered one of the crucial risks of any financial institution and supervised by local regulatory bodies.

Risk Mitigation Strategies and Performance

Diversified funding sources with deposits and borrowings accounting for Rs. 25,945 Mn and 82% of assets. Accessibility to adequate long term foreign funding lines enabled AFC to diversify its borrowings base. Long term borrowings decreased by 16% YoY, contributing towards an increase in liquidity risks as borrowings have a comparatively longer maturity period than deposits.

Deposits contribute nearly 44% to the Company's funding portfolio. Although growth was pressurised by intense competition, our track record of 61 years and strong reputation for trust enabled us to retain our long -standing depositors. Retail depositors continued to account for 91% of our deposit base which was also well diversified by size with limited exposure to single large depositors.

Availability of adequate liquid assets: The Treasury Division holds executive responsibility to manage the Company's liquidity requirements. During the year, liquid asset amounted to Rs. 2,245 Mn and decreased by 18% YoY.

Meeting regulatory capital adequacy requirements.

We continuously evaluate regulatory compliance in terms of capital adequacy and ensure compliance at any given time. Additionally, internal targets were set for capital adequacy and adhered to in 2017/18. AFC's tier 1 risk weighted capital adequacy ratio improved 11.60% (2016: 10.38%) while the total risk weighted capital ratio also increased to 14.09% from 12.09% the year before.

The Treasury and Finance divisions oversee the capital adequacy of the Company ensuring compliance to regulatory standards.

Risk Management Contd.

Operational Risks

Operational risk is defined as the direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

Type	How we managed it	Outcome
System failure	• Robust IT infrastructure. • Skilled IT team comprising of 12 employees. • Disaster recovery site is operational in Rajagiriya. • SMS alert system that ensure that all employees are communicated via SMS on System failure. • Online backup of data as the Central Bank regulatory requirements.	There were no system failures reported during the year.
Risk of Cyber-attacks and data privacy.	• IT security policy is in place and renewed every year. In addition, there is a clause added to any IT procurements undertaken . • System Audits by "Techcert" to identify potential security threats to the system. • Access controls to employees • Restricted access to IT and Server rooms.	There were no risks related to cyber security or data privacy during the year.
People related risk	• Code of conduct and comprehensive policy frameworks govern the employee behaviour. • Maintained a fraud register with strict follow up plans. • High labour turnover among Field Officers are managed by providing incentives, attractive remuneration package in addition to training of Field Officers. • A grievance handling process is in place. • Continued employee engagement.	There were frauds reported during the year. Deaths due to accidents were reported.
Property	Adequate insurance cover	There are no major property claims during the year
Risk of operational breach or non-compliance with internal controls.	• Internal Audit Team conducts department, branch and process audits for Microfinance, RFS and Gold Loan Segments. • Annual and monthly audit plans. • All locations are ranked on nineteen (19) parameters covering areas such as integrity of financial reporting, operational effectiveness and compliance with laws. • For Microfinance, nine (9) regional officers conduct five (5) audits per week. • A mechanism is in place for Microfinance to ensure audit recommendations are implemented.	Identified low performing branches
Fraud related to Gold Loan activity.	• Employees attended external risk training programs. • Densimeters were used to evaluate the gold Karatage.	

Strategic Risk

The risk of a failure in a strategy due to both controllable factors and uncontrollable factors such as geopolitical risks.

Strategic risks are managed by:

- Comprehensive strategic plan approved by the Board.
- Budgeting and setting key performance indicators for each business unit, branch and support staff. Progress is periodically monitored using an performance management system with reasons for variances being identified.
- Continued monitoring of macro economic variables, changes in customer behaviour, increasing use of digital technology and changing industry trends to fine tune strategies promptly.
- Actions taken during the year in line with changing business landscape:
- With the regulatory change in LTV ratios for vehicle leasing in 2016 onward and increasing interest rates impacting demand of leasing activity, AFC has undertaken several initiatives to re-think its corporate strategy. The main area of focus was in changing its product mix by incorporating new product line such as Housing Loans and increasing Gold Loans, while reducing exposure to certain lending products in the agriculture sector.
- Focused on cost management strategy due to high cost to income ratios. During the year, low performing branches were identified and necessary initiatives undertaken such as consolidating branches, identifying operational inefficiencies and introducing a model branch concept for high risk Microfinance operations .

Reputational Risk

Reputational risks are those that impact the Company's current or prospective earnings capacity and organisational value arising from the loss of confidence, breakdown in relationships and negative perceptions of Transactional Stakeholders. AFC's reputation is founded on trust, confidence, relatively conservative growth strategies and a long -standing history of 61 years. We have nurtured long standing relationships with four generations of depositors who continue to show loyalty to our brand.

Age Profile of Fixed Deposit Base	% of Fixed Deposit
Less than 1 year	12%
1 year and less than 2	5%
2 year and less than 3	6%
3 year and less than 5	12%
5 year and less than 10	27%
10 year and above	39%

Glossary

A

Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by a company in preparing and presenting Financial Statements

Accounting

The profit or loss for a period before deducting tax expense

Accrual Basis of Accounting

The effects of transactions and other events are recognised when they are occurred (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

Amortisation (Depreciation)

The systematic allocation of the depreciable amount of an asset over its useful life

C

Carrying Amount

The amount at which an asset is recognized in balance sheet after deducting any accumulated depreciation (amortisation) and accumulated impairment losses

Cash Equivalents

Short-term, highly-liquid investments that is readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value

Contingencies

Conditions or situation at the balance sheet date and the financial effects of which are to be determined by the future events that may or may not occur

Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability of owners and others.

Cost to Income Ratio

Personal and Other Non-Interest Expenses divided by the Net Interest Income & Non-Interest Income

Current Tax

The amount of tax payable in respect of taxable income for the period

D

Dealing Securities

Marketable securities that are acquired and held with the intention of reselling them in the short-term

Deferred tax liabilities

The amounts of income tax payable in future periods in respect of taxable temporary differences

Defined Benefit Plans

Retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' remuneration and completed years of service

Disbursements

Another term for investments

Discretionary Provision

This includes provision for bonuses and incentives

Dividends

Distribution of profits to holders of equity investments, in proportion to their holdings of a particular class of capital

Dividend Cover

Profit after tax divided by gross dividend. The ratio measures the number of times dividend is covered by current years' distributable profits

Dividend per share (DPS)

Gross dividend divided by the number of shares in issues

E

Earnings per Share (EPS)

Profit for the period attributable to ordinary shareholders(the numerator) divided by the weighted average number of ordinary shares in issue during the period (the denominator)

Efficiency Ratio

The Non-Interest Expenses divided by total income

G

General Reserves

Reserves set aside for future

Gross NPA (NPL) Ratio

Total non-performing accommodations (loans) after deducting for initial rentals received, unearned income, and interest in suspense, divided by gross accommodations (loans) after deducting for initial rentals received, unearned income and interest in suspense.

Gross Dividend

The portion of profits distributed to the shareholders including the tax withheld

I

Impairment

This occurs when recoverable amount of asset declines below its carrying amount

Investments

Value of facilities granted during a specific period

Investments Securities

Securities acquired and held for yield or capital growth purposes; usually held to maturity

L

Liquidity

The availability of sufficient funds to meet deposit withdrawals and other financial commitments as they fall due

Liquid Assets

Cash and cash equivalents, repurchase agreements,placements in banks and other financial institutions and treasury bills

Liquid Assets Ratio

Liquid assets as a percentage of total deposits

M

Materiality

Information is material if its non-disclosure could influence the economic decisions of users taken on the Financial Statements

Market Value per Share

Market capitalization divided by the number of ordinary shares in issue

N

Non – Banking Financial Institutions (NBFI)

An institution that does not have the full banking license and undertakes banking services permitted by the license.

Non-Performing Loans (NPL)

Loans and advances which are 180 days or more in arrears of due principal and/or interest payments

Net Assets Value per Share

Shareholders' funds excluding preference shares if any,divided by the weighted average number of ordinary shares in issue

Net NPA Ratio

Total non-performing accommodations excluding initial rentals received, unearned income, interest in suspense and provision for loan losses, divided by gross loans after deducting for initial rentals received, unearned income,interest in suspense and provision for loan losses

Net Interest Income

The difference between income earned from interest bearing assets and cost incurred on financial instrument/ facilities used for funding the interest bearing assets

Net Interest Margin
Net interest income divided by total average assets

O

Off Balance Sheet Transactions

Transactions that are not recognized as assets or liabilities in the balance sheet but which may give rise to contingencies and commitments

P

Portfolio

Total rentals and other receivables on loans and advances after deducting for unearned interest in suspense and initial rentals paid

Price Earning (P/E) Ratio

The market price of an ordinary share divided by the Earnings per Share

Glossary Contd.

Provision for loan losses

Amounts set aside against possible losses on net receivable of facilities granted to customer as a result of them becoming party or wholly uncollectible

R

Return on Assets (ROA)

Profit after tax expressed as a percentage of average total assets; used along with ROE as a measure of profitability and as a basis of intra-industry performance comparison

Return on Shareholders' Fund/Equity (ROE)

Profit after tax expressed as a percentage of average total assets; used as a measure of profitability and as a basis of intra-industry performance comparison

Revaluation

Restatement of assets and liabilities

Rate of Dividend

Gross dividend as a percentage of total par value of shares

S

SBU

Strategic Business Unit

Segment Revenue

Revenue reported in the Company's income statement that is directly attributable to a segment and the relevant portion of the Company's revenue that can be allocated on a reasonable basis to a segment

Shareholders' Funds

Shareholders' Funds consist of issued and fully-paid ordinary share capital plus capital and revenue reserves

Social Performance Management System (SPMS)

SPMS is a set of policies, procedures, tools and internal capacity to identify and manage the institution's exposure to the environmental and social risks of its clients/ investees and the impact of the institution on society and environment.

Sustainability Development Goals

A collection of 17 global goals set by the United Nations that covers a broad range of social and economic development issues. These include poverty, hunger, health, education, climate change, gender equality, water, sanitation, energy, urbanization, environment and social justice.

T

Taxable Profit/(Tax Loss)

The profit (loss) for a period, determined in accordance with the rules established by the taxation authorities, upon which the income tax is payable/ (recoverable)

'Tier 1' Capital

Core capital representing permanent shareholders' equity and reserves created or increased by appropriation of retained earnings or other surplus

'Tier 2' Capital

Supplementary capital representing revaluation reserve,general provisions and other capital instruments which combine certain characteristics of equity debt such as hybrid capital instruments and subordinated term debts

V

Value Added

Value Added is the wealth created by providing services less cost of providing such services. The value added is allocated amongst the employees, the providers of capital and to the Government by way of taxes and retained for expansion and growth

Since 1956

Alliance Finance Co. PLC

Built on Trust. Powered by Innovation.

Weaving Prosperity

Working Towards a Stronger Future

ANNUAL FINANCIAL STATEMENTS 2017-18

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Annual Report of the Directors

The Board of Directors of Alliance Finance Company PLC is pleased to present the Annual Report of the Directors together with the Audited Financial Statement of the Company for the financial year ended 31st March 2018.

Board of Directors Structure

The Board is comprised of four Non- Executive Directors and three Executive Directors. The offices held by the Executive are Managing Director, Director Sustainability and Director Finance and Operations. On the Board, the majority is Non Executive, maintaining the required balance. Of the Non Executive Directors, two are independent. The Non-Executive Directors have not served the Company over nine years.

There were no resignations during the year under review.

The profiles of the Directors appear on integrated report on page number 23 to 25.

As at the date of Statement, we record with great sadness the demise of our Chairman, Mr. Sunil Karunanayake. We are indeed deeply grateful for his contribution at Board level and as the Chairman of the Audit Committee.

Executive	Non Executive	Independent Non Executive
Mr. R.K.E.P. de Silva – Deputy Chairman & Managing Director	Mrs. R.N. Ponnambalam	Mr. S.K. Karunanayake
Mr. J.M. Gunasekera – Executive Director Sustainability	Dr. L.A.P. Medis – Consultant Director Marketing	Mr. A.R. Samarasinghe Senior Director
Mr. W.K.P. Jayawardana – Director Finance and Operations (Appointed on 4th April 2017 and was made an Executive Director on 01st February 2018)		

Principal Activities

The Company's performance improved along the principal lines of business during the year under review. Whilst moderate growth was witnessed in some product lines others performed satisfactorily. The growth was in keeping with our business model for the financial year and the budget.

The product portfolio of the Company consist of Leasing, Hire purchase, Term Loans, Microfinance, Gold Loans, Mortgage Loans, Pledge Loans, Trading, Investment in Shares, Real State and accepting Deposits.

Management Discussion and Analysis

An in depth analyses of the Company's performance and attributes is extensively covered in this review with overall assessment of the Company's financial position and performance during the year, with comments on financial results and special events that occurred.

Performance of the Company

The performance highlights are covered in the Chairman's Review on Integrated Report on page number 16 to 17. Comprehensive report on the achievements and performance of the Company is comprehensively dealt with in the Deputy Chairman & Managing Director's review on Integrated Report on page number 18 to 22.

Financials

The Financial Statements are covered on Page 14 to 107.

Risk Management Review

The Risk Management process is monitored by the Integrated Risk Management Committee (IRMC). Chief Risk Officer (CRO) reports to the Integrated Risk Management Committee which is chaired by an Independent Non Executive Director. CRO apprises the IRMC of the risks and the degree of risk that is faced by the Company. A detailed overview of the process is set out in the Integrated Risk Management Report on Corporate Governance and Risk Management Report.

Corporate Governance

The Board has complied with the requirements of the guidelines in the

Central Bank Direction No.3 of 2008 as amended by Direction No.4 of 2008 and the Colombo Stock Exchange and the detailed report on this subject appears on pages 14 to 20 on Corporate Governance and Risk Management Report.

Board Committees

Audit Committee

The Audit Committee comprised of two Independent Non Executive Directors and the Chairman holds the required qualifications. Meetings were held during the year and the dispensation of their functions is covered in the Audit Committee report which appears on page 07.

Remuneration Committee

This Committee is comprised of three Non Executive Directors two being Independent and the Committee carried out its functions in keeping with its mandate.

Results and Appropriations

	Year ended 31.03.2018 Rs.	Year ended 31.03.2017 Rs.
Turnover	14,532,733,868	12,039,527,922
Profit before taxation	788,639,433	834,126,830
Profit after taxation	709,329,107	649,456,817
Retained Profit B/F	1,147,080,447	803,805,837
Transfer to Reserves		
Transfer to Reserve Fund	141,866,000	129,891,400
Transfer to General Reserve	-	-
Add: Transfer to Retained Earnings	494,762,249	473,166,012
Retained profit C/F	1,499,976,696	1,147,080,447

Dividends

The Board of Directors had recommended an Interim Dividend of Rs. 4.15 per share which was paid out in March 2018 and a further Final Dividend of Rs. 2.25 per share has been recommended. The Directors confirm that the Company satisfies the solvency test set out in Section 56 of the Companies Act No. 07 of 2007. The Certificates of Confirmation was obtained from the Auditors in respect of the paid and proposed dividends.

Reserves

The Directors have transferred Rs. 142 Mn to the Reserve Fund as required by section 3(b) of the Central Bank, Finance Companies (Capital fund) direction No.1 of 2003, The Reserves including Retained Earnings stand Rs. 3,616 Mn at the close of the financial year.

Credit Rating

[SL]BBB- with a stable outlook rating is assigned by ICRA Lanka Limited.

Issue of Debentures

There were no new Debentures issued during the year under review.

Stated Capital

There were no new shares issued during the year under review.

Shareholders' Information

The detailed Shareholders' information appear on page 116 to 117 of the Annual Report.

Twenty Major Shareholders

The names and number of shares of the 20 major shareholders appear on page 116.

Public Holding

The public holding percentage appears on page 116.

Share Information

Information with regard to Dividend per Share, Dividend Pay Out and Net Asset Value per share and Market Value per share appears in the Ten Year Summary on page No 115.

Annual Report of the Directors Contd.

Directors' Interest in Contracts

Director's interests in contracts of the Company have been set out in the Notes to the Financial Statements. These interests have been disclosed at Directors' Meetings. They have no direct or indirect interest in any other existing or proposed contract with the Company.

Related Party Transactions

The required disclosures have been made. The details appear on pages 91 to 92.

Re-election of Directors

Mr. J.M. Gunasekera retires under Articles numbered 130 and 131 and offers himself for re-election with the unanimous support of the Directors.

Directors' Remuneration and Related Expenditure

The Directors' remuneration and other expenses is disclosed under Note No. 12 and 49.1.1 in the Financial Statements.

Directors' Shareholdings

Directors' shareholdings as at the beginning and end of the financial year are given below

Name	31.03.2018	31.03.2017
Mr. S. Karunanayake	1,586	1,586
Mr. R.K.E.P. de Silva	8,934,075	8,934,075
Mrs. R.N. Ponnambalam	2,666	2,666
Mr. A.R. Samarasinghe	1,386	1,386
Mr. J.M. Gunasekera	1,500	1,500
Mr. L.A.P. Medis	-	-
Mr. W.P.K. Jayawardana (appointed on 4th April 2017)	100	N/A

Shareholdings in Subsidiary and Associate Companies

The holdings in subsidiary and associate Company are given below.

Name of the Company	No. of Shares as at 31.03.2018	Percentage
Alfinco Insurance Brokers (Pvt) Ltd	159,836	63.94%
Macbertan (Pvt) Ltd	1,720,000	19.51%

Employee Share Ownership

The Company has not implemented a Employee Share Ownership scheme.

Properties of the Company

The value of freehold properties owned by the Company as at 31st March 2018 is included in the Financial Statements at Rs. 1,762,008,919 (31st March 2017 – Rs. 1,706,918,419) based on valuations undertaken by Ms. W.A.T.P. Jayathilaka & Company and Ms. K.T. Nihal & Company being independent professional valuers with recent experience in the location category of the property being valued. The Directors are of the opinion that this value is not in excess of the current market value. The details are provided in **Note 29.4.3** of the Financial Statements.

Donations

The Company donated a sum of Rs. 1,095,047 during the year under review.

Auditors

The Auditors M/s.Baker Tilly Edirisinghe & Co. Chartered Accountants, of 45, Braybrooke Street, Colombo 02, have audited the accounts as at 31st March, 2018. The re-appointment rests in your hands. They have offered their services at an all inclusive fee of Rs. 1,050,065 for the ensuring year.

By Order of the Board of Directors

(Sgd)
ALLIANCE MANAGEMENT SERVICES (PVT) LTD
Secretaries

04th June 2018

Report by the Board on Internal Control

Internal Control and Responsibility of the Board

Internal control could be broadly defined as a process that is implemented by an entity's Board of Directors and Management designed to provide reasonable assurance regarding the achievement in the following categories:

1. Effectiveness and efficiency of operations, systems and controls and the identification and mitigation of risks.
2. Reliability of management information and financial reporting
3. Compliance with applicable laws and regulations

The first objective deals with the Company's basic business objectives, including performance and profitability goals and safeguarding of resources by the identification of risks. The second relates to the reliability and management of information and also preparation of reliable published Financial Statements, including interim and Annual Financial Statements. The third aspect deals with complying with those laws and regulations which are applicable to the Company. The three areas although intrinsically different, overlap in certain categories but address different needs.

The Board of Directors is responsible for the structuring and effectiveness of the internal controls and also the continuous reviewing and revamping of the existing systems and controls.

The Company has a structured, proactive risk management system. A risk and control framework has been developed, based on good governance principles and is dealt with in greater detail in the Annual Report. This framework focuses on material strategic, operational, compliance and financial reporting risks. Using this framework, the business units go through a systematic process of identifying and evaluating risks and controls and, where necessary, improving the way in which risks are managed. The above processes make the risks and the areas requiring improvement in the internal control systems transparent.

Process of Evaluation

The Board has an established process by which the effectiveness of the risk management and internal control systems are reviewed. This process enables the Board and its committee to consider the systems of risk management and internal control being operated for managing significant risks, including strategic, safety, operational, compliance and control risks, throughout the year.

In considering the systems, the Board noted that such systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute, assurance against material misstatement or loss.

During the year, the Board through its Committee regularly reviewed the executive management processes whereby risks are identified, evaluated and managed.

External Auditor's Statement

The External Auditors have reviewed the above Directors' Statement on Internal Control for the year ended 31st March 2018 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with the understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system over the financial reporting of the Company.

Athula Samarasinghe
Independent Non-Executive Senior Director / Audit Committee Member

Romani de Silva
Deputy Chairman and Managing Director

25th May 2018

Directors' Responsibility for Financial Reporting

The following statement sets out the responsibilities of the Directors in relation to the preparation and presentation of the Financial Statements of the Company as per Sections 148 (1) 150 (1),151,152 and 153 (1) & (2) of the Companies Act No. 07 of 2007.

Accordingly, the Directors confirm that the Company's Financial Statements for the year ended 31st March 2018 are prepared in conformity with the requirements of the Sri Lanka Accounting Standards, the regulations and Directions of the Central Bank of Sri Lanka, the Listing Rules of the Colombo Stock Exchange and the Finance Business Act No. 42 of 2011. They believe that the Financial Statements present a true and fair view of the state of affairs of the Company at the end of the financial year.

The Directors also accept responsibility for the integrity and accuracy of the Financial Statements presented and confirm that appropriate accounting policies have been selected and applied consistently and reasonable and prudent judgement has been exercised so as to accurately report transactions.

The Directors have taken reasonable steps to ensure that the Company maintains adequate general supervision, control and administration of the affairs and business of the Company to safeguard the assets of the Company, to prevent, deter and detect fraud, to ensure the integrity, accuracy and safeguarding of operational and financial records.

The Directors confirm that to the best of their knowledge, all statutory payments due in respect of the Company as at the date of the Statement of Financial Position has been paid for, or where relevant, provided for.

The Directors also wish to confirm that as required under Sections 166 (1) and 167 (1) of the Companies Act No. 07 of 2007, they have prepared this Annual Report in time and ensured that a copy thereof is sent to the shareholders within the stipulated period of time as required by Rule No. 7.5 (a) and (b) of the Listing Rules of the Colombo Stock Exchange. The Directors also wish to confirm that all shareholders have been treated in an equitable manner in accordance with the original terms of issue.

The External Auditors, Messrs Baker Tilly Edirisinghe & Company , were provided with the opportunity to make appropriate inspections of financial records, minutes of Shareholders and Directors' meetings and other documents and carry out review and sample check on the system of internal controls as they consider appropriate and necessary to enable them to form an opinion of the Financial Statements. The Report of the Auditors is set out on page 9 to 13.

By order of the Board

(Sgd)
ALLIANCE MANAGEMENT SERVICES (PVT) LTD
Secretaries

25th May 2018

Report of the Audit Committee

This report is provided by the Audit Committee, in respect of the financial year ended 31st March 2018. The Committee's operation is guided by a detailed mandate that is approved by the Board which is detailed in the terms of reference. The Committee is appointed by the Board and is comprised of two Independent Non Executive Directors.

Executive Functions

The audit committee has executed its duties and responsibilities during the financial year in accordance with its terms of reference and related to the matters of Company's internal and external audit processes, financial reporting, risk assessment and internal controls over financial reporting and the internal audit process.

External Auditors and Audit

During the year under review the committee, amongst other matters, considered the following:

- approved the reappointment of Baker Tilly Edirisinghe & Co., External Auditors for the financial year ended 31st March 2018,
- approved the External Auditors' Terms of Engagement, the audit plan and budgeted audit fees payable;
- reviewed the audit and evaluated the effectiveness of the audit;
- obtained assurance from the auditors that their independence was not impaired;
- it was noted that non-audit services were not provided by the External Auditors;

In Respect of Financial Statements

- examined and reviewed the interim and annual Financial Statements as well as financial information disclosed to the public prior to submission and approval by the board;
- reviewed reports on the adequacy of the portfolio and specific impairments and impairment of other assets, and the formulae applied in determining charges for and levels of portfolio impairments;
- ensured that the Annual Financial Statements fairly present the Financial Position of the Company and of the Group as at the end of the financial year and the results of operations and cash flows for the financial year and considered the basis on which the Company and the Group was determined to be a going concern;
- considered the appropriateness of the accounting policies adopted and changes thereto;
- reviewed and discussed the External Auditors' audit report;
- considered and made recommendations to the Board on the final dividend payment to shareholders;
- noted that there were no material reports or complaints received concerning accounting practices, internal audit, internal financial controls, content of Annual Financial Statements, internal controls and related matters.

In Respect of Internal Control and Internal Audit

- reviewed and approved the Annual Internal Audit Mandate and Audit Plan and evaluated the independence, effectiveness and performance of the Internal Audit department and compliance with its mandate and continuously monitored the implementation of the audit plan by periodic reviews;
- considered reports of the Internal and External Auditors on the Group's systems of internal control, including internal financial controls and maintenance of effective internal control systems;
- reviewed significant issues raised by the Internal Audit processes and the adequacy of corrective action in response to such findings and made recommendations to the Board;
- reviewed significant differences of opinion between the Internal Audit function and management and noted that there were none;
- assessed the adequacy of the performance of the Internal Audit function and adequacy of the available internal audit resources and found them to be satisfactory;

Report of the Audit Committee

- received assurance that proper and adequate accounting records were maintained and that the systems that safeguard the assets had been fulfilled
- based on the above, the committee formed the opinion that at the date of this report there were no material breakdowns in internal control, including internal financial controls, resulting in any material loss to the Group.

The Internal Audit function is carried out by an Internal Audit Department and is headed by AGM Internal Audit who possesses the necessary experience and expertise.

In respect of legal and regulatory requirements, to the extent that they may have an impact on the Financial Statements:

- monitored compliance with the Companies Act, Finance Business Act and other relevant enactments;

In respect of risk management and information technology

- considered and reviewed reports from management on risk management, including fraud risks and information technology risks as they pertain to financial reporting and the going concern assessment;
- that the controls were adequate to address all significant financial risks facing the business;
- considered the expertise, resources and experience of the finance function and the senior members of management responsible for this function and concluded that these were appropriate;

Compliance with the Legal and Statutory Requirements

- Considered the compliance with the legal and statutory requirements and concluded that it had been complied with consistently and a timely manner.

Meetings

The Audit Committee meets on a regular basis and is designed to facilitate and encourage communication amongst the Committee and to review the Internal Audit Reports and the replies and finance related matters. In addition the processes and procedural compliance is also reviewed at the meetings. The Committee discussed with the Company's Internal Auditors and the External Auditor the overall scope and plans for their respective audits and also the financials are reviewed.

Attendance at Meetings

	Meeting Held	Meeting Present
Mr. S. Karunanayake	13	13
Lt.Col. Athula R. Samarasinghe	13	13

Conclusion

Based upon the functions of the Audit Committee, it is satisfied that the Company is in conformity with the legal and statutory requirements and the implemented systems and controls sufficient to ensure compliance with the best industry practices.

Sunil Karunanayake
Chairman
Audit Committee

25th May 2018

Independent Auditor's Report

BAKER TILLY
Edirisinghe & Co.
Chartered Accountants

TO THE SHAREHOLDERS OF ALLIANCE FINANCE COMPANY PLC

Opinion

We have audited the Financial Statements of Alliance 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 March 31, 2018, 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 of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at March 31, 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 judgement, 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.

i) Impairment of loans and advances

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 and on an individual basis for significant loans. The calculation of both collective and individual impairment allowances is inherently judgemental for any finance company.

a) Individual impairment

For all loans that are considered individually significant, the Group assesses on a case-by-case basis at each end of the reporting date whether there is any objective evidence that a loan is impaired. Impairment losses are determined considering the following factors:

- The Group's aggregate exposure to the customer.
- The viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations.

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P. P. Edirisinghe FCA,ACIM,MBA, Partner, Ms. M. K. K. Karunaratne, ACA, ACMA, Partner, P. K. A. M. Alahakoon, ACA, MAAT, Partner, S. A. Harischandra ACA. ACMA. CGMA Bcom (Sp), Partner
A. T. P. Edirisinghe, FCA, FCMA (UK) Consultant/Advisor, A. D. Jayasena FCA, Consultant/Advisor
An independent member of BAKER TILLY International

- The amount and timing of expected receipts and recoveries.
- The complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident
- The realisable value of security and likelihood of successful repossession.
- The likely deduction of any costs involved in recovery of amounts outstanding.

Impairment losses are calculated by discounting the expected future cash flow of a loan at its original effective interest rate and comparing the present value with the loan's current carrying amount. The impairment allowances on individually significant accounts are reviewed more regularly when circumstances require.

This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

b) Collective impairment

Impairment is assessed on a collective basis in homogeneous groups of loans and advances. Statistical methods are used to determine impairment losses on a collective basis for homogeneous groups of loans. Losses in these groups of loans are recorded on an individual basis when individual loans are written off, at which point they are removed from the Group.

Collective impairment allowances are calculated using models which combinedly developed with Probability of Default (DP) of respective loans and Loss Given Default Ratio (LGD) of loans. The inputs to these models are based on historical loss experience with judgement applied to determine the assumptions used to calculate impairment. Model overlays are applied where data driven parameters or calculations are not considered representative of current risks or conditions of the loan portfolios.

Following method is used to calculate historical loss experience on a collective basis:

Net flow rate method

Under this methodology the movement in the outstanding balance of customers in to bad categories over the periods are used to estimate the amount of loans that will eventually be written off as a result of the events occurring before the end of the reporting date which the Group is not able to identify on an individual loan basis, and that can be reliably estimated.

Procedures Performed

a) Individual impairment

For loans and advances where impairment was individually calculated, we tested controls over the timely identification of potentially impaired loans.

We also tested a sample of loans and advances to ascertain whether the loss event (that is the point at which impairment is recognised) had been identified in a timely manner.

For a sample of loans and advances, we checked the valuation of securities to support the calculation of the impairment by comparing estimates to external evidence available, checked mathematical calculations.

b) Collective impairment

We have performed the control testing relating to the collective impairment calculations.

For collective impairment, this included controls over the appropriateness of models used to calculate the provision, the process of determining key assumptions and the identification of loans to be included within the calculation.

For collective allowances, the appropriateness of the modelling policy and methodology used for portfolios was independently assessed by reference to the accounting standards and market practices. Model calculations were tested through independent reperformance of selected loan portfolio and review the others. Specifically with respect to the collective impairment models, we reviewed the enhancements made to the models and methodology to ensure they were appropriate.

The appropriateness of management's judgements was also independently considered in respect of calculation methodologies, the period of historical loss rates used (LGD) and the valuation of recovery assets and collaterals.

(ii) Other assets and other liabilities (Control Accounts)

In the finance environment, depending on the underlying nature and contractual terms of individual transactions, they will have varying settlement periods. As a result, at any given point in time, there will be unsettled and/or unmatched balances. These are held temporarily within various accounts referred to as control accounts. Such control accounts are disclosed within other assets and other liabilities.

The balances in these control accounts are significant and need to be cleared within predetermined time frames applicable to each balance ("accepted business rules"). Clearing these balances involves manual processes. Manual intervention is needed where balances are not automatically matched by the Company. This area was a matter of significance to our audit because, by their nature, manual processes are prone to human error and if not performed effectively or within accepted business rules, the Group/Company could potentially be exposed to significant losses which could remain unidentified.

Procedures Performed

We tested controls over identification of control account balances and subsequent clearance of these balances.

We checked a sample of period-end reconciliation of material control account balances by corroborating the reconciling items to the supporting documents and checking subsequent clearance of these reconciling items.

We tested a sample of items appearing in the exception reports on aged balances within these control accounts to consider whether the items are within the accepted business rules, to identify any potential loss accounts.

Other Information

The Directors are responsible for the other information. The other information comprises the Corporate Governance and Report by the Board on Internal Controls included in the Annual Report, which we obtained prior to the date of this auditor's report, the Chairman's Review and Deputy Chairman/Managing Director's Review Reports, which is expected to be made available to us after that date.

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.

Independent Auditor's Report Contd.

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 intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibility 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 SLAuSs, we exercise professional judgement 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 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.
- 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 2256.

Edirisinghe & Co.,
Chartered Accountants

Colombo
25th May 2018

Statement of Profit or Loss

For the financial year ended 31st March	Notes	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Gross Income	5	6,872,124,417	5,376,833,125	6,913,712,166	5,448,105,866
Interest income		6,478,637,880	4,983,138,526	6,481,420,530	4,990,739,316
Interest expenses		(3,206,900,561)	(2,462,431,850)	(3,202,130,796)	(2,462,431,850)
Net Interest Income	6	3,271,737,319	2,520,706,676	3,279,289,734	2,528,307,466
Fee and commission income		202,891,784	193,915,241	279,284,773	262,118,381
Fee and commission expenses		(161,977,815)	(45,489,412)	(161,985,713)	(45,496,812)
Net Fee and Commission Income	7	40,913,969	148,425,829	117,299,060	216,621,569
Net gain/(loss) from trading	8	3,333,736	12,309,545	3,333,736	13,818,243
Other operating income (net)	9	187,261,017	187,469,813	149,673,127	181,429,926
Total Operating Income		3,503,246,041	2,868,911,863	3,549,595,657	2,940,177,204
Impairment (charges) / reversal for loans and other losses	10	(512,894,347)	(73,680,699)	(512,894,347)	(73,680,699)
Net Operating Income		2,990,351,694	2,795,231,164	3,036,701,310	2,866,496,505
Operating Expenses					
Personnel expenses	11	(800,789,586)	(739,979,466)	(830,828,634)	(767,464,744)
Other operating expenses	12	(1,053,075,259)	(935,662,243)	(1,083,513,649)	(961,983,979)
Depreciation and amortization		(116,078,627)	(117,774,125)	(116,236,757)	(118,323,088)
Total operating expenses		(1,969,943,472)	(1,793,415,834)	(2,030,579,039)	(1,847,771,811)
Operating Profit before Value Added Tax on Financial Services		1,020,408,222	1,001,815,330	1,006,122,271	1,018,724,694
Value Added Tax on Financial Services		(220,369,251)	(178,588,251)	(220,369,251)	(178,588,251)
Operating Profit after Value Added Tax on Financial Services		800,038,971	823,227,079	785,753,020	840,136,443
Share of profit from associates		(359,463)	10,899,751	(359,463)	10,899,751
Loss on change of interest in associate		(11,040,075)	-	(11,040,075)	-
Profit before Taxation from Operations		788,639,433	834,126,830	774,353,482	851,036,194
Provision for income taxation	13	(79,310,326)	(184,670,012)	(86,233,145)	(191,534,940)
Profit for the year		709,329,107	649,456,818	688,120,337	659,501,254
Profit attributable to :					
Equity holders of the Company		709,329,107	649,456,818	681,934,161	653,314,165
Non controlling interest		-	-	6,186,176	6,187,089
Profit for the year		709,329,107	649,456,818	688,120,337	659,501,254
Basic Earnings Per Share	14	21	20	20	20
Dividend Per Share (Rs.)	15	6	6	6	6

Statement of Comprehensive Income

For the financial year ended 31st March	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Profit for the year	**709,329,107**	**649,456,818**	**688,120,337**	**659,501,254**
Other Comprehensive Income				
Other Comprehensive Income to be Reclassify to Profit or Loss				
Net gains and losses on available-for-sale financial assets:				
Sri Lanka government securities	(1,505,120)	798,159	(1,505,120)	798,159
Net other comprehensive income to reclassified to profit or loss	**(1,505,120)**	**798,159**	**(1,505,120)**	**798,159**
Other Comprehensive Income not to be Reclassified to Profit or Loss				
Actuarial gains /(losses) on defined benefit plans	(829,525)	9,311,656	(784,570)	9,427,504
Deferred tax effect on above	232,267	(2,607,264)	232,267	(2,607,264)
	(597,258)	6,704,392	(552,303)	6,820,240
Surplus from revaluation of property, plant & equipment	-	798,388,667	-	798,388,667
Deferred tax effect on above	-	(889,723)	-	(889,723)
Deferred tax impact on revaluation of lands	(328,206,042)	-	(328,206,042)	-
	(328,206,042)	797,498,944	(328,206,042)	797,498,944
Net Other Comprehensive Income not to be Classified to Profit or Loss	(328,803,300)	804,203,336	(328,758,345)	804,319,184
Total Comprehensive Income for the year	379,020,688	1,454,458,313	357,856,872	1,464,618,597
Attributable to:				
Equity holders of the Company	379,020,688	1,454,458,313	351,654,485	1,458,389,733
Non controlling interest	-	-	6,202,387	6,228,864
Total Comprehensive Income for the Year	379,020,688	1,454,458,313	357,856,872	1,464,618,597

Figures in brackets indicate deductions.

Accounting policies & notes to accounts form an integral part of these Financial Statements.

Statement of Financial Position

As at 31st March	Notes	Company 31.03.2018 Rs.	Company 31.03.2017 Rs.	Group 31.03.2018 Rs.	Group 31.03.2017 Rs.
Assets					
Cash and cash equivalents	18	510,364,191	250,196,373	551,552,815	294,565,160
Repurchase agreements		638,820,384	175,849,048	638,820,384	175,849,048
Placements with banks & financial institutions		476,510,425	1,218,793,508	476,510,425	1,273,186,055
Financial investments - held for trading	19	751,264,686	1,251,615,776	751,264,686	1,251,615,776
Loans and advances	20	7,877,246,355	7,478,467,024	7,877,373,054	7,478,583,487
Lease rentals receivable & stock out on hire	21	17,553,965,443	15,837,430,513	17,553,965,443	15,837,430,513
Hire purchase rentals receivable & stock out on hire	22	62,388,835	167,597,495	62,388,835	167,597,495
Financial investments - available for sale	23	381,521,952	488,124,253	400,570,342	501,624,253
Other trading stocks	24	140,786,132	9,775,936	140,786,132	9,775,936
Other financial assets	25	323,549,421	255,778,986	349,638,381	291,558,200
Other non financial assets	26	115,538,483	118,339,278	115,985,991	118,358,589
Investments in associates	27	57,362,904	68,762,442	57,362,904	68,762,442
Investments in subsidiaries	28	16,924,038	16,924,038	-	-
Property, plant & equipment	29	2,167,727,899	2,122,913,196	2,168,021,698	2,123,236,675
Intangible assets	30	56,746,867	49,498,623	56,746,867	49,498,623
Deferred tax assets		647,838,785	511,884,241	648,285,324	512,240,973
Total Assets		31,778,556,800	30,021,950,730	31,849,273,281	30,153,883,225
Liabilities					
Due to banks	31	11,042,104,540	11,717,899,354	11,053,987,058	11,749,382,430
Due to customers	32	13,256,951,431	10,087,821,914	13,256,951,431	10,087,821,914
Debt instruments issued and other borrowed funds	33	1,645,799,918	2,548,225,806	1,645,799,918	2,548,225,806
Other financial liabilities	34	456,262,778	888,031,757	473,689,206	902,782,092
Other non financial liabilities	35	36,923,025	51,661,019	36,923,025	51,661,019
Derivative financial liabilities	36	39,238,389	17,736,580	39,238,389	17,736,580
Income tax liability	37	25,004,302	108,212,452	26,636,671	111,659,369
Retirement benefit obligation	38	64,596,330	80,145,738	66,191,109	81,419,780
Deferred tax liabilities	39	981,828,524	457,419,634	981,871,560	457,460,593
Total Liabilities		27,548,709,237	25,957,154,254	27,581,288,367	26,008,149,583

As at 31st March	Notes	Company 31.03.2018 Rs.	Company 31.03.2017 Rs.	Group 31.03.2018 Rs.	Group 31.03.2017 Rs.
Shareholders' Funds					
Stated capital	40	613,980,000	613,980,000	613,980,000	613,980,000
Retained earnings	41	1,499,976,696	1,147,080,447	1,518,254,751	1,192,724,704
Reserves	42	2,115,890,867	2,303,736,029	2,115,890,867	2,303,736,029
Total Equity Attributable to Equity Holders of the Company		4,229,847,563	4,064,796,476	4,248,125,618	4,110,440,733
Non controlling interest		-	-	19,859,296	35,292,909
Total Equity		4,229,847,563	4,064,796,476	4,267,984,914	4,145,733,642
Total Liabilities and Shareholders' Funds		31,778,556,800	30,021,950,730	31,849,273,281	30,153,883,225
Net assets value per share (Rs.)	16	126	121	126	122

Accounting policies & notes to the accounts form an integral part of these Financial Statements.

Certification

I certify that these Financial Statements are presented in compliance with the requirements of the Companies Act No. 07 of 2007.

Chamindra de Silva
Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.
Signed for and on behalf of the Board by,

Kusal Jayawardana
Director Finance & Operations

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

25th May 2018
Colombo

Statement of Changes in Equity

For the financial year ended 31st March 2018

Company	Stated Capital Rs.	Statutory Reserve Rs.	Capital Reserve Rs.	General Reserve Rs.	Investment Fund Reserve Rs.	Available for Sale Reserve Rs.	Non Controlling Interest Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 1st April 2016	24,300,000	501,317,400	479,906,644	823,441,275	83,216,780	6,065,427	-	803,805,837	2,722,053,365
Profit for the year	-	-	-	-	-	-	-	649,456,818	649,456,818
Other comprehensive income, net of tax	-	-	-	-	-	798,159	-	6,704,392	7,502,551
Revaluation Surplus	-	-	797,498,944	-	-	-	-	-	797,498,944
Transfer to statutory reserve	-	129,891,400	-	-	-	-	-	(129,891,400)	-
Reserves Capitalization	518,400,000	-	-	(435,183,220)	(83,216,780)	-	-	-	-
Right Issue	71,280,000	-	-	-	-	-	-	-	71,280,000
Dividend paid	-	-	-	-	-	-	-	(182,995,200)	(182,995,200)
Balances as at 31st March 2017	613,980,000	631,208,800	1,277,405,588	388,258,055	-	6,863,586	-	1,147,080,447	4,064,796,476
Balance as at 1st April 2017	613,980,000	631,208,800	1,277,405,588	388,258,055	-	6,863,586	-	1,147,080,447	4,064,796,476
Profit for the year	-	-	-	-	-	-	-	709,329,107	709,329,107
Other comprehensive income, net of tax	-	-	-	-	-	(1,505,120)	-	(597,258)	(2,102,378)
Deferred tax impact on revalued lands	-	-	(328,206,042)	-	-	-	-	-	(328,206,042)
Transfer to statutory reserve	-	141,866,000	-	-	-	-	-	(141,866,000)	-
Dividend paid	-	-	-	-	-	-	-	(213,969,600)	(213,969,600)
Balances as at 31st March 2018	613,980,000	773,074,800	949,199,546	388,258,055	-	5,358,466	-	1,499,976,696	4,229,847,563

For the financial year ended 31st March 2018

Group	Stated Capital Rs.	Statutory Reserve Rs.	Capital Reserve Rs.	General Reserve Rs.	Investment Fund Reserve Rs.	Available for Sale Reserve Rs.	Non Controlling Interest Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 1st April 2016	24,300,000	501,317,400	479,906,644	823,441,275	83,216,780	6,065,427	33,075,720	845,518,674	2,796,841,920
Profit for the year	-	-	-	-	-	-	6,187,089	653,314,165	659,501,254
Other comprehensive income, net of tax	-	-	-	-	-	798,159	41,775	6,778,465	7,618,399
Revaluation surplus	-	-	797,498,944	-	-	-	-	-	797,498,944
Transfer to statutory reserve	-	129,891,400	-	-	-	-	-	(129,891,400)	-
Reserves capitalisation	518,400,000	-	-	(435,183,220)	(83,216,780)	-	-	-	-
Right Issue	71,280,000	-	-	-	-	-	-	-	71,280,000
Dividend paid	-	-	-	-	-	-	(4,011,675)	(182,995,200)	(187,006,875)
Balances as at 31st March 2017	613,980,000	631,208,800	1,277,405,588	388,258,055	-	6,863,586	35,292,909	1,192,724,704	4,145,733,642
Balance as at 1st April 2017	613,980,000	631,208,800	1,277,405,588	388,258,055	-	6,863,586	35,292,909	1,192,724,704	4,145,733,642
Profit for the year	-	-	-	-	-	-	6,186,176	681,934,161	688,120,337
Other comprehensive income, net of tax	-	-	-	-	-	(1,505,120)	16,211	(568,514)	(2,057,422)
Deferred tax impact on revalued lands			(328,206,042)						(328,206,042)
Transfer to statutory reserve	-	141,866,000	-	-	-	-	-	(141,866,000)	-
Dividend paid	-	-	-	-	-	-	(21,636,000)	(213,969,600)	(235,605,600)
Balances as at 31st March 2018	613,980,000	773,074,800	949,199,546	388,258,055	-	5,358,466	19,859,296	1,518,254,751	4,267,984,914

Figures in brackets indicate deductions.

Accounting policies & notes to accounts form an integral part of these Financial Statements.

Statement of Cash Flows

For the financial year ended	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Cash Flows From / (Used in) Operating Activities				
Profit before Income Tax Expense	788,639,433	834,126,830	774,353,482	851,036,194
Adjustments for;				
Depreciation of property, plant & equipment	108,860,544	110,301,759	109,018,674	110,800,937
Amortization of intangible assets	7,218,083	7,472,368	7,218,083	7,522,153
Impairment (reversal)/provision	415,603,933	(24,269,874)	415,603,933	(24,269,874)
Fixed asset valuation loss	-	3,992,748	-	3,992,748
Interest on fixed deposits, commercial paper & treasury bills	(119,668,726)	(180,917,550)	(122,451,376)	(188,518,340)
(Profit)/loss on sale of securities	(6,378,862)	798,829	(6,378,862)	798,829
Fair value (gain)/loss on equity investments (FVTPL)	514,602	(4,293,334)	514,602	(4,293,334)
Previous year WHT written off	52,653	-	52,653	-
Bad debt written off	97,290,414	97,950,573	97,290,414	97,950,573
Diminution/(appreciation) in value of investments	(5,187,779)	10,528,127	(5,187,779)	10,528,127
Loss/(profit) on disposal of property & equipment	(1,746,639)	(13,184,186)	(1,746,639)	(13,329,186)
Provision/(reversal) for defined benefit plans	34,308,582	31,542,560	34,674,274	31,871,666
Loss/(profit) change in interest in the associate	11,040,075	-	11,040,076	-
Dividend received	(43,453,580)	(13,829,352)	(5,077,580)	(14,725,392)
Share of loss/(profit) from associates	359,463	(10,899,751)	359,463	(10,899,751)
Operating Profit before Working Capital Changes	**1,287,452,198**	**849,319,748**	**1,309,283,417**	**858,465,350**
(Increase)/decrease in trading stock	(131,010,196)	198,081,369	(131,010,196)	198,081,369
(Increase)/decrease in loans and advances	(686,706,863)	(1,917,468,982)	(686,717,099)	(1,917,478,930)
(Increase)/decrease in lease rentals receivable & stock out on hire	(1,949,130,899)	(2,581,567,444)	(1,949,130,898)	(2,581,567,444)
(Increase)/decrease in Hire purchase rentals Receivable & Stock out on hire	112,837,814	291,521,591	112,837,814	291,521,591
(Increase)/decrease in fixed deposits & repurchase agreements	279,311,747	1,175,305,301	333,704,294	1,120,912,754
(Increase)/decrease in other financial assets	(67,770,434)	(74,067,452)	(58,080,181)	(112,704,584)
(Increase)/decrease in other non financial assets	2,800,795	(4,893,836)	2,372,598	(212,235)
Increase/(decrease) in amounts due to customers	3,169,129,517	(376,327,652)	3,169,129,517	(376,327,652)
Increase/(decrease) in derivative financial liabilities	21,501,809	17,736,580	21,501,809	17,736,580
Increase/(decrease) in other financial liabilities	(431,768,979)	3,821,165	(429,092,886)	12,665,970
Increase/(decrease) in other non financial liabilities	(14,737,994)	15,780,616	(14,737,994)	15,780,616
Cash generated from/(used in) Operations	**1,591,908,515**	**(2,402,758,996)**	**1,680,060,195**	**(2,473,126,616)**

For the financial year ended	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Retirement benefit liabilities paid	(23,511,922)	(7,672,684)	(23,511,922)	(7,672,684)
Investment in gratuity fund	(27,175,593)	(25,650,000)	(27,175,593)	(25,650,000)
Taxes paid	(102,090,558)	(172,449,963)	(110,915,653)	(181,149,029)
Net cash generated from/(used in) operating activities	**1,439,130,442**	**(2,608,531,643)**	**1,518,457,027**	**(2,687,598,329)**
Cash Flows from Investing Activities				
Acquisition of property, plant & equipment	(193,621,051)	(74,484,502)	(193,749,500)	(74,607,002)
Acquisition of Intangible Assets	(14,466,327)	-	(14,466,327)	-
Proceeds from sales of property, plant & equipment	41,692,436	38,414,606	41,692,436	39,070,215
Net dividend and proceeds received from associates	-	7,972,265	-	7,972,265
Net sales/ (purchases) of financial investments held -for- trading	511,403,133	(177,647,996)	511,403,133	(99,199,815)
Net sale/(purchase) of financial investments - available- for- sale financial assets	105,097,181	(37,271,996)	99,548,791	(37,271,996)
Dividend received	43,453,580	13,829,352	5,077,580	14,725,392
Interest on fixed deposits, commercial paper & treasury bills	119,668,726	180,917,550	122,451,376	188,518,340
Net cash generated from/(used in) investing activities	**613,227,679**	**(48,270,720)**	**571,957,489**	**39,207,400**
Cash Flows from / (Used in) Financing Activities				
Proceeds from debentures and increase in borrowed funds	(902,425,888)	(514,189,158)	(902,425,888)	(514,189,158)
Net increase /(decrease) in other borrowings	(669,170,833)	3,404,549,742	(688,771,391)	3,411,320,320
Net increase /(decrease) in finance lease	(6,623,982)	(15,629,129)	(6,623,982)	(15,629,129)
Proceeds from right issue	-	71,280,000	-	71,280,000
Dividend paid	(213,969,600)	(182,995,200)	(235,605,600)	(187,006,875)
Net cash generated from/(used in) financing activities	**(1,792,190,303)**	**2,763,016,255**	**(1,833,426,861)**	**2,765,775,158**
Net Increase/(Decrease) in Cash and Cash Equivalents	**260,167,818**	**106,213,892**	**256,987,655**	**117,384,229**
Cash and cash equivalents at the beginning of the year	250,196,373	143,982,481	294,565,160	177,180,931
Cash and cash equivalents at the end of the year	510,364,191	250,196,373	551,552,815	294,565,160
Movement in Cash and Cash Equivalent	**260,167,818**	**106,213,892**	**256,987,655**	**117,384,229**

Note : Reporting cash flows from operating activities

The Company reports cash flows from operating activities by using the indirect method. The indirect method, whereby profit or loss is adjusted for the effects of non-cash items, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows, is shown in the above.

Significant Accounting Policies

1. CORPORATE INFORMATION

1.1 General

Alliance Finance Company PLC (the 'Company') is a public limited liability Company listed on the Colombo Stock Exchange and incorporated on July 18, 1956 under the Companies Ordinance No 51 of 1938 and domiciled in Sri Lanka. It is a Registered Finance Company regulated under the Finance Business Act No.42 of 2011 and amendments thereto. The Company is re-registered under the new Companies Act No 7 of 2007. The registered office of the Company and the principal place of business are both situated at No.84, Ward Place, Colombo 07.

1.2 Consolidated Financial Statements

Consolidated Financial Statements of the Group for the year ended 31st March 2018 comprises the Company and its Subsidiaries (together referred to as the "Group" and individually as 'Group entities'). The subsidiary company of the Group as at 31st March 2018 was Alfinco Insurance Brokers (Pvt) Ltd.

All the Group entities are limited liability Companies, incorporated and domiciled in Sri Lanka.

1.3 Principal Activities and Nature of Operations

1.3.1 The Company

During the year under review, the Company provides a comprehensive range of financial services encompassing accepting deposits, lease financing, Hire purchase financing, mortgage loans, pawning, term loans and other credit facilities, operating leases, vehicle hiring, consumer credit, microfinancing activities and other financial services.

1.3.2 Subsidiaries

Ownership of Subsidiaries as on 31st March 2018 is given below

Subsidiary	Principal Activities	Ownership %
Alfinco Insurance Brokers (Pvt.) Ltd	Insurance Brokering	63.94

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Financial Statements of the Group and the separate Financial Statements of the Company, have been prepared and presented in accordance with Sri Lanka Accounting Standards comprising of Sri Lanka Financial Reporting Standards (SLFRS s) and Lanka Accounting Standards (LKASs), laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with the requirements of the Companies Act No. 07 of 2007. The presentation of the Financial Statements is also in compliance with the requirements of the Finance Business Act No. 42 of 2011 and amendments thereto, and provides appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange (CSE).

Financial Statements comprised of the Statement of Financial Position, Statement of Profit or Loss, Statement of Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flow, together with the accounting policies and notes.

2.2 Responsibility for Financial Statements

The Board of Directors of the Company is responsible for the preparation and presentation of the Financial Statements of the Group and the Company as per Sri Lanka Accounting Standards (SLFRSs and LKASs) and the provisions of the Companies Act No. 7 of 2007.

2.3 Date of Authorization for Issue

The Financial Statements for the year ended 31st March 2018, were approved and authorized for issue in accordance with a resolution of the Board of Directors on 25th May 2018.

2.4 Basis of Measurement

The Consolidated Financial Statements have been prepared on the historical cost basis, except for the following material items in the Statements of Financial Position.

- Derivative financial instruments are measured at fair value

- Non derivative financial instruments at fair value through Profit or Loss are measured at fair value
- Available - for - Sale financial assets are measured at fair value.
- Net liability for defined benefit obligations are recognised as the present value of the defined benefit obligation, less net total of the plan assets, plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses.
- Land and buildings which are measured at cost at the time of acquisition, subsequently measured at revalued amounts, which are the fair values at the date of revaluation.

2.5 Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees which is the Group's functional and presentation currency of the primary economic environment in which Alliance Finance PLC operates. All financial information presented in Sri Lankan Rupees has been rounded to the nearest rupee, unless otherwise stated.

2.6 Presentation of Financial Statements

The Group presents its Statement of Financial Position broadly in order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in note 48.

2.7 Materiality & Aggregation

In compliance with LKAS 01 on presentation of Financial Statements, each material class of similar items are presented separately in the Financial Statements. Items of dissimilar nature or functions are presented separately, unless they are immaterial.

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in the Statement of Profit or Loss unless required or permitted by any accounting standard or interpretations, and as specifically disclosed in the accounting policies.

2.8 Comparative Information

The comparative information is re-classified wherever necessary to conform to the current year's presentation.

2.9 Use of Significant Accounting Judgements, Estimates and Assumptions

In preparing Financial Statements of the Group in conformity with Sri Lanka Accounting Standards (SLFRSs and LKASs), requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty involved with estimates, actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements, estimates and assumptions in applying accounting policies that could have a significant effect on the Financial Statements of the Group are as follows:

2.9.1 Going concern

The Directors have made an assessment of its ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Group. Therefore, the Financial Statements continue to be prepared on a going concern basis.

2.9.2 Useful life-time of the property and equipment

The Group review the residual values, useful lives and methods of depreciation of assets at each reporting date. Judgement of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

2.9.3 Impairment losses on loans and advances (leases, Hire purchase & other loans)

The Group review its individually significant loans and advances at each reporting date to assess whether an impairment loss should be provided for the Statement of Profit or Loss. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment allowance made.

Loans and advances that have been assessed individually and found to be not impaired or not individually significant and all individually insignificant loans and advances are then assessed collectively, to determine whether provision should be made due to incurred loss events for which there is an objective evidence, but the effects of which are not yet evident.

The collective provision for group of homogeneous loans is established using statistical methods based on historical loss rate experience, using the statistical analysis of historical data on delinquency to estimate the amount of loss. Management applies judgements to ensure that the estimate of loss arrived at the basis of historical information is appropriately adjusted to reflect the economic conditions and product mix at the reporting date. The loss rates are regularly benchmarked against actual loss experience.

In assessing the need for collective loss provision, management considers factors such as credit quality (such as loan to collateral ratio, level of restructured performing loans, level of arrears, credit utilization etc.) portfolio size, judgements on the effect of concentration of risks and economic factors (including levels of unemployment, inflation, interest rates).

2.9.4 Impairment of Available - for - Sale financial investments

The Group reviews its debt securities classified as Available - for - Sale investments at each reporting date to assess whether they are impaired. This requires similar judgements as applied on the individual assessment of loans and advances.

The Group also records impairment charges on Available - for - Sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group evaluates, among other factors, historical share price movements, duration and extent up to which the fair value of an investment is less than its cost.

2.9.5 Taxation

The Group is subject to income taxes and other taxes including VAT on financial services. Significant judgement was required to determine the total provision for current, deferred and other taxes pending the issue of tax guidelines on the treatment of the adoption of SLFRS in the Financial Statements and the taxable profit for the purpose of imposition of taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these Financial Statements.

The Group recognised assets and liabilities for current, deferred and other taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income, deferred and tax amounts in the period in which the determination is made.

2.9.6 Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against such tax losses which can be set-off. Judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with the future tax-planning strategies.

2.9.7 Defined benefit plans

The cost of defined benefit plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates etc.

Due to the complexity of the valuation, the underlying assumptions and their long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of Sri Lanka Government bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates and expected future salary increase rate of the Group.

2.9.8 Fair value of property and equipment

The land and buildings of the Group are reflected at fair value. The Group engaged independent valuation specialist to determine the fair value of land and building. When current market prices of similar assets are available, such evidences are considered in estimating fair values of these assets.

2.9.9 Fair value of financial instruments

The determination of fair values of financial assets and financial liabilities which recorded on the Statement of Financial Position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The Group measures fair value using the fair value hierarchy that reflects the significant of input used in making measurements.

2.10 Events after the Reporting Period

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the Financial Statements are authorized for issue.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Group in preparation of the Financial Statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements of the Group, unless otherwise indicated.

3.1 Basis of Consolidation

The Group's Financial Statements comprise consolidation of the Financial Statements of the Company and its Subsidiaries in terms of the Sri Lanka Accounting Standard – SLFRS 10 (Consolidation Financial Statements).

3.1.1 Business combinations and goodwill

Business combinations are accounted for using the acquisition method as per the requirements of Sri Lanka Accounting Standard – SLFRS 03 (Business Combinations.)

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred including the recognised amount of any non-controlling interests in the acquire, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in Profit or Loss.

Significant Accounting Policies Contd.

The Group elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognised amount of the identifiable net assets, at the acquisition date.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in Profit or Loss.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

3.1.2 Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company (the Parent) holds more than 50% of the voting rights and/or has the power, directly or indirectly, to govern the financial and operational policies of an enterprise to obtain benefits from its activities.

The Financial Statements of Subsidiaries are fully consolidated from the date on which control is transferred to the Company and continue to be consolidated until the date when such control ceases. The Financial Statements of the Company's Subsidiaries are same reporting year as per the Company.

The cost of an acquisition is measured at fair value of the consideration, including contingent consideration, given on the date of transferring the title. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Subsequent to the initial measurement the Company continues to recognize the investments in Subsidiaries at cost.

The total assets and liabilities of the Subsidiaries as at the reporting date are included in the Consolidated Statements of Financial Position. The total Profit or Loss for the year of the subsidiaries is included in the Consolidated Statements of Profit or Loss.

The non-controlling interest is presented in the Consolidated Statements of Financial Position within equity; separately form the equity attributable to the equity holders of the Company. Non-controlling interest in the Profit or Loss of the Group is disclosed in the Consolidated Statement of Comprehensive Income. Total Comprehensive Income is allocated to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where subsidiaries have been acquired or sold during the year, their operating results have been included from the date of acquisition or to the date of disposal.

Upon the loss of control, the Group derecognised the assets and liabilities of the Subsidiary, any non-controlling interests and the other components of equity related to the Subsidiary. Any surplus or deficit arising on the loss of control is recognised in the Statement of Changes in Equity. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

3.1.3 Associates and jointly controlled entities

Associates are those entities which the Group has significant influence, but not control or power to govern the financial and operating policies of the entities so as to obtain benefits from their activities.

The Group Financial Statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis from the date that significant influence commences until the date that significant influence ceases.

Accordingly, under the equity method, investment in associates are carried at cost plus post-acquisition changes in the Group's share of net assets of the associates and are reported as a separate line item in the Statement of Financial

Position. The Statement of Profit or Loss reflects the share of current year's Profit or Loss of the Associates.

When the Group and Associate's share of losses exceed the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses are discontinued except to the extent that the Group has incurred obligations or has made payments on behalf of the investee.

Jointly controlled entities are those entities where the Group has entered into a contractual agreement to share the control over strategic, financial and operating decisions relating to economic activities of the entities through unanimous consent of other parties sharing control.

3.1.4 Transactions eliminated on consolidation

Intra-group balances and any income and expenses arising from intra- group transactions are eliminated in preparing the Consolidated Financial Statements. Unrealized losses are eliminated in the same way as unrealized gains (except that they are only eliminated to the extent that there is no evidence of impairment).

3.2 Foreign Currency Transactions and Balances

Monetary assets and liabilities denominated in foreign currencies have been translated into local currency as per the exchange ruling at the date of the Statement of Financial Position while all non-monetary items are reported at the rate prevailing at the time transactions were affected.

3.3 Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, balances with banks and money at call & short notice.

For the purpose of Cash Flow Statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts. Investments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

They are brought to Financial Statements at their face values or the gross values, where appropriate. Cash and cash equivalents are carried at amortized cost in the Statement of Financial Position.

3.4 Financial Instruments – Initial Recognition and Subsequent Measurement

Financial assets within the scope of LKAS 39 are classified as loans and advances, financial investments held to maturity, financial investments Available - for - Sale, financial investments held for trading or financial assets held for trading pledged as collateral as appropriate. The Group determines the classification of its financial assets at initial recognition.

3.4.1 Date of recognition

All financial assets and liabilities except 'Regular way traders 'are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. 'Regular ways trades' means purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

3.4.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through Profit or Loss.

Transaction cost in relation to financial assets and financial liabilities at fair value through Profit or Loss are dealt through the Statement of Profit or Loss.

3.4.3 Non-derivative financial assets

The Group recognizes non-derivative financial assets by the following four categories:

- Financial assets at fair value through Profit or Loss

  Held for trading; or
  Designated at fair value through Profit or Loss

- Held-to maturity investments
- Loans and receivables
- Available - for - Sale financial investments

Subsequent measurement of financial assets depends on their classification.

3.4.4 Financial assets at fair value through Profit or Loss

A financial asset is classified as fair value through Profit or Loss if it is held for trading or is designated at fair value through profit of loss.

a) Financial Assets Held for Trading

Financial assets are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking.

Financial assets held for trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognised in 'Net Trading Income'.

Interest income on financial assets held for trading are recognised under 'Interest Income' and dividend income is recorded in 'Other Operating Income' according to the terms of the contract, or when the right to the payment has been established. Financial assets held for trading include instruments such as Government and other debt securities and equity instrument that have been acquired principally for the purpose of selling or repurchasing in the near term.

b) Financial assets designated at fair value through Profit or Loss (FVTPL)

Financial assets may be designated by management at fair value through Profit or Loss in the following circumstances:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis or
- The assets are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated and reported on a fair value basis.

Financial assets at fair value through Profit or Loss are recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in 'Net gain or loss on financial instrument designated at fair value through Profit or Loss. Interest earned or incurred is accrued in 'Interest income' using the Effective Interest Rate (EIR), while dividend income is recorded in 'Other Operating Income' when the right to the payment has been established.

3.4.5 Held-to-maturity financial investments

Held-to-maturity financial investments are non–derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity. Subsequent to initial recognition, held to maturity financial investments are measured at amortised cost using the Effective Interest Rate (EIR) less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest income' in the Statement of Profit or Loss. The losses arising from impairment of such investments are recognised in the Statement of Profit or Loss line 'Impairment gain/ (loss) on financial investment'.

If the Group were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as Available - for - Sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the following two years. The Group has not designated any financial instrument as Held-to-Maturity Financial Investment.

3.4.6 Due from banks and loans and receivables from customers

Due from banks and loans & receivables from customers includes non– derivative financial assets with fixed or determinable payments that are not quoted in an active market.

'Due from banks and loans and receivables from customers' includes loans and advances and lease receivables of the Group.

After initial measurement, amounts 'Due from banks' and 'loans and receivables from customers' are subsequently measured at amortised cost using the EIR, less provision for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs which are an integral part of the EIR. The amortisation is included in 'interest income' in the Statement of Profit or Loss. The losses arising from impairment are recognised in the Statement of Profit or Loss in 'impairment charges on loans & other losses'.

3.4.7 Available - for - Sale financial investments

Available - for - Sale investments include equity and debt securities. Equity investments classified as Available - for - Sale are those which are neither classified as held for trading nor designated at fair value through Profit or Loss. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions. The Group has not designated any loans or receivables as Available - for - Sale. After initial measurement, Available - for - Sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in equity through Other Comprehensive Income in the 'Available - for - Sale reserve'. When the investment is disposed off, the cumulative gain or loss previously recognised in Equity is recognised in the Statement of Profit or Loss in 'other operating income'. Where the Group holds more than one investment in the same security, they are deemed to be disposed off on a first–in first–out basis. Interest earned whilst holding Available - for - Sale financial investments is reported as Interest Income using the EIR. Dividends earned whilst holding Available - for - Sale financial investments are recognised in the Statement of Profit or Loss as 'other operating income' when the right to receive the payment has been established. The losses arising from impairment of such investments are recognised in the Statement of Profit or Loss in 'impairment losses on financial investments' and removed from the 'Available - for - Sale reserve'.

3.4.8 Derivative financial instruments

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rate, credit risk and indices. Derivatives are categorised as trading unless they are designated as hedging instruments.

All derivatives are initially recognised and subsequently measured at fair value, with all revaluation gains recognised in Statement of Profit or Loss (except where cash flow or net investment hedging has been achieved, in which case the effective portion of changes in fair value is recognised within other comprehensive income). Fair values may be obtained from quoted market prices in an active markets, recent market transactions and valuation techniques, including discounted cash flow models and option pricing models as appropriate, where the initially recognised fair value of a derivative contract is based on a valuation model that uses the inputs that are not observable in the market, it follows the same initial recognition accounting policy as for other financial assets and liabilities. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments such as the conversion option in a convertible bond holds, are valued as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through Profit or Loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the Statement of Profit or Loss. Embedded derivatives continue to be presented with the host contract and are not separately disclosed or included within derivatives. The Group did not have separate embedded derivatives as at 31st March 2018.

3.4.9 'Day 1' Profit or Loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a 'Day 1' Profit or Loss) in 'Net trading income'.

3.4.10 Reclassification of financial instruments

The Group may reclassify financial assets (other than those designated at FVTPL upon initial recognition), in certain circumstances:

- out of the 'held for trading' category and into the 'Available - for - Sale 'or 'loans and receivables', or 'held to maturity' categories.
- out of the 'Available - for - Sale' category and into the 'loans and receivables', 'held for trading category' or 'held- to-maturity'.

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost. For a financial asset with a fixed maturity reclassified out of the 'Available - for - Sale' category, any previous gain or loss on that asset that has been recognised in Equity is amortised to Profit or Loss over the remaining life of the asset using the EIR. In the case of a financial asset does not have a fixed maturity, the gain or loss is recognised in the Profit or Loss when the financial asset sold or disposed off. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the Statement of Profit or Loss.

Out of the 'held for trading' category and into the 'loans and receivables' category if it meets the definition of loans and receivables and the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the election of management, and is determined on an instrument by instrument basis.

3.4.11 Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement; and either:
- The Group has transferred substantially all the risks and rewards of the asset; or
- The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset, the difference between the carrying amounts of the asset and consideration received and any cumulative gain or loss that had been recognised in the Other Comprehensive Income is recognised in the Profit or Loss. When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass–through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability.

The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

3.4.12 Impairment of financial assets

The Group assesses at each reporting date whether there are any objective evidence that a financial asset or a group of financial assets are impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the Group of financial assets that can be reliably estimated.

Loans, advances to customers, leases and hire-purchases

Losses for impaired loans are recognised promptly when there is an objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment allowances are calculated on individual loans and for groups of loans, this is done collectively. Impairment losses are recorded as charges to the Statement of Profit or Loss. The carrying amount of impaired loans on the reporting date is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised.

Individually assessed loans & advances, leases and Hire purchases
For all loans that are considered individually significant, the Group assesses on a case-by-case basis at each end of the reporting date whether there is any objective evidence that a loan is impaired. The criteria used to determine that there are such objective evidence includes:

- known cash flow difficulties experienced by the borrower;
- past due contractual payments of either principal or interest;
- breach of loan covenants or conditions;
- the probability that the borrower will enter bankruptcy or other financial realisation; and
- a significant downgrading in credit rating by an external credit rating agency.

For those loans where objective evidence of impairment exists, impairment losses are determined by considering the following factors:

- Group's aggregate exposure to the customer;
- the viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
- the amount and timing of expected receipts and recoveries;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the realisable value of security and likelihood of successful repossession; and
- the likely deduction of any costs involved in recovery of amounts outstanding;

Impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate and comparing the present value with the loan's current carrying amount. The impairment allowances on individually significant accounts are reviewed more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

Collectively assessed loans, advances, leases and Hire purchases

Impairment is assessed on a collective basis in two circumstances:

- to cover losses which have incurred but have not yet been identified on loans subject to individual assessment; and
- for homogeneous groups of loans that are not considered as individually significant.

Incurred but not yet identified impairment

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Group has incurred as a result of events occurring before the reporting date which

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the Group is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the Group, those loans are removed from the Group and assessed on an individual basis for an impairment.

The collective impairment allowance is determined after taking into account:

- historical loss experienced in portfolios of similar credit risk; and
- management's experienced judgement as to whether current economic and credit conditions are such that the actual level of inherent losses at the end of the reporting date is likely to be greater or less than that suggested by historical experience.

Homogeneous groups of loans, advances, leases and Hire purchases

Statistical methods are used to determine the impairment losses on a collective basis for homogeneous groups of loans. Losses in these groups of loans are recorded on an individual basis. When individual loans are written off, they are removed from the Group.

Following method is used to calculate historical loss experience on a collective basis:

- Net flow rate method

Under this methodology the movement in the outstanding balance of customers in to bad categories over the period, are used to estimate the amount of loans that will eventually be written off as a result of the events occurring before the end of the reporting date which the Group is not able to identify on an individual loan basis, and that can be reliably estimated.

Under above methodology, loans are grouped into ranges according to the number of days in arrears and statistical analysis is used to estimate the likelihood that loans in each range will progress through the various stages of delinquency and ultimately prove irrecoverable. Current economic conditions and portfolio risk factors are also evaluated when calculating the appropriate level of allowance required for covering inherent loss.

These additional macro and portfolio risk factors may include:

- Recent loan portfolio growth and product mix,
- Unemployment rates, Gross Domestic Production (GDP) growth, inflation
- Exchange rates, interest rates
- Changes in government laws and regulations

Write-off of loan & advances, leases and Hire purchases

Loans, advances, leases and Hire purchases (the related impairment allowance was accounted) are normally written off, either partially or in full, when there are no realistic prospects of recovery. Where such balances are secured, these are generally after receipt of any proceeds from the realisation of security.

Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the impairment allowance account accordingly. The write-back is recognised in the Statement of Profit or Loss.

Available - for - Sale financial investments

For Available - for - Sale financial investments, the Group assesses at each reporting date whether there is an objective evidence that an investment is impaired. In the case of debt instruments classified as available – for - sale, the Group assesses individually whether there is an objective evidence of impairment.

However, the amount recorded for an impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the Statement of Profit or Loss. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income is recorded as part of 'Interest and similar income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the Statement of Profit or Loss, the impairment loss is reversed through the Statement of Profit or Loss. In the case of equity investments classified as Available - for - Sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is an evidence of an impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value less any impairment loss on that investment previously recognised in the Statement of Profit or Loss, is removed from equity and recognised in the Statement of Profit or Loss. Impairment losses on equity investments are not reversed through the Statement of Profit or Loss; increases in the fair value after impairment are recognised in Other Comprehensive Income.

Held-to-maturity financial assets

An impairment loss in respect of held-to-maturity financial assets measured at amortised cost is calculated as the difference between its carrying amount and the present value of estimated future cash flows discounted at the asset's original EIR and is recognised in Statement of Profit or Loss. Interest on impaired assets continues to be recognised through the unwinding of discount. When a subsequent event caused the amount of impairment loss to decrease, the decrease in impairment loss is reversed through Profit or Loss.

Collateral valuation

The Group seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, gold, real estate, receivables, and other non-financial assets. The fair value of the collateral is generally assessed, at a minimum, at inception and based on the guidelines issued by the Central Bank of Sri Lanka.

Non-financial collateral such as real estate, is valued based on data provided by third parties such as independent valuers and other independent sources.

Collateral repossessed

The Group's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

3.5 Repurchase Agreement

Securities purchased under agreements to resell at a specified future date are not recognised in the Statement of Financial Position. The consideration paid including accrued interest, is recorded in the Statement of Financial Position, under 'Other Financial Assets which reflects the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in 'Net interest income' and is accrued over the life of the agreement using the EIR.

If securities purchased under agreement to resell, are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within 'Financial liabilities held for trading' and measured at fair value with any gains or losses included in 'Net trading income'.

3.6 Non – Financial Asset

3.6.1 Property, plant and equipment

Property, plant & equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with LKAS 16 on Property, Plant & Equipment. Initially Property, Plant & Equipment are measured at its cost.

Recognition and measurement

Cost Model

Property, Plant and Equipment is stated at cost except land and building, excluding the costs of day–to–day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the equipment when that cost is incurred, if the recognition criteria are met.

Revaluation Model

Land and buildings are measured at fair value, less depreciation on buildings and impairment charged subsequent to the date of the revaluation. Valuations are performed every 3 to 5 years to ensure that the fair value of revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the Revaluation Reserve included in the Equity of the Statement of Financial Position except to the extent that it reverses a revaluation decrease of the same asset previously recognised in Statement of Profit or Loss. In which case the increase is recognised in Statement of Profit or Loss. A revaluation deficit is recognised in the Statement of Profit or Loss except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset Revaluation Reserve.

Subsequent Cost

These are costs that are recognised in the carrying amount of an asset if it is probable that the future economic benefits embodied within that part of the cost will flow to the Group and it can be reliably measured. The costs of the day-to-day servicing of property and equipment are recognised in Profit or Loss as incurred.

Depreciation

The company has reassessed useful life time and changed the depreciation policy from reducing balance to the straight line method. Further company has applied this changes accordance with LKAS 8-"Accounting Policies and Change in Accounting Estimates and Errors".

The Group provides depreciation from the date the assets are available for use and up to the date of disposal at the following rates on straight line basis over the periods appropriate to the estimated useful lives based on the pattern in which the asset's future economic benefits are expected to be consumed by the Group.

Category of Asset	Rate of Depreciation per annum %
Building	5
Office Equipment	20
Plant & Machinery	20
Furniture & Fittings	12.5
Cutlery & Crockery	20
Motor Vehicles	20
Computers	33.33

Freehold lands are not depreciated. Depreciation of an asset ceases at the earlier of the date that the asset is classified as Held for Sale or the date that the asset is derecognised.

Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

Derecognition

Property, Plant and Equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other Operating Income' in the Statement of Profit or Loss in the year the asset is derecognised.

3.6.2 Intangible assets

The Group's intangible assets include the value of computer software.

Basis of recognition

An intangible asset is recognised if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standards LKAS 38 on 'Intangible Assets'.

Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets are stated in the Statement of Financial Position at cost less accumulated amortisation and accumulated impairment losses, if any.

Expenditure of internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can be reliably measured the costs to complete the development.

Subsequent expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embedded in the specific asset to which it relates.

All other expenditures are expensed as incurred.

Amortisation

Group owned intangible assets are amortised over the period of 10 years unless otherwise stated.

Derecognition of intangible assets

The carrying amount of an item of an intangible asset is derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss arising from de-recognition of an item of intangible asset, is included in the Statement of Profit or Loss when the item is derecognised.

There were no restrictions on the title of the intangible assets as at the reporting date. Further there were no items pledged as securities for liabilities.

Intangible assets reported in note No. 30 only included computer software and cost of licences.

3.6.3 Impairment of non–financial assets

The Group assess at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets, an assessment is made at each reporting date as to whether there are any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Profit or Loss.

3.7 Finance and Operating Leases

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

3.7.1 Finance lease

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as Finance Leases. When the Group is a lessor under finance leases the amounts due under the leases after deduction of unearned charges, are included in 'Lease Receivables to Group's or 'Loans and advances to customers', as appropriate. The finance income receivable is recognised in 'Net Interest Income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

When the Group is a lessee under finance leases, the leased assets are capitalised and included in 'Property, Plant and Equipment' and the corresponding liability to the lessor is included in 'Other Liabilities'. A finance lease and its corresponding liability are recognised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. Finance charges payable are recognised in 'Net Interest Income' over the period of the lease based on the interest rate implicit in the lease so as to give a constant rate of interest on the remaining balance of the liability.

3.7.2 Operating lease

All other leases are classified as an Operating Leases. When acting as lessor, the Group includes the assets subject to operating leases in 'Property, Plant and Equipment' and accounts for them accordingly. Impairment losses are recognised to the extent that residual values are not fully recoverable and the carrying value of the assets is thereby impaired. When the Group is the lessee, leased assets are not recognised on the Statement of Financial Position. Rentals payable and receivable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in 'General and administrative expenses' and 'Other Operating Income', respectively.

3.8 Financial Liabilities

3.8.1 Initial recognition and measurement

Financial liabilities within the scope of LKAS 39 are classified as due to customers (deposits), due to banks, debt issued and other borrowed funds and other financial liabilities as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

The Group classifies financial liabilities as "Other Financial Liabilities" in accordance with the substance of the contractual arrangement and the definitions of financial liabilities.

The Group recognizes financial liabilities in the Statement of Financial Position when the Group becomes a party to the contractual provisions of the financial liability.

3.8.2 Financial liabilities at fair value through Profit or Loss (FVTPL)

Financial liabilities at FVTPL include financial liabilities held-for-trading and financial liabilities designated as such upon initial recognition as at fair value through Profit or Loss. Subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, and changes there in recognised in the Statement of Profit or Loss.

Upon initial recognition, transaction costs are directly attributable to the acquisition, are recognised in Statement of Profit or Loss as incurred. The criteria for designation of financial liabilities at FVTPL upon initial recognition are the same as those of financial assets at FVTPL. The Group has not designated any financial liabilities upon initial recognition as at fair value through Profit or Loss.

3.8.3 Other financial liabilities

Other financial liabilities are included due to customers (deposits), due to banks, debt issued and other borrowed funds. Other financial liabilities are initially measured at fair value less transaction cost that are directly attributable to the acquisition and subsequently measured at amortised cost using the EIR method.

Amortised cost is calculated by taking into account of any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in 'interest expenses' in the Statement of Profit or Loss.

3.8.4 Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid are recognised in Statement of Profit or Loss.

3.9 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made for the amount of the obligation. The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date after taking in to account the risks and uncertainties surrounding the obligation at that date. The expense relating to any provision, is presented in the Statement of Profit or Loss net of any reimbursement.

3.10 Retirement Benefit Obligations

3.10.1 Gratuity

All the employees of the Group are eligible for gratuity under the Payment of Gratuity Act No. 12 of 1983.

Employees those who have resigned or whose services are terminated other than by retirement are eligible to receive the terminal gratuity under the Payment of Gratuity Act No. 12 of 1983 at the rate of half of the gross salary applicable to the last month of the financial year in which the employment is terminated or resigned for each year of completed service, for those who have served in excess of 5 years.

The Group operates an approved non-contributory Gratuity Fund to facilitate the Gratuity payments to the retiring employees of the Group. The Group determines the adequacy of gratuity liability in terms of Payment of Gratuity Act No.12 of 1983. In order to meet this liability, the Group carries forward a provision in the Statement of Financial Position based on:

- Half a month's salary of the last month's salary of the financial year for each completed year of service for all permanent employees who have complete service 5 to 10 years,
- One month's salary of the last month's salary of the financial year for each completed year of service for all permanent employees who completed the service over 10 years but not exceeding 15 years,
- One and half month's salary of the last month's salary of the financial year for each completed year of service for all permanent employees who have completed the service over 15 years but not exceeding 25 years.
- Two months' salary of the last month's salary of the financial year for each completed year of service for all permanent employees who have completed the service over 25 years.

An actuarial valuation is carried out as every year end to ascertain the full liability under gratuity. The valuation was carried out as at 31st March 2018 by M/s Actuarial & Management Consultants (Pvt) Limited, a firm of professional actuaries based on the Projected Unit Credit (PUC) method recommended by the actuarial present value of the defined benefit obligation (PV-DBO) under the PUC method.

Recognition of actuarial losses / gains

The Group recognised the total actuarial gain and losses that arose in calculating the Group's obligation in respect of gratuity in other comprehensive income during the period which it occurred.

Recognition of past service cost (applicable only when a plan has been changed)

Past service cost are recognised as an expense on a straight line basis over the average period until the benefits become vested. If the benefits have already been vested, immediately following the instruction of, or changes to the plan, past service costs are recognised immediately.

Management of the fund's assets

The assets of the Gratuity Fund and the Employees' Provident Fund are held separately from those of the Group and are independently administered by a separate management team appointed by the Group. As at 31st March 2018 fair value of plan assets is Rs. 196,188,217.00(2017 - Rs. 154,218,388.00)

3.10.2 Defined contribution plan

The Group also operates a defined contribution plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Group by the employees and is recorded as an expense under 'Personnel expenses'. Unpaid contributions are recorded as a liability.

The Group contributes to the following schemes:

Employees' Provident Fund (EPF)

The Parent company and employees contribute 20% and 10% respectively of the employee's monthly gross salary to the Employees' Provident Fund.

The Subsidiary company and employee's contribute12% and 8% respectively of the employee's monthly gross salary to the Employees' Provident Fund.

Employees' Trust Fund (ETF)

The Group contributes 3% of the employee's monthly gross salary excluding overtime to the Employees' Trust Fund maintained by the Employees Trust Fund Board.

3.11 Taxation

As per the Sri Lanka Accounting Standard –LKAS 12 on 'Income Taxes' tax expense (Tax income) is the aggregate amount included in determination of Profit or Loss for the period in respect of current and deferred taxes. Income tax expense is recognised in the Statement of Profit or Loss except to the extent it relates to items recognised directly in Equity or in Other Comprehensive Income (OCI), in which case it is recognised in Equity or in OCI.

3.11.1 Current taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year and any adjustment to tax payable in respect of prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the end of the reporting period. Accordingly, provision for taxation is made on the basis of the accounting profit for the year as adjusted for the taxation purpose in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto.

3.11.2 Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose.

Deferred tax assets are recognised for all deductible differences carrying forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised. The carrying amount of a deferred tax asset is reviewed at end of the reporting period and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Unrecognised deferred tax asset are reassessed at end of the reporting period and are recognised to the extent that it is probable that the future taxable profit will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or subsequently enacted at end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority. Deferred tax arising on revaluation gains on freehold land

With the introduction of the new Inland Revenue Act, No 24 of 2017 which will be effective from 01st April 2018, the Company and the Group have recorded the deferred tax liability on the cumulative revaluation gains on freehold land in accordance with the LKAS 12, Income Taxes.

Accordingly, the deferred tax liability arising on revaluation gains on freehold land has been recorded in equity through Other Comprehensive Income during the reporting period.

3.11.3 Value Added Tax on Financial Services (FVAT)

VAT on Financial Services is calculated in accordance with VAT Act No. 14 of 2002 and subsequent amendment thereto. The value base for the computation of Value Added Tax on Financial Services is calculated by adjusting the depreciation computed on rates prescribed by the Department of Inland Revenue to the accounting profit before Income Tax and emoluments payable.

3.11.4 Crop Insurance Levy (CIL)

As per the provisions of the Section 14 of the Finance Act No.12 of 2013, the CIL was introduced with effect from April 01, 2013 and is payable to the National Insurance Trust Fund. Currently CIL is payable at 1% of the profit after tax.

3.11.5 Withholding Tax on Dividends

Withholding tax that arises from the distribution of dividends by the Group is recognised at the time of the liability is payable.

3.11.6 Nations Building Tax (NBT) on Financial Services

With effect from January 01, 2014, NBT rate of 2% was introduced on supply of financial services via an amendment to the NBT Act No. 09 of 2009. NBT is chargeable on the same base used for calculation of VAT on Financial Services.

3.11.7 Economic Service Charge (ESC)

As per provisions of the Economic Service Charge (ESC) Act No. 13 of 2006 and amendments thereto. Currently the ESC is payable on aggregate turnover of the Company at 0.5% and is deductible from income tax payable.

3.12 Commitment and Contingencies

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent Liabilities are not recognised in the Statement of Financial Position but are disclosed unless its occurrence is remote. All discernible risks are accounted for in determining the amount of all known liabilities. Details of commitments and contingencies are given in Note No. 46.

3.13 Recognition of Income and Expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

3.13.1 Interest income and expense

For all financial assets measured at amortised cost, interest bearing financial assets classified as Available - for - Sale and financial instruments designated at fair value through Profit or Loss, interest income or expense is recorded using the EIR method. The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest Income' for financial assets and 'Interest Expense' for financial liabilities.

However, for a reclassified financial asset which the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.13.2 Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Significant Accounting Policies

Fee income earned from services that are provided over a certain period of time
Fees earned from services that are provided over a period of time are accrued over that period. These fees include commission income from asset management, custody and other management and advisory fees.

Fee income from providing transaction services
Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the purchase or sale of business is recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

3.13.3 Dividend income

Dividend income is recognised when the right to receive the payment is established. Usually, this is the ex-dividend date for equity securities. Dividends are presented in the 'Other Operating Income' in Statement of Profit or Loss.

3.13.4 Net Trading Income

Net trading income includes all gains and losses from changes in fair value and related dividends for financial assets and financial liabilities 'held for trading' other than interest income.

3.13.5 Service Income

Revenue from rendering of services is recognised in the accounting period in which the services are rendered or performed.

3.13.6 Dividends on Ordinary Shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Group's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Group. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

3.13.7 Other Income

The recognition of other income is accounted based on accrual basis.

3.14 Statement of Cash Flows

Statement of Cash Flows has been prepared by using the 'Indirect Method', as stipulated in Sri Lanka Accounting Standard - LKAS 7 'Statement of cash Flows'. Cash and cash equivalents comprise short term highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The Cash and cash equivalent include cash in hand and balance in the Group.

3.15 Earnings per Share

The Group presents basic Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period.

3.16 Operating Segments

A business segment is a distinguishable component of the Group, engaged in providing products or services subject to risks and returns that are different from those of other business segments. Operating results of those segments are reviewed regularly by the Board of Directors to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

The primary business format is based on the core business activities of the Group, namely, lease, Hire purchase & consumer durable, loans, pawning, hiring of vehicles, investing in shares, investing in government securities, collaboration finance & others. The management uses its judgement in determining the compositions of these core business activities by taking into account the objective of reporting financial information by segment as set forth in Sri Lanka Accounting Standard, SLFRS 8 "Operating Segments", segment reporting and qualitative characteristics of Financial Statements as identified in the Framework for the Preparation and Presentation of Financial Statements.

The Group's business activities are carried out in Sri Lanka. Consequently, the economic environment in which the Group operates in is not subject to risk and returns that are significantly different on a geographical basis. Hence, disclosure by geographical region has not been provided. For the purpose of segment reporting disclosures, the information presented in respect of the Group's business segments is based on the Group's management and internal reporting structure.

Income recognised in segments is an income which is directly identified and reported in those segments and expenses directly identified to a particular segment are charged accordingly and expenses that cannot be directly identified to a particular segment are allocated on basis decided by the management and applied consistently throughout the period. Unallocated items mainly comprise of head office expenses. Measurement of segments assets, liabilities, segment revenue and results are based on the accounting policies set out below. Segments revenue, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire segments assets that are expected to be used for more than one accounting period.

4. NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE AS AT 31ST MARCH 2018.

The following new accounting standards/ amendments were issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), which are not yet effective as at 31st March 2018 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these Consolidated Financial Statements.

4.1 SLFRS 9 - Financial Instruments

SLFRS 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces LKAS 39 Financial Instruments: Recognition and Measurement. For annual periods beginning on or after 1st April 2018 with early adoption is permitted. This standard introduces new requirements for,

1. Classification and Measurement
2. Impairment
3. Hedge Accounting

The Group has obtained consultation from an external consultant to implement the SLFRS 9. The Group has completed the diagnostic phase (preliminary impact assessment exercise) and implementation phase (solution development) on SLFRS 9. Significant statistical analysis was carried out to identify the method of implementing SLFRS 9. The preliminary assessment of Day 1 impact was carried out. Currently the Group is in the process of refining the model to the accounting policy decisions.

4.1.1 Classification – financial assets

SLFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. SLFRS 9 contains three principal classification categories for financial assets: measured at Amortised Cost, FVOCI and FVTPL. The standard eliminates the existing LKAS 39 categories of held to maturity, loans and receivables and Available - for - Sale.
Based on its assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for loans and advances, lease rentals receivable, Hire purchase rental receivables, other financial assets and other non-financial assets.

4.1.2 Impairment – financial assets and contract assets

SLFRS 9 replaces the 'Incurred Loss' model in LKAS 39 with a forward-looking 'Expected Credit Loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets. SIFRS 9 presents a "three-stage" model for estimating expected losses on the basis of changes in credit quality since initial recognition.

Stage 1: When loans are originated, the Group recognises an allowance based on 12 months ECL and performed assessment collectively. Stage 1 loans also contain the facilities which are reclassified from Stage 2 since the credit risk has improved.

Significant Accounting Policies

Stage 2: When a loan credit risk increases significantly, the Group records an allowance for the Life Time Expected Credit Loss (LTECL), which performed collective basis. Stage 2 loans also include facilities, which are reclassified from stage 3 since the credit risk has improved.

Stage 3: When a loan is considered to be credit impaired, contain objective evidences of incurred loss, the Group records an allowance for the LTECL. Stage 3 assessment will be performed either individually or collectively.

Under SLFRS 9, loss allowances will be measured on either of the following bases:

- 12 month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition. Twelve months ECL measurement applies if it has not increased an entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component. Based on the computations:

- The Group believes that impairment losses are likely to increase and become more volatile for assets in the scope of the SLFRS 9 impairment model.
- The estimated ECLs were calculated based on actual credit loss experience over the past five years.
- The Group performed the calculation of ECL rates separately for each product types.

Exposures within each group were segmented based on common credit risk characteristics such as product type, delinquency status, geographic region, age of relationship and type of product purchased.

The Group to be performed an assessment, at the end of each reporting period to identify whether a financial instrument's credit risk has increased significantly since initial recognition.

Following factors will be considered to transfer group loans from stage 1 to 2.

- Changes in terms of the instrument would be newly originated
- No transfer as long as "low credit risk"
- Significant increase in credit risk on other instruments of the same borrower
- Changes in the entity's credit management (e.g. watch list monitoring)
- Changes in external market indicators (e.g. credit default swaps prices for the borrower)
- Adverse changes in business, financial or economic conditions
- Past due information
- Downgrade of the internal or external rating

Following objective evidence of impairment is considered to transfer out of stage 2 to 3.

- Breach of contract (e.g. past due or default)
- Lenders grant a concession relating to the borrower's financial difficulty

- Significant financial difficulty of the borrower
- Probable bankruptcy or other financial reorganization
- Disappearance of an active market for that financial asset because of financial difficulties
- Purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses

Calculation of ECL

The ECL is calculated by using LGD, PD and EAD. The key elements used to calculate the ECL are as follows:

Probability of default (PD)

Probability of default is computed using transition matrix for last five years and computed average matrix from year 1 to 5. To minimize the sum of squired errors between average matrix and empirical matrix for that year computed a credit index. Regress macro-economic/ other variables to forecast future indexes.

Exposure at default computation (EAD)
End of the period exposure at default is used.

Loss Given Default (LGD)

LGD will be computed by the Group by considering recovery data and realizable values of collaterals.

Actual credit loss experience will be adjusted by scalar factors to reflect differences between economic conditions during the period over which the historical data was collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables. Scalar factors were based on GDP and unemployment rate forecasts and industry outlook.

4.1.3 Classification – Financial liabilities

SLFRS 9 largely retains the existing requirements in LKAS 39 for the classification of financial liabilities. However, under LKAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in Profit or Loss, whereas under SLFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in Profit or Loss.

The Group's assessment did not indicate any material impact regarding the classification of financial liabilities as at 31st March 2018.

4.1.4 Hedge accounting

SLFRS 9 requires the Group to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. SLFRS 9 also introduces new requirements on rebalancing hedge relationships and prohibiting voluntary discontinuation of hedge accounting. Under the new model, it is possible that more risk management strategies, particularly those involving hedging a risk component (other than foreign currency risk) of a non-financial item, will be likely to qualify for hedge accounting. The Group does not currently undertake hedges of such risk components.

4.2. SLFRS 15 Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised and defines principles for recognising revenue. This standard will be applicable to all contracts with customers. However, interest and fee income fundamental to financial instruments and leases will continue to fall outside the scope of SLFRS 15. With the initial evaluation we have identified that fee and commission income are the main sources of income fall in the scope of SLFRS 15. The Group's current assessment has not revealed a significant change to the revenue recognition pattern. However, the Group is currently in the process of evaluating and quantifying the accounting impact and the current systems and processes will be modified where necessary. SLFRS 15 is effective for periods beginning on or after 1st April 2018 with early adoption permitted.

4.3 SLFRS 16 Leases

SLFRS 16 replaces existing leases guidance, including Sri Lanka Accounting Standard LKAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement Contains a Lease", SIC 15 "Operating Leases - Incentives"; and SIC 27 "Evaluating the substance of Transactions Involving the Legal form of a Lease".

SLFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard.

The standard is effective for annual periods beginning on or after 1st January 2019. Early adoption is permitted and the Group is in the process of ascertaining the potential impact on the Consolidation Financial Statements.

Notes to the Financial Statements

For the financial year ended 31st March	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
5. GROSS INCOME				
Interest income (Note 6.1)	6,478,637,880	4,983,138,526	6,481,420,530	4,990,739,316
Fee & commission income (Note No 7)	202,891,784	193,915,241	279,284,773	262,118,381
Net trading income (Note No 8)	3,333,736	12,309,545	3,333,736	13,818,243
Other operating income (Note No. 9)	187,261,017	187,469,813	149,673,127	181,429,926
	6,872,124,417	5,376,833,125	6,913,712,166	5,448,105,866
6. NET INTEREST INCOME				
6.1 Interest Income				
Financial investments - Held for trading	109,237,293	95,018,460	109,237,293	95,018,460
Loans and advances (Note No. 6.1.1)	2,250,881,453	1,709,040,746	2,250,881,453	1,709,040,746
Lease rentals receivable	3,978,641,847	2,933,899,289	3,978,641,847	2,933,899,289
Hire purchase & consumer durables	20,208,561	64,262,481	20,208,561	64,262,481
Financial investments - Available for sale	25,948,503	42,997,528	28,693,596	42,997,528
Repurchase agreements	16,589,251	28,416,649	14,861,380	26,688,778
Placements with banks & other financial institutions	77,130,972	109,503,373	78,896,400	118,832,034
Total interest income	6,478,637,880	4,983,138,526	6,481,420,530	4,990,739,316
6.1.1 Interest Income from Loans & Advances				
Interest income from loans	838,218,729	626,219,311	838,218,729	626,219,311
Interest income from pledge loan	349,599,848	171,631,474	349,599,848	171,631,474
Interest income from gold loan	254,260,958	119,515,442	254,260,958	119,515,442
Interest income from micro finance	808,801,918	791,674,519	808,801,918	791,674,519
	2,250,881,453	1,709,040,746	2,250,881,453	1,709,040,746
6.2 Interest Expenses				
Due to banks	1,297,102,851	944,178,171	1,297,102,851	944,178,171
Due to customers (fixed deposits & savings accounts)	1,488,565,018	1,100,643,273	1,483,795,253	1,100,643,273
Debt instruments issued and other borrowed funds	289,885,133	390,493,495	289,885,133	390,493,495
Other financial liabilities	131,347,559	27,116,911	131,347,559	27,116,911
Total interest expenses	3,206,900,561	2,462,431,850	3,202,130,796	2,462,431,850
Net interest income	3,271,737,319	2,520,706,676	3,279,289,734	2,528,307,466

For the financial year ended 31st March	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
7. FEE AND COMMISSION INCOME				
7.1 Fees and Commission Income				
Commission Income	-	-	76,392,989	67,739,129
Service charges	155,856,237	144,812,992	155,856,237	145,277,003
Transfer fees	35,157,897	33,540,664	35,157,897	33,540,664
Other fees	11,877,650	15,561,585	11,877,650	15,561,585
Total fee and commission income	202,891,784	193,915,241	279,284,773	262,118,381
7.2 Fee and Commission Expenses				
Brokerage	(48,859,669)	(15,330,709)	(48,859,669)	(15,330,700)
Credit related fees	(113,118,146)	(30,158,703)	(113,126,044)	(30,166,103)
Total fee and commission expenses	(161,977,815)	(45,489,412)	(161,985,713)	(45,496,812)
Net fee and commission income	40,913,969	148,425,829	117,299,060	216,621,569
8. NET GAINS /(LOSSES) FROM TRADING				
Profit /(loss) on sale of financial investments held for trading	6,378,862	(798,829)	6,378,862	(798,829)
Profit /(loss) on sale of foreign currencies	(7,718,303)	3,655,211	(7,718,303)	3,655,211
Income from trust investment	-	15,687,956	-	17,196,654
Fair value gain/(loss) on financial investments held for trading	4,673,177	(6,234,793)	4,673,177	(6,234,793)
	3,333,736	12,309,545	3,333,736	13,818,243

Notes to the Financial Statements Contd.

	Company		Group	
	2018	2017	2018	2017
	Rs.	Rs.	Rs.	Rs.
9. OTHER OPERATING INCOME				
Income from investment securities - other investments	43,453,580	13,829,352	5,089,580	7,561,667
Profit/(loss) on disposal of property plant & equipment	1,746,639	13,184,186	1,746,639	13,184,186
Profit on sale of vehicles	21,676,595	13,920,181	21,676,595	13,920,181
Rental income from hiring vehicles	25,614,507	41,322,633	25,614,507	41,322,633
Income from sale of tiles & furniture	753,552	2,932,936	753,552	2,932,936
Bad debt recoveries	48,350,905	53,459,244	48,350,905	53,459,244
Others	45,665,239	48,821,281	46,441,349	49,049,079
Total other operating income	187,261,017	187,469,813	149,673,127	181,429,926

10. IMPAIRMENT CHARGES FOR LOANS AND OTHER LOSSES

	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Impairment Charges / (Write Back)				
Lease rentals receivable	158,087,866	(4,506,728)	158,087,866	(4,506,728)
Hire purchase rentals receivable	(7,977,866)	352,815	(7,977,866)	352,815
Loans and advances	265,493,933	(20,115,961)	265,493,933	(20,115,961)
	415,603,933	(24,269,874)	415,603,933	(24,269,874)
Bad Debts Written off				
Lease rentals receivable	74,508,103	31,754,033	74,508,103	31,754,033
Hire purchase rentals receivable	348,712	3,097,300	348,712	3,097,300
Loans and advances	22,433,599	63,099,240	22,433,599	63,099,240
	97,290,414	97,950,573	97,290,414	97,950,573
	512,894,347	73,680,699	512,894,347	73,680,699

11. PERSONNEL EXPENSES

	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Salaries and bonus	615,785,757	559,421,686	643,711,879	585,223,600
Gratuity charge for the year	34,293,582	31,452,561	34,659,274	31,781,667
Employer's contribution to EPF	101,463,722	95,248,974	102,169,386	95,897,317
Employer's contribution to ETF	15,219,767	14,281,075	15,396,183	14,443,160
Staff welfare	21,230,004	27,022,738	21,817,392	27,556,669
Other allowances & staff related expenses	12,796,754	12,552,432	13,074,520	12,562,331
	800,789,586	739,979,466	830,828,634	767,464,744

	Company		Group	
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.

12. OTHER OPERATING EXPENSES

12.1

Auditors' remuneration	913,100	794,000	1,035,200	895,000
Non audit fees and expenses	72,000	610,000	121,300	657,000
Directors' emoluments and other expenses (12.1.1)	62,795,530	45,505,600	65,995,530	47,105,600
Professional fees	4,833,217	7,425,182	4,833,217	7,425,182
Office administration & establishment expenses	341,355,386	319,025,026	350,684,247	327,407,028
Advertising & business promotion expenses	37,675,286	50,799,219	50,195,842	61,826,201
Motor vehicle running & maintenance	477,842,832	391,695,596	480,660,405	394,167,529
Loss on fair value of unquoted securities	443,487	4,284,655	443,487	4,284,655
Others	127,144,421	115,522,965	129,544,421	118,215,784
	1,053,075,259	935,662,243	1,083,513,649	961,983,979

12.1.1 Directors emoluments and other expenses represents the fees, salaries, allowances and other expenses of both Executive and Non-Executive Directors of the Company.

12.2 Depreciation and Amortisation

Depreciation property, plant and equipment	108,860,544	110,301,757	109,018,674	110,800,935
Amortization of intangible assets	7,218,083	7,472,368	7,218,083	7,522,153
	116,078,627	117,774,125	116,236,757	118,323,088

	Company		Group	
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.

13. TAXATION

13.1 The Major Components of Income Tax Expense

	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Current income tax expenses				
Current tax on profit for the year (Note No. 13.2)	146,231,978	214,222,340	153,242,525	221,197,137
Under/ (over) provision of current taxes in respect of prior years	(127,402,223)	-	(127,402,223)	24,621
Share of income tax expenses for associates	-	3,485,362	-	3,485,362
	18,829,755	217,707,702	25,840,302	224,707,121
Deferred Tax Expenses				
Deferred taxation charge/ (reversal) (Note No. 13.5)	60,480,571	(33,037,690)	60,392,843	(33,172,181)
	79,310,326	184,670,012	86,233,145	191,534,940
Current tax on profit for the year - Subsidiary				
Alfinco Insurance Brokers (Pvt) Ltd			6,922,819	6,864,927
			6,922,819	6,864,927

13.2 Reconciliation of Accounting Profit and Taxable Income

A reconciliation between the tax expense and the accounting profit multiplied by government of Sri Lanka's tax rate for the years ended 31st March 2018 and 2017 is as follows.

	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Accounting profit before income taxation	788,639,433	834,126,830	774,353,482	851,036,194
Tax effect of non deductible expenses	6,241,279,888	10,654,291,035	6,242,405,062	10,657,963,585
Tax effect of other allowable credits	(5,350,145,775)	(10,741,040,230)	(5,357,863,745)	(10,743,821,466)
Tax effect of exempt income	(930,283,414)	17,702,150	(884,366,999)	24,811,462
Tax effect of Tax losses claimed	(227,233,067)	-	(227,233,067)	-
	522,257,065	765,079,785	547,294,733	789,989,775
Tax rate at 28%	28%	28%	28%	28%
Income tax for the year	146,231,978	214,222,340	153,242,525	221,197,137

13.3 Applicable Income Tax Rates

Alfinco Insurance Brokers (Pvt) Ltd	28%
Macbertan (Pvt) Ltd	28%

13.4 Notional Tax Credit for Withholding Tax on Government Securities on Secondary Market Transactions

The Inland Revenue Act No.10 of 2006, provided that a Company which derives interest income from the secondary market transactions in Government Securities (on or after April 1, 2002) would be entitled to a notional tax credit (being one ninth of the net interest income) provided such interest income forms part of the statutory income of the Company for that year of assessment.

Accordingly, the net interest income earned from the secondary market transactions in Government Securities for the year, has been grossed up in the Financial Statements & the resulting notional tax credit amounts to Rs.16.85 Mn (2017 - Rs.16.4 Mn)

13.5 Deferred Tax Expense/(Income)

The following table shows deferred tax expense recorded in the profit or loss due to changes in the deferred tax assets and liabilities.

	Company		Group	
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
Deferred Tax Liabilities				
Defined benefit obligation- Profit or Loss	4,121,567	3,105,698	4,031,760	3,030,919
Other temporary differences	-	8,214,555	-	8,214,555
Accelerated depreciation - Leased assets	2,174,671	-	2,174,671	-
Accelerated depreciation - Owned assets	68,611,239	-	68,611,239	(59,712)
Lease rentals	194,028,177	277,279,325	194,028,177	277,279,325
	268,935,654	288,599,578	268,845,847	288,465,087
Deferred Tax Assets				
Accelerated depreciation - Owned assets	-	22,113,526	(2,079)	22,113,526
Accelerated depreciation - Leased assets	-	12,678,059	-	12,678,059
Other temporary differences	208,687,350	283,348,696	208,687,350	283,348,696
	208,687,350	318,140,281	208,685,271	318,140,281
Total deferred tax expense / (reversal)	60,248,304	(29,540,703)	60,160,576	(29,675,194)
Defined benefit obligation - other comprehensive income	232,267	(2,607,264)	232,267	(2,607,264)
Revaluation of lands	-	(889,723)	-	(889,723)
Deferred tax expense adjusted through profit or loss	60,480,571	(33,037,690)	60,392,843	(33,172,181)

14. EARNINGS PER ORDINARY SHARE

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by weighted average number of ordinary shares outstanding during the year, as per LKAS 33- Earnings Per Share.

	Company		Group	
For the year ended 31 st March	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
Amounts Used as the Numerators:				
Net profit for the year attributable to equity shareholders for basic earnings per ordinary share	709,329,107	649,456,818	681,934,161	653,314,165
Number of Ordinary Shares Used as Denominators for Basic Earnings per share				
Weighted average number of ordinary shares in issue (Note . 14.1)	33,696,000	32,724,000	33,696,000	32,724,000
Basic earnings per ordinary share (Rs.)	21	20	20	20

The Company diluted EPS is equal to the Basic Earning per Ordinary Share since the Company does not have any convertible securities as at the reporting date.

14.1 Weighted Average Number of Ordinary Shares for Basic Earnings per Share

	Outstanding No. of Shares		Weighted average No. of Shares	
	2018	2017	2018	2017
Number of shares in issue as at April 01st,	33,696,000	2,430,000	33,696,000	2,430,000
Add: Number of shares increased as a share split	-	21,870,000	-	21,870,000
	33,696,000	24,300,000	33,696,000	24,300,000
Add: No of shares satisfied in the form of issue and allotment of new shares by using General Reserves	-	8,100,000	-	8,100,000
	33,696,000	32,400,000	33,696,000	32,400,000
Add: No of shares issue and satisfied in the form of issue and allotment of new shares in right issue scheme	-	1,296,000	-	324,000
Weighted average number of ordinary shares for basic earnings per ordinary share calculation	**33,696,000**	**33,696,000**	**33,696,000**	**32,724,000**

	Company		Group	
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.

15. DIVIDENDS

15.1 Declared and Paid During the Year

	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Dividends on ordinary shares:				
Interim dividends Rs.4.15 per share, (2017 , Rs.3.70/-)	139,838,400	124,675,200	139,838,400	124,675,200
Final dividend proposed for				
2018 - Rs.2.25 per share (2017 - Rs.2.20/- per share)	75,816,000	74,131,200	75,816,000	74,131,200
	139,838,400	198,806,400	215,654,400	198,806,400
Dividend Per Share (Rs.)	6.40	5.90	6.40	5.90

The Board of Directors of the Company has recommended the payment of a final dividend of Rs. 2.25 per share to the ordinary shareholders of the Company for the year ended 31st March 2018. (Company declared Rs. 2.20 per share in 2017). Final dividend recommended by the Board is to be approved at the forthcoming Annual General Meeting to be held on 26th June 2018. The Company paid interim dividend of Rs. 4.15 in year 2017/18 and Rs.3.70 per share in 2016/2017.

In accordance with LKAS 10 on 'Events After the Reporting Period', above proposed final dividend have not been recognised as a liability at the end of Financial year.

As at 31st March	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.

16. NET ASSETS VALUE PER ORDINARY SHARE

	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Amount used as the numerator				
Total equity attributable to equity holders of the Company	4,229,847,563	4,064,796,476	4,248,125,618	4,110,440,733
Number of ordinary shares used as the denominator				
Total number of ordinary shares	33,696,000	33,696,000	33,696,000	33,696,000
Net assets value per ordinary share	126	121	126	122

Notes to the Financial Statements Contd.

17. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

Financial instruments are measured on an ongoing basis either at fair value or at amortised cost. The summary of Significant Accounting Policies describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of the financial instruments by category as defined in LKAS 39 on 'Financial Instrument Recognition & Measurement' under the headings of the Statement of Financial Position.

17.1 Company

As at 31st March 2018	Fair Value Through Profit or Loss Rs.	L & R at Amortised Cost Rs.	AFS at Fair Value Rs.	Total Rs.
Financial Assets				
Cash and cash equivalents	-	510,364,191	-	510,364,191
Repurchase agreements	-	638,820,384	-	638,820,384
Placements with banks & financial institutions	-	476,510,425	-	476,510,425
Financial investments - Held for trading	751,264,686	-	-	751,264,686
Loans and advances	-	7,877,246,355	-	7,877,246,355
Lease rentals receivable & stock out on hire	-	17,553,965,443	-	17,553,965,443
Hire purchase rentals receivable & stock out on hire	-	62,388,835	-	62,388,835
Financial investments - Available for sale	-	-	381,521,952	381,521,952
Other financial assets	-	323,549,421	-	323,549,421
Total financial assets	751,264,686	27,442,845,054	381,521,952	28,575,631,691

	Other Financial Liabilities at amortised cost Rs.	Total Rs.
Financial Liabilities		
Due to banks	11,042,104,540	11,042,104,540
Due to customers	13,256,951,431	13,256,951,431
Debt Instruments issued and other borrowed funds	1,645,799,918	1,645,799,918
Derivative financial liabilities	39,238,389	39,238,389
Other financial liabilities	456,262,778	456,262,778
Total financial liabilities	26,440,357,057	26,440,357,057

17.2 Company

As at 31st March 2017	Fair Value Through Profit or Loss Rs.	L & R at Amortised Cost Rs.	AFS at Fair Value Rs.	Total Rs.
Financial Assets				
Cash and cash equivalents	-	250,196,373	-	250,196,373
Repurchase agreements	-	175,849,048	-	175,849,048
Placements with banks & financial institutions	-	1,218,793,508	-	1,218,793,508
Financial investments - Held for trading	1,251,615,776	-	-	1,251,615,776
Loans and advances	-	7,478,467,024	-	7,478,467,024
Lease rentals receivable & stock out on hire	-	15,837,430,513	-	15,837,430,513
Hire purchase rentals receivable & stock out on hire	-	167,597,495	-	167,597,495
Financial investments - Available for sale	-	-	488,324,252	488,324,252
Other financial assets	-	255,578,986	-	255,578,986
Total financial assets	1,251,615,776	25,383,912,947	488,324,252	27,123,852,975

	Other Financial Liabilities at Amortised Cost Rs.	Total Rs.
Financial Liabilities		
Due to banks	11,717,899,355	11,717,899,355
Due to customers	10,087,821,914	10,087,821,914
Debt Instruments issued and other borrowed funds	2,548,225,806	2,548,225,806
Derivative financial liabilities	17,736,580	17,736,580
Other financial liabilities	888,031,755	888,031,755
Total financial liabilities	25,259,715,410	25,259,715,410

Notes to the Financial Statements Contd.

17.3 Group

As at 31st March 2018	Fair Value Through Profit or Loss Rs.	L & R at Amortised Cost Rs.	AFS at Fair Value Rs.	Total Rs.
Financial Assets				
Cash and cash equivalents	-	551,552,815	-	551,552,815
Repurchase agreements	-	638,820,384	-	638,820,384
Placements with banks & financial institutions	-	476,510,425	-	476,510,425
Financial investments - Held for trading	751,264,686	-	-	751,264,686
Loans and advances	-	7,877,373,054	-	7,877,373,054
Lease rentals receivable & stock out on hire	-	17,553,965,443	-	17,553,965,443
Hire purchase rentals receivable & stock out on hire	-	62,388,835	-	62,388,835
Financial investments - Available for sale	-	-	400,570,342	400,570,342
Other financial assets	-	349,638,381	-	349,638,381
Total financial assets	751,264,686	27,510,249,337	400,570,342	28,662,084,365

	Other Financial Liabilities at Amortised Cost Rs.	Total Rs.
Financial Liabilities		
Due to banks	11,053,987,058	11,053,987,058
Due to customers	13,256,951,431	13,256,951,431
Debt Instruments issued and other borrowed funds	1,645,799,918	1,645,799,918
Derivative financial liabilities	39,238,389	39,238,389
Other financial liabilities	473,689,206	473,689,206
Total financial liabilities	26,469,666,002	26,429,666,002

17.4 Group

As at 31st March 2017	Fair Value Through Profit or Loss Rs.	L & R at Amortised Cost Rs.	AFS at Fair Value Rs.	Total Rs.
Financial Assets				
Cash and cash equivalents	-	294,565,160	-	294,565,160
Repurchase agreements	-	175,849,048	-	175,849,048
Placements with banks & financial institutions	-	1,273,186,055	-	1,273,186,055
Financial investments - Held for trading	1,251,615,776	-	-	1,251,615,776
Loans and advances	-	7,478,583,487	-	7,478,583,487
Lease rentals receivable & stock out on hire	-	15,837,430,513	-	15,837,430,513
Hire purchase rentals receivable & stock out on hire	-	167,597,495	-	167,597,495
Financial investments - Available for sale	-	-	501,824,252	501,824,252
Other financial assets	-	291,358,203	-	291,358,203
Total financial assets	1,251,615,776	25,518,569,961	501,824,252	27,272,009,989

	Other Financial Liabilities at Amortised Cost Rs.	Total Rs.
Financial Liabilities		
Due to banks	11,749,382,430	11,749,382,430
Due to customers	10,087,821,914	10,087,821,914
Debt Instruments issued and other borrowed funds	2,548,225,806	2,548,225,806
Derivative financial liabilities	17,736,580	17,736,580
Other financial liabilities	902,782,091	902,782,091
Total financial liabilities	25,305,948,821	25,305,948,821

	Company		Group	
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
18. CASH AND CASH EQUIVALENTS				
Cash in hand	55,992,471	34,590,652	55,992,471	34,596,652
Balances with banks	454,371,720	215,605,721	495,560,344	259,968,508
	510,364,191	250,196,373	551,552,815	294,565,160
19. FINANCIAL INVESTMENTS - HELD FOR TRADING				
Government of Sri Lanka treasury bills	544,527,194	1,053,340,388	544,527,194	1,053,340,388
Quoted equity securities (Note 19.1)	206,737,492	198,275,388	206,737,492	198,275,388
	751,264,686	1,251,615,776	751,264,686	1,251,615,776

19.1 Quoted Equities

	2018 Company & Group			2017 Company & Group		
	No of Shares	Cost of Investment Rs.	Fair Value Rs.	No of Shares	Cost of Investment Rs.	Fair Value Rs.
Banks, Finance & Insurance						
Central Finance Co PLC	31,000	4,084,490	3,096,900	31,000	4,084,490	2,672,200
Ceylinco Insurance PLC - non voting	1,500	602,749	1,500,000	1,500	602,749	1,230,000
Commercial Bank - non voting	79	9,233	8,216	78	9,093	8,042
Hatton National Bank PLC	29,783	6,652,662	7,326,618	25,000	5,591,699	5,632,500
LB Finance PLC	-	-	-	40,000	5,079,990	4,736,000
Merchant Bank of Sri Lanka PLC	385	718,750	4,928	385	718,750	4,158
National Development Bank PLC	15,522	2,199,950	2,064,426	-	-	-
People's Leasing Company PLC	529,800	12,043,920	8,317,860	529,800	12,043,920	8,264,880
Sanasa Development Bank PLC	38,741	5,929,554	4,164,658	40,867	6,162,667	4,045,833
Seylan Bank PLC	137,598	15,030,690	11,651,799	131,525	14,462,307	11,442,675
Seylan Bank PLC-non voting	52,773	3,681,714	2,876,129	49,000	3,468,416	2,680,300
Sinhaputhra Finance PLC -preference	50,000	125,000	375,000	50,000	125,000	405,000
Union Bank PLC	91,764	2,366,190	1,174,579	91,764	2,366,190	1,303,049
		53,444,902	42,561,113		54,715,271	42,424,637

	2018 Company & Group			2017 Company & Group		
	No of Shares	Cost of Investment Rs.	Fair Value Rs.	No of Shares	Cost of Investment Rs.	Fair Value Rs.
Land & Property						
East West Properties PLC	2,149,885	32,440,675	41,707,769	1,867,153	28,371,773	26,326,857
		32,440,675	41,707,769		28,371,773	26,326,857
Hotels & Travels						
Browns Beach Hotels PLC	100,000	2,231,637	1,460,000	100,000	2,231,637	2,130,000
Ceylon Hotels Corporation PLC	53,331	2,139,964	799,965	50,900	2,139,964	977,280
Dolphin Hotels PLC	135,000	7,245,218	3,510,000	129,038	7,012,700	4,064,697
Hotel Sigiriya PLC	35,000	3,539,200	2,198,000	35,000	3,539,200	3,405,500
Jetwing Symphony PLC	750,000	8,250,000	10,125,000	-	-	-
Mahaweli Reach Hotels PLC	71,928	2,970,734	1,244,354	71,928	2,970,734	1,366,632
The Nuwara Eliya Hotels Company PLC	327	455,040	440,404	300	455,040	434,910
Serendib Hotels PLC -non voting	14,510	334,376	217,650	14,510	334,376	290,200
Sigiriya Village Hotels PLC	64,902	6,779,287	2,667,472	64,902	6,779,287	3,861,669
Taj Lanka Hotels PLC	17,800	997,893	300,820	17,800	997,893	373,800
Tangerine Beach Hotels PLC	7,516	630,813	340,475	7,516	630,813	447,202
		35,574,162	23,304,140		27,091,644	17,351,890
Manufacturing						
ACL Cables PLC	10,000	635,515	410,000	-	-	-
Alumex PLC	250,000	4,550,400	4,225,000	250,000	4,550,400	4,750,000
Central Industries PLC	200,000	11,764,452	7,860,000	200,000	11,764,452	8,800,000
Lanka Aluminum Industries PLC	10,000	1,152,728	638,000	10,000	1,152,728	678,000
Regnis Lanka PLC	29,410	3,622,634	2,946,882	100,000	12,317,694	13,490,000
Tokyo Cement PLC - Non voting	26,400	498,319	1,214,400	22,000	498,319	1,166,000
		22,224,048	17,294,282		30,283,593	28,884,000
Trading						
Singer Sri Lanka PLC	91,215	3,675,127	3,648,600	30,405	3,675,127	4,253,807
	91,215	3,675,127	3,648,600	-	3,675,127	4,253,807

Notes to the Financial Statements Contd.

19.1 Quoted Equities Contd.

	2018			2017		
	Company & Group			Company & Group		
	No of Shares	Cost of Investment Rs.	Fair Value Rs.	No of Shares	Cost of Investment Rs.	Fair Value Rs.
Investment Trusts						
Renuka Holdings PLC	674,529	23,042,074	13,490,580	674,529	23,042,074	13,625,486
Lee Hedges PLC	284,800	17,621,544	23,923,200	272,700	16,714,244	17,725,500
		40,663,618	37,413,780		39,756,318	31,350,986
Diversified Holdings						
Aitken Spence PLC	354,551	36,661,167	18,082,101	354,551	36,661,167	19,925,766
Hayleys PLC	35,000	12,386,795	7,007,000	35,000	12,386,795	9,275,000
John Keells Holdings PLC	105	19,025	16,800	105	19,025	12,687
Richard Pieris Company PLC	-	-	-	250,000	2,175,000	2,075,000
		49,066,987	25,105,901		51,241,987	31,288,453
Plantations						
Horana Plantations PLC	25,000	1,873,625	550,000	25,000	1,873,625	412,500
Kegalle Plantations PLC	37,100	8,266,496	2,444,890	37,100	8,266,496	1,929,200
		10,140,121	2,994,890		10,140,121	2,341,700
Construction & Engineering						
Access Engineering PLC	21,500	500,038	440,750	21,500	500,038	511,700
MTD Walkers PLC	45,000	2,803,621	922,500	45,000	2,803,621	1,575,000
Colombo Dockyard PLC	6,580	1,232,107	546,140	6,580	1,232,107	500,080
		4,535,766	1,909,390		4,535,766	2,586,780
Power & Energy						
Lanka IOC PLC	25,000	1,302,426	752,500	25,000	1,302,426	725,000
Mackwoods Energy PLC	100,000	1,399,997	210,000	100,000	1,399,997	240,000
		2,702,423	962,500		2,702,423	965,000
Motors						
C M Holding PLC	2,285	800,794	168,633	2,285	800,794	171,146
Diesel & Motor Engineering PLC	17,500	19,143,781	8,135,750	17,500	19,143,781	9,798,250
United Motors PLC	6,819	668,851	518,244	6,819	668,851	531,882
		20,613,426	8,822,627		20,613,426	10,501,278
Chemicals & Pharmaceuticals						
CIC Holdings PLC	25,000	1,320,665	1,012,500	-	-	-
		1,320,665	1,012,500		-	-
Total Investment		276,401,921	206,737,492		273,127,447	198,275,388

For the financial year ended 31st March	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.

20. LOANS AND ADVANCES

	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Term loan receivable	3,456,171,138	3,703,425,411	3,456,171,138	3,703,425,411
Gold loans	1,183,219,907	467,625,639	1,183,219,907	467,625,639
Pledge loans	1,308,844,192	1,554,678,053	1,308,844,192	1,554,678,053
Microfinance loans	2,170,441,301	1,789,242,332	2,170,441,301	1,789,242,332
Loans against fixed deposits	135,206,079	69,187,156	135,206,079	69,187,156
Staff loans (Note 20.3)	4,151,358	8,385,380	4,278,058	8,501,843
Operating lease debtors	-	1,216,740	-	1,216,740
	8,258,033,975	7,593,760,711	8,258,160,675	7,593,877,174
Less : Allowance for impairment losses (Note 20.1 & 20.2)	(380,787,620)	(115,293,687)	(380,787,621)	(115,293,687)
Net loans and advances	7,877,246,355	7,478,467,024	7,877,373,054	7,478,583,487

20.1 Allowances for Impairment Losses

	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
As at 01st April	115,293,687	135,409,648	115,293,687	135,409,648
Charge / (Reversal) for the year	265,493,933	(20,115,961)	265,493,933	(20,115,961)
As at 31st March	380,787,620	115,293,687	380,787,620	115,293,687

20.2 Loan Category Wise Allowances for Impairment Losses

	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Term loan receivable	105,966,283	19,839,527	105,966,283	19,839,527
Gold loans	27,968,381	17,127,518	27,968,381	17,127,518
Pledge loans	117,741,501	4,000,535	117,741,502	4,000,535
Micro finance loans	129,111,455	74,326,107	129,111,455	74,326,107
	380,787,620	115,293,687	380,787,621	115,293,687

20.3 Staff Loans Include Loans Granted to Company Officers, the Movement of which is as Follows :

	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
As at the beginning of the year	8,385,380	12,087,643	8,501,843	12,194,158
Loans granted during the year	20,171,554	17,042,477	20,171,554	17,158,940
Repayments during the year	(24,405,576)	(20,744,740)	(24,395,339)	(20,851,255)
As at the end of the year	4,151,358	8,385,380	4,278,058	8,501,843

	Company		Group	
	2018	2017	2018	2017
	Rs.	Rs.	Rs.	Rs.
21. LEASE RENTALS RECEIVABLE & STOCK OUT ON HIRE				
Gross rentals receivables				
- Lease rentals	23,546,676,458	20,760,052,332	23,546,676,458	20,760,052,332
- Amounts receivable from hirers	847,617,275	628,529,065	847,617,275	628,529,065
	24,394,293,733	21,388,581,397	24,394,293,733	21,388,581,397
Less: Unearned income	(6,486,875,230)	(5,355,785,690)	(6,486,875,230)	(5,355,785,690)
Net rentals receivables	17,907,418,503	16,032,795,707	17,907,418,503	16,032,795,707
Less : Allowance for impairment losses (Note 21.1)	(353,453,060)	(195,365,194)	(353,453,060)	(195,365,194)
Total net rentals receivable (Note 21.2 & 21.3)	17,553,965,443	15,837,430,513	17,553,965,443	15,837,430,513

21.1 Allowances for Impairment Losses

	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
As at 01st April	195,365,194	199,871,922	195,365,194	199,871,922
Charge / (Reversal) for the year	158,087,866	(4,506,728)	158,087,866	(4,506,728)
As at 31st March	353,453,060	195,365,194	353,453,060	195,365,194

21.2 Company & Group

As at 31st March 2018	**Within one year**	**1 - 5 years**	**Over 5 years**	**Total**
	Rs.	Rs.	Rs.	Rs.
Gross rentals receivables				
- Lease rentals	1,067,933,896	22,478,742,562	-	23,546,676,458
- Amount receivable from hirers	250,218,734	597,398,541	-	847,617,275
	1,318,152,630	23,076,141,103	-	24,394,293,733
Less: Unearned income	(100,731,826)	(6,386,143,404)	-	(6,486,875,230)
Net rentals receivables	1,217,420,804	16,689,997,699	-	17,907,418,503
Less : Allowance for impairment losses				(353,453,060)
Total net rentals receivable				17,553,965,443

21.3 Company & Group

As at 31st March 2017	Within one year Rs.	1 - 5 years Rs.	Over 5 years Rs.	Total Rs.
Gross rentals receivables				
- Lease rentals	8,087,004,947	12,659,561,924	13,485,461	20,760,052,332
- Amounts receivable from hirers	616,802,215	11,726,850	-	628,529,065
	8,703,807,162	12,671,288,774	13,485,461	21,388,581,397
Less: Unearned income	(2,826,836,890)	(2,528,948,800)	-	(5,355,785,690)
Net rentals receivables	**5,876,970,272**	**10,142,339,974**	**13,485,461**	**16,032,795,707**
Less : Allowance for impairment losses				(195,365,194)
Total net rentals receivables				**15,837,430,513**

Lease rentals receivables include receivables amounting to Rs. 6,476,675,302 that have been assigned under a securitisation funding arrangement.

	Company		Group	
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
22. HIRE PURCHASE RENTALS RECEIVABLE & STOCK OUT ON HIRE				
Gross Rentals Receivables	38,124,722	132,270,625	38,124,722	132,270,625
- Amounts receivable from hirers	32,627,925	70,609,450	32,627,925	70,609,450
	70,752,647	202,880,075	70,752,647	202,880,075
Less: Unearned income	(3,818,426)	(22,759,328)	(3,818,426)	(22,759,328)
Net rentals receivables	66,934,221	180,120,747	66,934,221	180,120,747
Less : Allowance for impairment losses (Note 22.1)	(4,545,386)	(12,523,252)	(4,545,386)	(12,523,252)
Total net rentals receivable (Note 22.2 & 22.3)	62,388,835	167,597,495	62,388,835	167,597,495
22.1 Allowance for Impairment Losses				
As at 01st April	12,523,252	12,170,437	12,523,252	12,170,437
Charge / (Reversal) for the year	(7,977,866)	352,815	(7,977,866)	352,815
As at 31st March	4,545,386	12,523,252	4,545,386	12,523,252

Notes to the Financial Statements Contd.

22.2 Company & Group

As at 31st March 2018	Within one year Rs.	1 - 5 years Rs.	Over 5 years Rs.	Total Rs.
Gross rentals receivables				
- Hire purchase rentals	17,769,296	20,355,426	-	38,124,722
- Amounts receivable from hirers	31,868,069	759,855	-	32,627,925
	49,637,365	21,115,281	-	70,752,647
Less: Unearned income	(978,205)	(2,840,221)	-	(3,818,426)
Net rentals receivables	48,659,160	18,275,060	-	66,934,221
Less : Allowance for impairment losses				(4,545,386)
Total net rentals receivable				62,388,835

22.3 Company & Group

As at 31st March 2017	Within one year Rs.	1 - 5 years Rs.	Over 5 years Rs.	Total Rs.
Gross rentals receivables				
- Hire purchase rentals	83,636,099	48,634,526	-	132,270,625
- Amounts receivable from hirers	70,141,740	467,710	-	70,609,450
	153,777,839	49,102,236	-	202,880,075
Less: Unearned income	(18,602,572)	(4,156,756)	-	(22,759,328)
Net rentals receivables	135,175,267	44,945,480	-	180,120,747
Less : Allowance for impairment losses				(12,523,252)
Total net rentals receivable				167,597,495

Hire purchase receivables include receivables amounting to Rs.13,266,352 that have been assigned under a securitization funding arrangement.

	Company		Group	
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.

23. FINANCIAL INVESTMENTS - AVAILABLE FOR SALE

	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Government of Sri Lanka treasury bonds	380,942,702	480,606,722	380,942,702	480,606,722
Unquoted equities (Note 23.1)	579,250	7,517,531	19,627,640	21,017,531
	381,521,952	488,124,253	400,570,342	501,624,253

23.1 Unquoted equities

	2018		2017	
	Cost of Investment Rs.	Fair Value Rs.	Cost of Investment Rs.	Fair Value Rs.
Company & Group				
Comp Trust Equity Fund	200,500	200,500	200,500	200,500
Commercial Fund Management	1,500	1,500	1,500	1,500
Shaw Wallace Ceylon Ltd	11,544	11,544	11,544	11,544
Alliance Agencies Ltd	75,300	75,300	75,300	75,300
Ceylon Japan Industries Ltd	1	1	1	1
Orient Food Processing (Lanka) Ltd	1	1	1	1
Trigem Knitwear Ltd	1	1	1	1
Credit Information Bureau of Sri Lanka	25,400	25,400	25,400	25,400
Finance House Consortium (Pvt) Ltd	200,000	200,000	200,000	200,000
Orient Hotels Ltd	1	1	1	1
Ranweli Holiday Resorts Ltd	65,001	65,001	65,001	65,001
Jetwing Symphony Ltd	-	-	8,250,000	6,494,795
Nation Lanka Equities (Pvt) Ltd	8,785,740	1	8,785,740	443,487
Total	9,364,989	579,250	17,614,989	7,517,531
Unquoted equities of associates				
Macbertan (Pvt) Ltd	19,048,390	19,048,390	13,500,000	13,500,000
Total	28,413,379	19,627,640	31,114,989	21,017,531

During the year Jetwing Symphony Ltd listed in the Colombo Stock Exchange. Therefore the Company has changed the recognition of available for sale financial assets to held for trading according to the Company policy.

Notes to the Financial Statements Contd.

	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
24. OTHER TRADING STOCKS				
Real estate stock	52,238,000	-	52,238,000	-
Vehicle stock	88,548,132	9,775,936	88,548,132	9,775,936
	140,786,132	9,775,936	140,786,132	9,775,936
25. OTHER FINANCIAL ASSETS				
Collaboration debtors	24,462,573	6,239,880	24,462,573	6,239,880
Other receivables	299,086,848	249,539,106	325,175,808	285,318,320
	323,549,421	255,778,986	349,638,381	291,558,200
26. OTHER NON FINANCIAL ASSETS				
Pre-paid expenses	111,082,262	110,457,074	111,529,770	110,457,074
Stationery stock account	3,128,438	5,226,639	3,128,438	5,226,639
VAT payables/recoverable	1,327,783	2,655,565	1,327,783	2,674,876
	115,538,483	118,339,278	115,985,991	118,358,589

27. INVESTMENT IN ASSOCIATES

Equity Method	% Holding	Carrying Value 01.04.2017 Rs.	Profit/(loss) Share Rs.	Dividend Received Rs.	Change of Interest Rs.	Carrying Value 31.03.2018 Rs.
Macbertan (Pvt) Ltd	19.51%	68,762,442	(359,463)	-	(11,040,075)	57,362,904
		68,762,442	(359,463)	-	(11,040,075)	57,362,904

Equity Method	% Holding	Carrying Value 01.04.2016 Rs.	Profit/(loss) Share Rs.	Dividend Received Rs.	Change of Interest Rs.	Carrying Value 31.03.2017 Rs.
Macbertan (Pvt) Ltd	24.71%	65,834,956	7,414,389	(4,486,903)	-	68,762,442
		65,834,956	7,414,389	(4,486,903)	-	68,762,442

Note - a (i)

Alliance Finance Company PLC shareholding of Macbertan (Pvt) Ltd has changed from 24.71% to 19.51% in year 2017, due to the issue of new shares to other investors. Accordingly loss of Rs.11,040,075/- has been charged to the Profit & Loss. However Company remains significant control over the associate.

b) Cost Method

	No. of Ordinary Shares	2018 Cost of Investment Rs.	2017 Cost of Investment Rs.
Macbertan (Pvt) Ltd	1,720,000	17,200,000	17,200,000
		17,200,000	17,200,000

c) Summary Financial Information of the Investment in Associates

	2018 Rs.	2017 Rs.
Total assets	709,600,402	746,712,867
Total liabilities	415,567,396	468,149,932
Net assets	294,033,006	278,562,935
Revenue	891,159,587	936,555,178
Profits/(loss)	(3,094,359)	30,017,771

	Principal Activity	% Holding	Cost of Investment Rs.

28. INVESTMENT IN SUBSIDIARIES

Alfinco Insurance Brokers (Pvt) Ltd	Insurance Brokering	63.94%	16,924,038

Alfinco Insurance Brokers (Pvt) Ltd not quoted in Colombo Stock Exchange.

Summarised Financial Information of Subsidiary

As at 31st March	2018 Rs.	2017 Rs.
Alfinco Insurance Brokers (Pvt) Ltd		
Net operating income	84,721,514	41,683,839
Less: operating expenses	(60,643,465)	(17,606,769)
Profit before taxes	24,078,049	24,077,070
Less: Taxes	(6,922,819)	(6,866,041)
Profit after tax	17,155,230	17,211,029
Assets	130,463,401	157,971,398
Liabilities	70,207,168	60,110,193
Equity	60,256,233	97,914,472

Gross Carrying Amounts	Balance As at 01.04.2017 Rs.	Transfers / Written off Rs.	Additions Rs.	Disposals Rs.	Balance As at 31.03.2018 Rs.

29. PROPERTY, PLANT AND EQUIPMENT

29.1 Company

	Balance As at 01.04.2017 Rs.	Transfers / Written off Rs.	Additions Rs.	Disposals Rs.	Balance As at 31.03.2018 Rs.
Cost / Valuation					
Freehold Assets					
Land	1,566,260,063	-	55,090,500	-	1,621,350,563
Buildings	140,658,356	-	-	-	140,658,356
Furniture & fittings	64,410,311	-	4,733,866	(77,987)	69,066,190
Equipment	164,864,114	(311,577)	31,966,213	(1,935,039)	194,583,711
Motor vehicles & accessories	304,268,085	-	94,555,771	(52,045,320)	346,778,536
Computers	104,697,725	311,577	7,274,700	(430,500)	111,853,502
Antiques	25,580	-	-	-	25,580
	2,345,184,234	-	193,621,051	(54,488,846)	2,484,316,438
Depreciation					
Freehold Assets					
Land	-	-	-	-	-
Buildings	4,115,346	-	7,019,678	-	11,135,024
Furniture & fittings	11,870,756	-	7,377,270	(18,216)	19,229,810
Equipment	38,161,686	-	34,590,194	(767,482)	71,984,398
Motor vehicles & accessories	134,673,222	-	24,268,043	(13,548,141)	145,393,124
Computers	33,450,028	-	35,605,359	(209,204)	68,846,183
Antiques	-	-	-	-	-
	222,271,038	-	108,860,545	(14,543,043)	316,588,539
Net book value					
Land	1,566,260,063				1,621,350,563
Buildings	136,543,010				129,523,332
Furniture & fittings	52,539,555				49,836,380
Equipment	126,702,428				122,599,313
Motor vehicles & accessories	169,594,863				201,385,412
Computers	71,247,697				43,007,319
Antiques	25,580				25,580
	2,122,913,196				2,167,727,899
Total Value of Depreciable Assets	2,122,913,196				2,167,727,899

Gross Carrying Amounts	Balance As at 01.04.2017 Rs.	Transfers / Written off Rs.	Additions Rs.	Disposals Rs.	Balance As at 31.03.2018 Rs.

29. PROPERTY, PLANT AND EQUIPMENT (Contd.)

29.2 Group

Cost / Valuation					
Freehold Assets					
Land	1,566,260,063	-	55,090,500	-	1,621,350,563
Buildings	140,658,356	-	-	-	140,658,356
Furniture & fittings	65,399,465	-	4,733,866	(77,987)	70,055,344
Equipment	167,261,187	(311,577)	31,966,213	(1,935,039)	196,980,784
Motor vehicles & accessories	304,268,085	-	94,555,771	(52,045,320)	346,778,536
Computers	105,609,405	311,577	7,403,150	(430,500)	112,893,632
Antiques	25,580	-	-	-	25,580
	2,349,482,141	-	193,749,500	(54,488,846)	2,488,742,795
Depreciation					
Freehold Assets					
Land	-	-	-	-	-
Buildings	4,115,346	-	7,019,678		11,135,024
Furniture & fittings	12,765,017	-	7,414,712	(18,216)	20,161,513
Equipment	40,368,901	-	34,687,764	(767,482)	74,289,183
Motor Vehicles & accessories	134,673,222	-	24,268,044	(13,548,141)	145,393,124
Computers	34,322,981	-	35,628,477	(209,204)	69,742,253
Antiques	-	-	-	-	-
	226,245,467	-	109,018,674	(14,543,043)	320,721,098
Net book value					
Land	1,566,260,063				1,621,350,563
Buildings	136,543,011				129,523,332
Furniture & fittings	52,634,448				49,893,831
Equipment	126,892,286				122,691,601
Motor vehicles & accessories	169,594,863				201,385,412
Computers	71,286,424				43,151,379
Antiques	25,580				25,580
	2,123,236,675				2,168,021,698
Working progress	-				-
Total Value of Depreciable Assets	2,123,236,675				2,168,021,698

29.3 Revaluation of Fixed Assets

The Company revalued its land and buildings as at 31st March 2017, adopting and open market comparable basis of valuation by Ms. W.A.T.I.P. Jayathilake & Company and Ms. K. T. Nihal & Company being Independent, professional Valuers with recent experience in the location category of the Property being valued.

29.4 Measurement of Fair Values

29.4.1 Fair Value Hierarchy

The fair value measurement for freehold lands have been categorized as a Level 3 fair value based on the input to the valuation technique used.

29.4.2 The carrying amount of Company's revalued assets that would have been included in the Financial Statements had the assets been carried at cost less depreciation are as follows;

Carrying value at Cost	Cost As At 31.03.2018 Rs.	Accumulated Depreciations As At 31.03.2018 Rs.	Net Book Value As At 31.03.2018 Rs.
Land	174,165,022	-	174,165,022
Building	36,250,927	16,185,148	20,065,779
	210,415,949	16,185,148	194,230,801

Carrying value at Revaluation	Revalued Amount As At 31.03.2018 Rs.	Accumulated Depreciations As At 31.03.2018 Rs.	Net Book Value As At 31.03.2018 Rs.
Land	1,345,770,000	-	1,345,770,000
Building	58,808,150	2,940,408	55,867,743
	1,404,578,150	2,940,408	1,401,637,743

Location	Extent (Purchases)	Cost or Revaluation of Land Rs.	Building (Square Feet)	Cost or Revaluation of Building Rs.	Total Value Rs.
29.4.3 Details of Freehold Land and Buildings as at 31st March 2018					
No 84 Ward Place Colombo - 7	37.33 P	708,500,000	6,967	8,187,200	716,687,200
No. 199/11, Obesekara Crescent, Rajagiriya Road, Rajagiriya	165 P	412,500,000	16,508	19,148,250	431,648,250
No.98, Ward Place, Colombo - 7	19.41 P	224,770,000	8,460	31,472,700	256,242,700
No.152, Batapadura Watta Road, Siyambalagoda	28 P	732,470	-	-	732,470
No.720, Kotte Road, Rajagiriya	33.85 P	130,253,800	-	-	130,253,800
No.722, Kotte Road, Rajagiriya	23.26 P	89,503,793	16,660	81,850,207	171,354,000
No. 199/10, Obesekara Crescent, Rajagiriya Road, Rajagiriya	23 P	55,090,500	-	-	55,090,500
Freehold Land and Building		1,621,350,563		140,658,357	1,762,008,920

29.5 During the financial year, the Company acquired Property, Plant & Equipment to the aggregate value of Rs. 193,621,051/- (2016/17 - Rs. 64,907,810/-) and payment made by cash.

29.6 There aren't any temporarily idling assets as at 31st March 2018.

29.7 The cost of the fully depreciated / amortised property, plant and equipment and intangible assets of the Company which are still in use as at the end of the reporting date is as follows:

	Company		Group	
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
Motor vehicles	23,308,551	21,154,787	26,661,039	21,410,009
Softwares -Intangible assets	6,808,933	-	8,361,933	-
	30,117,484	21,154,787	35,022,972	21,410,009

	Balance As at 31.03.2017 Rs.	Additions Rs.	Balance As at 31.03.2018 Rs.

30. INTANGIBLE ASSETS

30.1 Company

	Balance As at 31.03.2017 Rs.	Additions Rs.	Balance As at 31.03.2018 Rs.
Gross Carrying Amounts of Freehold and Leasehold Assets			
Cost / Valuation			
Computer software - Freehold	47,229,210	14,466,327	61,695,537
Computer software - Leasehold	26,251,500	-	26,251,500
	73,480,710	14,466,327	87,947,037
Amortization			
Computer software - Freehold	21,794,462	4,592,933	26,387,395
Computer software - Leasehold	2,187,625	2,625,150	4,812,775
	23,982,087	7,218,083	31,200,170
Net book value			
Computer software - Freehold	25,434,748		35,308,142
Computer software - Leasehold	24,063,875		21,438,725
	49,498,623		56,746,867

30.2 Group

	Balance As at 31.03.2017 Rs.	Additions Rs.	Balance As at 31.03.2018 Rs.
Gross Carrying Amounts of Freehold and Leasehold Assets			
Cost / Valuation			
Computer software - Freehold	48,782,210	14,466,327	63,248,537
Computer software - Leasehold	26,251,500	-	26,251,500
	75,033,710	14,466,327	89,500,037
Amortization			
Computer software - Freehold	23,347,462	4,592,933	27,940,395
Computer software - Leasehold	2,187,625	2,625,150	4,812,775
	25,535,087	7,218,083	32,753,170
Net book value			
Computer software - Freehold	25,434,748		35,308,142
Computer software - Leasehold	24,063,875		21,438,725
	49,498,623		56,746,867

	Company		Group	
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
31. DUE TO BANKS				
Bank overdrafts	232,447,868	441,798,937	244,330,384	473,282,013
Securitised borrowings and other facilities (Note 31.1, 31.2 & 31.3)	10,800,496,933	11,260,316,697	10,800,496,935	11,260,316,697
Finance lease (31.4)	9,159,739	15,783,720	9,159,739	15,783,720
Total	11,042,104,540	11,717,899,354	11,053,987,058	11,749,382,430

31.1 Securitised Borrowings

Company and Group	As at 01.04.2017 Rs.	Loans Obtained Rs.	Interest Recognised Rs.	Repayments Rs.	As at 31.03.2018 Rs.	Period	Security
Deutsche Bank Trust - 28	741,737,642	-	50,482,342	391,231,540	400,988,445	48 Months	Lease receivables
Deutsche Bank Trust - 29	140,057,970	-	7,080,212	119,961,315	27,176,867	36 Months	Lease receivables
Deutsche Bank Trust - 30	674,309,257	-	76,318,385	34,045,245	716,582,396	48 Months	Lease receivables
BOC Trust 01	470,553,641	-	34,836,772	378,105,207	127,285,206	30 Months	Lease receivables
	2,026,658,510	-	168,717,711	923,343,307	1,272,032,914		

31.2 Direct Bank Borrowings

Term Loans	As at 01.04.2017 Rs.	Loans Obtained Rs.	Interest Recognised Rs.	Repayments Rs.	As at 31.03.2018 Rs.	Period	Security
BOC	1,087,658,337	290,000,000	105,905,790	1,124,591,905	358,972,222	24 Months	Lease receivables
Cargills Bank Limited	186,342,594	-	21,729,695	68,951,914	139,120,375	60 Months	Lease receivables
Commercial Bank of Ceylon PLC	94,444,447	58,000,000	9,196,500	161,640,947	-	36 Months	Land & building
DFCC Bank	-	250,000,000	19,317,235	48,483,902	220,833,333	96 Months	Lease receivables
DFCC Bank - PCI Loan	100,661,357	-	8,543,688	24,053,597	85,151,448	180 Months	Nil
Hatton National Bank PLC	104,090,000	-	8,534,948	58,574,948	54,050,000	48 Months	Lease receivables
Lankaputhra Development Bank	-	100,000,000	7,861,302	91,194,635	16,666,667	48 Months	Lease receivables
NDB Bank PLC	451,980,000	2,200,000,000	109,067,740	1,657,953,630	1,103,094,110	03 Months	Lease receivables
Public Bank	376,276,842	-	41,331,458	87,281,531	330,326,770	60 Months	Lease receivables
Nations Trust Bank PLC	150,000,000	350,000,000	29,065,808	279,065,808	250,000,000	6 Months	Lease receivables
Reverse repo on treasury bills	-	140,000,000	745,324,049	743,970,468	141,353,580	7 Days	Treasury bonds
Sampath Bank PLC	1,857,366,649	1,050,000,000	219,325,268	1,687,191,918	1,439,499,999	36 Months	Lease receivables
Seylan Bank PLC	315,392,512	1,700,000,000	98,680,755	1,029,188,002	1,084,885,265	48 Months	Lease receivables
Syndication loan	240,320,548	-	19,512,329	139,528,767	120,304,110	48 Months	Lease receivables
Union Bank of Colombo PLC	299,969,985	1,730,000,000	17,471,347	1,747,441,332	300,000,000	03 Months	Lease receivables
Union Bank of Colombo PLC	906,799,986	1,050,000,000	108,480,959	1,294,447,623	770,833,322	60 Months	Micro Finance receivables
	6,171,303,257	8,918,000,000	1,569,348,871	10,243,560,927	6,415,091,201		

31.3 Foreign Currency Borrowings

	As at 01.04.2017 Rs.	Loans Obtained Rs.	Interest Recognised Rs.	Repayments Rs.	As at 31.03.2018 Rs.	Period	Security
Tridos Investment Management	927,239,206	8,100,000	60,364,921	59,688,058	936,016,069	36 Months	Micro Finance receivable
Symbiotic Index	771,152,431	-	81,790,500	82,129,431	770,813,500	36 Months	Nil
Symbiotic USD	757,163,293	25,750,000	41,287,581	40,657,625	783,543,249	36 Months	Nil
Triods Investment Management	606,800,000	16,200,000	55,504,012	55,504,012	623,000,000	72 Months	Nil
	3,062,354,930	50,050,000	238,947,014	237,979,126	3,113,372,818		
	11,260,316,697	8,968,050,000	1,977,013,596	11,404,883,360	10,800,496,933		

	As at 31.03.2017 Rs.	Repayments Rs.	As at 31.03.2018 Rs.
31.4 Finance Lease			
31.4.1 Company and Group			
Finance leases	15,783,720	(6,623,981)	9,159,739
	15,783,720	(6,623,981)	9,159,739

	2018 Rs.	2017 Rs.
31.4.2 Finance Lease		
Gross liability	9,708,355	17,475,039
Less: Finance charges allocated for future periods	(548,616)	(1,691,319)
Net liability	9,159,739	15,783,720
Repayable with in one year		
Gross liability	7,766,684	7,766,684
Less: Finance charges allocated for future periods	(524,156)	(1,138,713)
Net liability	7,242,528	6,627,971
Repayable with in one to five years		
Gross liability	1,941,671	9,708,355
Less: Finance charges allocated for future periods	(24,459)	(552,606)
Net liability	1,917,212	9,155,749

	Company		Group	
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.

32. DUE TO CUSTOMERS

	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Fixed deposits	12,668,973,745	9,501,784,496	12,668,973,745	9,501,784,496
Certificates of deposit	100,000	100,000	100,000	100,000
Savings deposits	587,877,686	585,937,418	587,877,686	585,937,418
	13,256,951,431	10,087,821,914	13,256,951,431	10,087,821,914

33. DEBT INSTRUMENTS ISSUED AND OTHER BORROWED FUNDS

	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Unsecured Debentures				
Face value	1,480,170,488	2,400,840,488	1,480,170,488	2,400,840,488
Accrued interest	165,629,430	147,385,318	165,629,430	147,385,318
	1,645,799,918	2,548,225,806	1,645,799,918	2,548,225,806

33.1 Quoted - Debentures

Company and Group

a) The debentures include 12,000,000 Unsecured Redeemable Listed Rates Subordinated Debentures of Rs. 100/- each issued by the Company in September 2013. The Debentures are quoted in the Colombo Stock Exchange. Debenture type B of 168,200,000 were redeemed as at 31st March 2018. Remaining debenture breakups are given below. Debenture type 'D' issued at discount basis.

Category	Period	No of Debentures	Face Value Rs.	Interest payable	Rate of Interest
Type ' C '	05 Years	3,510,000	351,000,000	Semi annually	Fixed rate of 16.5% per annum
Type ' D '	05 Years	2,772,000	129,170,488	Annually	Zero coupon debentures with an annually compounding AER of 16.5%
		6,282,000	480,170,488		

b) The debentures include 10,000,000 Unsecured Redeemable Listed Rated Debentures of Rs. 100/- each issued by the Company in December 2014. The Debentures are quoted in the Colombo Stock Exchange. Details are given below.

Category	Period	No of Debentures	Face Value Rs.	Interest payable	Rate of Interest
Type ' A '	04 Years	2,000,000	200,000,000	Annually	9% per annum
Type ' B '	05 Years	8,000,000	800,000,000	Annually	9.35% per annum
		10,000,000	1,000,000,000		

	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.

34. OTHER FINANCIAL LIABILITIES

	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Accrued expenses	126,899,043	90,028,937	123,217,073	90,028,937
Others	329,363,735	798,002,820	350,472,133	812,753,155
	456,262,778	888,031,757	473,689,206	902,782,092

35. OTHER NON FINANCIAL LIABILITIES

	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
VAT payables	26,935,251	42,697,891	26,935,251	42,697,891
Other taxes payables	9,987,774	8,963,128	9,987,774	8,963,128
	36,923,025	51,661,019	36,923,025	51,661,019

36. DERIVATIVE FINANCIAL LIABILITIES

	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Foreign currency swaps	39,238,389	17,736,580	39,238,389	17,736,580
	39,238,389	17,736,580	39,238,389	17,736,580

37. INCOME TAX LIABILITY

	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Receivable from Inland Revenue Department	(70,144,304)	(64,559,894)	(75,132,722)	(68,087,783)
ESC paid	(51,083,372)	(41,449,994)	(51,473,132)	(41,449,994)
Current tax liabilities	146,231,978	214,222,340	153,242,525	221,197,146
	25,004,302	108,212,452	26,636,671	111,659,369

37.1 Movement of Current Tax Liability

	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Balance as at 01st April	108,212,452	62,954,733	111,659,369	67,590,682
Current tax based on profit for the year	146,231,978	214,222,340	153,242,525	221,197,146
Previous year WHT written-off	52,653	-	52,653	-
Over/under provision in respect of previous years	(127,402,223)	-	(127,402,223)	24,612
Payment of tax	(102,090,558)	(168,964,621)	(110,915,653)	(177,153,071)
Balance as at 31st March	25,004,302	108,212,452	26,636,671	111,659,369

Notes to the Financial Statements Contd.

	Company		Group	
	2018	2017	2018	2017
	Rs.	Rs.	Rs.	Rs.

38. RETIREMENT BENEFIT OBLIGATIONS

Retirement Benefit Obligations - Gratuity

38.1 Liability Recognised in the Statement of Financial Position

	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Balance at the beginning of the year	80,145,738	91,237,518	81,419,780	92,298,302
Amount charged/(reversed) for the year (Note - 38.2)	35,138,107	22,230,904	35,458,844	22,444,162
Transfer to gratuity trust fund	(27,175,593)	(25,650,000)	(27,175,593)	(25,650,000)
Payments made during the year	(23,511,922)	(7,672,684)	(23,511,922)	(7,672,684)
Balance at the end of the year	64,596,330	80,145,738	66,191,109	81,419,780

38.2 Amount Recognised in Profit or Loss

	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Current service cost for the year	24,701,894	21,514,684	24,927,468	21,726,262
Interest cost for the year	28,112,895	22,904,282	28,253,013	23,021,810
Expected return on plan assets	(18,506,207)	(12,876,406)	(18,506,207)	(12,876,406)
	34,308,582	31,542,560	34,674,274	31,871,666
Amount Recognised in Other Comprehensive Income				
Net actuarial gains/(losses)	829,525	(9,311,656)	784,570	(9,427,504)
Amount Charged /(Reversed) for the Year	35,138,107	22,230,904	35,458,844	22,444,162

38.3 Changes in the Present Value of Obligation

	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Present value obligation as at 01st April	234,364,127	208,220,747	234,364,127	208,220,747
Interest cost	28,112,895	22,904,282	28,112,895	22,904,282
Current service cost	24,701,894	21,514,684	24,701,894	21,514,684
Benefits paid / payable	(23,511,922)	(7,597,684)	(23,511,922)	(7,597,684)
Actuarial gain / (loss)	(2,882,447)	(10,677,902)	(2,882,447)	(10,677,902)
Present value obligation as at 31st March	260,784,547	234,364,127	260,784,547	234,364,127

38.4 Movement in the Present Value of Plan Assets

	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Value of plan assets as at 01st April	154,218,388	117,058,229	154,218,388	117,058,229
Expected return on the plan assets for the period	18,506,207	12,876,405	18,506,207	12,876,405
Contribution paid to the plan	27,175,595	25,650,000	27,175,595	25,650,000
Actuarial gain/(loss) on plan assets	(3,711,973)	(1,366,246)	(3,711,973)	(1,366,246)
Value of plan assets as at 31st March	196,188,217	154,218,388	196,188,217	154,218,388

	Company		Group	
	2018	2017	2018	2017
38.5 Assumptions				
Discount rate	11%	12%	11%	12%
Salary scale	9%	10%	9%	10%
Mortality table	A 67/70	A 67/70	A 67/70	A 67/70
Staff turnover	17%	17%	17%	17%
Retirement age	Normal retirement age, or age on valuation date, if greater.			

An actuarial valuation of the gratuity was carried out as at 31st March 2018 by Actuarial & Management Consultants (Pvt) Limited, a firm of professional actuaries. The valuation method used by the actuary to value the Fund is the "Projected Unit Credit Method", recommended by LKAS 19

	Company		Group	
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
39. DEFERRED INCOME TAX ASSETS AND LIABILITIES				
Deferred tax liabilities				
Balance at 01st April	457,419,634	192,818,349	457,460,593	192,934,086
Recognised in profit or loss	196,202,848	264,601,285	196,204,925	264,526,507
Recognised in revaluation surplus	328,206,042	-	328,206,042	-
Balance as at 31st March	981,828,524	457,419,634	981,871,560	457,460,593
Deferred tax assets				
Balance at 01st April	511,884,241	217,742,273	512,240,973	218,039,294
Recognised in profit or loss	135,722,277	297,638,954	135,812,084	297,698,666
Recognised in other comprehensive income	232,267	(3,496,987)	232,267	(3,496,987)
Balance as at 31st March	647,838,785	511,884,241	648,285,324	512,240,973
Deferred tax liabilities/(asset) -net	333,989,739	(54,464,607)	333,586,236	(54,780,381)

Notes to the Financial Statements Contd.

	Company		Group	
	2018	2017	2018	2017
	Rs.	Rs.	Rs.	Rs.
39.1 Recognised Deferred Tax Assets and Liabilities				
Liabilities				
Accelerated depreciation				
- Own assets	-	-	43,037	40,959
- Leased assets	3,284,503	1,109,832	3,284,503	1,109,832
Lease rentals	650,337,979	456,309,802	650,337,979	456,309,802
Recognised in revaluation surplus	328,206,042	-	328,206,042	-
	981,828,524	457,419,634	981,871,560	457,460,593
Assets				
Defined benefit obligation	18,319,240	22,440,807	18,765,779	22,797,539
Own assets	8,165,013	76,776,252	8,165,013	76,776,252
Others	23,395,088	7,022,317	23,395,088	7,022,317
Tax loss carried forward	597,959,444	405,644,865	597,959,444	405,644,865
	647,838,785	511,884,241	648,285,324	512,240,973

40. STATED CAPITAL

40.1 Issued and Fully Paid-Ordinary shares

	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Rs. 1/- each 33,696,000 (2017- 24,300,000) ordinary shares	613,980,000	24,300,000	613,980,000	24,300,000
Capitalization of reserves by issuing 8100,000 shares	-	518,400,000	-	518,400,000
Right Issue 1,296,000 ordinary shares	-	71,280,000	-	71,280,000
	613,980,000	613,980,000	613,980,000	613,980,000

	Company		Group	
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
40.2 Movement in Number of Shares				
Balance as at 01st April	33,696,000	2,430,000	33,696,000	2,430,000
Share split by issue 1:10	-	21,870,000	-	21,870,000
Capitalisation of reserves on the basis 1:3	-	8,100,000	-	8,100,000
Right issue basis 1: 25	-	1,296,000	-	1,296,000
	33,696,000	33,696,000	33,696,000	33,696,000

On 16th November 2016, ordinary shares of the Company were subdivided on the basis 1:10, increasing the Shares in Issue to 24,300,000, and the Stated Capital remained unchanged. Thereafter on 21st November 2016, a capitalisation of 1:3 was effected at Rs.64.00 per share through utilization of the General Reserve. Thus the Shares in issue increased to 32,400,000 together with an increase in the Stated Capital to Rs.542,700,000.00. Further, the Company effected a Rights Issue on the basis of 1:25, thereby increasing the shares in Issue to 33,696,000 and the Stated Capital to Rs.613,980,000.00, resulting from the inflow on the Rights Issue that amounted to Rs.71,280,000.00. This strengthened the working capital base of Company resulting in improvements in its growth capability.

40.3 Rights of Shareholders

The holders of ordinary shares confer their right to receive dividends as declared from time to time and are entitled to one vote per share at the meeting. All shares rank equally with regard to the Company's residual assets.

Shares in the Alliance Finance Company PLC are quoted in the Colombo Stock Exchange.

	Company		Group	
As at 31st March	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
41. RETAINED EARNINGS				
As at 01st April	1,147,080,447	803,805,837	1,192,724,704	845,518,674
Dividend paid	(213,969,600)	(182,995,200)	(213,969,600)	(182,995,200)
Profit for the year	709,329,107	649,456,818	681,934,161	653,314,165
Adjustment on actuarial gain / (losses) on defined benefit plan	(597,258)	6,704,392	(568,514)	6,778,465
Transfers to statutory reserve fund	(141,866,000)	(129,891,400)	(141,866,000)	(129,891,400)
As at 31st March	1,499,976,696	1,147,080,447	1,518,254,751	1,192,724,704

Retained Earnings represent the undistributed earnings held by the Company to be used in the Company's operations. This could be used to absorb future possible losses or dividends payable.

Notes to the Financial Statements Contd.

	Company			Group		
	01.04.2017	Transfers	31.03.2018	01.04. 2017	Transfers	31.03.2018
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
42. RESERVES						
Available for sale reserve (Note 42.1)	6,863,586	(1,505,120)	5,358,466	6,863,586	(1,505,120)	5,358,466
Capital reserve (Note 42.2)	1,277,405,588	(328,206,042)	949,199,546	1,277,405,588	(328,206,042)	949,199,546
General reserve	388,258,055	-	388,258,055	388,258,055	-	388,258,055
Statutory reserve fund (Note 42.4)	631,208,800	141,866,000	773,074,800	631,208,800	141,866,000	773,074,800
	2,303,736,029	(187,845,162)	2,115,890,867	2,303,736,029	(187,845,162)	2,115,890,867

	Company		Group	
As at 31st March	2018	2017	2018	2017
	Rs.	Rs.	Rs.	Rs.
42.1 Available for Sale Reserve				
Balance as at 01st April	6,863,586	6,065,428	6,863,586	6,065,427
Sri Lanka Government securities	(1,505,120)	798,159	(1,505,120)	798,159
	5,358,466	6,863,587	5,358,466	6,863,586

42.2 Capital Reserve - Revaluation Reserve

The Capital Reserves represents the increase in the fair value of the land & buildings at the date of revaluation. The Company revalues its freehold lands and buildings in every three to five years, unless significant changes in fair values indicate it may be necessary to revalue freehold lands and buildings on an earlier date, to ensure that the carrying amounts do not differ materially from the fair values at the end of the reporting date.

The Company treats 50% of the revaluation surplus as supplementary capital in the Tier II Capital Base in the computation of the Risk Weighted Capital Adequacy Ratio in accordance with the Central Bank of Sri Lanka, Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No.2 of 2006.

42.3 Statutory Reserve Fund

20% of profits after tax of 2018 is transferred to the Reserve Fund to fulfil the minimum requirement of the Section 3 (b) of Finance Companies (Capital Funds) Direction No.1 of 2003. This balance in the Statutory Reserve Fund will be used only for the purposes specified in the Finance Business Act, No.42 of 2011.

43. COMPARATIVE FIGURES

Nature	Previous year classified under	Current year classified under	Amount (Rs.) 2016/17
Gold loan auction loss	Gold loan auction loss	Other expenses	11,768
Penal interest on gold loan	Fee and commission income	Gold loan income	5,694,677
Directors’ emoluments	Salaries and bonus	Directors’ emoluments	28,783,530
Directors’ emoluments	Employer’s contribution to EPF	Directors’ emoluments	3,124,423
Directors’ emoluments	Employer’s contribution to ETF	Directors’ emoluments	468,663
Directors’ emoluments	Office administration & establishment expenses	Directors’ emoluments	8,416,723
Directors’ emoluments	Advertising & business promotion expenses	Directors’ emoluments	1,848,700
Directors’ emoluments	Motor vehicle running & maintenance	Directors’ emoluments	663,561
Directors’ emoluments	Other expenses	Directors’ emoluments	2,200,000
Investment in Alliance Tech Trading	Unquoted equities	Other financial assets	200,000

Notes to the Financial Statements Contd.

44. SEGMENT REPORT

44.1

31st March 2018	Leasing	Hire Purchase & Consumer Durables	Loans	Gold Loan	Hire of vehicles	Investing in Shares	Investing in Government Securities	Collaboration Finance	Others	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
REVENUE										
External sales	11,727,114,616	137,018,890	2,073,864,254	254,261,678	35,098,091	13,223,647	154,005,538	5,266,279	132,880,876	14,532,733,868
Inter-segment sales	-	-	-	-	-	-	-	-	-	-
Total revenue	11,727,114,616	137,018,890	2,073,864,254	254,261,678	35,098,091	13,223,647	154,005,538	5,266,279	132,880,876	14,532,733,868
Total income	4,211,780,546	29,423,993	2,074,348,680	254,261,678	35,098,091	16,656,221	154,005,538	5,256,544	132,880,876	6,913,712,165
RESULTS										
Segment results	3,166,674,103	32,875,477	1,149,570,102	157,765,319	5,448,038	21,421,639	102,239,978	5,256,544	132,880,876	4,774,132,075
Unallocated company expenses										(786,248,260)
Operating profit										3,987,883,815
Interest expense	(1,918,884,812)	(6,819,940)	(811,954,194)	(132,399,190)	(17,952,070)	(24,744,757)	(170,997,993)	(2,674,089)	(115,703,752)	(3,202,130,795)
Share of profits of associates before tax										(359,463)
Loss on change of interest in associate										(11,040,075)
Income taxes										(86,233,145)
Net profit										688,120,337
OTHER INFORMATION										
Segment assets	17,553,965,443	62,388,835	7,427,760,007	1,211,188,288	164,225,601	226,365,132	1,564,290,280	24,462,573	1,058,458,356	29,293,104,515
Investment in associates										57,362,904
Unallocated Company assets										2,498,805,863
Total assets										31,849,273,281
Segment liabilities	15,056,309,985	50,799,943	6,048,033,818	986,206,840	133,720,259	184,317,206	1,273,719,197	19,918,585	861,846,899	24,614,872,733
Unallocated Company liabilities										2,966,415,635
Total liabilities										27,581,288,368

44.2

31st March 2017	Leasing	Hire Purchase & Consumer Durables	Loans	Gold Loan	Hire of vehicles	Investing in Shares	Investing in Government Securities	Collaboration Finance	Others	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
REVENUE										
External sales	9,449,654,323	358,713,279	1,654,667,651	113,831,460	49,097,842	11,703,530	170,725,971	22,259,597	208,874,268	12,039,527,922
Inter-segment sales	-	-	-	-	-	-	-	-	-	-
Total revenue	9,449,654,323	358,713,279	1,654,667,651	113,831,460	49,097,842	11,703,530	170,725,971	22,259,597	208,874,268	12,039,527,922
Total income	3,124,219,302	83,808,485	1,692,911,116	113,831,460	49,097,842	(3,765,289)	187,922,625	8,402,711	191,677,614	5,448,105,866
RESULTS										
Segment results	2,324,820,827	67,454,023	1,035,614,926	43,612,358	15,202,219	(15,383,620)	131,419,225	8,402,711	191,677,087	3,802,819,754
Unallocated Company expenses										(500,251,461)
Operating profit										3,302,568,293
Interest expense	(1,430,101,659)	(15,133,860)	(634,518,110)	(40,679,459)	(14,939,252)	(19,819,957)	(545,394)	(154,392,616)	(152,301,542)	(2,462,431,850)
Share of profits of associates before tax										10,899,751
Loss on change of interest in associate										-
Income taxes										(191,534,940)
Net profit										659,501,255
OTHER INFORMATION										
Segment assets	15,837,430,513	167,597,495	7,026,868,626	450,498,121	165,442,341	219,492,920	1,709,796,157	6,039,880	1,686,638,903	27,269,804,955
Investment in associates										68,762,442
Unallocated Company assets										2,815,315,827
Total assets										30,153,883,224
Segment liabilities	13,803,525,680	141,261,586	5,922,681,657	379,707,818	139,445,089	185,002,276	1,441,122,479	5,090,786	1,421,604,107	23,439,441,478
Unallocated Company liabilities										2,568,708,105
Total liabilities										26,008,149,583

45. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Company's estimate of assumptions that a market participant would make when valuing the instruments. The amounts are based on the values recognised in the Statement of Financial Position.

45.1 Determination of Fair Value and Fair Value Hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques.

Level 1 : Quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2 : Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3 : Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

Company As at 31st March 2018 Financial Assets	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Investments - Held for Trading				
Government of Sri Lanka treasury bills	-	544,527,194	-	544,527,194
Quoted equities	206,737,492	-	-	206,737,492
Financial Investments - Available for Sale				
Government of Sri Lanka treasury bonds	-	380,942,702	-	380,942,702
Unquoted equities	-	-	579,250	579,250
Total Financial Assets	206,737,492	925,469,896	579,250	1,132,786,638
As at 31st March 2017				
Financial Investments - Held for Trading				
Government of Sri Lanka treasury bills	-	1,053,340,388	-	1,053,340,388
Quoted equities	198,275,389	-	-	198,275,389
Financial Investments - Available for Sale				
Government of Sri Lanka treasury bonds	-	480,606,721	-	480,606,721
Unquoted equities	-	-	7,717,531	7,717,531
Total Financial Assets	198,275,389	1,533,947,109	7,717,531	1,739,940,029

Group As at 31st March 2018 Financial Assets	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Investments - Held for Trading				
Government of Sri Lanka treasury bills	-	544,527,194	-	544,527,194
Quoted equities	206,737,492	-	-	206,737,492
Financial Investments - Available for Sale				
Government of Sri Lanka treasury bonds	-	380,942,702	-	380,942,702
Unquoted equities	-	-	19,627,640	19,627,640
Total Financial Assets	206,737,492	925,469,896	19,627,640	1,151,835,028
As at 31st March 2017				
Financial Investments - Held for Trading				
Government of Sri Lanka treasury bills	-	1,053,340,388	-	1,053,340,388
Quoted equities	198,275,389	-	-	198,275,389
Financial Investments - Available for Sale				
Government of Sri Lanka treasury bonds	-	480,606,721	-	480,606,721
Unquoted equities	-	-	21,017,531	21,017,531
Total Financial Assets	198,275,389	1,533,947,109	21,017,531	1,753,240,029

Notes to the Financial Statements Contd.

45.2 Determination of Fair Value and Fair Value Hierarchy

Set out below is the comparison, by classes, of the carrying amounts of fair values of the Company's financial instruments that are not carried at fair value in the Financial Statements. This table does not include the fair values of non- financial assets and non- financial liabilities.

	2018		2017	
	Carrying Amount Rs.	Fair Value Rs.	Carrying Amount Rs.	Fair Value Rs.
Company				
Financial Assets				
Cash and cash equivalents	510,364,191	510,364,191	250,196,373	250,196,373
Repurchase agreement	638,820,384	638,820,384	175,849,048	175,849,048
Placement with banks & other financial institutions	476,510,425	476,510,425	1,218,793,508	1,218,793,508
Loans and advances	7,877,246,355	6,873,212,718	7,478,467,024	7,949,379,104
Lease rentals receivable	17,553,965,443	13,706,744,098	15,837,430,513	16,308,898,758
Hire purchase receivables	62,388,835	62,388,835	167,597,495	167,597,495
Other financial assets	323,549,421	323,549,421	255,578,986	255,578,986
Total Financial Assets	27,442,845,054	22,591,590,072	25,383,912,947	26,326,293,272
Financial Liabilities				
Due to banks	11,042,104,540	11,042,104,540	11,717,899,355	11,717,899,355
Due to customers	13,256,951,431	13,264,667,695	10,087,821,914	10,092,101,864
Debt instruments issued and other borrowed funds	1,645,799,918	1,645,799,918	2,548,225,806	2,548,225,806
Financial liabilities	456,262,778	456,262,778	888,031,755	888,031,755
Total Financial Liabilities	26,401,118,668	26,408,834,931	25,241,978,830	25,246,258,780
Group				
Financial Assets				
Cash and cash equivalents	551,552,815	551,552,815	294,565,160	294,565,160
Repurchase agreement	638,820,384	638,820,384	175,849,048	175,849,048
Placement with banks & other financial institutions	476,510,425	476,510,425	1,273,186,055	1,273,186,055
Loans and advances	7,877,373,054	6,873,212,718	7,478,583,487	8,064,672,791
Lease rentals receivable	17,553,965,443	13,706,744,098	15,837,430,513	16,308,898,758
Hire purchase receivables	62,388,835	62,388,835	167,597,495	167,597,495
Other financial assets	349,638,381	349,638,381	291,358,203	291,358,203
Total Financial Assets	27,510,249,337	22,658,867,656	25,518,569,961	26,576,127,510

45.2 Determination of Fair Value and Fair Value Hierarchy Contd.

	2018		2017	
	Carrying Amount Rs.	Fair Value Rs.	Carrying Amount Rs.	Fair Value Rs.
Financial Liabilities				
Due to banks	11,053,987,058	11,053,987,058	11,749,382,430	11,749,382,430
Due to customers	13,256,951,431	13,264,667,695	10,087,821,914	10,092,101,863
Debt instruments issued and other borrowed funds	1,645,799,918	1,645,799,918	2,548,225,806	2,548,225,806
Financial liabilities	473,689,206	473,689,206	902,782,091	902,782,091
Total Financial Liabilities	26,430,427,613	26,438,143,877	25,288,212,241	25,292,492,190

Fair Value of Financial Assets and Liabilities not Carried at Fair Value

The following describes the methodologies and assumptions used to determine the fair values for those financial instruments which are not already recorded at fair value in the Financial Statements.

Assets for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short term maturity (original maturities less than a year), it is assumed that the carrying amounts approximate their fair values. This assumption is also applied to fixed deposits, certificate of deposits and savings deposits without a specific maturity.

Long term deposits accepted from customers for which periodical interest is paid and loans and advances granted to customers with a variable rate are also considered to be carried at fair value in the books.

Fixed Rate Financial Instruments

Carrying amounts are considered as fair values for short term credit facilities. Loans and Advances with fixed interest rates were fair valued using market rates at which fresh loans were granted during the fourth quarter of the reporting year. Conversely, fixed deposits with original tenors above one year and interest paid at maturity were discounted using current market rates offered to customers during the fourth quarter of the reporting year. For quoted debt issued the fair value are determined based on quoted market prices.

Notes to the Financial Statements Contd.

46. COMMITMENTS AND CONTINGENCIES

In the normal course of the business, the Company makes various commitments and incurs certain contingent liabilities. No material losses are anticipated as a result of these transactions.

There were no capital commitments or contingent liabilities as at the end of the reporting date which requires separate disclosure to these Financial Statements.

46.1 Litigations Against the Company

Litigation is a common occurrence in the Finance Industry due to the nature of the business undertaken. The Company has formal controls and policies for managing legal claims. No material losses are anticipated as a result of there transactions

47. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting date, no circumstances have arisen which would required adjustment to or disclosure in the Financial Statements.

48. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

An analysis of financial assets and financial liabilities based on the remaining period at the end of the reporting date to the respective contractual maturity dates is as follows.

As at 31st March 2018	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	More than 5 Years Rs.	Total as at 31/03/2018 Rs.
Financial Assets						
Cash and cash equivalents	510,364,191	-	-	-	-	510,364,191
Repurchase agreements	638,820,384	-	-	-	-	638,820,384
Placements with banks & financial institutions	259,720,929	216,789,496	-	-	-	476,510,425
Financial investments - Held for trading	532,579,515	218,685,171	-	-	-	751,264,686
Loans and advances	2,809,991,978	2,912,000,370	1,679,766,652	474,268,137	1,219,216	7,877,246,354
Lease rentals receivable & stock out on hire	1,492,452,972	4,947,684,276	8,817,603,946	2,290,376,926	5,847,322	17,553,965,443
Hire purchase rentals receivable & stock out on hire	34,576,811	22,938,105	4,873,918	-	-	62,388,834
Financial investments - Available for sale	-	130,942,702	579,250	50,000,000	200,000,000	381,521,952
Other financial assets	323,549,421	-	-	-	-	323,549,421
Total Assets	6,602,056,201	8,449,040,120	10,502,823,766	2,814,645,063	207,066,538	28,575,631,690
Financial Liabilities						
Due to banks	2,153,476,782	3,265,596,797	3,989,649,024	1,306,744,864	326,637,074	11,042,104,541
Due to customers	4,146,087,120	5,139,106,078	2,965,937,139	1,005,821,093	-	13,256,951,431
Debt instruments issued and other borrowed funds	-	845,799,918	800,000,000	-	-	1,645,799,918
Derivative financial liabilities	-	39,238,389	-	-	-	39,238,389
Other financial liabilities	456,262,779	-	-	-	-	456,262,779
Total Liabilities	6,755,826,681	9,289,741,182	7,755,586,163	2,312,565,957	326,637,074	26,440,357,058
Net Financial Assets/ (Liabilities)	(153,770,480)	(840,701,062)	2,747,237,603	502,079,106	(119,570,536)	2,135,274,632

Notes to the Financial Statements Contd.

48. Maturity analysis of financial assets and financial liabilities (Contd.)

As at 31st March 2017	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	More than 5 Years Rs.	Total as at 31/03/2018 Rs.
Financial Assets						
Cash and cash equivalents	250,196,373	-	-	-	-	250,196,373
Repurchase agreements	175,849,048	-	-	-	-	175,849,048
Placements with banks & financial institutions	371,022,349	847,771,159	-	-	-	1,218,793,508
Financial investments - Held for trading	592,272,233	659,343,544	-	-	-	1,251,615,777
Loans and advances	1,863,726,776	3,393,104,306	1,618,986,849	597,330,742	5,318,352	7,478,467,025
Lease rentals receivable & stock out on hire	1,507,531,524	4,206,093,037	7,842,823,956	2,267,038,641	13,943,353	15,837,430,513
Hire purchase rentals receivable & stock out on hire	53,456,476	70,693,657	43,447,361	-	-	167,597,494
Financial investments - Available for sale	30,644,148	55,756,850	17,194,800	17,194,800	367,533,654	488,324,252
Other financial assets	157,971,752	39,786,469	56,425,682	1,395,083	-	255,578,986
Total Assets	5,002,670,679	9,272,549,022	9,578,878,648	2,882,959,266	386,795,359	27,123,852,976
Financial Liabilities						
Due to banks	2,424,975,672	2,609,687,226	5,191,355,719	735,462,874	756,417,863	11,717,899,354
Due to customers	3,080,015,777	3,508,162,977	3,364,268,191	135,374,969	-	10,087,821,914
Debt instruments issued and other borrowed funds	11,931,431	964,801,178	1,571,493,197	-	-	2,548,225,806
Derivative financial liabilities	-	17,736,580	-	-	-	17,736,580
Other financial liabilities	837,232,610	50,799,145	-	-	-	888,031,755
Total Liabilities	**6,354,155,490**	**7,151,187,106**	**10,127,117,107**	**870,837,843**	**756,417,863**	**25,259,715,309**
Net Financial Assets/ (Liabilities)	(1,351,484,811)	2,121,361,916	(548,238,459)	2,012,121,423	(369,622,504)	1,864,137,667

49. RELATED PARTY TRANSACTIONS

The Company carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as Related Parties as per the Sri Lanka Accounting Standard - LKAS 24 'Related Party Disclosures', except for the transactions that Key Management Personnel (KMPs) have availed under schemes uniformly applicable to all staff at concessionary rates.

Details of related party transactions which the Company had during the year are as follows,

49.1 Transactions with Key Managerial Personnel (KMPs)

Related party includes KMPs defined as those persons having authority and responsibility for planning directing and controlling the activities for the Company. Such KPMs include the Board of Directors of the Company (include Executive and Non Executive Directors), executives who directly report to the Board sub committees and other key executives who meet the criteria described above.

49.1.1 Key Management Personnel Compensation

		2018 Rs.	2017 Rs.
KMP's Emoluments			
	Short -Term	77,968,576	79,377,030
	Long -Term	12,065,563	15,894,378
		90,034,139	95,271,408
Remuneration and other expenses of Directors			**Restated**
	Short -Term	62,795,531	45,505,600
	Long Term & Post employment benefits	7,913,798	6,079,398
		70,709,329	51,584,998

Previous year Directors emoluments and other expenses of Directors were classified under personal expenses and other operating expenses. For better presentation, Directors emoluments and other expenses separately disclosed.

49.2 Transactions, Arrangements and Agreements Involving KMPs, and their Close Family Members (CFMs)

CFMs of a KMPs are those family members who may be expected to influence, or be influenced by, that KMP in their dealing with the entity. They may include KMPs domestic partner and children, children of the KMPs domestic partner and dependants of the KMP or the KMPs domestic partner.

Notes to the Financial Statements Contd.

49.3 Deposits and investments from key managerial personnel and their close family members are detailed below.

Company and Group	2018 Rs.	2017 Rs.
Fixed Deposits		
Fixed deposits accepted during the year	32,881,087	31,051,748
Fixed deposits held at the end of the year	114,129,372	85,926,729
Interest payable on fixed deposits	2,145,901	2,067,791
Interest paid on fixed deposits	3,197,224	13,402,219
Debt instruments issued and other borrowed funds		
Debentures	-	3,520,000

49.4 Transaction, arrangements and agreements involving with entities which are controlled, and /or jointly controlled by the KMP's and their CFMs or shareholders

		Company	
Nature of Transaction	**Nature of Transaction / Facility**	**2018 Rs.**	**2017 Rs.**
M/S.Alfinco Insurance Brokers (Pvt) Ltd.	Fixed deposits	-	54,780,430
	Reimbursement of expenses	47,362,597	36,756,608
	Saving deposits	596,481	-
M/S.Alliance Management Services (Pvt) Limited	Fixed deposits	3,122,159	3,186,084
	Management fees	1,094,313	1,098,891
	Saving deposits	67,871	-
M/S.Alliance Travel Services Ltd	Fixed deposits	3,088,064	3,115,242
	Saving deposits	72,598	-
M/S. Macbertan (Pvt) Limited	Lease rentals receivable & stock out on hire	-	178,471
	Loan rentals receivable	-	501,984
M/S.Alliance Tech Trading (Pvt) Ltd.	Fixed deposits	10,964,776	10,143,631
Alliance Ventures (Pvt) Ltd	Fixed deposits	973,678	1,114,936
	Saving deposits	28,906	-

49.5 Parent and Ultimate Controlling Party

The Company does not have an identifiable Parent of its own.

50. RISK MANAGEMENT

50.1 Introduction

Constantly assessing and being cognizant of the concept of risk is fundamental to the managerial philosophy of Alliance Finance Company PLC.

Consequent to the global, economic and financial crises, Companies are placing greater emphasis on risk management by adopting comprehensive risk management framework to increasingly safeguard stakeholder interest. Due to diversified and geographic spread of the portfolio of businesses, Alliance Finance maintains a holistic risk management system that continuously monitors primary risk factors. Risk mitigation actions are also built in to the day - to day operations of the Company. The Company's business divisions are closely monitored through a comprehensive computerized information system and employees, ranging from managerial credit and other officers, have been apprised and trained to adopt risk management practices as an integral part of their decision making.

Risk Coverage

The Company's Comprehensive risk management framework covers three major areas that comprise credit risk, liquidity risk, and market risk management.

Risk is inherent in the Company's activities but it is managed through a process of ongoing identification, measurement, and monitoring, subject to the risk limits and their controls.

50.2 Credit Risk

50.2.1 Credit Quality by Class of Financial Assets

Credit risk is the risk that the Company will incur a loss because its customers or counter parties fail to discharge their contractual obligations. The Company manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counter parties and industry concentrations, and by monitoring exposures in relation to such limits.

The Company has established a credit quality review process to provide early identification of possible changes in the credit worthiness of counter parties, including regular collateral revisions. Counter party limits are established by the use of a credit risk classification system, which assigns each counter party a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Company to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Notes to the Financial Statements Contd.

Impairment assessment

For accounting purposes, the Company uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognised when objective evidence of a specific loss event has been observed. Triggering events include the following:

- Significant financial difficulty of the customer
- A breach of contract such as a default of payment
- Where the Company grants the customer a concession due to the customer experiencing financial difficulty
- It becomes probable that the customer will enter bankruptcy or other financial reorganisation
- Observable data that suggests that there is a decrease in the estimated future cash flows from the loans

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant (including Hire purchases, lease receivables, other loans and advances and consumer lending) and for individually significant loans and advances that have been assessed individually and found not to be impaired.

Risk Management

The Company generally bases its analyses on historical experience. However, when there are significant market changes the Company would include macroeconomic factors within its assessments. These factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, current levels of bad debts, changes in laws, changes in regulations, bankruptcy trends, and other consumer data. The Company may use the aforementioned factors as appropriate to adjust the impairment allowances.

Allowances are evaluated separately at each reporting date with each portfolio. The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilisation, loan to collateral ratios and expected receipts and recoveries once impaired) or economic data (such as current economic conditions, unemployment levels and local or industry–specific problems). The approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. Company's management is responsible for deciding the length of this period, which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Company's overall policy.

Risk Management Contd.

Company

As at 31st March 2018	Notes	Neither Past Due Nor Impaired Rs.	Past Due But Not Impaired Rs.	Total Rs.
Financial Assets				
Cash and cash equivalents	18	510,364,191	-	510,364,191
Repurchase agreements		638,820,384	-	638,820,384
Placements with banks & financial institutions		476,510,425	-	476,510,425
Financial investments - Held for trading	21	751,264,686	-	751,264,686
Loans and advances	22	5,245,116,921	2,632,129,433	7,877,246,354
Lease rentals receivable & stock out on hire	23	7,944,729,185	9,609,236,257	17,553,965,442
Hire purchase rentals receivable & stock out on hire	24	13,607,865	48,780,970	62,388,835
Financial investments - Available for sale	25	381,521,952	-	381,521,952
Other financial assets	26	323,549,421	-	323,549,421
Total Financial Assets		16,285,485,030	12,290,146,660	28,575,631,690

Aging analysis of past due (i.e. facilities in arrears of 1 day and above) but not impaired loans by class of financial assets.

	Past Due But Not Impaired				
	Less than 30 days Rs.	31 to 60 days Rs.	61 to 90 days Rs.	More than 91 days Rs.	Total Rs.
Loans and advances	1,148,305,696	500,021,177	296,485,470	687,317,090	2,632,129,433
Lease rentals receivable & stock out on hire	4,730,779,337	2,699,751,167	1,124,618,716	1,054,087,037	9,609,236,257
Hire purchase rentals receivable & stock out on hire	8,367,778	3,499,200	4,238,099	32,675,893	48,780,970
	5,887,452,811	3,203,271,544	1,425,342,285	1,774,080,020	12,290,146,660

Group

As at 31st March 2018	Notes	Neither Past Due Nor Impaired Rs.	Past Due But Not Impaired Rs.	Total Rs.
Financial Assets				
Cash and cash equivalents	18	551,552,815	-	551,552,815
Repurchase agreements		638,820,384	-	638,820,384
Placements with banks & financial institutions		476,510,425	-	476,510,425
Financial investments - Held for trading	19	751,264,686	-	751,264,686
Loans and advances	20	5,245,243,621	2,632,129,433	7,877,373,054
Lease rentals receivable & stock out on hire	21	7,944,729,186	9,609,236,257	17,553,965,443
Hire purchase rentals receivable & stock out on hire	22	13,607,865	48,780,970	62,388,835
Financial investments - Available for sale	23	400,770,342	-	400,770,342
Other financial assets	25	349,438,381	-	349,438,381
Total Financial Assets		16,371,937,705	12,290,146,660	28,662,084,365

Aging analysis of past due (i.e. facilities in arrears of 1 day and above) but not impaired loans by class of financial assets

	Past Due But Not Impaired				
	Less than 30 days Rs.	31 to 60 days Rs.	61 to 90 days Rs.	More than 91 days Rs.	Total Rs.
Loans and advances	1,148,305,696	500,021,177	296,485,470	687,317,090	2,632,129,433
Lease rentals receivable & stock out on hire	4,730,779,337	2,699,751,167	1,124,618,716	1,054,087,037	9,609,236,257
Hire purchase rentals receivable & stock out on hire	8,367,778	3,499,200	4,238,099	32,675,893	48,780,970
	5,887,452,811	3,203,271,544	1,425,342,285	1,774,080,020	12,290,146,660

Company

As at 31st March 2017	Notes	Neither Past Due Nor Impaired Rs.	Past Due But Not Impaired Rs.	Total Rs.
Cash and cash equivalents	18	250,196,373	-	250,196,373
Repurchase agreements		175,849,048	-	175,849,048
Placements with banks & financial institutions		1,218,793,508	-	1,218,793,508
Financial investments - Held for trading	21	1,251,615,776	-	1,251,615,776
Loans and advances	22	6,262,292,654	1,216,174,370	7,478,467,024
Lease rentals receivable & stock out on hire	23	9,864,449,851	5,972,980,662	15,837,430,513
Hire purchase rentals receivable & stock out on hire	24	73,111,656	94,485,839	167,597,495
Financial investments - Available for sale	25	488,124,253	-	488,124,253
Other financial assets	26	255,778,986	-	255,778,986
Total Financial Assets		19,840,212,105	7,283,640,871	27,123,852,976

Aging Analysis of past due (i.e. facilities in arrears of 1 day and above) but not impaired loans by class of financial assets.

	Past Due But Not Impaired				
	Less than 30 days Rs.	31 to 60 days Rs.	61 to 90 days Rs.	More than 91 days Rs.	Total Rs.
Loans and Advances	665,092,776	230,584,975	87,671,848	232,824,772	1,216,174,370
Lease rentals receivable & Stock out on hire	3,526,183,069	1,386,323,036	389,583,984	670,890,573	5,972,980,662
Hire purchase rentals receivable & Stock out on hire	34,627,443	19,494,650	8,124,622	32,239,124	94,485,839
	4,225,903,288	1,636,402,661	485,380,454	935,954,469	7,283,640,871

Notes to the Financial Statements Contd.

Group

As at 31st March 2017	Notes	Neither Past Due Nor Impaired Rs.	Past Due But Not Impaired Rs.	Total Rs.
Financial Assets				
Cash and cash equivalents	18	294,565,160	-	294,565,160
Repurchase agreements		175,849,048	-	175,849,048
Placements with banks & financial institutions		1,273,186,055	-	1,273,186,055
Financial investments - Held for trading	19	1,251,615,776	-	1,251,615,776
Loans and advances	20	6,262,409,117	1,216,174,370	7,478,583,487
Lease rentals receivable & stock out on hire	21	9,864,449,851	5,972,980,662	15,837,430,513
Hire purchase rentals receivable & stock out on hire	22	73,111,656	94,485,839	167,597,495
Financial investments - Available for sale	23	501,624,253	-	501,624,253
Other financial assets	25	291,558,200	-	291,558,200
Total financial assets		19,988,369,116	7,283,640,871	27,272,009,987

Aging Analysis of past due (i.e. facilities in arrears of 1 day and above) but not impaired loans by class of financial assets

	Past Due But Not Impaired				
	Less than 30 days Rs.	31 to 60 days Rs.	61 to 90 days Rs.	More than 91 days Rs.	Total Rs.
Loans and advances	665,092,776	230,584,975	87,671,848	232,824,772	1,216,174,370
Lease rentals receivable & stock out on hire	3,526,183,069	1,386,323,036	389,583,984	670,890,573	5,972,980,662
Hire purchase rentals receivable & stock out on hire	34,627,443	19,494,650	8,124,622	32,239,124	94,485,839
	4,225,903,288	1,636,402,661	485,380,454	935,954,469	7,283,640,871

50.3 Analysis of Risk Concentration

50.3.1 Industry Analysis

The following table shows the risk concentration by industry for the components of the Statement of Financial Position.

Sector wise Breakdown	Cash and Bank Balances Rs.	Financial Investments - Held for Trading Rs.	Loans and Advances Rs.	Financial Investments - Available for Sale Rs.	Other financial assets Rs.	Total Financial Assets Rs.
Agriculture & Fishing	-	-	6,280,299,509	-	-	6,280,299,509
Construction	-	-	546,485,817	-	-	546,485,817
Food, Beverages & Tobacco	-	-	147,116,217	-	-	147,116,217
Financial Services	551,552,815	-	158,819,516	-	476,510,425	1,186,882,756
Industry	-	-	5,215,780,121	-	-	5,215,780,121
Tourism	-	-	398,041,488	-	-	398,041,488
Government	-	544,527,194	96,946,278	380,942,702	638,820,384	1,661,236,558
Transport	-	-	4,209,992,835	-	-	4,209,992,835
Services	-	-	3,053,912,921	-	349,638,381	3,403,351,302
Consumption	-	-	4,176,168,952	-	-	4,176,168,952
Other	-	206,737,492	1,210,163,679	19,627,640	-	1,436,528,811
Total	551,552,815	751,264,686	25,493,727,332	400,570,342	1,464,969,190	28,662,084,365

50.3.2 Risk Limit Control and Mitigation Policies

The Company manages, limits and controls concentrations of credit risk wherever they are identified − in particular, to individual counter parties and groups, and to industries and countries.

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product and industry sector are approved monthly by the Risk Committee.

Lending limits are reviewed in the light of changing market and economic conditions and periodic credit reviews and assessments of probability of default.

Some other specific control and mitigation measures are outlined below:

Collateral

The Company employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Company implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties.
- Charges over business assets such as premises, inventory and accounts receivable.
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Company will seek additional collateral from the counter party as soon as impairment indicators are identified for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

50.3.3 Liquidity Risk & Funding Management

Liquidity risk refers to the availability of sufficient cash balances to meet new lending targets as well as provide a flow of net liquid assets to meet contractual borrowings and other commitments. Liquidity risk is financial risk due to uncertain liquidity. An institution might lose liquidity if its credit rating falls, it experiences sudden unexpected cash outflows, or some other event causes counter parties to avoid trading with or lending to the institution. A firm is also exposed to liquidity risk if markets on which it depends are subject to loss of liquidity.

The Company maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Company also has committed lines of credit that it can access to meet liquidity needs. In addition, the Company maintains the liquidity ratio prescribed by Central Bank of Sri Lanka.

Liquidity risk management process

The Company's liquidity management process, as carried out within the Company and monitored by a separate team in Company Treasury, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers.
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring the liquidity ratios of the Statement of Financial Position against internal and regulatory requirements; and managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

Company Treasury also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

50.3.4 Statutory Liquid Asset Ratio

As per the requirements of Finance Companies (Liquid Assets) Direction No. 01 of 2009, Company has to maintain minimum liquid assets, not less than the total of,

(i) Ten per cent of:

(a) The outstanding value of the time deposits received by the Finance Company at the close of the business on such day, and

(b) the face value of certificate of deposits issued by the finance Company; as appearing on the books of the finance Company at the close of the business of such day and

(ii) Fifteen per cent of the outstanding value of savings deposits accepted by such Company, at the close of the business on such day.
As at 31st March 2018, the Company maintained Statutory Liquid Asset ratio at 12.11%.

50.4 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarises the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities as at 31st March 2018.

	On Demand Rs.	Less than 03 Months Rs.	3-12 Months Rs.	12-60 Months Rs.	Over 60 Months Rs.	Total Rs.
Financial Assets						
Cash and cash equivalents	510,364,191	-	-	-	-	510,364,191
Repurchase agreement	638,820,384	-	-	-	-	638,820,384
Placement with banks & other financial institution	-	259,720,928	216,789,497	-	-	476,510,425
Financial investments - held for trading	-	532,579,515	218,685,171	-	-	751,264,686
Loans and advances	-	2,809,991,978	2,912,000,370	2,154,034,790	1,219,216	7,877,246,355
Lease rentals receivable & stock out on hire	-	1,492,452,972	4,947,684,276	11,107,980,872	5,847,322	17,553,965,443
Hire purchase rentals receivable & stock out on hire	-	34,576,811	22,938,105	4,873,918	-	62,388,834
Financial investments - available for sale	-	130,942,702	579,250	50,000,000	200,000,000	381,521,952
Other financial assets	-	323,549,421	-	-	-	323,549,421
Total Financial Assets	1,149,184,575	5,583,814,327	8,318,676,669	13,316,889,580	207,066,538	28,575,631,690
Financial Liabilities						
Due to banks	232,447,867	1,921,028,915	3,265,596,797	5,296,393,888	326,637,074	11,042,104,540
Due to customers	587,977,687	3,558,109,434	5,139,106,078	3,971,758,232	-	13,256,951,431
Debt instruments issued and other borrowed funds	-	-	845,799,918	800,000,000	-	1,645,799,918
Other financial liabilities	-	456,262,779	-	-	-	456,262,779
Total Financial Liabilities	820,425,554	5,935,401,128	9,250,502,793	10,068,152,120	326,637,074	26,401,118,668
Total Net Financial Assets/(Liabilities)	328,759,021	(351,586,801)	(931,826,124)	3,248,737,460	(119,570,536)	2,174,513,022

Assets held for managing liquidity risk

The Company holds a diversified portfolio of cash and high-quality highly-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Company's assets held for managing liquidity risk comprise:

- Cash and balances with central banks;
- Certificates of deposit;
- Government bonds and other securities that are readily acceptable in repurchase agreements with central banks; and
- Secondary sources of liquidity in the form of highly liquid instruments in the Company's trading portfolios.

50.4.2 Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, commodity prices and equity prices. The Company classifies exposures to market risk into either trading or non–trading portfolios and manages each of those portfolios separately.

50.4.3 Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board has established limits on the non–trading interest rate gaps for stipulated periods. The Company's policy is to monitor positions on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

Interest Rate Sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's Income Statement & Equity.

Currency of Borrowings/ Advance	Increase (Decrease) in basis points 2018 Rs.	Sensitivity of Profit or Loss 2017 Rs.	Sensitivity of Profit or Loss 2018 Rs.
Long term loans linked to AWPLR	+100/ (-100)	(35,544)/35,544	(352,432)/352,432

Notes to the Financial Statements Contd.

50.4.4 Interest Rate Risk Exposure on Non Trading Financial Assets & Liabilities

The table below analyses the Company's interest rate risk exposure on financial assets & liabilities. The Company's assets & liabilities are included at carrying amount and categorized by the earlier of contractual repricing or maturity dates.

	Up to 03 Months Rs.	03-12 Months Rs.	01-05 Years Rs.	Over 05 Years Rs.	Non interest bearing Rs.	Total as at 31/03/2018 Rs.
Financial Assets						
Cash and cash equivalents	-	-	-	-	510,364,191	510,364,191
Loans and advances	2,809,991,978	2,912,000,370	2,154,034,790	1,219,216	-	7,877,246,354
Lease rentals receivable & stock out on hire	1,492,452,972	4,947,684,276	11,107,980,872	5,847,322	-	17,553,965,443
Hire purchase rentals receivable & stock out on hire	34,576,811	22,938,105	4,873,918	-	-	62,388,834
Financial investments - available for sale	-	130,742,702	50,779,250	200,000,000	-	381,521,952
Other financial assets	323,549,421	-	-	-	-	323,549,421
Total Financial Assets	4,660,571,182	8,013,365,453	13,317,668,830	207,066,538	510,364,191	26,709,036,195
Financial Liabilities						
Due to banks	2,153,476,782	3,265,596,797	5,296,393,888	326,637,073	-	11,042,104,540
Due to customers	4,146,087,120	5,139,106,078	3,971,758,232	-	-	13,256,951,431
Debt instruments issued and other borrowed funds	-	845,799,918	800,000,000	-	-	1,645,799,918
Derivative financial liabilities	-	39,238,389	-	-	-	39,238,389
Other financial liabilities	456,262,779	-	-	-	-	456,262,779
Total Financial Liabilities	6,755,826,681	9,289,741,182	10,068,152,120	326,637,074	-	26,440,357,056
Interest Sensitivity Gap	(2,095,255,499)	(1,276,375,729)	3,249,516,710	(119,570,536)	510,364,191	268,679,139

50.4.5 Exposure to Foreign Currency Risk

Foreign Currency Sensitivity

An estimation of the impact of the currency risk with respect of financial instruments with a 5% change in US Dollar exchange rate is given below. In calculation of risk it is assumed that all other variable factors are held constant. The calculation of sensitivity has been performed only on the assets and liabilities denominated in foreign currency of the Company as at 31st March 2018.

The following significant exchange rates were applied during the year

	Average Rate	Reporting date spot rate	
	2018	2018	2017
USD/ LKR	149.52	156.15	142.88

The Company's exposure to foreign currency risk is as follows;

As at 31st March 2018

	Rs.	USD Converted to Rs.	Total
Cash & cash equivalents	(1,458,376)	156.15	(9,340)
Borrowings	56,072,818	156.15	359,096
	54,614,443		349,756

Foreign Currency Sensitivity

An estimation of the impact of the currency risk with respect of financial instruments with a 5% change in US Dollar exchange rate is given below. In calculation of risk it is assumed that all other variable factors are held constant. The calculation of sensitivity has been performed only on the assets and liabilities denominated in foreign currency of the Company as at 31st March 2018.

Effect on Profit or Loss (Rs.)	Effect on equity (Rs.)	Effect on equity (Rs.)
USD depreciated against LKR by 5%	2,730,722	2,730,722
USD appreciated against LKR by 5%	(2,730,722)	(2,730,722)

50.5 Operational Risk

An operational risk is the risk arising from execution of a Company's business functions. The concept of operational risk is broad and focuses on the risks arising from the people, systems and processes through which a Company operates. It also includes other categories such as fraud risks, regulatory and compliance risks, reputation and physical or environmental risks.

50.6 Capital

The Company maintains an activity managed capital basis to cover risks inherent in the business and meet the capital adequacy requirements of Central Bank of Sri Lanka . The adequacy of the Company's capital is monitored based on the measures, rules and ratios adopted by Central Bank of Sri Lanka.

Capital Management

The primary objective of Company's capital management policy are to ensure that the Company complies with externally imposed capital requirements and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Company's objectives when managing capital, which is a broader concept than the 'equity' on the face of the consolidated Statement of Financial Position, are:

Notes to the Financial Statements Contd.

- To comply with the capital requirements set by the regulators of the financing markets where the entities within the Company operate;
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Company's management, employing techniques based on the guidelines developed by the Central Bank of Sri Lanka, for supervisory purposes. The required information is filed with the authority on a quarterly basis.

The Company maintains a ratio of total regulatory capital to its risk-weighted assets above a minimum level agreed with the Authority which takes into account the risk profile of the Company.

The regulatory capital requirements are strictly observed when managing economic capital. The Company's regulatory capital is managed by each month by Board of Directors and comprises two tiers:

Tier 1 capital

Tier 1' Capital is capital which is permanently and freely available to absorb losses without a Finance Company being obliged to cease trading. An example of Tier 1' Capital is the paid up ordinary share capital of a Finance Company. Tier 1' Capital is important because it safeguards both the survival of a Finance Company and stability of the financial system.

Tier 2 capital:

Tier 2 Capital is capital which generally absorbs losses only in the event of a winding up of a Finance Company, and so provides a lower level of protection for depositors and other creditors. Tier - 2' Capital includes revaluation reserve, general provisions and hybrid capital instruments and approved subordinated term debts.

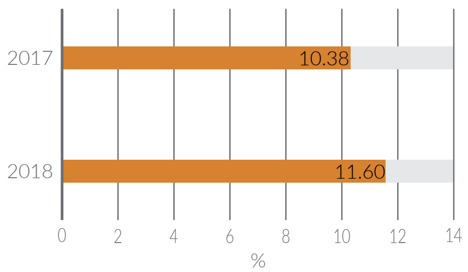
Equity Investments in unconsolidated Financial and Banking subsidiaries are deducted from Tier 1 and Tier 2 capital to arrive at the Capital Base. The risk weighted assets are measured using the risk weight percentage and principal amount of items in the Statement of Financial Position. The table below summarises the composition of regulatory capital and the ratios of the Company for the years ended 31st March 2018 and 2017. During those two years, the Company has complied with all of the externally imposed capital requirements to which they are subject.

51. CAPITAL ADEQUACY RATIO

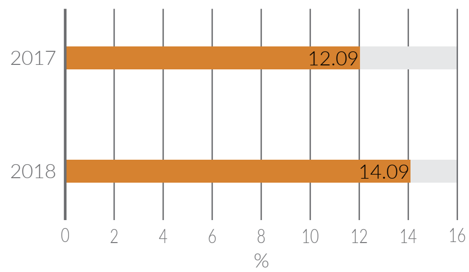
Capital Base	31.03.2018 Rs.	31.03.2017 Rs.
Tier 1: Core Capital		
Issued and paid up share capital	590,030,000	590,030,000
Statutory reserve fund	773,074,800	631,208,800
General reserves	388,258,055	388,258,055
Published retained profit	1,499,976,696	1,147,080,445
Total Tier 1: Capital	**3,251,339,551**	**2,756,577,300**
Tier 2: Supplementary Capital		
Capital reserves (revaluation)	185,248,322	239,953,322
Shares issued against approved reserves	11,975,000	11,975,000
General provisions	876,409	-
Eligible approved unsecured subordinated term debt	553,683,715	256,921,646
Total Tier 2: Capital	**751,783,446**	**508,849,968**
Deductions		
Equity Investments in unconsolidated banking and financial subsidiaries	53,444,902	54,715,271
Capital Base	**3,949,678,094**	**3,210,711,997**

Capital Adequacy Ratio			31.03.2018	31.03.2017
Core Capital Ratio (Minimum 5%)	Tier 1 Capital	* 100	11.60%	10.38%
	Risk Weighted Assets			
Total Risk Weighted	Capital Base	*100	14.09%	12.09%
Capital Ratio (Minimum 10%)	Risk Weighted Assets			

Core Capital Ratio



Total Risk Weighted Capital Ratio

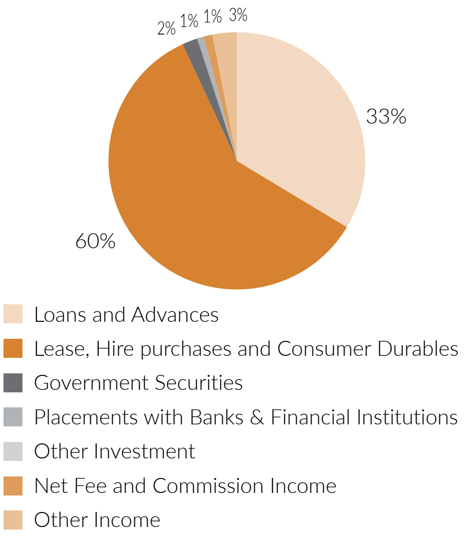


Contribution to National Economy

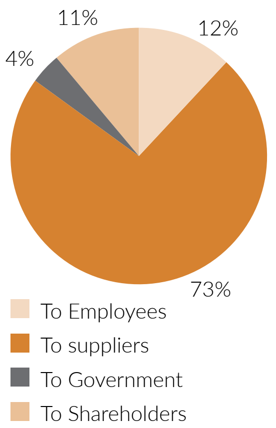
Sources and Utilisation of Income - Company
For the year ended 31st March

	2018 Rs.	%	2017 Rs.	%
Sources of Income				
Loans and advances	2,250,881,453	33.55	1,709,040,746	32.06
Lease, Hire purchases and consumer durables	3,998,850,408	59.59	2,998,161,770	56.24
Government securities	135,185,796	2.01	138,015,988	2.59
Placements with banks & financial institutions	77,130,972	1.15	109,503,373	2.05
Other investments	16,589,251	0.25	28,416,649	0.53
Net fee and commission income	40,913,969	0.61	148,425,829	2.78
Other income	190,594,753	2.84	199,779,358	3.75
Total income	**6,710,146,602**	**100.00**	**5,331,343,713**	**100.00**
To Employees				
Personnel expenses	800,789,586	11.93	739,979,466	13.89
To Suppliers				
Interest paid	3,206,900,561	47.79	2,462,431,850	46.19
Other expenses	1,053,075,259	15.69	935,662,244	17.55
Depreciation	116,078,627	1.73	117,774,125	2.21
Impairment for loans and other losses	512,894,347	7.64	73,680,699	1.38
	4,888,948,794	72.86	3,589,548,919	67.33
To Government				
Value added tax & other taxes	220,369,251	3.28	178,588,251	3.35
Income tax	79,310,326	1.18	184,670,012	3.46
	299,679,577	4.47	363,258,263	6.80
To Shareholders				
Dividends	213,969,600	3.19	182,995,200	3.43
Invested in the business	506,759,045	7.55	455,561,865	8.54
	720,728,645	10.74	638,557,065	11.98
	6,710,146,603	**100.00**	**5,331,343,713**	**100.00**

Value Distribution-2017/18



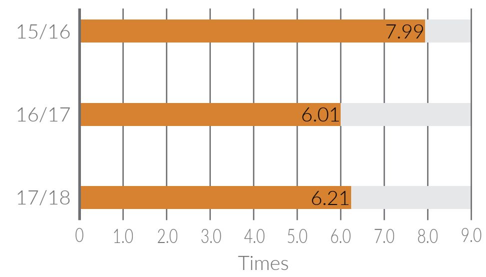
Utilisation of Income-2017/18



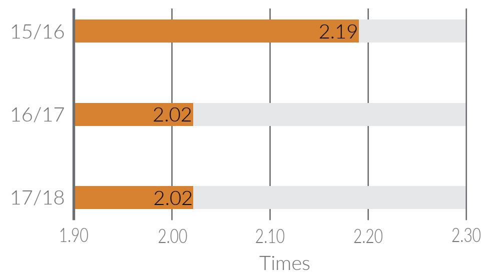
Debenture Investor Indicators

	2016	2017	2018
Debt/equity ratio (times)	7.99	6.01	6.21
Interest cover times	2.19	2.02	2.02
Liquid assets ratio (%)	25.37	20.19	14.70

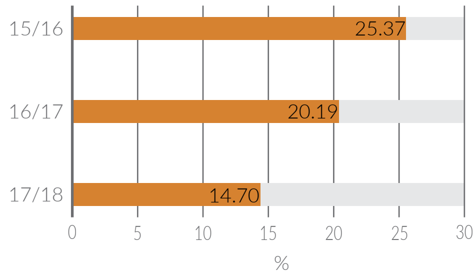
Debt/Equity Ratio



Interest Cover

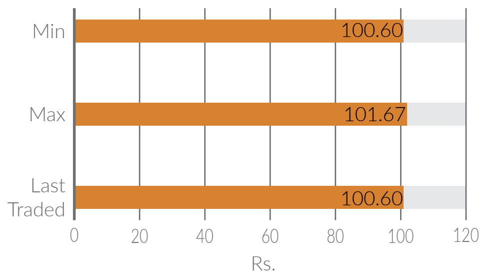


Liquid Assets Ratio

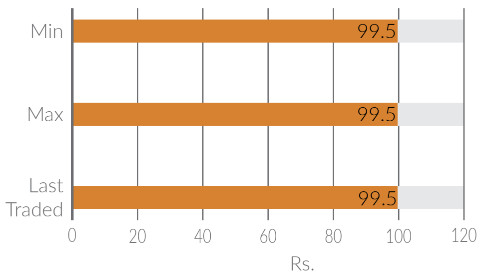


Market Value Per Debenture			
Debenture 2012-2017 Market Price (Rs.)	**Min**	**Max**	**Last Traded**
5 Years - 20.0% p.a payable Monthly	100.6	101.67	100.6
Debenture 2013-2018 Market Price (Rs.)	**Min**	**Max**	**Last Traded**
4 Years - 16% p.a payable semi annually	N/T	N/T	N/T
5 Years - 16.5% p.a payable semi annually	99.5	99.5	99.5
5 Years - 16.5% p.a payable @ maturity	81.57	81.57	81.57
Debenture 2014-2019 Market Price (Rs.)	**Min**	**Max**	**Last Traded**
4 Years - 9.00% p.a payable annually	N/T	N/T	N/T
5 Years - 9.35% p.a payable annually	N/T	N/T	N/T

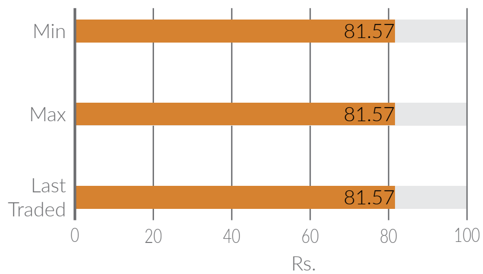
Debenture 2012-2017 Market Price
5 Years - 20.0% p.a payable Monthly



Debenture 2013-2018 Market Price
5 Years - 16.5% p.a payable semi annually



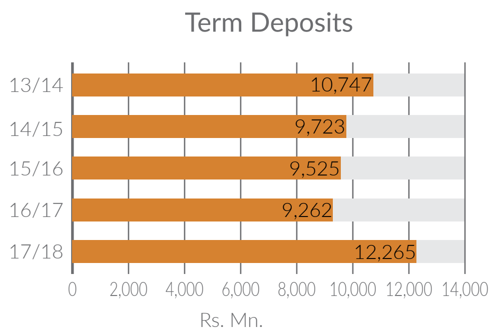
Debenture 2013-2018 Market Price
5 Years - 16.5% p.a payable @ maturity

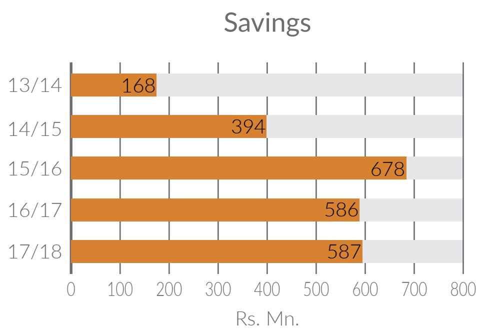


Deposit Information Contd.

(a) Total Deposit Base

	2014 Rs.'000	2015 Rs.'000	2016 Rs.'000	2017 Rs.'000	2018 Rs.'000
Term deposits	10,746,932	9,723,254	9,524,730	9,261,908	12,265,153
Certificate of deposits	6,206	84	84	84	84
Savings	168,436	393,517	677,534	585,658	587,408
	10,921,574	10,116,855	10,202,348	9,847,650	12,852,645

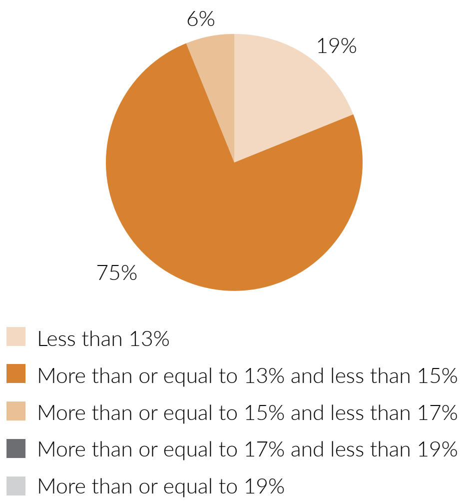




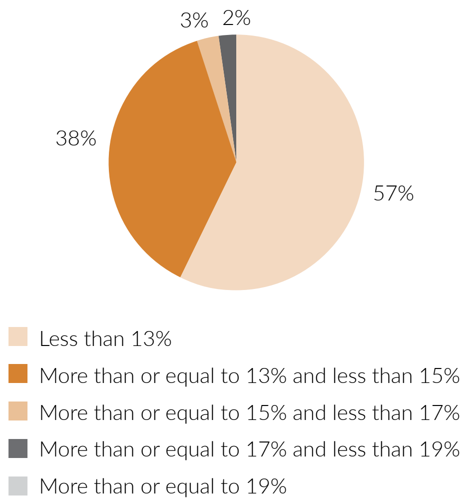
(b) Rate Wise Analysis of Term Deposits

As at 31st March	2018 No. of Deposits	2018 Value Rs.'000	2018 %	2017 No. of Deposits	2017 Value Rs.'000	2017 %
Less than 13%	2,312	2,326,588	19	5,878	5,343,338	57
More than or equal to 13% and less than 15%	7,223	9,249,811	75	2,974	3,517,691	38
More than or equal to 15% and less than 17%	601	682,754	6	258	253,637	3
More than or equal to 17% and less than 19%	4	6,000	0	185	147,242	2
Total	10,140	12,265,153	100	9,295	9,261,908	100

Rate Wise Term Deposits - 2017/18



Rate Wise Term Deposits - 2016/17

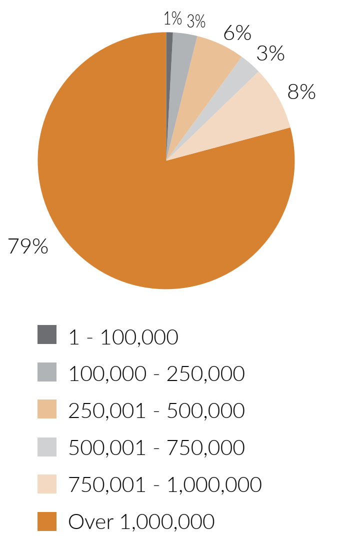


Deposit Information Contd.

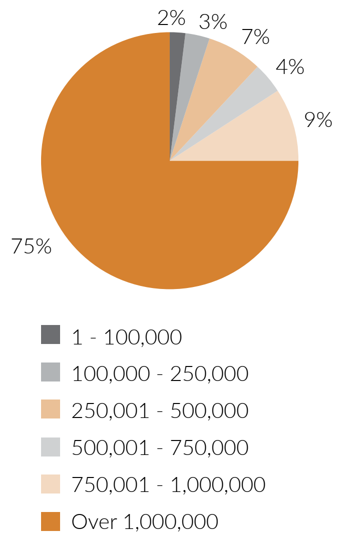
(c) Deposits Size Analysis

As at 31st March	2018 No. of Deposits	2018 Total Deposits (Rs.'000)	2018 %	2017 No. of Deposits	2017 Total Deposits (Rs.'000)	2017 %
1 - 100,000	2,474	136,861	1	2,576	141,099	2
100,001 - 250,000	1,722	309,884	3	1,670	298,805	3
250,001 - 500,000	1,820	737,326	6	1,682	682,888	7
500,001 - 750,000	639	400,992	3	547	342,327	4
750,001 - 1,000,000	1,055	1,004,003	8	917	870,378	9
Over 1,000,000	2,430	9,676,171	79	1,903	6,926,411	75
	10,140	12,265,237	100	9,295	9,261,908	100

Deposits Size Analysis - 2017/18

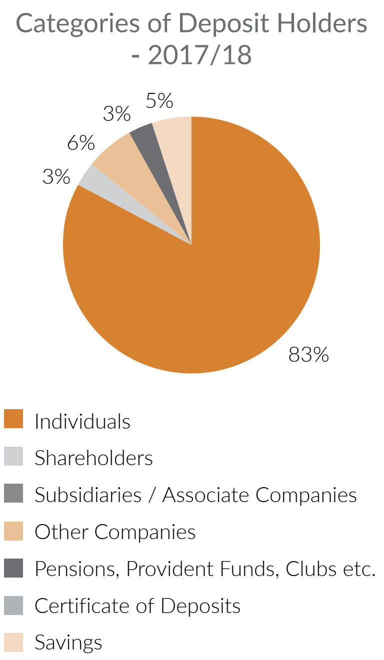


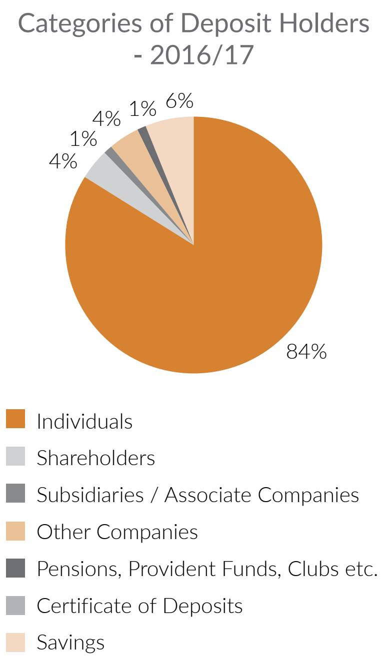
Deposits Size Analysis - 2016/17



(d) Categories of Deposit Holders

As at 31st March	2018 Rs.'000	%	2017 Rs.'000	%
Individuals	10,661,323	83	8,315,589	84
Shareholders	449,698	3	359,206	4
Subsidiaries / Associate Companies	32,728	0	90,304	1
Other Companies	791,030	6	420,781	4
Pensions, Provident Funds, Clubs etc.	330,374	3	76,027	1
Certificate of Deposits	84	0	84	0
Savings	587,408	5	585,658	6
	12,852,645	100	9,847,650	100





Ten Year Summary - Company

(In Rs. Mn)

For Year Ended 31st March	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Operating Results										
Income	1,346.86	1,527.78	1,869.41	2,270.91	3,487.97	3,837.89	4,175.93	4,473.44	5,331.34	6,710.15
Profit before tax	70.65	78.68	234.79	492.72	586.18	261.27	277.45	530.31	834.13	788.64
Income tax	9.08	10.83	50.00	36.98	75.06	(35.22)	74.54	111.12	184.67	79.31
Profit After Tax	**61.57**	**67.85**	**184.79**	**455.74**	**511.11**	**296.49**	**202.90**	**419.19**	**649.46**	**709.33**
Statement of Financial Position										
Assets										
Cash, cash equivalent & deposits	79.51	237.16	467.29	527.37	1,043.08	1,248.20	1,111.75	2,713.93	1,644.84	1,625.70
Receivables	845.99	947.59	705.37	1,220.85	1,126.05	1,350.21	1,101.92	595.04	1,306.76	1,435.38
Stocks	3,492.58	3,628.76	5,775.25	9,366.68	13,477.41	12,997.64	14,440.63	19,293.67	22,866.23	25,019.13
Investments	730.79	846.01	1,035.80	785.08	770.74	2,010.06	2,122.07	1,795.53	2,081.21	1,530.62
Property, plant & equipment	679.32	654.63	623.25	754.01	1,074.24	1,120.35	1,133.33	1,446.54	2,122.91	2,167.73
	5,828.19	**6,314.14**	**8,606.97**	**12,653.99**	**17,491.52**	**18,726.47**	**19,909.69**	**25,844.70**	**30,021.95**	**31,778.56**
Liabilities										
Term deposit	3,355.68	4,176.99	5,001.75	6,732.81	9,001.88	11,201.59	10,344.07	10,464.15	10,087.82	13,256.95
Bank overdraft/loans	1,283.73	919.42	2,269.00	4,213.29	6,013.19	4,945.87	6,833.37	12,275.60	15,154.16	13,144.17
Provisions & other liabilities	488.32	455.10	171.76	240.20	357.37	187.70	282.91	382.89	715.18	1,147.59
	5,127.73	**5,551.51**	**7,442.51**	**11,186.30**	**15,372.44**	**16,335.16**	**17,460.35**	**23,122.64**	**25,957.15**	**27,548.71**
Shareholders' Funds	**700.47**	**762.64**	**1,164.45**	**1,467.69**	**2,119.08**	**2,391.31**	**2,449.34**	**2,722.05**	**4,064.80**	**4,229.85**
Changes In Financial Position										
Sources of Funds										
Operations	250.46	90.71	635.37	717.93	820.61	(904.12)	541.03	876.95	795.93	1,408.52
Sale of fixed assets	15.64	57.56	69.87	59.98	36.01	21.44	8.06	47.62	25.23	39.95
Term deposits	765.62	821.31	830.05	1,731.06	2,269.07	2,199.71	(857.52)	120.08	(376.33)	3,169.13
Bank overdraft/loans	(191.54)	(180.26)	715.26	2,168.21	1,812.02	(1,103.21)	1,547.45	5,258.86	2,890.36	(1,571.60)
Others	(95.29)	(66.04)	(44.93)	(50.95)	(105.27)	(165.36)	(108.48)	(153.38)	(101.67)	(119.67)
	744.89	**723.28**	**2,205.61**	**4,626.22**	**4,832.44**	**48.45**	**1,130.54**	**6,150.13**	**3,233.52**	**2,926.33**

(In Rs. Mn)

For Year Ended 31st March	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Application of Funds										
Capital expenditure	97.75	82.82	84.86	237.85	158.35	137.36	106.74	450.67	70.49	208.09
Portfolio disbursements	683.78	301.11	2,190.98	4,169.62	4,654.30	20.34	1,071.33	5,952.84	2,848.00	1,944.45
Deposits	28.59	(1.35)	3.72	(110.79)	10.17	66.37	400.92	(73.28)	37.27	(105.10)
Income tax	32.98	32.28	64.63	42.56	1.89	1.14	0.93	19.57	180.12	125.60
Dividends	6.48	5.67	5.67	105.30	109.35	36.45	48.60	126.36	183.00	213.97
Other	(80.80)	(40.30)	(16.81)	164.93	(130.93)	(199.30)	(479.01)	(351.44)	(191.58)	279.15
Changes in available resources	(23.89)	343.05	(127.43)	16.75	29.31	(13.93)	(18.96)	25.41	106.21	260.17
	744.89	**723.28**	**2,205.61**	**4,626.22**	**4,832.44**	**48.45**	**1,130.54**	**6,150.13**	**3,233.52**	**2,926.33**
Number of Shares	**1,620,000**	**1,620,000**	**1,620,000**	**2,430,000**	**2,430,000**	**2,430,000**	**2,430,000**	**2,430,000**	**33,696,000**	**33,696,000**
Indicators of Performance										
Return on Shareholders Funds % (After Tax)	9.15	9.27	21.68	34.63	28.50	13.15	8.38	16.21	19.14	17.10
Return on Total Assets % (After Tax)	1.13	1.12	2.52	4.29	3.39	1.64	1.05	1.83	2.33	2.30
Earnings per Share Rs.	38.01	41.88	76.05	187.55	210.33	122.01	83.50	172.51	19.85	21.05
Market Value per Share (Rs.)	175.00	419.00	850.10	630.00	800.10	769.80	770.00	740.00	55.00	65.70
Price Earning Ratio	4.60	10.00	11.18	3.36	3.80	6.31	9.22	4.29	2.77	3.12
Rate of Dividend %	35.00	35.00	275.00	450.00	400.00	200.00	230.00	530.00	32.38	35.12
Dividend per Share (Rs.)	3.50	3.50	27.50	45.00	40.00	20.00	23.00	53.00	5.90	6.40
Gross Dividend	5.67	5.67	44.55	109.35	97.20	48.6	55.89	128.79	198.81	215.65
Dividend cover (times)	10.86	11.97	4.42	4.17	5.26	6.10	3.63	3.25	3.27	3.29
Net Assets per share (Rs.)	432.39	470.77	581.34	603.99	872.05	984.08	1,007.96	1,120.19	120.63	125.53
Market Value per Share During the Year Ended										
Highest value recorded during the year (Rs.)	220.00	485.00	1,100.00	824.90	702.00	820.00	929.00	1,000.00	1,600.00	79.40
Lowest value recorded during the year (Rs.)	175.00	185.00	700.00	516.00	849.00	730.00	810.00	732.00	23.00	53.00
Market value as at 31st March (Rs.)	175.00	419.00	850.10	630.00	800.10	769.80	770.00	740.00	55.00	65.70
Financial Summary										
Assets	5,828	6,314	8,607	12,654	17,492	18,726	19,910	25,845	30,022	31,779
Liabilities	5,128	5,552	7,443	11,186	15,372	16,335	17,460	23,123	25,957	27,549
Shareholders' funds	700	763	1,164	1,468	2,119	2,391	2,449	2,722	4,065	4,230

Shareholder Information

20 MAJOR SHAREHOLDERS

	31st March 2018			31st March 2017		
No.	Name of Shareholder	No. of Shares	%	Name of Shareholder	No. of Shares	%
1	Mr.R.K.E.P. de Silva	8,934,075	26.51	Mr.R.K.E.P. de Silva	8,934,075	26.51
2	Motor Service Station (Pvt) Ltd.,	4,542,220	13.48	Motor Service Station (Pvt) Ltd.,	4,542,220	13.48
3	Miss D.M.E.P. Perera	2,501,443	7.42	Miss D.M.E.P. Perera	2,501,443	7.42
4	Mr.R.K.E.P. de Silva & Mr.J.E.P.A. de Silva	2,101,216	6.24	Mr.R.K.E.P. de Silva & Mr.J.E.P.A. de Silva	2,101,216	6.24
5	Mr.D.F.W.S.K. Perera & Mr.D.F.W. Perera	1,381,536	4.10	Mr.D.F.W.S.K. Perera & Mr.D.F.W. Perera	1,381,536	4.10
6	Orient Hotels Ltd.,	1,358,323	4.03	Orient Hotels Ltd.,	1,358,323	4.03
7	Mrs.S.J. Amarasinghe	908,040	2.69	Mr.N. Amarasinghe	889,360	2.64
8	Mrs.S.E. Canekeratne	612,268	1.82	Mrs.S.E. Canekeratne	612,268	1.82
9	Mr.D.L.S.R. Perera	553,556	1.64	Mr.D.L.S.R. Perera	553,556	1.64
10	Mrs.S.R.L. Marcelline	492,480	1.46	Janashakthi PLC A/c No. 1	504,663	1.50
11	Mrs.C.R. de Silva	374,400	1.11	Mrs.S.R.L. Marcelline	492,480	1.46
12	Elgin Investments Ltd.	324,335	0.96	Trading Partners (Pvt) Ltd.	422,475	1.25
13	Mr. D.F.W. Perera	310,560	0.92	Mrs.C.R. de Silva	374,400	1.11
14	Ms.D.D.P.T. Perera	309,384	0.92	Mr. D.F.W. Perera	310,560	0.92
15	Mrs.P. Weththasinghe	299,975	0.89	Ms.D.D.P.T. Perera	309,384	0.92
16	Mrs.A.S. Wijewardena	259,200	0.77	Mrs.P. Weththasinghe	299,975	0.89
17	Miss R.H. Abdulhussein	253,000	0.75	Seylan Bank PLC/Janashakthi Ltd.,	276,742	0.82
18	Mr.Y.H. Abdulhussein	250,458	0.74	Mrs.A.S. Wijewardena	259,200	0.77
19	Mrs.L.S. Semage	249,016	0.74	Mrs.L.S. Semage	249,016	0.74
20	Ms.D.C.M.A. Perera	236,632	0.70	Ms.D.C.M.A. Perera	236,632	0.70
		26,252,117	77.91		26,609,524	78.97

Holdings	31st March 2018			31st March 2017		
	No. of Holders	Total	%	No. of Holders	Total	%
1 - 1,000	691	183,067	0.54	621	160,921	0.48
1,001 - 10,000	341	1,214,970	3.61	317	1,017,041	3.02
10,001 - 100,000	140	4,229,031	12.55	126	3,825,934	11.35
100,001 - 1,000,000	27	7,250,119	21.52	28	7,873,291	23.37
Over 1,000,000	6	20,818,813	61.78	6	2,0818,813	61.78
	1205	**33,696,000**	**100.00**	**1098**	**3,3696,000**	**100.00**

The shares in the hands of the public 31.3.2018 were 18,099,071 representing 53.72% of the Issued Share Capital of the Company and as at 31.3.2017 were 18,100,071 representing 53.72% of the Issued Share Capital of the Company.

	31st March 2018			31st March 2017		
	No of shareholders	No. of share	%	No of shareholders	No. of share	%
Institution	29	6,813,540	20.22	27	728,711	2.16
Individuals	1,176	26,882,460	79.78	1,178	32,967,289	97.84
	1205	**33,696,000**	**100.00**	**1,205**	**33,696,000**	**100**

Glossary

A

Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by a company in preparing and presenting Financial Statements

Accounting

The profit or loss for a period before deducting tax expense

Accrual Basis of Accounting

The effects of transactions and other events are recognised when they are occurred (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

Amortisation (Depreciation)

The systematic allocation of the depreciable amount of an asset over its useful life

C

Carrying Amount

The amount at which an asset is recognized in balance sheet after deducting any accumulated depreciation (amortisation) and accumulated impairment losses

Cash Equivalents

Short-term, highly-liquid investments that is readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value

Contingencies

Conditions or situation at the balance sheet date and the financial effects of which are to be determined by the future events that may or may not occur

Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability of owners and others.

Cost to Income Ratio

Personal and Other Non-Interest Expenses divided by the Net Interest Income & Non-Interest Income

Current Tax

The amount of tax payable in respect of taxable income for the period

D

Dealing Securities

Marketable securities that are acquired and held with the intention of reselling them in the short-term

Deferred tax liabilities

The amounts of income tax payable in future periods in respect of taxable temporary differences

Defined Benefit Plans

Retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' remuneration and completed years of service

Disbursements

Another term for investments

Discretionary Provision

This includes provision for bonuses and incentives

Dividends

Distribution of profits to holders of equity investments, in proportion to their holdings of a particular class of capital

Dividend Cover

Profit after tax divided by gross dividend. The ratio measures the number of times dividend is covered by current years' distributable profits

Dividend per share (DPS)

Gross dividend divided by the number of shares in issues

E

Earnings per Share (EPS)

Profit for the period attributable to ordinary shareholders(the numerator) divided by the weighted average number of ordinary shares in issue during the period (the denominator)

Efficiency Ratio

The Non-Interest Expenses divided by total net income

G

General Reserves

Reserves set aside for future

Gross NPA (NPL) Ratio

Total non-performing accommodations (loans) after deducting for initial rentals received, unearned income, and interest in suspense, divided by gross accommodations (loans) after deducting for initial rentals received, unearned income and interest in suspense.

Gross Dividend

The portion of profits distributed to the shareholders including the tax withheld

I

Impairment

This occurs when recoverable amount of asset declines below its carrying amount

Investments

Value of facilities granted during a specific period

Investments Securities

Securities acquired and held for yield or capital growth purposes; usually held to maturity

L

Liquidity

The availability of sufficient funds to meet deposit withdrawals and other financial commitments as they fall due

Liquid Assets

Cash and cash equivalents, repurchase agreements,placements in banks and other financial institutions and treasury bills

Liquid Assets Ratio

Liquid assets as a percentage of total deposits

M

Materiality

Information is material if its non-disclosure could influence the economic decisions of users taken on the Financial Statements

Market Value per Share

Market capitalization divided by the number of ordinary shares in issue

N

Non – Banking Financial Institutions (NBFI)

An institution that does not have the full banking license and undertakes banking services permitted by the license.

Non-Performing Loans (NPL)

Loans and advances which are 180 days or more in arrears of due principal and/or interest payments

Net Assets Value per Share

Shareholders' funds excluding preference shares if any,divided by the weighted average number of ordinary shares in issue

Net NPA Ratio

Total non-performing accommodations excluding initial rentals received, unearned income, interest in suspense and provision for loan losses, divided by gross loans after deducting for initial rentals received, unearned income,interest in suspense and provision for loan losses

Net Interest Income

The difference between income earned from interest bearing assets and cost incurred on financial instrument/ facilities used for funding the interest bearing assets

Net Interest Margin

Net interest income divided by total average assets

O

Off Balance Sheet Transactions

Transactions that are not recognized as assets or liabilities in the balance sheet but which may give rise to contingencies and commitments

P

Portfolio

Total rentals and other receivables on loans and advances after deducting for unearned interest in suspense and initial rentals paid

Price Earning (P/E) Ratio

The market price of an ordinary share divided by the Earnings per Share

Glossary Contd.

Provision for loan losses

Amounts set aside against possible losses on net receivable of facilities granted to customer as a result of them becoming party or wholly uncollectible

R

Return on Assets (ROA)

Profit after tax expressed as a percentage of average total assets; used along with ROE as a measure of profitability and as a basis of intra-industry performance comparison

Return on Shareholders' Fund/Equity (ROE)

Profit after tax expressed as a percentage of average total assets; used as a measure of profitability and as a basis of intra-industry performance comparison

Revaluation

Restatement of assets and liabilities

Rate of Dividend

Gross dividend as a percentage of total par value of shares

S

SBU

Strategic Business Unit

Segment Revenue

Revenue reported in the Company's income statement that is directly attributable to a segment and the relevant portion of the Company's revenue that can be allocated on a reasonable basis to a segment

Shareholders' Funds

Shareholders' Funds consist of issued and fully-paid ordinary share capital plus capital and revenue reserves

Social Performance Management System (SPMS)

SPMS is a set of policies, procedures, tools and internal capacity to identify and manage the institution's exposure to the environmental and social risks of its clients/ investees and the impact of the institution on society and environment.

Sustainability Development Goals

A collection of 17 global goals set by the United Nations that covers a broad range of social and economic development issues. These include poverty, hunger, health, education, climate change, gender equality, water, sanitation, energy, urbanization, environment and social justice.

T

Taxable Profit/(Tax Loss)

The profit (loss) for a period, determined in accordance with the rules established by the taxation authorities, upon which the income tax is payable/ (recoverable)

'Tier 1' Capital

Core capital representing permanent shareholders' equity and reserves created or increased by appropriation of retained earnings or other surplus

'Tier 2' Capital

Supplementary capital representing revaluation reserve,general provisions and other capital instruments which combine certain characteristics of equity debt such as hybrid capital instruments and subordinated term debts

V

Value Added

Value Added is the wealth created by providing services less cost of providing such services. The value added is allocated amongst the employees, the providers of capital and to the Government by way of taxes and retained for expansion and growth

Notice of Meeting

Notice is hereby given that the Sixty Second Annual General Meeting of Alliance Finance Company PLC, will be held on Friday 29th day, June 2018 at 9.30 a.m., at the Lakshman Kadiragamar Institute for International Relation and Strategic Studies, "The Light House", No.24, Horton Place, Colombo 07. The business to be brought before the Meeting will be:-

1. To receive and consider the Report of the Directors and the Financial Statements for the financial year ended 31st March 2018, with the Report of the Auditors thereon.
2. To declare a Dividend.
3. To re-elect a Director
   Mr. Jalathge Mahinda Gunasekera retires under Articles numbered 130 and 131
4. To re-appoint Auditors to hold office until the next Annual General Meeting and to fix their remuneration.
5. To authorize the Directors to determine and make donations.
6. To consider any other business of which due notice has been given.

By order of the Board
Sgd.
ALLIANCE MANAGEMENT SERVICES (PRIVATE) LIMITED
Secretaries

04th June 2018.

Note:

(i) A member is entitled to appoint a proxy to attend and vote in his/her place.
(ii) A proxy need not be a member of the Company.
(iii) A member wishing to vote by proxy at the meeting may use the Form of Proxy enclosed and interpolate the words "right to speak".

(iv) To be valid, the completed Form of Proxy must be lodged at Alliance Management Services (Pvt) Ltd, No.84, Ward Place, Colombo 07, not less than 48 hours before the meeting.
(v) Shareholders/Proxy holders are requested when attending the Annual General Meeting to bring with them their National Identity Card or any other form of valid identification.
(vi) Shareholders appointing proxies (other than Directors) to attend the meeting are requested to indicate the number of the National Identity Card of the Proxy holder on the Form of Proxy. Only registered proxy holders will be permitted to attend the Annual General Meeting.

Notes

Form of Proxy

I/We..of

....

being a member/members of the above named Company hereby appoint Romani Kumar Eardley Partick de Silva or failing him Jalathge Mahinda Gunasekera or failing him Wickramasinghe Pathiranage Kusal Jayawardana or failing him Ramani Nelun Ponnambalam or failing her Athula Ranmal Samarasinghe or failing him Lansage Ajith Prasanna Medis or failing him...

.... of..

....

NIC No ....

as my/our proxy to represent me/us and to *vote for me/us on my/our behalf at the 62nd Annual General Meeting of the Company to be held on 29th June. 2018 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

	For	Against
1. Resolution No.1 The Ordinary Resolution No.1 set out in the Notice convening the aforesaid Meeting.		
2. Resolution No.2 The Ordinary Resolution No.2 set out in the Notice convening the aforesaid Meeting.		
3. Resolution No.3 The Ordinary Resolution No.3 set out in the Notice convening the aforesaid Meeting.		
4. Resolution No.4 The Ordinary Resolution No.4 set out in the Notice convening the aforesaid Meeting.		
5. Resolution No.5 The Ordinary Resolution No.5 set out in the Notice convening the aforesaid Meeting		

Signed this .... day of 2018

....
Signature

Instruction as to completion of Form of Proxy given overleaf.

Instructions as to completion of the Form of Proxy

1. A proxy holder need not be a member of the Company.
2. The full name and address of the proxy and of the shareholder appointing the proxy should be entered legibly in the Form of Proxy.
3. The completed Form of Proxy should be deposited at the office of the Secretaries, Alliance Management Services (Pvt) Ltd., 84, Ward Place, Colombo 07, 48 hours before the time appointed for the holding of the Meeting.
4. In the case of a Company or a Corporate Body, the Form of Proxy should be executed under its Common Seal in accordance with its Articles of Association.

Note:

If you wish your proxy to speak and vote at the Meeting you should interpolate the words "to speak and" in the space indicated with an asterisk and initial such interpolation.

Corporate Information

Name of the Company

Alliance Finance Company PLC

Statutory Status

Quoted Public Limited Liability Company, incorporated under the Companies Ordinance No.51 of 1938

Reregistered under the Companies Act No.7 of 2007

Approved and registered under the

- Finance Business Act No. 42 of 2011
- Finance Leasing Act No. 56 of 2000

An approved Credit Agency under the

- Mortgage Act No.6 of 1949
- Trust Receipt Ordinance No.12 of 1947

Company Registration No.

PQ 93

Registered Office

Alliance House
No.84, Ward Place, Colombo 07,
Sri Lanka.
Tel: (+94) 11 2673673
Fax: (+94) 11 2697205
E-mail: info@alliancefinance.lk

Board of Directors

Mr. Sunil Karunanayake - Chairman (deceased 27th May 2018)
Mr. Romani de Silva - Deputy Chairman & Managing Director
Mr. J.M. Gunasekera - Director Sustainability
Mr. W.K.P. Jayawardana - Director Finance and Operations
Lt. Col. (Retd) A.R. Samarasinghe- Independent Non Executive Senior Director
Mrs. R.N. Ponnambalam - Non Executive Director
Dr. L.A.P. Medis - Consultant Director Marketing - Non Executive

Advisory Council

Mr. B. Ponnambalam
Mrs. K.S.K. de Silva
Mr. Abbas Akbarally (Chairman - Akbar Brothers Group of Companies)
Mr. K. Kanag Isvaran LLB (London) of Lincoln's
Inn Barrister - (President's Counsel)
Mr. S.P. Morawake (Former Registrar of Companies)

Audit Committee

Mr.Sunil Karunanayake - Chairman (deceased 27th May 2018)
Lt. Col. (Retd) A.R. Samarasinghe

Remuneration Committee

Lt. Col. (Retd) A.R. Samarasinghe – Chairman
Mr. Sunil Karunanayake (deceased 27th May 2018)
Mrs. R.N. Ponnambalam

Related Party Transactions Committee

Lt. Col. (Retd) A.R. Samarasinghe – Chairman
Mr. Sunil Karunanayake (deceased 27th May 2018)
Mrs. R.N. Ponnambalam

Subsidiaries

Alfinco Insurance Brokers (Pvt) Ltd.

Auditors

M/s. Baker Tilly Edirisinghe& Co.
Chartered Accountants
No.45, 2nd Floor, Braybrooke Street,
Colombo 02.

Legal Consultants

Gunawardena & Ranasinghe Associates
Sudath Perera Associates

Secretaries

Alliance Management Services (Pvt) Ltd
No. 84 Ward Place, Colombo 07.

Bankers

Sampath Bank PLC
Seylan Bank PLC
Public Bank Berhad
People's Bank
Hatton National Bank PLC
Commercial Bank of Ceylon PLC
Bank of Ceylon
Nations Trust Bank PLC
NDB Bank PLC
DFCC Bank PLC
Lankaputhra Development Bank Limited
Deutsche Bank

Concept & Designed by
Copyline a great equation
Printed by Printel (Pvt) Ltd

www.alliancefinance.lk